

# Spelthorne Borough Council Draft Statement of Accounts 2020/21



# Financial Statements and Annual Report

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## Narrative Statement

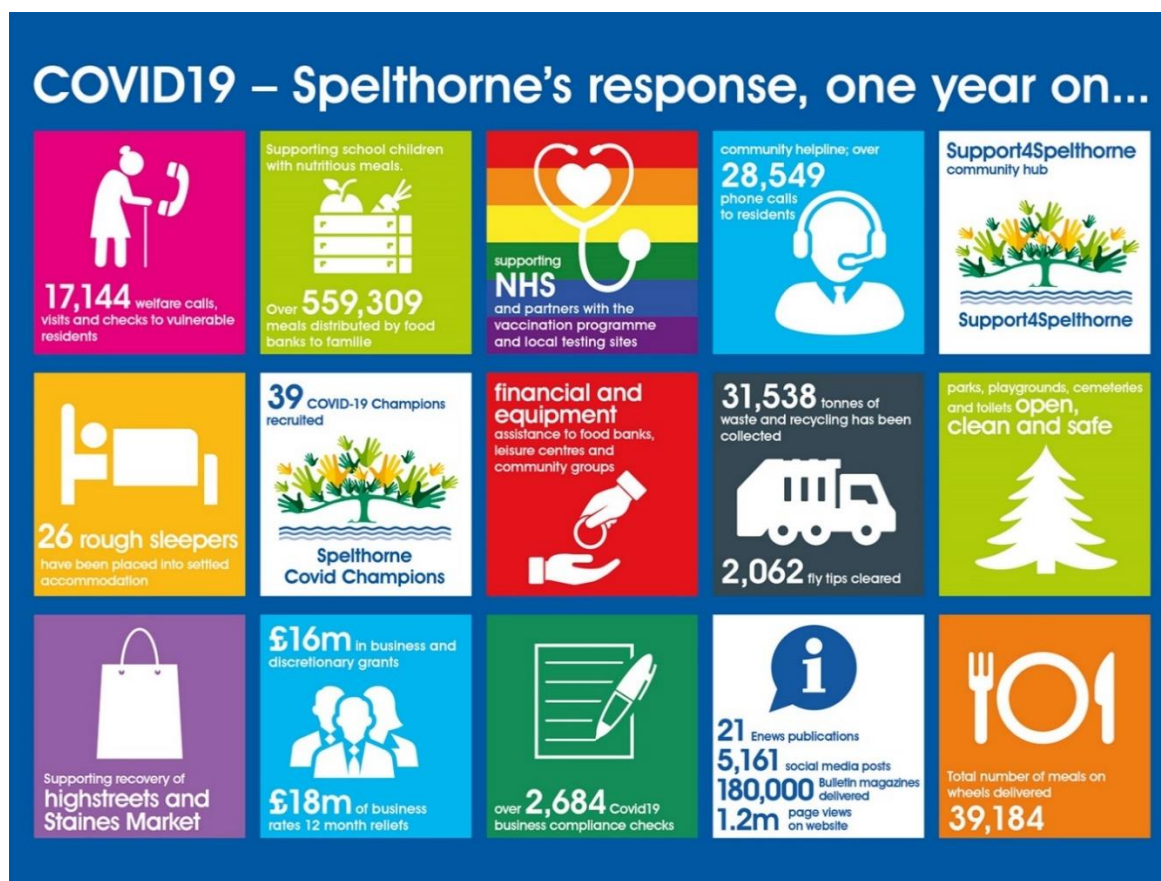
### By the Chief Finance Officer

#### Introduction

Welcome to Spelthorne Borough Council's statement of accounts for 2020/21. The Council's finances are complex, and we are required by law to include a great deal of detailed information and to present it in the prescribe format below.

The Narrative Statement presents and overview of the Council's accounts for the financial year ended 31 March 2021 and aims to help residents, stakeholders and interested parties understand the most significant issues reported in the accounts and how they related the Council's overall business. It includes comment on the financial performance and economy, efficiency and effectiveness in the use of resources over the financial year and in the context of COVID-19 and the Council's Medium Term Financial Strategy.

As is the case across the country and globally the biggest challenge faced by the Council and its residents and business communities during 2020/21 has been dealing with the impacts of the COVID-19 pandemic. This has included responding to the impacts of the lockdowns which happened during the year providing supporting for vulnerable residents and communities and distributing grant support funding by Government to support businesses. During the year, the combined value of business rates relief provided to retail, leisure and hospitality businesses, and direct business support grants exceeded £50m. As we have moved towards coming out of the pandemic the Council has drawn together a broad ranging recovery plan addressing the need to support our community and businesses to recover and to use it as an opportunity to do so on a climate change friendly basis as possible.



### **Basis of preparation**

These accounts are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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.

References to material and materiality relate to the significance of transactions, balances, and errors, noting that financial information is material if its omission, inclusion, or misstatement could influence the user of the accounts.

### **Organisational overview & external environment**

Spelthorne Borough Council is a borough council located in the north west corner of the administrative county of Surrey and it is the only Surrey borough council located north of the River Thames which runs along its boundary. The Borough covers 19.75 square miles and is a mix of urban and non-urban environments with 17% of the Borough made up of water and 12 miles of River Thames frontage. Prior to the COVID-19 pandemic it combined a vibrant economy with an attractive environment. The aviation, airport and logistics sectors are particularly important to the local economy, so there is a particular focus on understanding the longer-term impacts of the Pandemic on the economy and the Council's tax base.

The total population of Spelthorne according to the mid-year 2020 estimate (most recent available figure at time of publication) is 99,844, which is a 3.4% increase since the last Census in 2011. (Figures from the 2021 Census are not available yet). There are 39,512 households with the average household size being 2.5 people.

Our population continues to age with 18.5% of residents being over 65 years of age, and with that proportion expected to increase in the coming years.

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

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

The local economy comprises over 7,673 businesses including large employers like BP, Wood Group Kenny and Shepperton Studios. A major economic influence on the Borough is Heathrow with the airport directly and indirectly being the largest source of employment within the Borough. The impact of the Pandemic on economic activity relating to Heathrow is a key concern. The Borough is twinned with the French town of Melun and Grand Port Mauritius.

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

### **Political Structure in the 2020/21 Municipal Year**

Spelthorne has 13 wards represented by 39 Councillors. The Council last held an all out borough elections on the 2 May 2019 and the current political make-up of the Council is:

Conservative Party 18  
Liberal Democrat Party 7  
United Spelthorne Group 4  
Labour Party 2  
Independent Labour Group 2  
Greens 2  
Independents 4

At the year-end there was one vacant seat, which was subsequently filled by a Conservative Councillor.

The Council up to the end of 2020/21 has been operating the Leader and Cabinet model as its political management structure.

Under the existing system The Leader of the Council had responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Cabinet Functions. Cabinet Members were held to account by a system of scrutiny which is also set out in the Constitution. Scrutiny of Cabinet decisions for 2020/21 has been undertaken by either:

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

At the annual Council meeting on 25 February 2021, Council approved moving to a Committee governance structure which means the Council will cease to have a Cabinet. Moving forward there will be a set of service committees which will incorporate both executive and overview and scrutiny functions.

From 25 June 2020 to 27 May 2021 was Leader was Cllr John Boughtflower and the Deputy Leader was Cllr Jim McIlroy. Following the annual Council meeting on 27 May the Leader has been Cllr Lawrence Nichols and the Deputy Leader is Cllr Joanne Sexton.

### **Management Structure**

Supporting the work of councillors is the organisational structure of the Council headed by the Corporate Management Team, led by the Chief Executive Mr Daniel Mouawad.

The Corporate Management team consists of:

- Chief Executive
- Deputy Chief Executive / Chief Finance Officer
- Deputy Chief Executive

The Corporate Management Team is responsible for the delivery of Council services, directing improvements and future plans for Spelthorne. It provides managerial leadership and supports Councillors in:

- developing strategies.
- identifying and planning resources.
- delivering plans; and
- reviewing the Council's effectiveness with the overall objective of providing excellent services to the public.



The Corporate Management Team are supported by the following Group Heads and senior managers

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

As at the end of March 2021 the Council employed 391.98 FTE equivalent staff (2019/20: 389.39 FTE).

### **COVID-19**

Early in the financial year, when it was becoming clear the scale of the pandemic and that it was leading to the worst economic downturn for more than three hundred years, the Council held an Extraordinary Council meeting in May 2020. At this meeting in the face of the emerging budget uncertainties the Council approved an emergency budget allowing up to an additional £2.2m of expenditure to be funded reserves. However, after this the level of Government emergency funding significantly improved, particularly with a big increase in funding for district and borough councils between tranche 1 and 2 of the COVID-19 emergency grant and the introduction of 71.25% reimbursement of losses on sales, fees and charges income. As a result of the additional funding which came through in the later part of 2020/21 the outturn for the year has meant that the Council has not had to use any of the additional £2.2m approved or draw down on reserves.

The current financial year has been overshadowed by the impact of COVID-19 following the first national lockdown in March 2020 right at the end of the previous financial year, followed by two further lockdowns in autumn/winter 2020 and spring 2021

The Council for the fourth year running received no Revenue Support Grant (RSG) from Central Government. In the context of the pandemic the Council achieved better than anticipated collection rates, achieving 96.7% (2019/20: 98.4%) for Council Tax and 85.43% (2019/20: 99.2%) for Business Rates (a few days after year end, the business rates collection for 2020/21 improved significantly when £2.6m was received from a single business rate payer pushing the collection rate up to 95.86%)

The Council achieved a significant underspend on its revenue budget which enabled the level of reserves at the end of 2020/21 to be increased. This has strengthened the Council's balance sheet ahead of the ongoing uncertainties of the economic impacts of COVID-19, still to be felt nationally once furlough scheme ends and landlord evictions commence later in 2021. In the year the Council continued its strategy of increasing its sinking funds reserves for its commercial assets. The sinking funds are designed to provide a cushion against variations in commercial rental income. The sinking funds have increased from £20.5m to £25.9 m (2019/20: £11m to £20.5m).

During the year additional COVID-19 expenditure totalling £1.5m was incurred this included expenditure supporting the Council's leisure centres operator to reopen the centres after the first lockdown, additional expenditure on housing homeless during the lockdown, supporting vulnerable residents during the lockdown. Moving forward in 2021/22 the operator of the Council's leisure centres is going to need some financial support.

Sales, fees and charges income fell by £2.2m., with car parking accounting for 1.2m., this was offset by the receipt of a £1.6m sales, fees and charges reimbursement grant from central government.

The Council in response to the pandemic impacts pro-actively engaged with the tenants of its commercial properties. Overall, the Council managed to achieve a very good collection rate collecting 98.2% of the rents on commercial properties invoiced with respect to 2020/21. Of the outstanding 1.8% the majority is covered by rent deferral agreements with tenants. The Council in response to the pandemic has been reviewing on a weekly basis worst case and expected case scenario modelling, projected over ten years of its sinking funds (funds set aside from the commercial rental stream to cover future potential income dips arising from voids, rent free periods etc). This analysis indicates that the sinking fund balances as of 31 March £25.9m. (2019/20: £20.5m) are more than sufficient to insulate the Council's Revenue Budget and Council Taxpayers from any significant dips in rental income.

In February 2020, the Council purchased the long leasehold of the Elmsleigh Centre in Staines-upon-Thames. The Council already owned the freehold of the retail centre and the acquisition was to enable the Council to pursue a long-term regeneration plan to protect the prosperity of the town centre by directly investing in the diversification of mix of uses in the centre. As elsewhere, retailers especially non-essential retail, were particularly hard hit by the lockdowns. This impacted on the retail rent collected at the Elmsleigh Centre with 64.7% (2019/2: 54%) collected. The Council will be pursuing the debt outstanding, when the courts reopen and with recent court judgements being favourable to landlords, any ultimate write off of debt will be covered from the sinking funds set aside made in 2020/21. In responding to retailers looking for assistance the Council has focused on seeking to sustain local economic activity.

Early on during the Pandemic the Council produced a broad ranging COVID-19 risk assessment which has twice been reported to Audit Committee and will be kept under review and updates as necessary.

As the country progresses through the Government's Route map out of the Pandemic the Council has put in place a recovery plan. The plan includes community, recovery, economic recovery and how the Council itself will recover.

### **Capital Strategy and assets**

In February 2021 the Council approved its updated Capital Strategy

<https://www.spelthorne.gov.uk/capitalstrategy> The strategy outlines the Council's housing delivery and regeneration capital for the Borough. There is a particular focus on increasing the supply of affordable housing available within the Borough with the Council committing to deliver at least fifty percent affordable rental homes on all its own developments which will then be managed by its housing delivery company Knowle Green Estates

The Capital Strategy focuses on the delivery of for residents and driving regeneration of the built environment within the Borough. The Strategy sets out how the Council manages risk. Over the next five years the Council aims to deliver more than 600 units for its residents. The majority of these homes will be owned and managed by the Council's wholly owned housing delivery company Knowle Green Estates Ltd. During 2020/21 despite the impact of COVID-19 the Council made good progress in progress construction of 25 affordable flats on the converted West Wing at its offices site, this will be completed and occupied by families in summer 2021. Phase 1 of Benwell House, was progressed during with the overall project coming in £2.7m under budget and delivering an additional 16 units on the original plan. In May 2021 tenants commenced moving

in with 24 families having completed their paperwork. This will be a mixed tenure scheme consisting of 60% affordable rental, 20% key worker rental and 20% private rental. This is a higher number of units than originally planned for the scheme. Benwell and West Wing will be managed by Knowle Green Estates. In parallel construction also progressed during the year on the Council's White House Single Person Homeless Hostel and Harper House emergency accommodation for families. These schemes have been part funded by Homes England grant and will be managed directly by the Council. These schemes will be completed in summer 2021.

During 2020/21 no further residential properties transferred from Spelthorne to Knowle Green Estates.

In July 2020, Harper House was transferred from Knowle Green Estates to Spelthorne Borough Council to facilitate the accessing of Homes England grant to enable the construction of a replacement facility.

The Council as at the 31 March 2021 had a commercial asset portfolio valued at £940m (2019/20: £992m) and receives a commercial rental income stream as set out in the table below. In the context of the economic impact of COVID-19 it was not surprising that the valuations dropped 5.4%, however, the Council is looking to retain the assets on a long-term basis, and apart from the Charter building all the property is fully occupied. At end of 2020/21 the overall occupancy rate for the Council's commercial assets was 92.4% (2019/20: 91.6%) by floor area. The table demonstrates that after debt financing and setting aside prudent provisions for future refurbishment of the assets, the net commercial return of approximately £11.6 m (2019/20: £10 m) per annum provides additional funding to support the provision of services to residents.

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

Investment Property forecast	forecast 2020/21 £'000	actual 2020/21 £'000	forecast 2021/22 £'000
Rental income from properties	(50,196)	(49,516)	(51,190)
Net Operating costs		461	
Minimum revenue provision (MRP)	11,515	11,052	11,808
Interest on borrowing	23,019	23,156	22,866
Sinking fund contributions	5,090	5,090	6,090
Sinking fund usage		(1,066)	(1,826)
Set aside	630	630	630
	<u>(9,942)</u>	<u>(10,193)</u>	<u>(11,622)</u>

The Council's diversified treasury management portfolio continued to produce good returns resulting in £33.8m (2019/20: £28.2m) of pooled funds (backed by equities, assets or corporate bonds) returning on average of 3.1% (2019/20: 4.0%). Due to the impact of COVID-19 during March 2020, the balance sheet values of these funds initially fell by £3.7m (March 2020 compared to February 2020) but have subsequently recovered by £5.6m to March 2021.

### Core Statements

The following paragraphs provide a brief explanation of the core statements which make up the Statement of Accounts and they are

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Statement of Cash Flows
- Expenditure Funding Analysis

The **Movement in Reserves 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 increase for 2020/21 shown on the movement in year on Total Comprehensive Income and Expenditure of a deficit of £34.3m (2019/20: £4.3m deficit) shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. The surplus/deficit figures are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes.

The net transfer to cash backed usable reserves is £39.6m (2019/20: £20.2m) Total cash backed reserves as at end of the year amounted to £84.3m (2019/20: £44.7m).

The **Comprehensive Income and Expenditure Statement** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations. The segmental reporting note to the Statement enables a comparison of the outturn figures to the format in which budget monitoring figures have been reported to Councillors throughout the year. The total net deficit on the Total Other Comprehensive Income and Expenditure Statement of £23.4m (2019/20: £5.0m) reflects a deficit on the provision of services of £34.3m (2019/20: £4.3m) and a surplus of £10.9m (2019/20 £0.7 deficit) on other items which is brought about by a surplus on the re-measurement of the net defined pension benefit offset by a deficit in investments in equity instruments at fair value. Full details are shown on the Comprehensive Income and Expenditure Statement.

The **Balance Sheet** shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net liabilities £22.9m (2019/20: £0.6m net assets) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable, i.e., cash backed reserves totalling £84.3m (2019/20: £44.7m), and includes capital grants applied, 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 totalling £107.1m (2019/20: £44.0m negative) 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** 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 £20.8m (2019/20: £13.6m) is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. The investing activities represent the extent to which cash outflows have been made for resources intended to contribute to the Council's future service delivery.

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

This Council's levy on the Collection Fund for 2020/21 was set at £205.05 (2019/20: £202.44) per Band D property a 01.29% (2019/20: 2.51%) increase on the previous year and a transfer of £0.063m (2019/20: £0.019m), out of the Collection Fund following higher than expected collection rates for Council Tax during the previous year. There was a deficit of £25.598m (2019/20: £4.338m) on business rates. On council tax there was a deficit of £3.147m (2019/20: £0.405m).

In May 2016, the Council set up a 100% owned subsidiary Knowle Green Estates Ltd which will be the Council's delivery vehicle for additional housing within the Borough. In June 2020 the Council set up Spelthorne Direct Services to deliver trade refuse services to businesses within the Borough.

To give readers of the Accounts an overall picture of the extended services and economic activity that is under the control of the local authority we have made a set of Group Account disclosures in the notes (see below) setting out on a Group basis the four core Statements (i.e., Movement in Reserves, Income and Expenditure Statement, Balance Sheet and Cashflow Statement).

### **Capital Expenditure**

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

The Capital Programme is prepared on a 4-year rolling basis and is reviewed every year. The Capital Programme consists of housing investment, including projects to increase housing supply within the borough and renovation and renewal grants made to individuals and tenants of housing associations, and non-housing activities including information technology, vehicle replacement and improvements of major assets and acquisition of assets.

Total gross capital expenditure in 2020/21 was £28.6m (2019/20: £78.1m) and a breakdown of the schemes making up this spend can be found in note 30. The majority of this related to further property acquisitions for regeneration purposes. The acquisitions were financed by borrowing from the Government's Public Works Loan Board (PWLB) at fixed low rates of interest. The following statement shows the total gross capital expenditure for the year and how it has been financed.

2019/20 £'000	Total Capital Expenditure	2020/21 £'000
382,195	Total Capital Expenditure	29,481
	Financed by:	
(381)	Capital Receipts	0
(1,100)	Grants and Contributions	0
(747)	Revenue Resources	(2,857)
(379,967)	Borrowing	(26,624)
<u>(382,195)</u>	Total Capital Financing	<u>(29,481)</u>

Future capital expenditure and resources are as follows:

Future Capital Investment Plans and Resources	Estimate	Estimate	Estimate	Estimate
	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Capital Programme	36,053	102,574	72,594	37,236
Resources				
Capital Grants/Contributions & Capital Receipts	(1,553)	(931)	(1,407)	(1,216)
Revenue Contributions (including Reserves)	(1,419)	(216)	(221)	(201)
Borrowing	(33,081)	(101,427)	(70,966)	(35,819)
	<u>(36,053)</u>	<u>(102,574)</u>	<u>(72,594)</u>	<u>(37,236)</u>

Capital receipts generate investment income for the Council, The Council strategy is in the near term to finance capital spending which generates ongoing income streams from borrowing on a prudential basis. In future years commencing the Council will use revenue contributions to assist in funding the capital programme. To strengthen these reserves potential asset sales are kept under review

### Pensions

International Accounting Standard 19 'Employee Benefits' ('IAS19') requires councils to provide clear information on the impact of the Council's obligation to fund the retirement benefits of its staff. Information has been received from the Actuary on the latest position as at March 2021, showing a deficit of £59.5m for this Council, which represents a £9.9m increase relative to 2019/20.

- The deficit was increased due to several factors the main one being an increase in the present value of the defined benefit obligations by £32.7million which is more than the offset the £22.8million increase in the value of the pension fund assets.
- It must be emphasised that this calculation has been made for the specific requirements of 'IAS 19' and should not be used for any other purpose. The valuation report from the actuaries for the latest triennial Valuation as at 31 March 2019 valuation confirmed an increase in both the primary and secondary contribution employer rates for Spelthorne to take effect from April 2020, in part the increase in rates reflect the growth in number of staff employed by the Council since 2016. The Council by choice decided to bear upfront in 2020/21, rather than spread over three years, all of the secondary (past service) contribution. The liabilities of £59.5m 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.

### Borrowing

During the year the Council entered into external long term borrowing of £0.5m (2019/20: £25.0m) to finance its housing delivery and regeneration programme including asset purchases with a balance of long term total debt outstanding of £ 1,053.8 m (2019/20: £1,053.5m). The balance is offset by the value of the assets acquired on the balance sheet. The financing charges on long-term borrowing consisted of £30.8m (2019/20: £29.0m) interest and principal repayments charged in the accounts, all of which was more than covered by additional income generated by the assets acquired.

### Revenue Expenditure

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

Comparison of Revenue Budget to Revenue Outturn	Revenue Budget 2020/21 £'000	Revenue Outturn 2020/21 £'000	Variance Outturn to Budget £'000
Gross Expenditure	59,740	59,840	100
Gross Income	(40,439)	(40,966)	(527)
	19,301	18,874	(427)
Asset Acquisition income	(50,196)	(49,056)	1,140
Interest on balances	(1,340)	(1,852)	(512)
Transfers (from)/to Earmarked Reserves	6,923	37,452	30,529
Interest paid	24,235	24,546	311
Debt repayment	11,902	11,903	1
Set-aside	1,130	630	(500)
Capital expenditure financed from revenue	750	2,857	2,107
	12,705	45,354	32,649
Financed by:			
Non-ringfenced grants and contributions	(1,423)	(33,533)	(32,110)
Net receipts from Business Rates	(3,000)	(3,539)	(539)
Council Tax (Demand on Collection Fund & Surplus)	(8,282)	(8,282)	0
(Surplus)/deficit for the year	0	0	0

The Revenue Outturn figures included in the above table were reported to Cabinet in May 2021. Since that meeting some figures have been amended (as reflected in the following statements) and this will be reported after the revised final accounts have been presented to the Audit Committee.

The previous analysis covers revenue expenditure and income only and is not directly comparable with the Expenditure and Funding Analysis statement below 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. In response to the impact of COVID-19 it was particularly important to refresh and scrutinise the Medium-Term Financial Strategy during 2020/21 to try to model the ongoing future impacts of the pandemic (for example how long will service fees and charges income such as car parking will take to recover) and to identify options for mitigation. Our ability to robustly model future years is constrained by the fact that the Government published only a one-year Spending Review in autumn 2020. This means there is uncertainty to when and how the local government financial settlement will change in the future. For example, it is unclear whether the Government will continue to move towards “75% retention” of business rates and when the Fair Funding Review will take place. The Council in refreshing its MTFs, which was considered both by Cabinet and Overview and Scrutiny modelled a range of scenarios.

The Council in January 2021 refreshed its Reserves Strategy setting out the purposes for which it holds reserves and how some of those reserves can be used to provide additional resilience to help the Council meet the challenges created by the COVID-19 pandemic. As at the 31 March 2021 the Council held £84.3m (2019/20: £44.7m) in cash backed reserves. The size of the reserves has increased steadily in recent years because of the strategy to build up its sinking fund reserves to ensure that the Council has sufficient funds set aside to meet potential future dips in its commercial income.

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

- Assessing the ongoing impact of the COVID-19 pandemic and how the Council mitigates the adverse financial impacts. The need to maximise savings and efficiencies. Strategies to deliver this include:
  - Explore the potential for savings through collaborating with other Surrey councils
  - How to manage risk with respect to existing income generating assets and delivery of housing and regeneration schemes across the Council
  - Keeping the Business Plans of Knowle Green Estates and Spelthorne Direct Services under review
  - Identification and delivery of new income sources such as commercial waste service
  - Maximising income from the assets the Council owns. Continuing to diversify the Council's investment (treasury management) portfolio and seek to maximise investment returns whilst balancing risk
  - Investing in initiatives to mitigate some of the homelessness pressures on the Council's revenue budget, including increasing supply of range of housing tenures within the Borough
  - Seeking procurement savings - with a particular focus on asset related expenditure and developing appropriate frameworks
  - Tight vacancy control whilst seeking to balance impact on service provision
  - Reviewing fees and charges, balancing impact on local residents and the local economy with the need to increase income



- Smarter use of technology –Seeking to encourage economic development within the Borough which will help stimulate business rates growth which will assist the Council's future funding. This will be linked to progressing the Local Plan for the Borough and master planning for Staines-upon-Thames.

### **Local Government Association Finance Peer Review**

In November 2020 the Council invited the Local Government Association to send in (on a virtual basis) a team of experienced local government officers and a Leader of another council, to review the Council's approach to managing the financial challenges. The experience was very positive and resulted in 26 recommendations which are being addressed in an Action Plan approved by the Cabinet. The Action Plan will be maintained as a living document and will be reviewed on a regular basis by both Corporate Policy and Resources Committee and Audit Committee.

During the year the Audit Committee reviewed the Council's CIPFA Financial Management Code Self Assessment.

(<https://democracy.spelthorne.gov.uk/documents/g3389/Public%20reports%20pack%20Thursday%2012-Nov-2020%2018.00%20Audit%20Committee.pdf?T=10>). The Financial Code is a new requirement taking effect in 2021/22. The Self Assessment, parallel to the Finance Action Plan will be regularly reviewed.

### **Summary**

The next few years will continue to be extremely challenging, with a post Brexit future adding to the enormous uncertainties created by the COVID-19 Pandemic. Additionally, we await the outcome of a further multi-year public sector Spending Review in autumn 2021 following the one-year 2019 Spending Review, the completion of the Fair Funding Review and the implementation of 75% Business Rates retention nationally. The Council has been impacted by the public sector deficit reduction programme, which means levels of government grant have been cut and will continue to reduce for several years. The Council in its Outline Budget projections is anticipating that in future it will be allowed to retain a smaller proportion of business rates generated locally. At this stage it is uncertain what the, impact of furlough scheme ending nationally will be, the impact of the housing landlord evictions moratorium coming to an end, how Heathrow and associated businesses will recover once internal leisure travel recommences. the 2020/21 collection rates for council tax and business rates and the consequent impact on the 2021/22 Revenue Budget.

The additional ongoing revenue income from the enlarged commercial property portfolio enabled the Council to respond swiftly to the impacts of the first COVID-19 lockdown and set up the Support4Spelthorne food distribution hub for vulnerable residents. With the Council's commercial income stream holding up well despite the pandemic the Council was able set a balanced budget for 2021/2 and placed it in a good position to respond to the ongoing challenges of recovering from COVID-19. The Council has added significantly to its cash backed reserves which now total £84.3m (2019/20: £43.0m) particularly sinking funds which should help Spelthorne withstand the economic shocks of COVID-19-1919. The Council is regularly updating 10-year worst case scenario modelling of its sinking funds. This analysis suggests it has more than sufficient funds to protect the Revenue Budget over the next 10 years. The Council continues to be focused on delivering efficiencies and growing its commercial income. At the same time, we are also seeking to deliver a significant amount of affordable housing over the next few years to help meet the needs of our residents

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

Following the departure of the UK for the European Union on 31 December 2020, the impact on the Council of the UK leaving the European Union is uncertain at the present time, and the potential impacts for the Council are being kept under review.

**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

This statement is given in respect of the Statement of Accounts 2020/21, signed and dated by the responsible financial officer on behalf of the Council.

### The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Deputy Chief Executive / Chief Finance Officer.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

### The Chief Finance Officer's Responsibilities

The Deputy Chief Executive is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ('the Code').

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

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- with the Code of Accounting Practice on Local Council Accounting in the United Kingdom 2019/20 as required by the Accounts and Audit Regulations 2021. with the local authority "Code"
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certification of Section 151 Officer

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of Spelthorne Borough Council and its Income and Expenditure for the year ended 31 March 2021, dated xx xxxx 2021

Mr Terry Collier, CPFA, CA  
Section 151 Officer  
Chief Finance Officer &  
Deputy Chief Executive

Councillor TBC  
Chair of Audit Committee

## Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e., those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The (increase)/decrease line shows the statutory General Fund Balance movements in the year following those adjustments. The 2019/20 figures are shown for comparison.

Movement in Reserves Statement	General Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
2020/21	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1st April	(44,227)	0	(454)	(44,681)	44,086	(595)
Movements in-year						
Total Comprehensive Income & Expenditure	34,331			34,331	(10,874)	23,457
Adjustments between accounting & funding basis under regulations (note 7)	(71,783)	0	(2,368)	(74,151)	74,151	0
(Increase)/Decrease in-year	(37,452)	0	(2,368)	(39,820)	63,277	23,457
Balance carried forward 31st March	(81,679)	0	(2,822)	(84,501)	107,363	22,862

Movement in Reserves Statement	General Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
2019/20	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1st April	(24,053)	(211)	(216)	(24,480)	18,814	(5,666)
Movements in-year						
Total Comprehensive Income & Expenditure	4,353			4,353	718	5,071
Adjustments between accounting & funding basis under regulations (note 7)	(24,527)	211	(238)	(24,554)	24,554	0
(Increase)/Decrease in-year	(20,174)	211	(238)	(20,201)	25,272	5,071
Balance carried forward 31st March	(44,227)	0	(454)	(44,681)	44,086	(595)

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount funded from taxation. The Council raises taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (page 41) and the Movement in Reserves Statement above.

2019/20		CI&ES		2020/21		
Expenditure	Income	Total		Expenditure	Income	Total
£'000	£'000	£'000	Notes	£'000	£'000	£'000
3,814	(601)	3,213	Assets and Business Transformation	19,104	(3,925)	15,179
6,288	(1,082)	5,206	Comms, Environment & Project Man.	6,629	(934)	5,695
3,558	(1,454)	2,104	Community Wellbeing	3,483	(1,101)	2,382
6,919	(3,300)	3,619	Compliance, Waste & Risk	6,714	(2,318)	4,396
3,651	(192)	3,459	Finance	5,767	(146)	5,621
31,225	(28,366)	2,859	Housing	28,648	(26,415)	2,233
3,396	(347)	3,049	ICT, Legal, HR & Town Centre Regenerat	3,202	(431)	2,771
1,717	(326)	1,391	Leisure Services	2,297	(383)	1,914
2,998	(8,420)	(5,422)	Planning & Economic Development	2,681	(5,464)	(2,783)
<b>63,566</b>	<b>(44,088)</b>	<b>19,478</b>	<b>Cost of Services</b>	<b>78,525</b>	<b>(41,117)</b>	<b>37,408</b>
14,679	(354)	14,325	Other Operating Income & Expenditure	9,881	(429)	9,452
45,297	(60,925)	(15,628)	Financing & Investment Income & Expenditure	81,777	(54,429)	27,348
15,783	(29,605)	(13,822)	Taxation & Non-specific Grant Income	16,047	(55,924)	(39,877)
<b>139,325</b>	<b>(134,972)</b>	<b>4,353</b>	<b>(Surplus)/Deficit on the Provision of Services</b>	<b>186,230</b>	<b>(151,899)</b>	<b>34,331</b>
		(56)	(Surplus)/Deficit on revaluation of Property, Plant & Equipment			(14,211)
		5,751	(Surplus)/Deficit from investments in equity instruments designated at fair value through other comprehensive income			(5,624)
		(4,977)	Remeasurement of the the defined net defined benefit liability/(asset)			8,961
		<b>718</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(10,874)</b>
		<b>5,071</b>	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>23,457</b>

## 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.

31 Mar 20	Balance Sheet	Notes	31 Mar 21
£'000			£'000
134,644	Property, Plant & Equipment	11	149,023
229	Heritage Assets	12	222
991,689	Investment Property	13	939,747
357	Intangible Assets	14	254
30,929	Long-term Investments		34,191
4,702	Long-term Receivables		4,668
<u>1,162,550</u>	<b>Long-term Assets</b>		<u>1,128,105</u>
35,209	Short-term Investments		54,451
25	Inventories		33
7,488	Short-term Receivables	16	17,867
16,608	Cash & Cash Equivalents	17	11,584
<u>59,330</u>	<b>Current Assets</b>		<u>83,935</u>
(59,291)	Short-term Borrowing		(77,735)
(55,596)	Short-term Payables	19	(40,176)
(3,295)	Short-term Provisions	20	(3,674)
<u>(118,182)</u>	<b>Current Liabilities</b>		<u>(121,585)</u>
(1,053,529)	Long-term Borrowing		(1,053,820)
(49,574)	Other Long-term Liabilities		(59,497)
0	Long-term Grants received-in-advance - Capital		
<u>(1,103,103)</u>	<b>Long-term Liabilities</b>		<u>(1,113,317)</u>
595	<b>Net Assets/(Net Liabilities)</b>		(22,862)
(44,681)	Usable Reserves	MIRS	(84,501)
44,086	Unusable Reserves	21	107,363
<u>(595)</u>	<b>Total Reserves</b>		<u>22,862</u>

## Statement of Cash Flows

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital, i.e., borrowing to the Council.

2019/20 £'000	Cash Flow	<i>Notes</i>	2020/21 £'000
4,353	Net (Surplus)/Deficit on the Provision of Services	CI&ES	34,331
(17,951)	Adjustments to net (surplus)/deficit on the Provision of Services for non-cash movements	22	(51,367)
0	Adjustments to net (surplus)/deficit on the Provision of Services that are Investing and Financing Activities	22	(3,800)
(13,598)	Net Cash Flow from Operating Activities		(20,836)
81,942	Investing Activities	23	44,766
(59,208)	Financing Activities	24	(18,906)
9,136	Net (increase)/decrease in Cash & Cash Equivalents		5,024
25,744	Cash & Cash Equivalents at the beginning of the reporting period		16,608
(9,136)			(5,024)
16,608	Cash & Cash Equivalents at the end of the reporting period	17	11,584

## **Accounting Policies**

### **1.1 General Principles**

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end and comply with the Code of Practice on Local Authority Accounting (The Code), issued by the Chartered Institute of Public Finance & Accountancy (CIPFA). Accounting policies and estimation techniques have been selected and used having regard to the accounting principles and concepts set out in International Financial Reporting Standards Framework for the Preparation of Financial Statements, specifically:

- The qualitative characteristics of financial information
- Relevance
- Reliability
- Comparability
- Understand ability
- Materiality
- Accruals
- Going concern

Where there is specific legislation, this will have primacy over any other provision. The accounts have been prepared under the historical cost convention modified by the revaluation of certain categories of non-current assets.

### **1.2 Accruals of Income and Expenditure**

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

1.2.1 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 benefits or service potential associated with the transaction will flow to the Council.

1.2.2 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 economic benefits or service potential associated with the transaction will flow to the Council.

1.2.3 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.

1.2.4 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.

1.2.5 Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

1.2.6 Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.



### **1.3 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in [specified period, no more than three months] or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

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

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

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.

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

### **1.5 Charges to Revenue for Non-current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

1.5.1 depreciation attributable to the assets used by the relevant service

1.5.2 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

1.5.3 amortisation of intangible assets attributable to the service.

1.5.4 for Finance Leases MRP is equal to the write down of the liability

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance (England and Wales).

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **1.6 Council Tax and Non-Domestic Rates (England)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e., the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR.

Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### 1.6.1 Accounting for Council Tax and NDR

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

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

## 1.7 Employee Benefits

### 1.7.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g., cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for 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 rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

### 1.7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

### 1.7.3 Post-employment Benefits

Employees of the Council are members of the Local Government Pensions 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 benefits scheme.

The liabilities of the 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 projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a Corporate Bond yield curve constructed using the constituents of the iBOxxx AA corporate bond index.

The assets of Surrey pension fund attributable to the Council are included in the Balance Sheet at their fair value: quoted securities – current bid price

- 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:

#### 1.7.3.1 Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net 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.

#### 1.7.3.2 Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – 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 retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them

with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact 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.

#### 1.7.4 Discretionary Benefits

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

### 1.8 Events After the Reporting Period

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

1.8.1 those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

### 1.9 Financial Instruments

#### 1.9.1 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 interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### 1.9.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e., where the cash flows do not take the form of a basic debt instrument).

### 1.9.3 Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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.

They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement. However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans).

When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### 1.9.4 Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised,

losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a portfolio of a significant number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

The Council has grouped the loans into four groups for assessing loss allowances:

1.9.4.1 Group 1 – these loans were made under a government programme, where the supply of funds was conditional on the Council putting in place a system for measuring and monitoring the risk of default for each of the businesses that was provided with a loan. Loss allowances for these loans can be assessed on an individual basis.

1.9.4.2 Group 2 – these loans were made to support local businesses that supply goods and services in the Council's area. The manufacturer has recently announced plans to locate production of new models at its plants in other countries. The Council therefore uses a 'bottom-up' approach to identify individual loans that have this common industry-related risk characteristic and determine that they are subject as a group to a significant increase in credit risk.

1.9.4.3 Group 3 – these loans were made at a variable rate of interest. The Council is advised that interest rates are probably going to rise by 1%. Historical information shows that a 1% increase in interest rates causes a significant increase in credit risk for 30% of the variable rate loans. The Council therefore uses a 'top-down' approach to assess an overall proportion of a group of relatively homogenous loans to determine that 30% of Group 3 loans have had a significant increase in credit risk since initial recognition.

1.9.4.3 Group 4 – for the residual group of loans, the Council relies on past due information and calculates losses based on lifetime credit losses for all loans more than 30 days past due. The Council has provided a loan to a company in financial difficulties to ensure that the Community Centres Company is able to provide vital services for the elderly. Fifty percent of the loan is thus deemed credit impaired on origination.

This will mean that:

- as lifetime expected credit losses are taken into account in the cash flows used for calculating the effective interest rate, no loss allowance is needed on initial recognition
- a loss allowance will then be built up on the basis of the cumulative change in lifetime expected credit losses since initial recognition
- the annual impairment gain or loss will be the change in lifetime expected credit losses over the year.

#### 1.9.5 Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market 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:

1.9.5.1 Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

1.9.5.2 Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

1.9.5.3 Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. [Additional policy detail required where a Council decides to designate investments in equity instruments to FVOCI]

### **1.10 Government Grants and Contributions**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of 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 creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

The COVID-19 pandemic has introduced another layer of complexity, requiring that all Councils assess each grant paid to them by BEIS, as either principal or agent transactions. Where the Council deems that they are operating as principal, the transactions shall be included in its Comprehensive Income & Expenditure Statement (CIES) in accordance with the code. Where the Council is acting as an agent, transactions will not be reflected in the Council's statement of accounts.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. 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.

#### **1.10.1 Community Infrastructure Levy**

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The

Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

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

## **1.11 Heritage Assets**

### **1.11.1 Heritage Assets – General**

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage assets include historical buildings, historic motor vehicles, Civic Regalia, museum and gallery collections and works of art.

Recognition and Measurement: Where the Council has information on the cost or value of a Heritage Asset the Council will include that value in its 2017/18 Balance Sheet. Where this information is not available, and the historical cost information cannot be obtained the asset can be excluded from the balance sheet. A de-minimus level will be set in accordance with our policy for Capitalisation of assets currently set at £10,000.

Heritage assets will normally be measured at fair value. Where, exceptionally, it is not practicable to obtain a fair value, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses).

Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are measured at fair value, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation, Amortisation and Impairment: Depreciation or amortisation is not required on heritage assets which have indefinite lives. The carrying amount of an asset shall be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage, or new doubts arise as to its authenticity. Any impairment recognised shall be dealt with under the recognition and measurement requirements of section 4.7 of the Code.

## **1.12 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 (e.g., software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

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

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



Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s).

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

### **1.13 Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **1.14 Inventories and Long-term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the [FIFO/weighted average] costing formula.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **1.15 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve

### **1.16 Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

### **1.17 Leases**

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

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

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

#### **1.17.1 The Council as Lessee**

##### **1.17.1.1 Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. 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.

##### **1.17.1.2 Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or

equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### **1.18 Overheads and Support Services**

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

### **1.19 Property, Plant and Equipment**

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

#### **1.19.1 Recognition**

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

#### **1.19.2 Measurement**

Assets are initially measured at cost, comprising:

- the purchase price of 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 initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value

- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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 in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) 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.

### 1.19.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, 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 of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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.

### 1.19.4 Depreciation

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

Depreciation is 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, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where an item of property, plant and equipment asset 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.

#### 1.19.5 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. 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 previously 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 are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e., netted off against the 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 a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government [England only]. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment [or set aside to reduce the Council's underlying need to borrow (the capital financing requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current 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.

## **1.20 Provisions, Contingent Liabilities and Contingent Assets**

### **1.20.1 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 when the Council has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

### **1.20.2 Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **1.20.3 Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority 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 authority.

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.

## **1.21 Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies [not Scotland]. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance 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, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **1.22 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 charged so that there is no impact on the level of council tax.

### **1.23 VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **1.24 Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

### **1.25 Council Tax, Non-Domestic Rates and Business Improvement District levy**

The Council acts as agent for the collection of Council Tax and Business Rates (NDR) on behalf of the major preceptors, including central government. The council is required by statute to maintain a separate fund (i.e., the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under these legislative arrangements, the council, major preceptors and central government share proportionately the risks and rewards of the sharing arrangements.

The council tax and NDR income included in the CI&ES represents the council's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the council's General Fund. The difference between the accrued income and the regulatory amount is included in the Collection Fund Adjustment Account; a reconciling item being included in the Movement in Reserves Statement.

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

The Council also collections Business Improvement District (BID) levy on behalf of the Staines-upon-Thames BID.

#### **1.26. Interests in Companies and Other Entities**

The Council has a material interest in the wholly owned company Knowle Green Estates Limited. Group accounts have been produced. The Council's accounts record transactions at cost.



## Notes to the Core Financial Statements

### 1. Statement of Expenditure and Funding Analysis

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

2019/20			2020/21		
Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Analysis Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Analysis Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	£'000	£'000	£'000
3,062	150	3,212	419	14,760	15,179
3,681	1,526	5,207	4,759	936	5,695
851	1,253	2,104	1,383	999	2,382
2,626	993	3,619	4,051	345	4,396
3,267	192	3,459	5,635	(14)	5,621
2,612	247	2,859	2,250	(17)	2,233
2,521	528	3,049	2,515	256	2,771
66	1,325	1,391	628	1,286	1,914
(5,813)	391	(5,422)	(2,766)	(17)	(2,783)
<b>12,873</b>	<b>6,605</b>	<b>19,478</b>	<b>18,874</b>	<b>18,534</b>	<b>37,408</b>
<b>(44,850)</b>	<b>29,725</b>	<b>(15,125)</b>	<b>(71,086)</b>	<b>68,009</b>	<b>(3,077)</b>
<b>(31,977)</b>	<b>36,330</b>	<b>4,353</b>	<b>(52,212)</b>	<b>86,543</b>	<b>34,331</b>
(1,000)			(1,221)		
(31,976)			(52,212)		
11,052			11,903		
750			2,857		
19,953			36,497		
<b>(1,221)</b>			<b>(2,176)</b>		

## Adjustments between Funding and Accounting Basis 2020/21:

Adjustments from General Reserves to arrive at the Comprehensive Income and Expenditure Statement amounts	2020/21			Total £'000
	Adjustments for Capital Purposes (Note i)	Net change for Pensions Adjustments (Note ii)	Accumulated Absences (Note iii)	
	£'000	£'000	£'000	
Assets and Business Transformation	14,769	(10)	1	14,760
Comms, Environment & Project Man.	963	(32)	5	936
Community Wellbeing	1,014	(18)	3	999
Compliance, Waste & Risk	376	(36)	5	345
Finance	0	(16)	2	(14)
Housing	0	(20)	3	(17)
ICT, Legal, HR & Town Centre Regeneration	272	(19)	3	256
Leisure Services	1,289	(3)	0	1,286
Planning & Economic Development	1	(21)	3	(17)
<b>Cost of Services</b>	<b>18,684</b>	<b>(175)</b>	<b>25</b>	<b>18,534</b>
Other income and expenditure	0	0	68,009	68,009
	<b>18,684</b>	<b>(175)</b>	<b>68,034</b>	<b>86,543</b>

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

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

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

## Adjustments between Funding and Accounting Basis 2019/20:

Adjustments from General Reserves to arrive at the Comprehensive Income and Expenditure Statement amounts	2019/20			Total £'000
	Adjustments for Capital Purposes (Note i)	Net change for Pensions Adjustments (Note ii)	Accumulated Absences (Note iii)	
	£'000	£'000	£'000	
Assets and Business Transformation	33	116	1	150
Comms, Environment & Project Man.	1,129	393	4	1,526
Community Wellbeing	1,037	214	2	1,253
Compliance, Waste & Risk	539	450	4	993
Finance	0	190	2	192
Housing	0	245	2	247
ICT, Legal, HR & Town Centre Regeneration	293	233	2	528
Leisure Services	1,288	37	0	1,325
Planning & Economic Development	121	267	3	391
<b>Cost of Services</b>	<b>4,440</b>	<b>2,145</b>	<b>20</b>	<b>6,605</b>
Other income and expenditure	1	0	29,724	29,725
	<b>4,441</b>	<b>2,145</b>	<b>29,744</b>	<b>36,330</b>

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

	2019/20 £'000	2020/21 £'000
<b>Expenditure</b>		
Employees benefits expenses	18,143	20,481
Premises	7,110	7,502
Transport	1,465	1,412
Supplies & Services	10,898	8,626
Support Services	963	(2,892)
Third Parties	2,294	1,868
Transfer Payments	42,495	39,698
Capital Charges excluding interest paid	30,459	83,852
Interest Paid	25,498	25,683
Total Expenditure	<b>139,325</b>	<b>186,230</b>
<b>Income</b>		
Sales	(641)	(657)
Charges use of facilities	(2,985)	(1,690)
Service Charges	(150)	(2,542)
Rents	(54,403)	(55,343)
Interest	(2,351)	(1,852)
Govn grants	(30,336)	(53,652)
Other grants, reimburse & con	(17,621)	(6,183)
Income Other Reimbursement	(1)	(2,843)
Council Tax & Business Rates income	(26,484)	(27,137)
Total Income	<b>(134,972)</b>	<b>(151,899)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>4,353</b>	<b>34,331</b>

## 2. Accounting Standards Issued but not yet adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the 2021/22 Code of Practice of Local Authority Accounting in the United Kingdom:

The standards introduced include:

- Definition of a business - Amendments to IFRS 3 Business combinations
- *Interest rate benchmark reform – amendments to IFRS 7 and 9 and IAS 39.*
- *Interest rate benchmark reform Phase II – amendments to IFRS 4, 7, 9 and 16 and IAS 39*
- 
- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2022.

These will be incorporated into the Statement of Accounts for 2021/22. At this stage, it is not anticipated that there will be any material effect on the Council's finances or the 2020/21 statement of accounts.

## 3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out on pages 22 to 38, 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 and with respect to the impacts of COVID-19. 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. The Council prepares a Medium-Term Financial Strategy within the budget setting process, which models the risk and helps identify what needs to be done to manage the risks.
- The Council holds a significant portfolio of investment properties and although the general economic activity is fragile, the Council judges that its portfolio in the context of the implications of the pandemic on the local economy is currently robust and healthy enough that its assets will not be materially impaired as a result of a decrease in economic activity.
- All investment property is valued annually in accordance with the methodologies and bases for estimate set out in the professional standards of the Royal Institute of Chartered Surveyors. The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at a fair value, is revalued every five year. Valuations of vehicles, plant, furniture & equipment and assets under construction are not subject to revaluation on the grounds of materiality. Historic cost is used as a proxy for current value.
- As a result of the COVID-19 pandemic and in line with directives from central government the Council has held back on its follow up action in respect of its outstanding debts. Therefore, due to the uncertainty about collecting any outstanding monies from taxpayers, we have been prudent when setting our rates for bad debt provisions, which are reflected in these financial statement.

## 4. Prior Period Adjustments

There were no prior period adjustments accounted for in 2020/21

## 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 2020 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

### **Pension 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 about the assumptions to be applied, however, the interaction of these assumptions is complex.

### **Business Rates.**

A provision of £2.965m has been included in the accounts to reflect the Council's share (40%) of the estimated impact of business rate payers successfully appealing the rateable value assigned to their properties. This is based on the number of appeals outstanding as at 31 March 2021 and the historical success rate of all appeals since 2010 and the percentage built into the multiplier by MHCLG for the 2017 list.

### **Property Plant & 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.

Due to the effects of the COVID-19 pandemic on the property market the council's valuers have provided valuations reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, they have advised that less certainty and a higher degree of caution should be attached to the valuation that would normally be the case.

### **Arrears**

At 31 March 2021, the Council had a balance of Short-Term Receivables of £3.853m (2019/20: £7.488m) and has made a provision of £6.682m (2019/20: £4.939m) for impairment of doubtful debts. Collection rates are more uncertain currently with COVID-19. In the early part of 2021/22 normal recovery procedures were reinstated by Government.

In May 2021 the new national Breathing Space regime takes effect, it is unclear what impact this will have on debts owed to the Council

## **Coronavirus**

The outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on 11 March 2020, continues to impact on the Council's asset valuations (including Fair Value measurement) and impairment.

Our Municipal Property Valuers, Wilks Head & Eves highlight that in respect of their report for 2020/21 they are not operating under any material uncertainty and therefore section VPS 3 and VPGA 10 of the RICS Red Book global do not apply.

However, they do consider that the retail sector and car parks are exceptions and therefore the above provisions do apply on the ground of 'material valuation uncertainty', and a higher degree of caution should be attached to the valuation of these assets, than would normally be the case.

The inclusion of the 'material valuation uncertainty' declaration does not mean that the valuations cannot be relied upon. It is included in order to be clear and transparent. The valuer has applied professional judgement, and this remains the best information available to the Council, without actually selling the asset.

Our investment property valuers Carter Jonas have not advised us of any material valuation uncertainties this year.

Surrey County Council Pension Fund, of which Spelthorne Borough Council has a material share of the assets and liabilities, declared a 'material valuation uncertainty' in 2019/20 in relation to the valuation of the property investments and private equity instruments held by a pension fund due to the impact of COVID-19.

The Council feels that there may be material uncertainty surrounding its and their pension funds annual property valuations in 2020/21.

## **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 £23.20m in 2020/21 (£26.35m 2019/20). However, this expenditure is largely recovered by the receipt of subsidy from central Government, £23.21m in 2020/21 (2019/20: £25.44m), so the net cost to the Council is minimal. In addition, a net £49.5m (2019/20: £51m) was received in terms of investment properties (see Note 13).

## **7. Adjustments between Accounting Basis and Funding Basis under Regulations**

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

### **General Fund Balance**

The General Fund is a statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practices. The General Fund Balance therefore summarises the

resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit that the Council is required to recover) at the end of the financial year.

**Capital Receipts Reserve**

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

**Capital Grants Unapplied**

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

The following tables provide an analysis of the movement in the above reserves for 2020/21 and the prior year 2019/20.

Adjustments between Accounting and Funding Basis under Regulations 2020/21	General Reserves £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000
<b>Adjustments to the Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements					
Pension costs	(962)			(962)	962
Council tax	(281)			(281)	281
Business rates	(8,567)			(8,567)	8,567
Holiday pay	(25)			(25)	25
Reversal of entries included in the (Surplus)/Deficit on the Provision of Services in relation to Capital Expenditure	(79,651)			(79,651)	79,651
Revenue Expenditure funded from Capital under Statute	(857)		0	(857)	857
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure Statement	3,371		(3,371)	0	0
Capital Grants and Contributions received and applied for capital financing				0	0
<b>Total Adjustments to Revenue Resources</b>	<b>(86,972)</b>		<b>(3,371)</b>	<b>(90,343)</b>	<b>90,343</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	429	(429)		0	0
Statutory provision for the repayment of debt	11,903			11,903	(11,903)
Capital expenditure financed from revenue balances	2,857			2,857	(2,857)
<b>Total Adjustments between Revenue and</b>	<b>15,189</b>	<b>(429)</b>	<b>0</b>	<b>14,760</b>	<b>(14,760)</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance Capital Expenditure		429		429	(429)
Application of Capital Grants to finance Capital Expenditure			1,003	1,003	(1,003)
Cash payments in relation to Deferred Capital Receipts				0	
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>429</b>	<b>1,003</b>	<b>1,432</b>	<b>(1,432)</b>
<b>Balance carried forward 31st March</b>	<b>(71,783)</b>	<b>0</b>	<b>(2,368)</b>	<b>(74,151)</b>	<b>74,151</b>



Adjustments between Accounting and Funding Basis under Regulations 2019/20	General Reserves £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000
<b>Adjustments to the Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements					
Pension costs	(3,423)			(3,423)	3,423
Council tax	(90)			(90)	96
Business rates	(2,748)			(2,748)	2,742
Holiday pay	(20)			(20)	20
Reversal of entries included in the (Surplus)/Deficit on the Provision of Services in relation to Capital Expenditure	(16,879)			(16,879)	16,879
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure Statement	238		(238)	0	0
Capital Grants and Contributions received and applied for capital financing	784			784	(784)
Transfer of deferred sale proceeds credited as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14,544)			(14,544)	14,544
<b>Total Adjustments to Revenue Resources</b>	<b>(36,682)</b>		<b>(238)</b>	<b>(36,920)</b>	<b>36,920</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	353	(353)		0	0
Statutory provision for the repayment of debt	11,052			11,052	(11,052)
Capital expenditure financed from revenue balances	750			750	(750)
<b>Total Adjustments between Revenue and</b>	<b>12,155</b>	<b>(353)</b>	<b>0</b>	<b>11,802</b>	<b>(11,802)</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance Capital Expenditure		564		564	(564)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>564</b>	<b>0</b>	<b>564</b>	<b>(564)</b>
Balance carried forward 31st March	(24,527)	211	(238)	(24,554)	24,554

## 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 2020/21.

Earmarked Reserves	43,921	Transfers to Reserves	Used in revenue funding	44,286
	£'000	£'000	£'000	£'000
Revenue Grants unapplied	(2,326)	(370)	60	(2,636)
Capital Fund	(1,443)	0	0	(1,443)
Insurance Fund	(50)	0	0	(50)
Planned Spending Funds	(11,295)	(2,607)	307	(13,595)
COVID Funds		(26,907)		(26,907)
Funds for acquired properties	(20,510)	(6,429)	1,066	(25,873)
Youth Fund	(20)	0	0	(20)
Local Environmental Assessment Fund	(317)	0	68	(249)
Contributions from Developers	(7,045)	(1,696)	11	(8,730)
<b>Earmarked Reserves 31st March</b>	<b>(43,006)</b>	<b>(38,009)</b>	<b>1,512</b>	<b>(79,503)</b>
General Fund Balance	(1,221)	(955)	0	(2,176)
<b>Balance carried forward 31st March</b>	<b>(44,227)</b>	<b>(38,964)</b>	<b>1,512</b>	<b>(81,679)</b>

## 9. Financing and Investment Income and Expenditure

2019/20			Financing and Investment Income and Expenditure	2020/21		
Expenditure	Income	Total		Expenditure	Income	Total
£'000	£'000	£'000	Notes	£'000	£'000	£'000
24,219	0	24,219	Interest payable and similar charges	24,546	0	24,546
1,279	0	1,279	Net interest on the net defined benefit liability (asset)	1,137	0	1,137
0	(2,351)	(2,351)	Interest receivable and similar income	0	(1,852)	(1,852)
19,799	(58,574)	(38,775)	Income and expenditure in relation to investment property	56,094	(52,577)	3,517
<b>45,297</b>	<b>(60,925)</b>	<b>(15,628)</b>	<b>Financing and Investment Income and Expenditure</b>	<b>81,777</b>	<b>(54,429)</b>	<b>27,348</b>

## 10. Taxation and Non-Specific Grant Income

2019/20			Taxation and Non-Specific Grant Income	2020/21		
Expenditure	Income	Total		Expenditure	Income	Total
£'000	£'000	£'000	Notes	£'000	£'000	£'000
	(7,957)	(7,957)	Council Tax Income	0	(8,002)	(8,002)
15,783	(18,527)	(2,744)	Non-domestic Rates Income and Expenditure	16,047	(11,018)	5,029
	(2,100)	(2,100)	Non-ringfenced government grants	0	(33,533)	(33,533)
	(1,021)	(1,021)	Capital Grants and Contributions	0	(3,371)	(3,371)
<b>15,783</b>	<b>(29,605)</b>	<b>(13,822)</b>	<b>Total Taxation and Non-Specific Grant Income</b>	<b>16,047</b>	<b>(55,924)</b>	<b>(39,877)</b>

## 11. Property, Plant and Equipment

### Movement on Balances in 2020/21:

Property, Plant and Equipment	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>					
At 1st April 2020	88,800	3,984	146	49,203	142,133
Additions	1,180	409	18	26,086	27,693
Revaluation increases/(decreases) recognised in the Revaluation Reserve	13,446	0	0	0	13,446
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(14,736)	0	0	0	(14,736)
De-recognition - other	(9,575)	0	0	(1,084)	(10,659)
Other movements in cost or valuation	0	0	0	0	0
At 31st March 2021	<u>79,115</u>	<u>4,393</u>	<u>164</u>	<u>74,205</u>	<u>157,877</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1st April 2020	(5,132)	(2,158)	(1)	0	(7,291)
Depreciation charge	(3,887)	(454)	(5)	0	(4,346)
Depreciation written out to the Revaluation Reserve	765	0	0	0	765
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	1,438	0	0	0	1,438
Other movements in depreciation and impairment	580	0	0	0	580
At 31st March 2021	<u>(6,236)</u>	<u>(2,612)</u>	<u>(6)</u>	<u>0</u>	<u>(8,854)</u>
<b>Net Book Value</b>					
At 31st March 2021	72,879	1,781	158	74,205	149,023
At 31st March 2020	83,668	1,826	145	49,203	134,842

**Movement on Balances in 2019/20:**

Property, Plant and Equipment	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>					
At 1st April 2019	47,250	3,694	68	28,699	79,711
Additions	41,500	425	78	20,504	62,507
Revaluation increases/(decreases) recognised in the Revaluation Reserve	50	0		0	50
Other movements in cost or valuation	0	(135)		0	(135)
At 31st March 2020	<u>88,800</u>	<u>3,984</u>	<u>146</u>	<u>49,203</u>	<u>142,133</u>
<b>Accumulated Depreciation and Impairment</b>					
At 1st April 2019	(2,572)	(1,650)	0	0	(4,222)
Depreciation charge	(2,758)	(508)	(1)	0	(3,267)
At 31st March 2020	<u>(5,330)</u>	<u>(2,158)</u>	<u>(1)</u>	<u>0</u>	<u>(7,489)</u>
<b>Net Book Value</b>					
At 31st March 2020	83,470	1,826	145	49,203	134,644
At 31st March 2019	44,678	2,044	68	28,699	75,489

**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 a number of major capital commitments at 31 March 2021 – totalling £1.9m including works at Benwell Hose, Harper House, White House and the West Wing at Knowle Green.

**Effect of Changes in Estimates**

In 2020/21, the Council made no material changes to its accounting estimates for property, plant and equipment.

**Revaluations**

Asset valuations (including Fair Value measurement) and impairment is based on an estimate and the Council draws on the expertise of its RICS Registered Valuer G A Harbord MA MRIC IRRV (Hons) of Wilks Head Eves, LLP, to calculate valuations, useful lives and impairment reviews in accordance with the professional guidance.

The valuations have been completed in accordance with: -

- Royal Institute of Chartered Surveyors (RICS) valuation – professional standards 2014 (revised 2015)
- RICS valuation – global standards 2017 (The Standards)
- IFRS
- Chartered Institute of Public finance and Accounting Code of Practice on local council Accounting (The Code)

When the fair value of financial assets and liabilities cannot be measured on quoted prices in active markets, i.e., level 1 inputs, their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible professional judgement is required. These judgements typically include considerations such as uncertainty and risk, however, changes in assumptions used could affect the fair value of the Council's assets and liabilities.

The Council carries out a rolling programme that ensures all its property, plant and equipment is measured at fair value at least every five years.

Valuations of vehicles, plant & equipment and buildings under construction are not subject to revaluation on the grounds of materiality. Historic cost is used as a proxy for current value.

## 12. Heritage Assets

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

2019/20 £'000	Heritage Assets	2020/21 £'000
	<b>Cost or Valuation</b>	
251	Balance at 1st April	252
1	Revaluation increases/(decreases) recognised in the Revaluation Reserve	0
<u>252</u>	Balance at 31st March	<u>252</u>
	<b>Accumulated Depreciation and Impairment</b>	
(22)	Depreciation at 1st April	(23)
(3)	Depreciation	(7)
2	Depreciation written out to the Revaluation Reserve	0
<u>(23)</u>	Balance at 31st March	<u>(30)</u>
	<b>Net Book Value</b>	
<u>229</u>	Balance at 31st March	<u>222</u>

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

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

## 13. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in respect of investment properties:

2019/20 £'000		2020/21 £'000
(51,079)	Rental income from properties	(49,516)
(34)	Net Operating income/expenses	1,091
12,304	Changes in valuations	51,942
<u>(38,809)</u>	Balance at 31st March	<u>3,517</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to receive income and the proceeds of disposal.

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

2019/20 £'000	Investment Property	2020/21 £'000
989,353	Balance at 1st April	991,689
14,639	Additions	0
(12,304)	Net gains/losses from fair value adjustments	(51,942)
<u>991,688</u>	Balance at 31st March	<u>939,747</u>

### Revaluations

Investment Property valuations (including Fair Value measurement) and impairment is based on an estimate and the Council draws on the expertise of its RICS Valuer Dudley Holme-Turner MRICS of Carter Jonas, LLP, to calculate valuations, useful lives and impairment reviews in accordance with the professional guidance.

The valuations have been completed in accordance with: -

- Royal Institute of Chartered Surveyors (RICS) valuation – professional standards 2014 (revised 2015)
- RICS valuation – global standards 2017 (The Standards)
- IFRS
- Chartered Institute of Public finance and Accounting Code of Practice on local council Accounting (The Code)

2019/20 £'000	Fair value measurement	Notes	2020/21 £'000
591,216	Land		596,034
400,472	Buildings		343,713
<u>991,688</u>	Balance at 31st March		<u>939,747</u>

When the fair value of financial assets and liabilities cannot be measured on quoted prices in active markets, i.e., level 1 inputs, their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible professional judgement is required. These judgements typically include considerations such as uncertainty and risk, however, changes in assumptions used could affect the fair value of the Council's assets and liabilities.

## 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.

## 14. Intangible Assets

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

2019/20 £'000	Intangible Assets	2020/21 £'000
541	Balance at 1st April	357
19	Additions	74
<u>560</u>	Balance at 31st March	<u>431</u>
<b>Accumulated Amortisation</b>		
(203)	Amortisation written out to the (Surplus)/Deficit on the Provision of Services	(177)
<u>(203)</u>	Balance at 31st March	<u>(177)</u>
<b>Net Book Value</b>		
<u>357</u>	Balance at 31st March	<u>254</u>

## 15. Financial Instruments

### Financial Instruments - Balances

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

Long-term 31 Mar 20 £'000	Short-term 31 Mar 20 £'000	Financial Liabilities	Long-term 31 Mar 21 £'000	Short-term 31 Mar 21 £'000
		<i>Loans at amortised cost:</i>		
1,053,529	56,110	Principal sum borrowed	1,053,820	74,690
	3,181	Accrued Interest		3,045
<b>1,053,529</b>	<b>59,291</b>	<b>Total borrowing *</b>	<b>1,053,820</b>	<b>77,735</b>
		<i>Liabilities at amortised cost:</i>		
	6,999	Trade Payables **		6,231
	<b>6,999</b>	<b>Total cash and cash equivalents</b>		<b>6,231</b>

\* The accrued interest in short-term borrowing represents accrued interest and principal repayments due within 12 months on long-term borrowing.

\*\* The Short-term Payables line on the Balance Sheet includes £33,945k (2020: £48,597k) that do not meet the definition of a financial liability as they relate to non-exchange transactions.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Long-term 31 Mar 20 £'000	Short-term 31 Mar 20 £'000	Financial Assets	Long-term 31 Mar 21 £'000	Short-term 31 Mar 21 £'000
		<i>At amortised cost:</i>		
2,808	34,901	Principal	344	54,041
-	308	Accrued Interest	-	410
		<i>At FVOCI:</i>		
28,121	-	Equity instruments elected FVOCI	33,847	-
<b>30,929</b>	<b>35,209</b>	<b>Total investments *</b>	<b>34,191</b>	<b>54,451</b>
		<i>At amortised cost:</i>		
	4	Principal		5
	16,604	At FVPL		11,579
	<b>16,608</b>	<b>Total cash and cash equivalents</b>		<b>11,584</b>
		<i>At amortised cost:</i>		
-	5,288	Trade receivables **	-	4,025
4,748	-	Loans made for service purposes	-	-
-	332	Accrued interest	-	297
<b>4,748</b>	<b>5,620</b>	<b>Included in debtors</b>	<b>-</b>	<b>4,322</b>

\* The accrued interest in short-term investments represents accrued interest and principal repayments due within 12 months on long-term investments.

\*\* The Short-term Receivables line on the Balance Sheet includes £13,842k (2020: £2,200k) that do not meet the definition of a financial liability as they relate to non-exchange transactions.

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

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



Fair Value 31 Mar 20 £'000	Dividends* 31 Mar 20 £'000	Equity instruments elected to FVOCI	Fair Value 31 Mar 21 £'000	Dividends* 31 Mar 21 £'000
574	14	Charteris - Elite Premium Income Fund - Inst - Inc	790	14
1,647	17	Schroder UK Corporate Bond Fund - I - Inc	1,936	19
771	19	Schroder Income Maximiser Fund - Z - Inc	949	14
627	15	Schroder Income Maximiser Fund - Z - Inc	771	11
666	16	Schroder Income Maximiser Fund - Z - Inc	819	12
1,953	48	Schroder Income Maximiser Fund - Z - Inc	2,402	35
1,358	21	M&G Global Dividend Fund - I - Inc	1,934	21
2,406	37	M&G Global Dividend Fund - I - Inc	3,428	36
1,542	19	M&G Optimal Income Fund - I - Inc	1,769	16
1,584	17	M&G UK Income Distribution Fund - I - Inc	1,859	17
2,604	18	Investec Diversified Income Fund - I - Inc	2,863	16
1,355	9	Investec Diversified Income Fund - I - Inc	1,490	8
1,619	19	Threadneedle UK Equity Income Fund - Z - Inc	2,047	12
1,198	14	Threadneedle UK Equity Income Fund - Z - Inc	1,515	9
1,305	0	Threadneedle Global Equity Income Fund - Z - Inc	1,683	0
1,954	22	CCLA - LAMIT Property Fund - Inc	1,940	22
1,116	12	CCLA - LAMIT Property Fund - Inc	1,108	12
1,307	16	UBS Multi Asset Income Fund - L - Inc	1,445	13
2,534	0	Kames Diversified Monthly Income Fund - I - Inc	3,012	12
<b>28,120</b>	<b>333</b>	<b>Totals</b>	<b>33,760</b>	<b>299</b>

\* Relate to dividends for the year that are unpaid as at year end.

### Financial Instruments - Gains and Losses

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

2019/20 Total £'000	Gains and Losses	Financial Liabilities at Amortised Cost £'000	Financial Assets			2020/21 Total £'000
			Amortised Cost £'000	Elected to Fair Value through OCI £'000	Fair Value through Profit & Loss £'000	
25,498	Interest expense	25,683				25,683
47	Fees paid	36	0	0		36
<b>25,545</b>	<b>Interest payable and similar charges</b>	<b>25,718</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,718</b>
(2,351)	Interest income		(1,852)			(1,852)
	Dividend income					
<b>(2,351)</b>	<b>Interest and investment income</b>	<b>0</b>	<b>(1,852)</b>	<b>0</b>	<b>0</b>	<b>(1,852)</b>
<b>23,194</b>	<b>Net impact on surplus/ deficit on provision of services</b>	<b>25,718</b>	<b>(1,852)</b>	<b>0</b>	<b>0</b>	<b>23,866</b>
0	Gains on revaluation			(5,624)		(5,624)
5,752	Losses on revaluation					0
<b>5,752</b>	<b>Impact on Other Comprehensive Income</b>	<b>0</b>	<b>0</b>	<b>(5,624)</b>	<b>0</b>	<b>(5,624)</b>
<b>28,946</b>	<b>Net Gain/ Loss for the Year</b>	<b>25,718</b>	<b>(1,852)</b>	<b>(5,624)</b>	<b>0</b>	<b>18,243</b>

### Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, for example bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, for example interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, for example non-market data such as cash flow forecasts or estimated creditworthiness.

Balance sheet 31 Mar 20 £'000	Fair value 31 Mar 20 £'000	FV - Financial Liabilities	Fair value level	Balance sheet 31 Mar 21 £'000	Fair value 31 Mar 21 £'000
		<i>Financial liabilities held at amortised cost:</i>			
1,053,529	1,111,750	Long-term loans from PWLB	2	1,046,880	1,098,246
0	0	Other long-term loans	2	6,940	14,931
<b>1,053,529</b>	<b>1,111,750</b>	<b>TOTAL</b>		<b>1,053,820</b>	<b>1,113,177</b>
114,887		Liabilities for which fair value is not disclosed*		117,911	
<b>1,168,416</b>		<b>TOTAL FINANCIAL LIABILITIES</b>		<b>1,171,731</b>	
		<i>Recorded on balance sheet as:</i>			
59,291		Short-term borrowing		77,735	
1,053,529		Long-term borrowing		1,053,820	
55,596		Short-term payables		40,176	
<b>1,168,416</b>				<b>1,171,731</b>	

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

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

Balance sheet 31 Mar 20 £'000	Fair value 31 Mar 20 £'000	FV - Financial Assets	Fair value level	Balance sheet 31 Mar 21 £'000	Fair value 31 Mar 21 £'000
		<i>Financial assets held at fair value:</i>			
18,400		Money market funds	1	9,850	
28,121		Strategic pooled funds	1	33,760	
		<i>Financial assets held at amortised cost:</i>			
4,702	4,717	Long-term loans to companies	2	4,668	5,072
2,000	2,104	Long-term loan to housing association	2	0	0
<b>53,223</b>	<b>53,342</b>	<b>TOTAL</b>		<b>48,278</b>	<b>48,682</b>
37,011		Assets for which fair value is not disclosed*		69,815	
<b>90,234</b>		<b>TOTAL FINANCIAL ASSETS</b>		<b>118,093</b>	
		<i>Recorded on balance sheet as:</i>			
35,209		Short-term investments		54,451	
30,929		Long-term investments		34,191	
16,608		Cash and cash equivalents		11,584	
7,488		Short-term receivables		17,867	
<b>90,234</b>				<b>118,093</b>	

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

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now slightly lower than that obtained when the investment was originally made.

### Financial Instruments – Risks

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

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

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

The main risks covered are:

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

### Credit Risk: Treasury Investments

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

A limit of £5.0m is placed on the amount of money that can be invested with a single counterparty and £10.0m on secured investments with AAA rated banks and unlimited with UK government. For unsecured investments in banks, building societies and companies, lower limits apply (£2.0m for banks, £1.0m for corporates and registered providers).

Credit risk is not applicable to pooled funds where the Council has no contractual right to receive any sum of money.

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, adjusted for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent. At 31 March 2021, £8k (2020 equivalent: £25k) of loss allowances related to treasury investments.

### Credit Risk: Trade Receivables

The way in which the Council manages credit risk on receivables depends on the type of receivable and debtor. Receivables relating to investment properties is addressed in the next section.

For general trade debtors, departments are responsible for management of income. This process is strengthened through ongoing development of central debt management support and review of debtor accounts. 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 following analysis summarises the Council's trade and lease receivables by due date. Only those receivables meeting the definition of a financial asset are included.

31-Mar-20 £'000	Credit for customers	31-Mar-21 £'000
2,667	Less than three months	1,177
2,043	Three to six months	409
140	Six months to one year	730
717	More than one year	1,020
<u>5,567</u>	<b>Total</b>	<u>3,336</u>

At 31 March 2021, £133k (2020 equivalent: £175k) of loss allowances related to trade receivables.

Loss allowances on trade receivables have been calculated by reference to historic data on UK small to medium entities.

### **Credit Risk: Investment properties**

For investment properties, where the rents are high value, various measures are taken to reduce the risk of rent loss. For potential tenants, the financial strength, viability and ability to pay is assessed by Deloitte which produces detailed reports on relevant companies. If necessary, where for example financial strength is not sufficiently high, guarantees from parent companies are obtained to cover potential rent default.

Rents are due from tenants on quarter days for the following three-month period and are paid within two weeks by all tenants of investment properties. Any delays are addressed directly with the tenants to ensure that rent is paid, with the option of ending the tenancy where appropriate. With these measures in place, the risk of default is therefore very low. In addition, as part of the acquisition process, expected vacancy rates (for example when a property has been recently developed) are built into purchase prices to ensure that voids are covered by the acquisition price for an agreed period. During the COVID-19 crisis, the Property Team liaised with tenants to make arrangements for monthly payment plans and payment deferrals. As a result, the rental performance in the short term was significantly better than seen elsewhere in the property sector since the COVID-19 lockdown.

On this basis, and in view of historic payments to date for investment properties, the expected credit loss is £nil.

### **Liquidity Risk**

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans.

### **Market Risks: Interest Rate Risk**

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

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

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive

Income or the Surplus or Deficit on the Provision of Services as appropriate.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be as follows:

Interest Rate Risk	31 Mar 20 £'000	31 Mar 21 £'000
Decrease in Fair Value of investments held at FVPL	(22)	(13)
Increase in interest receivable on investments	388	365
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>366</b>	<b>352</b>
Decrease in Fair Value of investments held at FVOCI	(276)	(341)
<b>Impact on Comprehensive Income and Expenditure</b>	<b>90</b>	<b>11</b>
Decrease in Fair Value of loans and investments held at amortised cost*	(1,244)	(250)
Decrease in Fair Value of fixed rate borrowing*	(192,142)	(190,957)

*\*No impact on Comprehensive Income and Expenditure.*

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

### **Market Risks: Price Risk**

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

The Council's investment in pooled property funds is subject to the risk of falling commercial property prices. A 5% fall in commercial property prices at 31 March 2021 would result in a £175k (2020: £171k) charge to Other Comprehensive Income and Expenditure which is then transferred to the Pooled Investment Funds Adjustment Account.

The Council's investment in a pooled equity funds is subject to the risk of falling share prices. A 5% fall in share prices at 31 March 2021 would result in a £1,025k (2020: £780k) charge to Other Comprehensive Income and Expenditure which is then transferred to the Pooled Investment Funds Adjustment Account.

## **16. Receivables**

2019/20 £'000	Short term receivables	2020/21 £'000
10,189	General receivables	23,195
1,027	Payments in advance	1,354
(3,728)	Provisions for impairment	(6,682)
<u>7,488</u>	Balance at 31st March	<u>17,867</u>

## 17. Cash and Cash Equivalents

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

2019/20 £'000	Cash & cash equivalents	2020/21 £'000
5	Cash held	5
(6,797)	Bank accounts	(3,271)
23,400	Cash Equivalents	14,850
<u>16,608</u>	Balance at 31st March	<u>11,584</u>

## 18. Assets Held for Sale

There are currently no properties classified as held for sale.

## 19. Payables

2019/20 £'000	Short term payables	2020/21 £'000
(17,013)	General payables	(13,039)
(36,186)	Receipts in advance	(24,510)
(2,397)	Deposits	(2,628)
<u>(55,596)</u>	Balance at 31st March	<u>(40,176)</u>

## 20. Provisions

### 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 31 March 2021 is £7.414m (2019/20: £7.053m) (included in the Collection Fund) and the Council's share of this liability is £2.965m (2019/20: £2.821m) (included in the Council's Accounts). This has been calculated based on appeals outstanding at the 31 March adjusted for historical trends and success rates.

2019/20 £'000	Short term provisions	2020/21 £'000
(150)	Municipal Mutual Insurance	(150)
(2,821)	Expected Credit Loss	(2,528)
(324)	Business Rates Appeals	(996)
<u>(3,295)</u>	Balance at 31st March	<u>(3,674)</u>

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

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

## 21. Unusable Reserves

2019/20 £'000	Unusable Reserves	2020/21 £'000
(10,754)	Revaluation Reserve	(24,005)
4,077	Financial Instruments Revaluation Reserve	(1,547)
2,858	Capital Adjustment Account	66,215
(3,725)	Deferred Capital Receipts Reserve	(3,725)
49,574	Pension Reserve	59,497
1,777	Collection Fund Adjustment Account	10,625
279	Accumulated Absences Account	304
<u>44,086</u>	Balance at 31st March	<u>107,364</u>

### Revaluation Reserve

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

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

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

2019/20 £'000	Revaluation Reserve	2020/21 £'000
(10,698)	Balance at 1st April	(10,753)
(51)	Changes in valuations	(14,211)
(5)	Depreciation written down on revaluation	0
0	Difference between fair value and historic cost depreciation	959
<u>(10,754)</u>	Balance at 31st March	<u>(24,005)</u>

### Financial Instruments Revaluation Reserve

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

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

2019/20 £'000	Financial Instruments Revaluation Reserve	2020/21 £'000
(1,675)	Balance at 1st April	4,077
5,752	Revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(5,624)
<u>4,077</u>	Balance at 31st March	<u>(1,547)</u>



### Capital Adjustment Account

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

The Account contains the accumulated gains and losses on investment properties and also - contains revaluation gains accumulated on property, plant and equipment before 1 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.

2019/20 £	Capital Adjustment Account	2020/21 £
(870)	Balance at 1st April	2,858
	<i>Reversal of items relating to capital debited or credited to the Comprehensive Income and Expenditure Statement</i>	
3,476	Charges for depreciation and amortisation of non-current assets	4,530
	Changes in the valuation of Property, Plant and Equipment	13,298
12,304	Changes in the valuation of Investment Property	51,942
135	Amounts of non-current assets written off on disposal, derecognition or sale as part of the Gain or Loss on disposal	9,881
<u>15,915</u>	<i>Total of amount of items reversed</i>	<u>79,651</u>
	Adjusting amounts written off of the Revaluation Reserve	(959)
964	Revenue Expenditure funded from Capital under Statute	857
	<i>Capital financing applied in the year</i>	
(565)	Use of Capital Receipts Reserve to finance new capital expenditure	(429)
(784)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,003)
(750)	Capital Expenditure charged against the General Fund Balance	(2,857)
(11,052)	Minimum revenue provision	(11,903)
<u>(13,151)</u>	<i>Total of amount of capital financing</i>	<u>(16,192)</u>
<u>2,858</u>	Balance at 31st March	<u>66,215</u>

### Deferred Capital Receipts Reserve

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

2019/20 £'000	Deferred Capital Receipts Reserve	2020/21 £'000
(18,269)	Balance at 1st April	(3,725)
14,544	Loans to KGE in respect of assets transferred	0
<u>(3,725)</u>	Balance at 31st March	<u>(3,725)</u>

### Pensions Reserve

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

2019/20 £'000	Pension Reserve	2020/21 £'000
51,128	Balance at 1st April	49,574
(4,977)	Remeasurement of net defined benefits liabilities/(assets)	8,961
3,423	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	962
<u>49,574</u>	Balance at 31st March	<u>59,497</u>

### Collection Fund Adjustment Account

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

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

2019/20 £'000	Collection Fund Adjustment Account	2020/21 £'000
(1,060)	Balance at 1st April	1,777
96	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	281
2,741	Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	8,567
<u>1,777</u>	Balance at 31st March	<u>10,625</u>

### Accumulated Absences Account

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

2019/20 £'000	Accumulated Absences	2020/21 £'000
258	Balance at 1st April	279
21	Adjustment in-year	25
<u>279</u>	Balance at 31st March	<u>304</u>

## 22. Statement of Cash Flows – Operating Activities

The cash flows for operating activities include the following items:

2019/20 £'000	Operating Activities - interest	2020/21 £'000
(517)	Interest received	(479)
23,777	Interest paid	24,809
(1,605)	Dividends received	(1,414)

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

2019/20 £'000	Operating Activities - non-cash movements	2020/21 £'000
(30,324)	Items relating to Capital	(80,322)
12,373	Other non-cash items charged to the net (Surplus)/Deficit on the Provision of Services	28,955
<u>(17,951)</u>	Cash & Cash Equivalents at the end of the reporting period	<u>(51,367)</u>

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

2019/20 £'000	<b>Operating Activities - investing or financing items</b>	2020/21 £'000
0	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(429)
0	Other items for which the cash effects are investing or financing cash flows)	(3,371)
<u>0</u>		<u>(3,800)</u>

### 23. Statement of Cash Flows – Investing Activities

2019/20 £'000	<b>Investing Activities</b>	2020/21 £'000
77,031	Purchase of property, plant and equipment, investment property and intangible assets	27,766
5,011	Purchase of short-term and long-term investments	365,775
(100)	Proceeds from short-term and long-term investments	(348,775)
0	Other receipts from investing activities	
<u>81,942</u>		<u>44,766</u>

### 24. Statement of Cash Flows – Financing Activities

2019/20 £'000	<b>Financing Activities</b>	2020/21 £'000
(59,208)	Cash receipts of short- and long-term borrowing	(118,500)
	Other receipts from financing activities	(34)
0	Repayments of short- and long-term borrowing	99,628
<u>(59,208)</u>		<u>(18,906)</u>

### 25. Members Allowances

The Council paid £344k to members of the Council during the year.

### 26. Senior Officers' Remuneration

The Council paid to its senior officers £481,498 (including pensions contributions) during the year:

#### 2020/21

Senior Employees			2020/21
Title	Pay, fees and allowances	Pension contributions	Total
	£	£	£
Chief Executive	142,124	21,840	163,963
Deputy Chief Executive & Chief Financial Officer	102,378	17,990	120,369
Deputy Chief Executive	95,421	17,471	112,892
Head of Corporate Governance	71,465	12,809	84,274

Note: following the departure of the Head of Corporate Governance on 08-02 2020, an interim appointment was made.

## 2019/20

Senior Employees			2019/20
Title	Pay, fees and allowances	Pension contributions	Total
	£	£	£
Chief Executive	129,638	21,097	150,736
Deputy Chief Executive & Chief Financial Officer	95,875	15,648	111,523
Deputy Chief Executive	95,122	15,529	110,651
Head of Corporate Governance	65,034	9,992	75,026

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

2019/20	Remuneration banding		2020/21
<i>no</i>	£	£	<i>no</i>
3	75,000	79,999	5
1	70,000	74,999	2
4	65,000	69,999	1
1	60,000	64,999	3
6	55,000	59,999	7
6	50,000	54,999	5
<u>21</u>			<u>23</u>

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

Exit packages per cost band (including special payments)		Number of compulsory redundancies		Number of other departures agreed		Number of exit packages by cost band		Total cost of exit packages in each band	
£	£	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
		<i>no</i>	<i>no</i>	<i>no</i>	<i>no</i>	<i>no</i>	<i>no</i>	£	£
5,001	10,000			1		0	0	6,600	
		<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,600</u>	<u>0</u>

The Council did not terminate contract of any employee in 2020/21 incurring liabilities of £nil (2019/20: £6,600 as set out above).

## 27. External Audit Costs

The Council has incurred the following cost in relation to the audit of the Statement of Accounts, Certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditor: Our previous auditors KPMG have requested a significant amount of additional information from the Council in order to conclude their work on fair value and we are waiting for them to finalise matters. Indications are that they are moving towards resolution having recently submitted fee proposals to the Public Sector Audit Appointments (PSAA), which have been accrued for elsewhere within the financial statements.

2019/20 £'000	External Audit Costs	2020/21 £'000
37	Fees payable to BDO with regard to external audit services carried out by the appointed auditor for the year	37
7	Fees payable to BDO for the certification of grant claims and returns for the year	7
<u>44</u>	Total for the year	<u>44</u>

## 28. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2020/21:

2019/20 £'000	Grant income	2020/21 £'000
	<b><i>Credited to Services</i></b>	
(1,650)	Grants and contributions	(1,536)
(25,439)	Benefit Subsidy	(23,208)
<u>(27,089)</u>	Total Credited to Services	<u>(24,744)</u>
	<b><i>Taxation and Non-specific grant income</i></b>	
(2,100)	Non-ringfenced grants and contributions	(33,533)
<u>(3,750)</u>	Total Non-ringfenced grants and contributions	<u>(58,277)</u>
(1,021)	Capital grants and contributions	(3,371)
<u>(1,021)</u>	Total Capital grants and contributions	<u>(3,371)</u>

## 29. Related Parties

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

Central Government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, providing a significant amount of funding in the form of grants and it prescribes the terms of many of the transactions the Council has with other parties (e.g., housing benefits). Details of balances with government departments are set out in notes 16 (Receivables) and 19 (Payables) above and details of cash received from government grants is set out in note 28 above.

Members of the Council have direct control over the Council's financial and operating policies. During 2020/21 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 2020/21 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. In 2018/19 the Council went out to market for a new contract which was won by Applied Resilience on similar terms.

### **Knowle Green Estates Ltd**

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

- Terry Collier, Deputy Chief Executive - Director
- Cllr Olivia Rybinski until July 2020
- Cllr Jim McIlroy from July 2020 to March 2021
- Cllr Satinder Buttar from January 2021
- Cllr Tony Harman until May 2020

### **Spelthorne Direct Services Ltd**

Spelthorne Direct Services Ltd was established as a 100% owned subsidiary of Spelthorne Borough Council in June 2020 to provide for the collection, treatment and disposal of non-hazardous waste and combined facilities support activities. Note 36 provides more detailed disclosure on Spelthorne Direct Services Ltd. The following Council Representatives held office in the company during the year:

- Terry Collier, Deputy Chief Executive – Director
- Mrs J Taylor, Group Head of Neighbourhood Services – Director

## **30. Capital Expenditure and Financing**

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below:

2019/20 £'000	Capital Expenditure and Financing	2020/21 £'000
1,051,121	Opening Capital Financing Requirement	1,116,100
	<i>Capital Investment</i>	0
62,508	Property, Plant and Equipment	27,693
0	Heritage Assets	
14,639	Investment Property	0
19	Intangible Assets	74
964	Revenue Expenditure funded from Capital under Statute Loans to Knowle Green Estates Limited	857
<u>78,130</u>	<i>Total Capital Investment</i>	<u>28,624</u>
	<i>Sources of Finance</i>	
(565)	Capital Receipts	(429)
(784)	Capital Grants and Contributions	(1,003)
(750)	Revenue Contributions	(2,857)
(11,052)	Repayment of Debt	(11,903)
<u>(13,151)</u>	<i>Total Sources of Finance</i>	<u>(16,192)</u>
<u>1,116,100</u>	Closing Capital Financing Requirement	<u>1,128,532</u>

### 31. Leases

#### Council as lessee

##### Operating Leases

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

31 Mar 20 £'000	Council as Lessee	31 Mar 21 £'000
676	Not later than one year	676
1,492	Later than one year and not later than five years	816
<u>2,168</u>	Balance at 31st March	<u>1,492</u>

#### Council as Lessor

##### Operating Leases

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

- For the provision of the community services, such as sports facilities, tourism services and community centres.
- For economic development purposes to provide to suitable accommodation for local businesses.

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



31 Mar 20 £'000	Council as Lessor	31 Mar 21 £'000
49,933	Not later than one year	49,293
209,067	Later than one year and not later than five years	200,289
253,350	Later than five years	235,124
512,350	Balance at 31st March	484,706

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.

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

## 32. Impairment Losses

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

## 33. Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

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

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

### Transactions Relating to Post-employment Benefits

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

2019/20 £'000	IAS19 CI&ES & MiRS	2020/21 £'000
	<b>Comprehensive Income &amp; Expenditure Statement</b>	
	Cost of Services:	
5,239	Current service cost	4,326
0	Past service cost	0
	Financing & Investment Income & Expenditure:	
1,279	Net interest expense	1,137
6,518	Total post-employment benefits charged to the (Surplus)/Deficit on the provision of services	5,463
	Other Comprehensive Income & Expenditure	
8,841	Return of plan assets	(20,207)
(9,153)	Actuarial gains & losses arising on changes in assumptions	1,667
(3,033)	Changes in demographic assumptions	28,736
(3,584)	Other remeasurement of defined liability	(1,235)
(411)	<b>Total post-employment benefits charged to CI&amp;ES</b>	14,424
	<b>Movement in Reserves Statement</b>	
(6,518)	Reversal of new charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the code Actual amount charged against the General Fund Balance for pensions in-year	(5,463)
3,095	Employer's contribution to the scheme	4,501

### 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:

43,921 £'000	Net liability	44,286 £'000
73,513	Fair value of plan assets	96,310
(123,087)	Present value of the defined benefit obligation	(155,807)
(49,574)	Net liability arising from defined benefit obligation	(59,497)

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

2019/20 £'000	Scheme assets	2020/21 £'000
83,098	<b>Opening fair value of scheme assets</b>	73,513
1,966	Interest income	1,700
	Remeasurement gain/loss:	
(10,793)	Return on plan assets, excluding the amount included in net interest expense	20,207
2,894	Contribution from employer	4,304
779	Contribution from employees into the scheme	857
(4,431)	Benefits paid	(4,271)
73,513	<b>Closing fair value of scheme assets</b>	96,310

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

2019/20 £'000		2020/21 £'000
(134,226)	<b>Opening value of scheme liabilities</b>	(123,087)
(5,239)	Current service cost	(4,326)
0	Past Service cost	0
(3,245)	Interest cost	(2,837)
4,632	Benefits paid	4,468
(779)	Contributions from scheme participants	(857)
3,033	Actuarial gains & losses arising on changes in assumptions	(1,667)
	Liabilities assumed on entity combinations	
9,153	Changes in demographic/financial assumptions	(28,736)
3,584	Other changes in liabilities	1,235
(123,087)	<b>Closing value of scheme liabilities</b>	(155,807)

### Local Government Pension Scheme assets comprised:

43,921 £'000	Asset category	44,286 £'000
	<b>Equity securities</b>	
2,098	Consumer	2,086
1,566	Manufacturing	1,051
569	Energy and utilities	203
1,238	Financial institutions	1,255
1,266	Health and care	883
2,400	Information technology	2,915
42	Other	0
	<b>Debt securities</b>	
4,157	Government	4,464
	<b>Private equity</b>	
5,881	All	6,607
	<b>Real estate</b>	
3,679	UK property	3,492
1,615	Overseas property	1,701
	<b>Investment Funds and Unit Trusts</b>	
38,682	Equities	57,022
8,556	Bonds	12,146
	<b>Derivatives</b>	
(739)	Foreign exchange	294
	<b>Cash &amp; cash equivalents</b>	
2,503	All	2,192
73,513	<b>Total assets</b>	96,310

### Basis for Estimating Assets and Liabilities

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

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

The principal assumptions used by the actuary have been:

2019/20 %	Principal assumptions	2020/21 %
	<b>Long-term expected rate of return on assets in the scheme</b>	
4.5	Equity investments	4.5
4.5	Bonds	4.5
4.5	Property	4.5
	Cash	
years	<b>Mortality assumptions</b>	years
	Longevity at 65 for current pensioners	
22.1	- Men	22.3
24.3	- Women	24.7
	Longevity at 65 for future pensioners	
22.9	- Men	23.4
25.7	- Women	26.4
	<b>Other assumptions</b>	
2.5	Rate of inflation (Consumer Price Index)	2.5
2.8	Rate of increase in salaries	3.8
1.9	Rate of increase in pensions	2.9
2.3	Rate of discounting scheme liabilities	2.0
25.0	Rate of discounting scheme liabilities	25.0
0.0	Take-up of option to convert annual pension to retirement lump sum	0.0

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

	%	Increase in assumption £'000	Decrease in assumption £'000
Rate of increases in salaries	0.5	1,064	
Rate of increases in pensions	0.5	12,495	
Decrease in rate for discounting scheme liabilities	0.5		13,830

### Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The last triennial revaluation was valued as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government Pension Scheme in England and Wales and the other main existing public services schemes may not provide benefits in relation to service after 31 March 2016 (or service after 31 March 2017 for other main existing public service pension schemes in England and Wales). The Act provides for scheme

regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipated to pay £3.1m expected contributions to the scheme in 2021/22 (2020/21: £4.3m).

The weighted average duration of the defined benefit obligation for scheme members is 19.0 years for 2020/21 (2019/20: 15.7 years).

### **34. Contingent Liabilities**

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

The previous external auditors have provisionally highlighted proposed additional fee figures for work relating to the 2016/17 statement of accounts and on the Value for Money opinion. The Council has requested a breakdown in order to take a view as to whether there is a justification for these fees.

There may in the future be employment claims relating to employment periods prior to 31 March 2020 and similarly there may arise planning appeals. No specific provisions have been made to cover these possible eventualities.

### **35. Contingent Assets**

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

### **36. Subsidiary Companies**

#### **Knowle Green Estates Limited**

##### **FINANCIAL PERFORMANCE**

Draft account for the year ending 31 March 2021 indicate a loss for the year of £93,643 (2019/20: £154k loss) after tax, this was due to one property being transferred back to the Council, with a reduction in rental income offset by savings in overhead costs.

#### **Spelthorne Direct Service Limited**

##### **FINANCIAL PERFORMANCE**

Draft accounts for the year ending 31 March 2021 indicate a loss of £51,083 after taxation. A ten-year loan facility of £450,000 has been made available to the company and at 31 March 2021 £63,000 had been drawn down for the purchase of refuse collection bins and similar receptacles for waste.

The company has implemented strong administrative systems and obtained a number of new clients and is now looking to expand its customer base once the lockdown restrictions have been lifted.

### 37. Post Balance Sheet Events

The Statement of Accounts was authorised for issue by the Director of Finance and Deputy Chief Executive on .....2021 Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing on 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 38. Collection Fund

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

Total	Collection Fund	Business rates	Council tax	Total
2019/20		2020/21	2020/21	2020/21
£'000		£'000	£'000	£'000
	Income			
(76,863)	Council tax receivable		(79,887)	(79,887)
(50,104)	Business rates receivable	(32,710)		(32,710)
135	Transitional protection	(103)		(103)
	Government grant		(3)	(3)
	Contribution received based on Deficit			
	Surrey County Council	(241)		
(1,228)	Central Government			
	Demand, precepts and shares			
28,269	Spelthorne Borough Council	18,954	8,219	27,173
62,746	Surrey County Council	4,739	60,587	65,326
10,342	Surrey Police & Crime Commissioner		10,846	10,846
25,293	Central Government	23,693		23,693
	Contribution paid based on Surplus			
1,053	Spelthorne Borough Council	631	63	694
4,591	Surrey County Council	0	452	452
22	Surrey Police & Crime Commissioner		81	81
0	Central Government	1,040		1,040
	Charges to the Collection Fund			
8	Write-offs			0
2,531	Increase/(decrease) in Bad Debt Provision	3,283	2,384	5,667
1,922	Increase/(decrease) in Provision for Appeals	1,852		1,852
124	Cost of Collection	123		123
<u>8,841</u>	(Surplus)/Deficit arising during the year	<u>21,261</u>	<u>2,742</u>	<u>24,244</u>
	Movement on the Collection Fund			
(4,098)	(Surplus)/Deficit brought forward	4,337	405	4,742
8,841	(Surplus)/Deficit arising during the year	21,261	2,742	24,003
<u>4,743</u>	(Surplus)/Deficit carried forward	<u>25,598</u>	<u>3,147</u>	<u>28,745</u>

### 39. Council Tax

The Tax Base is the number of banded properties that the Council uses to set the Council Tax. It is the total number of properties in the borough weighted by reference to the Council Tax bands, which range from A to H. The Tax Base is calculated using the equivalent number of Band D dwellings. The tax base as at 1 April 2021 was:

Valuation band	Number of dwellings on Valuation List	Number of chargeable dwellings	Ratio to band D	Band D equivalents
A-		2	5/9	1
A	451	311	6/9	207
B	1,691	1,138	7/9	885
C	9,292	6,985	8/9	6,209
D	14,758	12,633	9/9	12,633
E	10,049	9,030	11/9	11,037
F	4,628	4,250	13/9	6,139
G	2,141	2,009	15/9	3,348
H	115	98	18/9	196
Total	43,125	36,456		40,655
	Number of band D equivalents in lieu			40
	Allowance for losses on collection and appeals			1.50% (610)
	Council Taxbase for 2020/21			40,085

### 40. Non-Domestic Rates

Non-domestic rates receivable are based on local rateable values multiplied by a national non-domestic rate multiplier. The total non-domestic rateable value as at 31 March 2021 was £115,266,970 and the national non-domestic rate multiplier for 2020/21 was £0.512 and £0.499 for small business.

### 41. Group Accounts

#### Introduction

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

Spelthorne Borough Council (the reporting authority) has two wholly owned subsidiary companies:

- *Knowle Green Estates Limited (KGE) The purpose of the company is to hold investments in residential property around the borough.*

- *Spelthorne Direct Services (SDS). Incorporated on 29 June 2020. The purpose of the company is the collection, treatment and disposal of non-hazardous waste.*

### **Basis of consolidation**

The Group Movement in Reserves Statement, the Group Comprehensive Income & Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement have been prepared by consolidating the accounts of the Council and its subsidiaries on a line-by-line basis.

The accounts of the subsidiaries have been prepared using similar accounting policies and practices to that of the Council. However, some accounting policies and practices do differ in some respects from the Council's due to legislative requirements. The accounts of the subsidiaries have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Any material differences are highlighted within the accounts themselves.

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

### **Group Accounting policies**

The Group Accounts been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries and adopt the same accounting policies as set out in the Statement of Accounts of the single entity shown earlier and the additional policies highlighted below.

Any gains and losses arising from these companies are fully reflected in the Group Statements comprising of the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Balance Sheet, Movement in Reserves Statement, Cash flow Statement and associated disclosure notes.

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

## **1.1 Additional policies for Group Accounts**

### **1.1.1 Taxation**

Deferred Taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

### **1.1.2 Internal charges against the Group Comprehensive Income and Expenditure Reserve/intra group charges Cash and Cash Equivalents**

There are intra-group charges which will be eliminated via consolidation such as Directors and Officer time allocations and other sundry transfer charges, dividend appropriations, loan interest and fee set up costs, and other ancillary intra-group charges as per agreed between the Directors of each subsidiary company.

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.

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

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

### Group Movement in Reserves Statement

Group Movement in Reserves Statement	General Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total single entity Reserves	Council's share of Associate's Reserves	Total Group Reserves
2020/21	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1st April	(44,227)	0	(454)	(44,681)	44,086	(595)	(2,134)	(2,729)
Movements in-year								
Total Comprehensive Income & Expenditure	34,331			34,331	(10,874)	23,457		23,457
Adjustments between KGE & SBC							2,468	2,468
Net before adjustments	34,331			34,331	(10,874)	23,457	2,468	25,925
Adjustments between accounting & funding basis under regulations	(71,783)	0	(2,368)	(74,151)	74,151	0	0	0
(increase)/Decrease in-year	(37,452)	0	(2,368)	(39,820)	63,277	23,457	2,468	25,925
Balance carried forward 31st March	(81,879)	0	(2,822)	(84,501)	107,363	22,862	334	23,196

## Group Comprehensive Income &amp; Expenditure Statement

2019/20			Group CI&ES	2020/21		
Expenditure	Income	Total		Expenditure	Income	Total
£'000	£'000	£'000	Notes	£'000	£'000	£'000
3,814	(601)	3,213	Assets and Business Transformation	19,104	(3,925)	15,179
6,288	(1,082)	5,206	Comms, Environment & Project Man.	6,629	(934)	5,695
3,558	(1,454)	2,104	Community Wellbeing	3,483	(1,101)	2,382
7,324	(3,552)	3,772	Compliance, Waste & Risk	6,743	(2,299)	4,444
3,651	(192)	3,459	Finance	5,767	(146)	5,621
31,225	(28,366)	2,859	Housing	29,153	(26,826)	2,327
3,396	(347)	3,049	ICT, Legal, HR & Town Centre Regenerat	3,202	(431)	2,771
1,717	(326)	1,391	Leisure Services	2,297	(383)	1,914
2,998	(8,420)	(5,422)	Planning & Economic Development	2,681	(5,464)	(2,783)
<b>63,971</b>	<b>(44,340)</b>	<b>19,631</b>	<b>Cost of Services</b>	<b>79,059</b>	<b>(41,509)</b>	<b>37,550</b>
14,679	(354)	14,325	Other Operating Income & Expenditure	9,881	(429)	9,452
45,297	(60,925)	(15,628)	Financing & Investment Income & Expenditure	84,104	(54,429)	29,675
15,783	(29,605)	(13,822)	Taxation & Non-specific Grant Income	16,047	(55,924)	(39,877)
<b>139,730</b>	<b>(135,224)</b>	<b>4,506</b>	<b>(Surplus)/Deficit on the Provision of Services</b>	<b>189,091</b>	<b>(152,291)</b>	<b>36,800</b>
		(56)	(Surplus)/Deficit on revaluation of Property, Plant & Equipment			(14,211)
		5,751	(Surplus)/Deficit from investments in equity instruments designated at fair value through other comprehensive income			(5,624)
		(4,977)	Remeasurement of the the defined net defined benefit liability/(asset)			8,961
		1	Tax loss on Company loss			(1)
		<b>719</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(10,875)</b>
		<b>5,225</b>	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>25,925</b>

**Group Balance Sheet**

31 Mar 20	Group Balance Sheet	Notes	31 Mar 21
£'000			£'000
141,495	Property, Plant & Equipment		153,599
229	Heritage Assets		222
991,689	Investment Property		939,747
357	Intangible Assets		254
30,929	Long-term Investments		34,191
42	Long-term Receivables		40
<b>1,164,741</b>	<b>Long-term Assets</b>		<b>1,128,053</b>
35,209	Short-term Investments		54,451
25	Inventories		33
7,387	Short-term Receivables		18,161
16,817	Cash & Cash Equivalents		11,693
<b>59,438</b>	<b>Current Assets</b>		<b>84,338</b>
(59,291)	Short-term Borrowing		(77,735)
(55,706)	Short-term Payables		(40,861)
(3,295)	Short-term Provisions		(3,674)
<b>(118,292)</b>	<b>Current Liabilities</b>		<b>(122,270)</b>
(55)	Long-term Payables		0
(1,053,529)	Long-term Borrowing		(1,053,820)
(49,574)	Other Long-term Liabilities		(59,497)
<b>(1,103,158)</b>	<b>Long-term Liabilities</b>		<b>(1,113,317)</b>
<b>2,729</b>	<b>Net Assets</b>		<b>(23,196)</b>
(44,568)	Usable Reserves		(84,246)
41,839	Unusable Reserves		107,442
<b>(2,729)</b>	<b>Total Reserves</b>		<b>23,196</b>

**Group Cash Flow Statement**

2019/20 £'000	Group Cash Flow Statement	<i>Notes</i>	2020/21 £'000
4,506	Net (Surplus)/Deficit on the Provision of Services		36,800
(17,951)	Adjustments to net (surplus)/deficit on the Provision of Services for non-cash movements		(53,669)
0	Adjustments to net (surplus)/deficit on the Provision of Services that are Investing and Financing Activities		(3,800)
(13,445)	Net Cash Flow from Operating Activities		(20,669)
81,942	Investing Activities		44,807
(59,208)	Financing Activities		(19,014)
9,289	Net (increase)/decrease in Cash & Cash Equivalents		5,124
25,744	Cash & Cash Equivalents at the beginning of the reporting period		16,817
(9,289)	Net increase/(decrease) in Cash & Cash Equivalents		(5,124)
16,455	Cash & Cash Equivalents at the end of the reporting period		11,693

## Annual Governance Statement 2020-2021

### Introduction

As Leader and Chief Executive, we are acutely aware that everything the Council does relies upon a foundation of solid governance. The COVID-19 pandemic has meant that 2020-21 was a particularly challenging year for the Council though proactive leadership and a dedicated workforce we successfully adapted our working processes admirably and delivered:

We are charged by government to run the Council efficiently, effectively and economically. As a resident, you will want reassurance that proper systems are in place and running properly to deliver the vital services on which you depend and we are pleased to present this Annual Governance Statement to explain how we deliver on these expectations, to outline what has been achieved over the last year and tell you about the improvements we are currently working on.

In November 2020 we were the first Council to undergo a virtual Local Government Association Corporate Peer Review focused on Finance. This contained a number of positive comments on the Council's financial controls and its response to the pandemic.

A Peer Review Action Plan has been prepared to track all 26 recommendations which the Council has accepted, ensuring that these are progressed with planned regular updates provided to both the Corporate Policy & Resources Committee and the Audit Committee.

2020-21 was the last full municipal year that the Cabinet Strong Leader governance model operated. As from the Annual Council Meeting on 27<sup>th</sup> May 2021 the Council is moving to a new Committee governance system exercising functions delegated to a series of Committees by the Council

We hope that in reading this Statement you will be encouraged to explore further the work of your Council. You can read all the documents to which we refer on our website and view Council meetings online to see how we do business. You can also discuss any of these matters with your local Councillor.

### COVID-19

The overwhelming challenge for us in the past year has been responding to the Covid-19 pandemic. We adapted well to the change of working and ensured a high level of services was maintained.

Some headlines from the COVID-19 response:

- 17,114 welfare calls, visits and checks for vulnerable residents
- 31,538 tonnes of waste and recycling collected
- 2,062 fly-tips cleared
- 39,184 meals on wheels delivered
- 26 rough sleepers have been placed in settled accommodation
- 180,000 Bulletin magazines delivered, and 5,161 social media posts made.

### The Council's vision for the Borough

The Council had a Corporate Plan for the period 2016-2019 and a new one for 20210-2023 is currently being developed. The initial work undertaken on the new Plan has resulted in the previous Cabinet putting forward four new corporate priorities: i.e.

- Community – ensuring that we put our communities at the heart of everything we do, helping them to develop and thrive, and supporting those most in need.
- Affordable housing – delivering the affordable housing the Borough's residents need
- Recovery – supporting our communities and businesses recovery from the impact of COVID-19
- Environment – with a particular focus on tackling climate change

Once a new Corporate Plan has been fully developed this will then feed into the service plans of the different Council Services, so that the organisation can pull together and focus its resources on delivering these key objectives.

The Corporate Plan will take account of the following types of issues for the residents of Spelthorne:

- **COVID-19** – ensuring that the Council delivers an effective recovery plan to help its communities, businesses and the Council itself recover from the impacts of the COVID-19 pandemic. It is a going to take a few years for a full recovery to be made
- **Housing.** The Council has an ambitious plan to address the issue of affordable house in our borough, particularly for key worker. We have started to address this issue by building affordable rental homes and by setting up a housing company, Knowle Green Estates Ltd. In February 2021 the Cabinet agreed the transfer (which was reviewed by the Overview and Scrutiny Committee) of Benwell House phase 1 (a mixed affordable rental, key worker and private rental scheme) and West Wing Knowle Green (25 affordable rental units including 1 fully adapted for disability living) from the Council to Knowle Green Estates, and for this to take place in early 2021-.
- **The Local Plan.** This is currently being reviewed and we encourage you to find out more about the changes this could bring. The Government is asking us to house more people and build more properties than ever before (now 606 each and every year). This is a huge challenge in an urban area with a lot of Green Belt. We have to consider if we build higher density developments in our town centres or give up some of our Green Belt.

The Council is currently consulting on the Staines Development Framework to get an initial view from all residents who live, work and visit the borough on how they wish the town centre to be developed in future. Those responses will feed this summer into and help shape the Framework which will sit alongside the new revised Local Plan.

- **Town Centre Regeneration.** It is clear that there are changes in the way people shop and spend their time in town centres, which have been accelerated as a result of COVID-19. We are determined that none of our town centres will suffer, and have appointed a Town Centres Manager to help support Ashford, Sunbury and Shepperton in their recovery A vibrant town centre is one where people live (to support the daytime and night time economy), as well as one providing a mix of uses such as leisure, community, residential and offices to encourage people to visit and stay in the town centre. We recognise that there is an inevitable tension between the need to regenerate and re-invigorate and concerns about the level, density and height of development. This will be dealt with and resolved via the Staines Development Framework and the Local Plan. We will take steps to plan for the vibrant places you will want to visit. As part of our regeneration aspirations, we bought back, in February 2020, the long leasehold of the Elmsleigh Centre in Staines-upon-Thames, to give us the ability to directly control a key piece of land within the town. This will enable us to proactively invest in this centre and to consider options for future redevelopment and regeneration.

In January 2020 the Cabinet voted to approve a moratorium on Council residential development schemes in Staines-Upon-Thames should take place until such time as three things take place, with the intention that these were to be completed prior to the Annual Council meeting in May 2021:

1. That the Strategic Planning team undertake an Issues and Options consultation exercise for the Staines Development Framework.

2. That a sub-committee, which was agreed at Extraordinary Council on 21 January 2021, is included in the recommendations of the Committee System Working Group to be reported to Extraordinary Council, scheduled for 25 March 2021.
  3. That the viability of all the developments are reviewed by the Council's assets team.
- **Sustainability.** In October 2020 the Council declared a Climate Change Emergency and a climate change task group comprising of members started to explore the issues and actions needed to address the climate emergency. Further actions on climate change will be taken forward by the Environment and Sustainability Committee. We have installed Photo Voltaic (solar) panels on our West Wing affordable housing development at the Council offices site in Knowle Green and at the Depot. As part of a Surrey wide renewables assessment, we hope to identify further viable sites for installation of renewable energy technologies, including heat pumps. We have also provided further EV charging points at Knowle Green and purchased two electric cars for pool use, an electric van and bikes plus are replacing a Spelride bus at end of life with an electric one. We are actively seeking opportunities for further funding to roll out charging infrastructure across the Borough including working with Surrey County Council to supply on-street charging points. We continue to support residents in Fuel Poverty through the utilisation of the Green Jump funding and a small capital fund (£30,000). The funding enables households in fuel poverty to cut their bills and reduce carbon emissions through installing energy efficiency measures. We have designed the first Pasivhaus (reducing energy usage) leisure centre which will be built to replace the current aging centre. We have undertaken a study of the Council's carbon production and a carbon trajectory study which enables us to focus on areas within the Council where emissions are highest so we can target future actions to most effectively reduce our carbon footprint. Actions to mitigate and adapt to climate change are being incorporated into all our services.

### How we run the Council

The Council is governed by democratically elected councillors and managed by professional staff. There is a clear demarcation of roles and numerous systems and processes in place to make sure that things get done properly:

- **Constitution.** This document remains a modern and effective document. (<https://democracy.spelthorne.gov.uk/ieListMeetings.aspx?CId=209&Info=1&MD=constitution>) This has been reviewed as part of the Council's move to a committee system of governance and will be reviewed again during the course of the next year as amendments need to be made in the light of development of the committee system, recent events and changes in legislation.
- **Policy Framework.** We have a number of important policies which are approved by a majority of all councillors. These are reviewed regularly. The most important policy is the Local Plan and this is being reviewed at the present time.
- **Governance Framework.** We adhere to standards jointly published by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA). We ensure that these are kept under review.
- **Scrutiny of decisions.** During the period to which this Annual Governance Statement covers, the majority of decisions are made by the Cabinet or delegated to staff, there are structures and processes in place to hold these to account. We had an Overview and

Scrutiny Committee and an Audit Committee which have cross party representation to review our performance, influence policy and review our decisions. Although we continue to have an Audit Committee, under the new Constitution we will no longer have an Overview and Scrutiny Committee with the service committees undertaking the scrutiny function including the areas of statutory scrutiny, As a result of our strategic property investment that generates fund to support our regeneration, housing and green initiatives, there continues to be a focus on how these decisions are made and the risks around property management. A new sub-committee of Cabinet was set up to deal with certain decisions relating to the investment portfolio, to enable timely decision making. This will be carried forward into the committee system.

- **Knowle Green Estates Ltd (KGE).** As our wholly owned company becomes more important in the delivery of our housing targets, we have ensured that it has independent auditors and that such audits feed into the Council's overall Statement of Accounts. In December 2020 two experienced Non-Executive Directors were appointed, following a competitive recruitment process. This summer Knowle Green Estates will publish its first Annual Report. The Knowle Green Estates accounts are independently audited, as well as being reviewed by the Council's external auditors when they audit the Council's consolidated Group Accounts
- **Spelthorne Direct Services Ltd (SDS):** During 2020-21 the Council set up a company to provide new local commercial waste services to businesses in the Borough and to help them more effectively recycle and minimise waste. SDS accounts will be independently audited.

### How we manage the finances

Nothing can happen in the Borough unless there is the money there to provide it. We have successfully delivered a programme of financial change. Our previous, *Towards a Sustainable Future* programme, delivered the sound basis on which we now proceed.

- **COVID-19.** COVID-19 resulted in significant additional expenditure supporting vulnerable residents, supporting homeless residents, shifting the Council's workforce to home working, which went very smoothly, enforcing COVID-19 regulations etc. Additionally, many of the Council's income streams were hit, particularly car parking. In response the Council undertook a worst, medium and best case scenario exercise which informed the setting of a COVID-19 supplementary Revenue Budget at an Extra-Ordinary Council meeting in May 2020. This approved use of up to an additional £2.2m funds from reserves. In the event the additional funding from the Government for Councils, when it eventually came through proved greater than initially anticipated and the Council did not need to use any of its reserves.
- **Commercial Property Investments.** Thirty percent of the money we need to run the Council and provide services for residents now comes from our investment property investments. It is essential that these investments work for us and that we protect those investments for the long-term. We have a range of measures in hand to ensure that this happens. We have already strengthened our staff resources and implemented changes to our governance systems to ensure that we are proactively and professionally managing this £1billion portfolio. We will continue to do this. We have been open and transparent with residents' associations about what we are doing, why and how they are protected. We will continue this dialogue. In response to the challenges of COVID-19 the Council put in place weekly review meetings, involving both senior councillors and senior officers, to assess performance collecting commercial rent. The Council's portfolio performed very well with more than 98% of the commercial rent invoiced for 2020-21 collected and most of the balance covered by rent



deferral agreements. The Council has continued its strategy of mitigating future risk by setting aside a proportion of rental income into sinking funds to ensure that if required the Council has funds to offset short term dips in rental income. At the end of 2020-21 the Sinking Funds Reserves balances had increased to £26m.

- Capital Strategy.** In February 2021 the Council approved its updated Capital Strategy which is a plain English document explaining council borrowing and spending. It sets out the current priorities which focus on housing and homelessness, regeneration and economic development, and green initiatives and climate change. Affordable housing is a particular issue, and delivery by the private sector is less than 6%. The Council has committed to ensuring that Council schemes deliver at least 50% affordable units. The Strategy also has a plain English Executive Summary to make it even more accessible for residents and it is backed up with technical appendices which explain the detail behind the strategy. We encourage you to read it <http://www.spelthorne.gov.uk/capitalstrategy>. We will keep this document up to date so that it always explains what we are doing and how we are doing it.
- Systems of internal control.** Apart from the specific overview of the Council's investments and housing schemes, we have adequate systems in place to effectively manage risks, ensuring the day-to-day running of the business and the sound management of cash-flow. Managers are responsible and accountable for operating adequate systems of internal control to effectively manage risks within their Services, giving due consideration to fraud risks. We have a Chief Finance Officer (CFO), also known as the s151 Officer, who oversees these systems and they are regularly audited proportionate to the level of risk. Internal Audit findings are raised with management, and recommendations reported to the Audit Committee. There is regular budget monitoring by the Cabinet and Overview and Scrutiny (moving forward this will be by the Corporate Policy and Resources Committee) and these papers are published on our website for you to read. We have a Medium Term Financial Plan and we review our finances against this. The CFO is a member of the Council's senior Management Team.
- Improving the usefulness and readability of financial reporting. In November 2020 invited experienced local government officers and a Leader from another Council to come in as an independent Local Government Association Peer review team to act as critical friends and review our financial and property management arrangements. This recognised our strengths and areas for improvement with 26 recommendations made. An Action Plan <http://www.spelthorne.gov.uk/peerreview> ) (addressing these recommendations has been approved by Cabinet.
- During 2020-21 we took to Audit Committee (12<sup>th</sup> November 2020) a self-assessment against the new Chartered Institute of Public Finance and Accountancy (CIPFA)'s Financial Management Code <https://democracy.spelthorne.gov.uk/documents/g3389/Agenda%20frontsheet%20Thursday%2012-Nov-2020%2018.00%20Audit%20Committee.pdf?T=0> . Councils are expected to implement the Code in 2022-23 which consider how all aspects of governance contribute towards effective financial management. The Council will keep the self-assessment under review and will provide regular updates to Audit Committee.

#### **How we ensure we are listening to you**

- Consultation with residents.** Regular consultations are undertaken by Spelthorne Borough Council relating to a variety of subjects. Between the period of April 2020 and current time we

have consulted on nine issues with residents, ranging from leisure requirements in the Borough, to public space protection orders and COVID-19 funding for businesses. Many policy changes require formal consultation with residents and in other cases we consult informally to understand residents' priorities and service requirements. All open consultations can be found on a dedicated web page [www.spelthorne.gov.uk/currentconsultations](http://www.spelthorne.gov.uk/currentconsultations) and these are communicated to residents and stakeholders across our variety of communication channels. We ensure that residents who are not digitally connected also receive news and have an opportunity to respond on Council consultations - whether through direct mailing, noticeboards, local press and our Borough Bulletin magazine. Our four week consultation at the end of 2020 consulted the public on the proposed change of governance model for the Council and the responses received helped inform the Committee system which have now been put in place. You can read more about our consultation policies and results at [www.spelthorne.gov.uk/consultations](http://www.spelthorne.gov.uk/consultations)

- Given the additional challenges arising as a result of COVID-19 in balancing future years' budgets, planning is underway to undertake a budget consultation exercise with residents in the summer of 2021 to feed into the Budget setting process for 2022-23 and 2023-24. Panel discussions, a public online survey and a targeted approach to relevant stakeholders will allow a full engagement with the consultation process as well as using our standard approach to reach residents and the wider audience. We have also utilised this process and strategy recently to target businesses in the Borough to identify how best to use the Government's 'Welcome back fund' and additional business grants which support the reopening of high streets, hospitality and leisure and for the recovery of our Town centres.
- **Channels of communication.** The Council has a number of ways it engages and communicates with residents and businesses in the Borough. We are always reviewing the most appropriate ways to communicate, from formal statutory consultations through to the Council's use of social media and digital tools, including a subscriptions service for My Alerts [www.spelthorne.gov.uk/my-alerts](http://www.spelthorne.gov.uk/my-alerts) and a monthly E-newsletter <https://www.spelthorne.gov.uk/enews>. We have also recently launched a new easy to use accessibility tool on our website. The website can now change language, size or colour dependant on the users need and personal requirements. Using a range of different communication channels has been key during the pandemic, particularly when looking to reach our most vulnerable residents. Through our COVID-19 Champions scheme which was established as the first of its kind in Surrey, weekly webinars have been broadcast to ensure factorial information and advice has been communicated and delivered to the community and those groups harder to reach. The Council has also invested in digital screens which regularly communicate a number of events and key COVID-19 messages to residents when visiting The Elmsleigh shopping centre in Staines-Upon-Thames. By live-streaming Council meetings on our own You Tube channel – Spelthorne TV [www.youtube.com/user/Spelthornecouncil/videos](http://www.youtube.com/user/Spelthornecouncil/videos), we have opened the doors to democracy for many residents and on some occasions, meetings received over 800 views. We have also been able to capture and share many celebrations in the last year, which have been restricted because of the pandemic, by using this platform, including VE Day celebrations and promotional Town 'shop local' videos. The Leader and Deputy Leaders during 2020-21 initiated a regular Residents Forum meeting as a new channel of communication with Residents Associations to discuss issues of local concern.

### **How we are accountable**

The Council is a democratic body and the powers which we exercise are derived from the electors. There are numerous systems in place to allow members of the public to get information, ask questions, challenge the Council and get involved. Ultimately the entire organisation is governed by residents just like you. This gives the Council tremendous strength in deciding what needs to be done in the Borough and how we prioritise scarce resources for best effect. You can consider some of the many ways to get involved:

- Speak to your ward councillor or the Chair or Vice-Chair of the Committee responsible for the issue
- Complain about services you think are not performing, or equally provide positive feedback when you think we are doing well
- Request information under the Freedom of Information Act and the Environmental Information Regulations.
- Ask questions at the Council and the Spelthorne Joint Committee (which covers issues relevant to both Spelthorne and Surrey County Council)
- Present petitions
- Speak at Planning Committee about applications in your neighbourhood
- Join your local Residents' Association

Almost all of the information you need can be found on our website ([www.spelthorne.gov.uk](http://www.spelthorne.gov.uk)) and we only restrict the publication of a very limited quantity of material where there is good reason, such as the need to respect the data protection rights of individuals or commercial confidentiality.

### **How we promote high standards in public office**

The Council has a dedicated Members' Code of Conduct Committee, which after the change to the committee system will be known as the Standards Committee. This Committee is guided by an Independent Chairman and Vice-Chairman. A Panel of Independent Persons is in place. They are consulted on any complaints against councillors to say whether they should be investigated.

We have numerous policies and procedures in the Constitution to back up a strong ethical approach to local government. In the last year we received twenty seven complaints about councillors. This is a considerable increase from the five during the previous year. A number of these are to be considered by the Assessment Hearings Panel to decide what action should be taken. A number have been rejected by the Monitoring Officer as being politically motivated, the Independent Person were approached for comments on these.

The Council has in place a policy(<http://www.spelthorne.gov.uk/article/18641/Gifts-and-hospitality-policy>) on Gifts, Hospitality and Sponsorship which applies to both staff and councillors. The policy was reviewed in 2019. There are also policies dealing with Anti-Fraud and Corruption and Whistleblowing.

### **How we learn and improve**

The Financial Peer review (<https://www.spelthorne.gov.uk/peerreview>), which we would encourage you to read, illustrates the positive work of the Council. There are recommendations within the report which we are actively taking forward.

The Council has an ongoing Continuous Improvement Programme (CIP) where the CIP team work with services to identify improvements and efficiencies in processes, systems and working practices, for example makes improvements to make it easier for people to pay the Council on line. This has resulted in efficiency savings both in terms of time and money.

### **Internal audit**

The Council has an internal audit team which provides independent assurance to management and the Audit Committee on the adequacy of Council Services, systems and processes. This team has an annual internal audit plan which is discussed and agreed each year by the Audit Committee. The internal team operates to the Public Sector Internal Audit Standards. The effectiveness of internal audit is reviewed annually and an external quality assessment undertaken once every five years, with the last external review being undertaken in 2018.

The internal audit team works closely with the Council's external auditors.

Every year, the Internal Audit Manager issues an independent opinion in an annual report concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. This comments on the risks facing the Council and the adequacy of the Council's arrangements to manage those risks. It represents one of the key assurance statements the Council receives.

The Internal Audit Manager has reported on seven assurance reviews relating to the 2020/21 audit plan, of which two were deemed 'effective', four were assessed as requiring 'some improvement' and one was identified as 'major improvement needed'. Actions were put in place to address these quickly. Assignments currently underway will be reported in the annual audit report for 2020/21 presented to Audit Committee, and any key matters arising so far have been considered for the annual audit opinion. Other relevant sources of assurance such as audit advisory work, the Council's Corporate Risk Register and Covid-19 Risk Assessment have been reviewed for the purpose of producing the overall audit opinion.

#### **Annual Internal Audit Opinion 2020/21**

The unprecedented challenges of the global pandemic throughout 2020/21 and the wide reaching risk considerations for Spelthorne Borough Council have been significant considerations in determining audit work and producing the annual opinion.

The opinion of the Internal Audit Manager on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control is that reasonable assurance can be provided across these areas. The Council has many established control processes to effectively manage risks. However, it is recognised that improvements were recommended to address control weaknesses across some areas of operation, representing medium to high priority risks.

The Covid-19 pandemic and associated challenges/pressures also impacted on some aspects of the control environment and this will continue to be monitored during 2021/2022.

Internal Audit have consulted Managers to agree and monitor the implementation of recommendations or discuss improvement actions to address risks and enhance the robustness of the authority's control environment and governance arrangements. Where actions have been taken to address issues arising from audit work performed, this is acknowledged.

Punita Talwar, Internal Audit Manager - Chartered Internal Auditor (CMIIA)

May 2021

The internal audit team has carried out a number of audits in accordance with the agreed (revised) annual plan. Full details of these findings and the management response to them, as well as any key themes and issues arising from Internal Audits work for 2020/21 are to be found on the Audit Committee pages on our website

<https://democracy.spelthorne.gov.uk/ieListMeetings.aspx?CId=131&Year=0> (Annual Audit report 2020/21).

During a challenging year internal audit resource has been partially diverted to new and emerging priorities, such as, Covid-19 workstreams, audit support and advice, as well as participation in operational activities (first line of defence) as part of the Council's emergency response to the pandemic.

### **Corporate Risk Management**

The Council maintains a Corporate Risk Register, which is coordinated by the Internal Audit Manager and reported regularly to Management Team and Audit Committee. The Corporate Risk Register identifies and evaluates the key corporate risks facing the Council, the mitigating measures in place, and tracks outstanding issues to address risks. As part of refreshing the Council's approach to Risk Management, the format and structure of the Corporate Risk Register has been further reviewed and the proposed changes were presented to the Audit Committee in March 2021. The revised register is more aesthetically appealing and digestible in terms of content, supplemented with a high-level summary document. It focuses on a smaller number of corporate risks relating directly to effective delivery of the Corporate Plan Priorities/Objectives. It also aligns to methodology set out in the revised and fully refreshed Corporate Risk Management Policy. The subsidiary companies are also producing risk registers. As part of ongoing development work on risk management, a summarised policy guide has also been prepared to assist staff in managing risk. An awareness raising session is being arranged during 2021/22.

### **External audit**

KMPG have still not delivered a Value for Money opinion on the 2017/18 accounts and this matter is overdue. The Council has repeatedly pressed KMPG for this matter to be resolved and are discussing the matter with the Public Sector Auditor Appointments body. We have continued to provide all the additional information requested by the auditors. In the meantime, the Council continues with its regeneration and reinvestment strategy for our residents and the borough. BDO has now been appointed for the Council by the independent Public Sector Audit Appointments body. BDO took over the audit of the Council's accounts for 2018/19 and 2019/20 and we look forward to concluding all outstanding matters. The Council is aiming to publish its draft statement of accounts for 2020/21 at beginning of June nearly two months ahead of the statutory deadline.

### **Audit Committee**

Terms of reference are set out in Constitution. There are regular meetings and work plan is published. Under the new Constitution there will continue to be an Audit Committee which will be expanded to have an independent lay member join the Committee.

### **How we learn from complaints and feedback**

The Council is always keen to hear from residents and staff about how it can deliver better services to residents. We also have feedback questionnaires for some services. We have a number of procedures in place:

- Our complaints procedure is working well after a review in recent years. However, we are always looking at ways to improve it.
- We have a staff whistleblowing procedure in place, this is highlighted as part of the staff induction process.

## **FOI/GDPR**

Our long term project to ensure compliance with the General Data Protection Regulations and improve the Council's information governance arrangements continues. This project has already delivered, and will continue to deliver, significant improvements in the Council's information governance arrangements.

The Group Head of Commissioning and Transformation is the Council's Senior Information Risk Owner who has responsibility for managing information risk across the council.

The Council's full time Data Protection Officer is responsible for overseeing data protection strategy and implementation. During the year we added an additional staffing resource to support this team.

The Council has clear processes for managing Freedom of Information Act, Environmental Information Regulations, and Data Protection Act requests. The aim of the process is to promote transparency across the organisation and deliver an efficient approach to handling requests.

Staff continue to ensure compliance with the Freedom of Information Act / Environmental Information Regulations, Data Protection Act, and Privacy and Electronic Communication Regulations. An audit of GDPR has been undertaken.

Monitoring includes reports to Management Team, internal and external audits and Information Commissioner reviews as appropriate.

COVID-19 has brought unprecedented challenges due to the need to share information quickly and adapt the way the Council's essential services work. Data protection staff are assisting colleagues to ensure that the Council only collects as much personal data as is strictly necessary for the relevant purposes and to continue to comply with Data Protection legislation.

## **How we will deal with significant governance issues**

Review of significant governance issues:

- **Financial reporting:** Looking to improve clarity of our financial reporting, addressing the LGA Peer Review on Finance, with our ambitious housing delivery programme making our Capital Programme larger with many more multi-year projects we are looking to make it easier for councillors and residents to see how capital spend against projects' budget are doing. The Capital Monitoring reports have been refined and simplified to make it easier to monitor progress of multi year projects. Officers will be working with Councillors to focus on how budget monitoring reports can be improved
- **Investment Assets portfolio management.** We have a £1bn property portfolio and we have put in place staff capacity skills and resource to manage it, reduce risk and deliver the benefits from it. We will continue to invest in the team and internal expertise (and look at the balance between internal expertise and external advisers) and review our governance arrangements. We have continued to build up our cash backed Sinking Funds reserves (now £26m) to mitigate against potential dips in rental income. There was also a framework involving councillors: reports to Property Investment sub-committee, Cabinet, Full Council and Overview and Scrutiny Committee, as appropriate. A framework will be taken forward into the new committee structure. Under the new Committee Structure, there will be a dedicated Sub-Committee of the Corporate Policy and Resources Committee which will, amongst other things, be responsible for actively scrutinising and monitoring the performance of our Investment and Strategic Portfolio.

- **Building the homes residents need.** We have strengthened all aspects of procurement and project management to ensure that we can deliver the projects which are envisaged by the Capital Strategy. We have ensured there is appropriate oversight and scrutiny of these projects, as they are delivered either by the Council directly, Knowle Green Estates or other third party developers. The new Sub-Committee of the Corporate Policy and Resources Committee, mentioned in the paragraph above, will have oversight of the programme management of the Council's key residential development and asset projects. The Sub-committee will sign off progress against project gateway stages.
- **Delivery of local government.** Given the cuts made by Surrey County Council and the financial position of our key partner, we have monitored their cuts on delivery of services to our residents. We will continue to speak up for Spelthorne.

**Significant issues for the year 2020/21:**

- **COVID-19 implications:** An Extraordinary Full Council meeting held on 21 May 2020 received a detailed report setting out the Council's response to date on the COVID-19 pandemic. There is no doubt there is a significant impact on the delivery of council services as well as financial costs and anticipated income shortfall. Further reporting was undertaken to Cabinet, Overview and Scrutiny Committee and Audit Committee. This will move to reporting to the Corporate Policy and Resources and Audit Committees as we hope to move further into recovery. Risks and opportunities which continue to emerge out of the pandemic (and beyond recovery phase) will be identified, prioritised, managed and monitored. If there are any wider lessons learnt these will be considered to ensure continuous improvement of crisis management, emergency and business continuity planning and organisational resilience. The Council has undertaken a comprehensive analysis of the risks facing the Council arising from the Covid-19 pandemic. The opportunities may include an emphasis on climate change and sustainability issues.
- **Property portfolio:** The Council will continue to actively manage its property portfolio. A new Asset Management Plan has been adopted setting out how this is to be done. Councillors sitting on the Sub Committee of the Corporate Policy and Resources Committee will ensure active councillor oversight.
- **Implementing the new Constitution:** the constitution will be kept under review during the implementation of the new Constitution, this will be overseen by the Monitoring officer and the Standards Committee.
- **Role of KGE in delivering housing:** the delivery of housing in the Borough will be kept under constant review, and oversight of the development of the properties before they are transferred to KGE will sit with the Sub Committee of the Corporate Policy and Resources.
- **Role of SDS Ltd:** the work of this company will be overseen by the Environmental and Sustainability Committee.

**Conclusion**

As we deal with the challenges of the next few years in the light of the impact of Covid-19 on our economy, health and safety and well-being, you can be assured that we are doing so from a solid foundation with proper systems of internal control.

.....  
Cllr Lawrence Nichols  
Leader of the Council

.....  
Daniel Charles Mouawad  
Chief Executive



## **Glossary of terms**

### **AAA FITCH RATING**

Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

### **AA FITCH RATING**

Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

### **A FITCH RATING**

High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

### **ACCOUNTING PERIOD**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **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:

- recognising,
- selecting measurement bases for, and
- 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**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### **ACTUARIAL GAINS AND LOSSES**

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed

## ASSET

An item having value to the authority in monetary terms. Assets are categorised as either current or non-current

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

## AUDIT OF ACCOUNTS

An independent examination of the Authority's financial affairs.

## BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

## BORROWING

Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

## BUDGET

The forecast of net revenue and capital expenditure over the accounting period.

## CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

## CAPITAL FINANCING

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

## CAPITAL PROGRAMME

The capital schemes the Authority intends to carry out over a specific period of time.

## CAPITAL RECEIPT

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

## CIPFA

The Chartered Institute of Public Finance and Accountancy

## CODE

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

#### COLLECTION FUND

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

#### COMMUNITY ASSETS

Assets that the Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

#### COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

#### CONSISTENCY

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

#### CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

#### CONTINGENT LIABILITY

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

#### CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities that 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 Councils on its residents.

#### CREDITOR

Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

#### CURRENT SERVICE COST (PENSIONS)

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

#### DEBTOR

Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

#### DEFINED BENEFIT PENSION SCHEME

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

#### DEPRECIATION

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

#### DISCRETIONARY BENEFITS (PENSIONS)

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

#### 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.

#### EQUITY

The Authority's value of total assets less total liabilities.

#### EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

#### EXPECTED RETURN ON PENSION ASSETS

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

#### FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

#### FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

#### FINANCIAL REPORTING STANDARD (FRS)

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

#### 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 Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

#### GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

#### HERITAGE ASSETS

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

#### HOUSING BENEFITS

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

#### HOUSING REVENUE ACCOUNT (HRA)

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Authority.

#### IMPAIRMENT

A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

#### INFRASTRUCTURE ASSETS

Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

#### INTANGIBLE ASSETS

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

#### INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

## INVESTMENTS (PENSION FUND)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

## LASAAC

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

## LIABILITY

A liability is where the Authority owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

## LIQUID RESOURCES

Current asset investments that are readily disposable by the Authority 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 CONTRACT

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 substantially complete the contract is such that the contract activity falls into more than one accounting period.

## MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

## MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

## 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 DEBT

The Authority's borrowings less cash and liquid resources.

#### NON-DISTRIBUTED COSTS

These are overheads for which no user now benefits and as such are not apportioned to services.

#### NON-DOMESTIC RATES (NDR)

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

#### NON-OPERATIONAL ASSETS

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

#### OPERATING LEASE

A lease where the ownership of the fixed asset remains with the lessor.

#### OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

#### PAST SERVICE COST (PENSIONS)

For a defined benefit pension 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.

#### PENSION SCHEME LIABILITIES

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

#### PRECEPT

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

#### PRIOR YEAR ADJUSTMENT

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

#### PROVISION

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

#### PUBLIC WORKS LOAN BOARD (PWLB)

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

#### RATEABLE VALUE

The annual assumed rental of a hereditament, which is used for NNDR purposes.

#### 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

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

#### RELATED PARTY TRANSACTIONS

The Statement Of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

#### 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 the employer are excluded.

#### RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

#### RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life.

#### 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.

#### REVENUE EXPENDITURE



The day-to-day expenses of providing services.

#### REVENUE EXPENDITURE CAPITALISED UNDER STATUTE (REFCUS)

Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

#### REVENUE SUPPORT GRANT

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

#### STRAIGHT-LINE BASIS

Dividing a sum equally between several years.

#### STOCKS

Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

#### TEMPORARY BORROWING

Money borrowed for a period of less than one year.

#### TRUST FUNDS

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

#### USEFUL ECONOMIC LIFE (UEL)

The period over which the Authority will derive benefits from the use of a fixed asset.