LONDON BOROUGH OF SUTTON

STATEMENT OF ACCOUNTS

2013/14

Gerald Almeroth CPFA
Strategic Director - Resources

CONTENTS

EXPLANATORY FOREWORD		3
CORE FINANCIAL STATEMENTS		9
Movement in Reserves Statement		11
Comprehensive Income & Expenditure Statement		13
Balance Sheet		15
Cash Flow Statement		17
NOTES TO THE CORE FINANCIAL STATEMENTS		19
Note 1	Basis for the preparation of the accounts	20
Note 2	Accounting Policies	20
Note 3	Critical Judgements in Applying Accounting Policies	20
Note 4	Assumptions made about the future and other major sources of estimation uncertainty	20
Note 5	Events after the Balance Sheet date	22
Note 6	Officers Remuneration and Exit Packages	22
Note 7	Members Allowances	24
Note 8	Adjustment Between Accounting Basis and Funding Basis under Regulations	25
Note 9	Other Operating Expenditure	31
Note 10	Financing and Investment Income and Expenditure	31
Note 11	Taxation, Government Grants and Contributions	32
Note 12	Property, Plant and Equipment	34
Note 13	Investment Properties	39
Note 14	Capital Expenditure and Capital Financing	40
Note 15	Usable Reserves	41
Note 16	Non-usable Reserves	44
Note 17	Provisions	50
Note 18	Debtors	52
Note 19	Creditors	53
Note 20	Cash and cash equivalents	53
Note 21	Cash Flow Statement - Reconciliation of Net surplus/(deficit) on the provision of services to Net cash flows from operating activities	54
Note 22	Cash Flow Statement - Operating Activities	54
Note 23	Amounts Reported for Resources Allocation Decisions	55
Note 24	External Audit Costs	57
Note 25	Education Services - Disclosure of Deployment of Dedicated Schools Grant	58

Note 26	Related Parties	59
Note 27	Defined Benefit Pension Schemes	60
Note 28	Contingent Assets	66
Note 29	Nature and Extent of Risks Arising from Financial Instruments	67

OTHER FINANCIAL STATEMENTS 77
Housing Revenue Account 79
Collection Fund 87

PENSION FUND ACCOUNTS 93

STATUTORY STATEMENTS 117
Statement of Responsibilities 119
Annual Governance Statement 123
Auditors Opinion 131

STATEMENT OF ACCOUNTING POLICIES 137

GLOSSARY 151

.

Section 1

Explanatory Foreword

2013/14

1. Introduction

The accounts on the following pages set out the Council's financial performance for the year to the 31 March 2014, and its financial position at that date. This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position.

2. Revenue Expenditure

In March 2013 the Council set a net general fund expenditure budget for 2013/14 of £155.181m, taking advantage of the government’s offer to freeze Council Tax and provide additional grant at the level of a 1.0% council tax increase. In cash terms this is £0.849m, based on the tax base for 2012/13. The Band D Council Tax for Sutton purposes was frozen at £1,140.89 and a total Band D Council Tax including the Greater London Authority precept was £1,443.89.

Responsibility for Public Health operations was transferred to local government in April 2013 transferring a number of commissioning responsibilities to the London Borough of Sutton, together with overall responsibilty of improving health at a local level.

The General Fund revenue budget outturn to be reported to the Strategy and Resources Committee on 7 July shows a net underspend of £1.577m (1.01%) against a net revenue budget of £155.2m. This is summarised in the table below.

	Final Estimate	Provisional Outturn Variance	Provisional Outturn Variance
	£'000	£'000	%
Commissioning Directorates			
Children, Young People & Learning	43,416	3,723	8.6
Environment & Neighbourhoods	39,345	(456)	(1.2)
Adult Social Services, Housing & Health			
- Adult Services and Health	59,227	(2,277)	(3.8)
- Housing General Fund	6,764	(994)	(14.7)
- Public Health (non grant)	52	(179)	
- Public Health (grant)	7,619	0	0.0
Corporate Core			
Chief Executive's	7,053	(211)	(3.0)
Resources	19,102	(320)	(1.7)
Non-service revenue budgets	8,677	(863)	(9.9)
Adjustment for support cost recharge	(20,558)	0	0.0
	170,697	(1,577)	(0.9)
Utilisation of Public Health Grant	(8,354)	0	0.0
Current Expenditure Position 2013/14	**162,343**	**(1,577)**	**(1.0)**
Core grants	(7,162)	0	0.0
Outturn 2013/14	**155,181**	**(1,577)**	**(1.0)**

The outturn position for services shown above includes budget virements agreed by Committee in year. It also takes account of proposed transfers to reserves and carry forwards of unspent grants which must be used for specific purposes giving a net variance of £1.577m.

As shown in the table above, the overall outturn position also includes the previously agreed movement to reserves as follows:

- ASSHH early savings during 2013/14 moved to general balances;
- Additional business rate income moved to the risk reserve; and
- Additional core grant income received in year moved to the risk reserve.

In addition, in line with previous practice it is recommended to transfer the underspend on the redundancy budget (£321k) to the redundancy reserve.

The aggregate underspend reflects positive achievements over the year. In particular:

- By delivering smarter Council savings early and continuing to transform the way the Council delivers services, ASSHH has been successful in driving down costs;
- Adult Social Services have delivered efficiencies from the ex Orchard Hill campus re-provision as the service continues the switch from traditional residential provision to a more personalised approach;
- a significant underspend on expenditure related to homelessness reflects the success of measures to prevent homelessness, and early efficiencies in contract management; and
- underspends have been achieved against staffing budgets across ASSHH due to holding posts vacant while in-house services are reviewed and re-commissioned.

The outturn figures by service group are reclassified to comply with the Service Reporting Code of Practice and to include full recognition of International Accounting Standard 19 (IAS 19) on retirement benefits in the Comprehensive Income and Expenditure Statement.

3. Capital Expenditure 2013/14

In March 2013 the Council approved a capital budget, adjusted for slippage, of £86.6m. This was amended to £70.3m at revised estimates, and compares with a final outturn of £60.3m. The Service Directorate's profile of the Capital Outturn is shown below

Capital Programme 2013/14	Latest Budget 2013/14	Provisional Outturn 2013/14	Variation
EXPENDITURE	£'000	£'000	£'000
Adult Social Services, Housing & Health	32,825	29,937	(2,888)
Children, Young People & Learning	18,674	15,771	(2,903)
Environment and Neighbourhoods	13,322	10,464	(2,858)
Resources	5,223	3,876	(1,347)
Chief Executive's	319	315	(4)
TOTAL EXPENDITURE	**70,363**	**60,363**	**(10,000)**

During the year the Council worked on a number of key capital projects. This included major improvements to the Council's housing stock to meet decent homes standards, investments to increase the number of primary school places for future years, as well as rolling programmes to improve highways, pavements and street lighting.

The reasons for the major variations are as follows:

Adult Social Services, Housing and Health

- Under spend of £1.291m on the Lavender Housing Partnership to reflect delays to buybacks of freehold and leasehold interests on Orlits and Corbet Close; and
- Re-phasing of budget totalling £1.332m on the Decent Homes Programme. This reflects an under spend of £0.913m for Chaucer Gardens and £0.466m on Health and Safety works.

Environment and Neighbourhoods

- The provision of £0.881m for Sutton and Merton Cemetery Board has been removed from the budget as it should be charged to other accounts; and
- Public Realm budgets not allocated during the year or allocated late in the year totalling £0.570m so that the projects will be delivered in 2014/15.

Childrens, Young People and Learning Directorate

- Re-phasing of school expansions budget totalling £2.227m mainly for expansions at All Saints Carshalton, Bandon Hill Primary, Barrow Hedges, Dorchester Primary and Muschamp Primary.

Resources and Chief Executives

- Re-phasing of ICT Projects following a slight delay on delivering the IT Infrastructure project of £0.425m; and
- A further £0.759m variation on the Corporate Operational Buildings Project due to delay in the start of boiler and generator works at Civic Offices and other minor delays in programme.

4. External Audit

The Council's independent external auditor Grant Thornton prepares an Audit Findings Report which will be reported to the Audit Committee on the 22 September and reports their findings from the annual audit of these accounts. Grant Thornton also prepares an Annual Audit and value for money letter, which summarises their findings and recommendations on audit work undertaken during the year. The 2013/14 letter will be considered by the Strategy and Resources Committee during the winter cycle of meetings. When available, a copy can be obtained from the Strategic Director – Resources or viewed on the Council's website.

5. The main statements in this document are:

- Movement in Reserves
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Housing Revenue Account (HRA)
- Collection Fund
- Pension Fund Accounts
- Statement of Responsibilities for the Statement of Accounts
- Annual Governance Statement

Section 2

Core Financial Statements

2013/14

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'surplus or (deficit) on the provision of services' line shows the true ‘net’ economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charges to the General Fund balance and Housing Revenue Account for council tax setting and dwellings rent setting purposes. The 'net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Movement in Reserves Statement

2012/13	General Fund Balance *	Earmarked General Fund Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Non-usable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2012	19,504	24,680	1,778	16,657	298	1,008	63,925	193,397	257,322
Surplus or (Deficit) on provision of services (accounting basis)	33,842	0	(10,485)	0	0	0	23,357	0	23,357
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(14,410)	(14,410)
Total Comprehensive Expenditure and Income	**33,842**	**0**	**(10,485)**	**0**	**0**	**0**	**23,357**	**(14,410)**	**8,947**
Adjustments between accounting basis and funding basis under regulations	(14,697)	0	11,557	18,468	(298)	4,447	19,477	(19,477)	0
Net Increase/(Decrease) before transfers to Earmarked Reserves	**19,145**	**0**	**1,072**	**18,468**	**(298)**	**4,447**	**42,834**	**(33,887)**	**8,947**
Transfers to / from Earmarked Reserves	(14,457)	7,492	45	252	0	0	(6,668)	6,668	0
Increase / (Decrease) in Year	**4,688**	**7,492**	**1,117**	**18,720**	**(298)**	**4,447**	**36,166**	**(27,219)**	**8,947**
Balance at 31 March 2013	**24,192**	**32,172**	**2,895**	**35,377**	**0**	**5,455**	**100,091**	**166,178**	**266,269**

* (General Fund Balance at 31 March 2013 = General Fund £12,174k, schools £12,018k

2013/14	General Fund Balance *	Earmarked General Fund Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Non-usable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2013	24,192	32,172	2,895	35,377	0	5,455	100,091	166,178	266,269
Surplus or (Deficit) on provision of services (accounting basis)	(13,974)	0	(7,489)	0	0	0	(21,463)	0	(21,463)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(18,208)	(18,208)
Total Comprehensive Expenditure and Income	**(13,974)**	**0**	**(7,489)**	**0**	**0**	**0**	**(21,463)**	**(18,208)**	**(39,671)**
Adjustments between accounting basis and funding basis under regulations (Note 8)	20,697	0	7,295	(4,459)	56	5,218	28,807	(28,807)	0
Net Increase/(Decrease) before transfers to Earmarked Reserves	**6,723**	**0**	**(194)**	**(4,459)**	**56**	**5,218**	**7,344**	**(47,015)**	**(39,671)**
Transfers to / from Earmarked Reserves	(3,025)	2,254	82	0	(56)	0	(745)	745	0
Increase / (Decrease) in Year	**3,698**	**2,254**	**(112)**	**(4,459)**	**0**	**5,218**	**6,599**	**(46,270)**	**(39,671)**
Balance at 31 March 2014	**27,890**	**34,426**	**2,783**	**30,918**	**0**	**10,673**	**106,690**	**119,908**	**226,598**

* (General Fund Balance at 31 March 2014 = General Fund £14,991k, schools £12,899k

Comprehensive Income & Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with the requirements of International Financial Reporting Standards (IFRS) as applied by the Code of Practice on Local Authority Accounting in 2013/14, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The Taxation position is shown in the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2014

Restated 2012/13 Expenditure	2012/13 Income	2012/13 Net Expenditure		Notes	2013/14 Expenditure	2013/14 Income	2013/14 Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
19,959	15,169	4,790	**Central Services to the Public**		6,188	1,006	5,182
15,087	2,183	12,904	**Cultural & Related Services**		23,479	2,861	20,618
20,299	3,825	16,474	**Environmental & Regulatory Services**		18,662	2,558	16,104
4,213	1,895	2,318	**Planning Services**		4,817	1,967	2,850
			Children's & Education				
133,207	115,383	17,824	- Schools		127,886	119,850	8,036
13,094	478	12,616	- Non-School Funding		14,616	1,635	12,981
25,421	1,753	23,668	- Children's Services		33,658	2,425	31,233
21,301	5,569	15,732	**Highways & Transport**		23,341	5,263	18,078
			Housing Services				
89,789	82,741	7,048	- General Fund Housing		94,727	86,565	8,162
			- Housing Revenue Account				
25,955	36,355	(10,400)	- Main HRA Revenue Account	*	26,523	37,557	(11,034)
1,582	0	1,582	- Impairment – Demolitions		138	0	138
13,397	0	13,397	- Revaluation loss – Dwellings		9,872	0	9,872
65,158	12,333	52,825	**Adult Social Care**		65,413	12,395	53,018
0	0	0	**Public Health**		7,861	8,744	(883)
4,777	0	4,777	**Corporate and Democratic Core**		7,199	0	7,199
1,609	982	627	**Non Distributed Costs**		1,985	2,361	(376)
454,848	**278,666**	**176,182**	**Cost of services**		**466,365**	**285,187**	**181,178**
		(2,579)	**Other Operating Expenditure**	9			12,556
		16,529	**Financing and Investment Income and Expenditure**	10			19,541
		(213,489)	**Taxation & Non-Specific Grant Income**	11			(191,812)
		(23,357)	**(Surplus)/deficit on provision of services**				**21,463**
		(7,430)	Net (surplus) arising on revaluation of Property, Plant and Equipment Assets	16a			(18,134)
		21,840	Remeasurement of the net defined benefit liability	16d			36,342
		14,410	**Other comprehensive income and expenditure**				**18,208**
		(8,947)	**Total comprehensive income and expenditure**				**39,671**

***** Includes £14.352 million management fee paid to Sutton Housing Partnership, a wholly owned subsidiary of the London Borough of Sutton

The 2012/13 figures have been restated to reflect updated requirements of the 2013/14 Code for accounting for pension interest costs in relation to current service costs and pension administration costs.

Balance Sheet

This sets out the financial position of the Council as at 31 March 2014 and consolidates the individual balance sheets of the General Fund, Housing Revenue Account and Collection Fund. It shows the value as at the year end date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority 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 that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide 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’.

Balance Sheet as at 31 March 2014

31 March 2013 £'000		Notes	31 March 2014 £'000	31 March 2014 £'000
	Non-Current Assets			
	Property, Plant and Equipment	12		
252,245	- Council Dwellings			259,235
351,654	- Other Land and Buildings			348,234
5,219	- Vehicles, Plant, Furniture and Equipment			8,033
21,636	- Infrastructure Assets			24,661
1,359	- Community Assets			1,488
12,999	- Assets Under Construction			8,079
9,326	- Surplus Assets Held for Disposal			5,751
654,438	Sub Total			655,481
39,206	Investment Properties	13		36,385
0	Long Term Investments	29		0
1,673	Long Term Debtors	29		2,426
695,317	**Total Non-Current Assets**			**694,292**
	Current Assets			
61,517	Short Term Investments	29	66,978	
1,306	Assets Held for Sale		0	
313	Inventories		320	
29,776	Debtors	18	34,689	
4,584	Cash and Cash Equivalents	20	11,672	
97,496	**Total Current Assets**			**113,659**
	Less Current Liabilities			
1,260	Short Term Borrowing	29	4,188	
1,208	Capital Grants Receipt in Advance		3,059	
39,811	Creditors	19	48,314	
4,002	Provisions	17	3,238	
46,281	**Total Current Liabilities**			**58,799**
	Less Non-Current Liabilities			
4,086	Provisions	17	4,608	
220,721	Long Term Borrowings	29	217,721	
255,456	Liability Related to Defined Benefit Pension Scheme	27	300,225	
480,263	**Total Non-Current Liabilities**			**522,554**
266,269	**Net Assets**			**226,598**
	Non-usable Reserves			
91,719	Revaluation Reserve	16a	101,914	
333,568	Capital Adjustment Account	16b	320,721	
(1,188)	Financial Instruments Adjustment Account	16c	(1,122)	
(255,456)	Pensions Reserve	16d	(300,225)	
139	Deferred Capital Receipts/Income	16e	127	
1,398	Collection Fund Adjustment Account	16f	1,731	
(4,002)	Accumulated Absences Account	16g	(3,238)	
166,178				**119,908**
	Usable Reserves			
35,377	Capital Grants & Contributions Unapplied	15	30,918	
5,455	Capital Receipts Reserve	15	10,673	
0	Major Repairs Reserve	15	0	
2,895	Housing Revenue Account	15	2,783	
24,192	General Reserves – General Fund	15	27,890	
32,172	Earmarked Reserve	15	34,426	
100,091				**106,690**
266,269	**Total Reserves**			**226,598**

Cash Flow Statement

This shows the changes in cash and cash equivalents of the authority during the reporting period. It shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting the claim on future cash flows by providers of capital (i.e. borrowing) to the authority.

Cash Flow Statement

Restated 2012/13 £'000		Notes	2013/14 £'000
23,357	**Net surplus or (deficit) on the provision of services**		**(21,463)**
59,794	Adjust net surplus or deficit on the provision of services for non cash movements	21	83,084
(48,900)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	21	(43,843)
34,251	**Net cash inflow/(outflow) from operating activities**		**17,778**
(48,490)	Purchase of property, plant and equipment, investment property and intangible assets		(47,541)
(438,980)	Purchase of short term and long term investments		(482,350)
6,824	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		11,015
417,449	Proceeds from short term and long term investments		477,127
36,664	Other receipts from investing activities		31,708
(26,533)	**Net cash inflow/(outflow) from investing activities**		**(10,041)**
100	Other receipts from financing activities		0
(120)	Repayment of short term and long term borrowing		0
(1,227)	Other payments for financing activities		(649)
(1,247)	**Net cash inflow/(outflow) from financing activities**		**(649)**
6,471	**Net (increase)/decrease in cash and cash equivalents**		**7,088**
(1,887)	Cash and cash equivalents at the beginning of the reporting period	20	4,584
4,584	Cash and cash equivalents at the end of the reporting period	20	11,672

Section 3

Notes to the core financial statements

1. Basis for the preparation of the accounts

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 Act.

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.

The contents and presentation of the accounts for 2013/14 has been reviewed and the notes to the core financial statements have been presented in the order of importance to the reader of the accounts.

2. Accounting Policies

There have been no changes to the accounting policies during 2013/14. A full list of the accounting policies can be found in the Statement of Accounting Policies at the back of this document.

3. Critical Judgements in Applying Accounting Policies

Funding - In applying the accounting policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts is that although there is a high degree of uncertainty about future levels of funding for local government the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Group Accounts - The group boundaries have been estimated using the criteria associated with the Code of Practice. In line with the Code, the Council has not identified any companies within the group boundary that would require it to complete Group Accounts on grounds of materiality.

4. 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 Authority 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 always be determined with certainty, it is possible that actual results could be materially different from the assumptions and estimates.

The items in the Authority’s Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependant 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 Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £100k for every year that useful lives had to be reduced.
	Our accounting policy is to depreciate assets on their brought forward values at the 1 April and any affects of in-year revaluations are not taken into account until the year following the revaluation.	If significant revaluation increases or impairments were experienced there is a risk that the charge for depreciation to reflect the economic consumption of the asset may be over or under stated.
	Revaluations of property, plant and equipment are estimations of asset values using comparable recent market transactions, depreciated replacement costs, indices, and data from third parties such as Land Registry and Valuation Office Agency.	The effect of any over or under estimation on the revaluation of property, plant and equipment cannot be quantified until an asset is disposed
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. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension fund liability for the London Borough of Sutton pension fund can be measured. For example a 0.5 increase in the discount rate assumption would result in an approximate reduction of £55m in the Council's pension liability and also a fall of 3% in the future service rate (% of pay); a one year increase in member life expectancy would increase the liability by approximately £19m as well as the future service rate by 1%; a 0.5% increase in the salary increase rate would increase the liability by approximately £17m.
Debtors	At 31 March 2014, the Authority had a balance of sundry debtors for £17,566k. A review of significant balances suggested that an impairment of doubtful debts of 45% (£7,896k) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 1% of the amount of impairment of doubtful debts would require an additional £176k to set aside as an allowance.
NNDR Provision for Appeals	Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses, The Council has made a provision for NNDR Appeals based upon it best estimates. However it is not certain that such a provision would be sufficient.It is also not possible to quantify appeals that have not yet been lodged with the Valuation Officer so there is a risk that national and local appeals may have a future impact on the accounts.	If successful appeal rates were to increase by 1% this would increase the cost of appeals by approximately £0.435m.

5. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Strategic Director - Resources on 30 June 2014. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Officers Remuneration and Exit Packages

The following table gives the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £5,000. These figures include those senior staff who are individually disclosed below.

2012/13			2013/14	
Schools	**Non-Schools**	Remuneration Band	**Schools**	**Non-Schools**
Number of Employees		£	Number of Employees	
34	36	50,000 - 54,999	38	27
18	13	55,000 - 59,999	20	20
9	16	60,000 - 64,999	10	18
17	15	65,000 - 69,999	13	15
12	14	70,000 - 74,999	9	14
1	1	75,000 - 79,999	4	3
2	3	80,000 - 84,999	2	2
2	3	85,000 - 89,999	0	2
1	8	90,000 - 94,999	3	9
0	2	95,000 - 99,999	1	0
1	1	100,000 - 104,999	1	0
0	0	105,000 - 109,999	0	1
0	1	110,000 - 114,999	0	1
0	1	115,000 - 119,999	0	4
0	0	120,000 - 124,999	0	0
0	3	125,000 - 129,999	0	3
0	0	130,000 - 134,999	0	0
0	0	135,000 - 139,999	0	0
0	0	140,000 - 144,999	0	0
0	0	145,000 - 149,999	0	0
0	0	150,000 - 154,999	0	0
0	1	155,000 - 159,999	0	1
1	0	160,000 - 164,999	0	1
0	0	165,000 - 169,999	0	0
0	0	170,000 - 174,999	0	0
0	0	175,000 - 179,999	0	0
0	0	180,000 - 184,999	0	0
0	0	185,000 - 189,999	0	0
0	0	190,000 - 194,999	1	0
98	**118**	**Total**	**102**	**121**

Senior Officers Emoluments where the salary is £150,000 or more per year

2012/13 Salary, fees and allowances £	2012/13 Employers pension contributions £	2012/13 Total £	Chief Officers	Note	2013/14 Salary, fees and allowances £	2013/14 Employers pension contributions £	2013/14 Total £
163,411	8,807	172,218	Headteacher - Isabel Ramsey		190,898	14,178	205,076
156,195	27,178	183,373	Chief Executive – Niall Bolger		163,635	28,473	192,108
N/A	N/A	N/A	Director of Public Health - Ellis Friedman	1	155,430	19,981	175,411

Senior Officers Emoluments where the salary is between £50,000 and £150,000 per year.

2012/13 Salary, fees and allowances £	2012/13 Employers pension contributions £	2012/13 Total £	Chief Officers	Note	2013/14 Salary, fees and allowances £	2013/14 Employers pension contributions £	2013/14 Total £
129,559	22,538	152,097	Strategic Director – Resources		129,669	22,538	152,207
129,878	22,538	152,416	Strategic Director – Adult Social Services and Housing		129,528	22,538	152,066
129,528	22,538	152,066	Strategic Director - Children, Young People & Learning		129,528	22,538	152,066
44,706	7,779	52,485	Strategic Director – Environment and Neighbourhoods (part year in 2012/13)	2	118,621	20,050	138,671
94,131	16,379	110,510	Executive Head of Policy and Customer Services (to 5 Jan 2014)	3	71,863	12,504	84,367
94,212	16,379	110,591	Executive Head of Community Safety and Youth Engagement		94,334	16,379	110,713
83,667	14,558	98,225	Executive Head of Legal and Democratic Services		87,849	15,286	103,135

None of the officers above received bonuses or benefits in kind.

A senior employee is a person whose salary is more than £150k per year, or whose salary is at least £50k per year and who is the designated head of paid service (the Chief Executive), a statutory chief officer or a non-statutory chief officer (which includes direct reports to the Chief Executive).

Note 1: The Director of Public Health is a new post following the transfer of Public Health responsibilities to Local Government on 1 April 2013.

Note 2: The Strategic Director - Environment and Neighbourhoods took up the post on 5 November 2012, so the comparative figures for 2012/13 are not for a full year.

Note 3: The Executive Head of Policy and Customer Service left the post on 5 January 2014 and an interim postholder took over on 6 January 2014.

Exit Packages

The following table gives numbers and costs of exit packages paid to employees leaving the organisation in bands of £20k up to £100k, and thereafter in bands of £50k.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
£	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13**	**2013/14**	**2012/13** £	**2013/14** £
0 - 20,000	12	14	9	25	21	39	208,357	426,765
20,001 - 40,000	3	2	0	11	3	13	76,849	368,737
40,001 - 60,000	1	2	2	0	3	2	138,429	97,580
60,001 - 80,000	0	1	0	1	0	2	0	135,685
80,001 - 100,000	0	0	0	0	0	0	0	0
100,001 - 150,000	0	0	0	0	0	0	0	0
Total	**16**	**19**	**11**	**37**	**27**	**56**	**423,635**	**1,028,767**

7. Members Allowances

The Authority paid the following amounts to members of the Council during the year in accordance with the agreed members allowance scheme:

2012/13 £'000		**2013/14 £'000**
890	Allowances	909
1	Expenses	0
891	**Total**	**909**

8. Adjustment Between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

	Usable Reserves					
2013/14	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	12,678	7,365				(20,043)
Revaluation losses on Property Plant and Equipment	16,434	10,006				(26,440)
Movements in the market value of Investment Properties	2,821	0				(2,821)
Amortisation of intangible assets	822	51				(873)
Revenue expenditure funded from capital under statute	9,776					(9,776)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	18,987	2,640				(21,627)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(4,042)					4,042
Capital expenditure charged against the General Fund and HRA balances	(1,611)	(5,607)				7,218
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(32,487)		32,487			0

	Usable Reserves					
2013/14	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Application of grants to capital financing transferred to the Capital Adjustment Account			(36,946)			36,946
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(10,466)				10,466	0
Use of the Capital Receipts Reserve to finance new capital expenditure					(4,660)	4,660
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	588				(588)	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement						0
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(7,227)		7,227		0
Use of the Major Repairs Reserve to finance new capital expenditure				(7,171)		7,171
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(66)					66

	Usable Reserves					
2013/14	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	25,367	189				(25,556)
Employer's pensions contributions and direct payments to pensioners payable in the year	(17,007)	(122)				17,129
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(333)					333
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(764)					764
Total Adjustments	**20,697**	**7,295**	**(4,459)**	**56**	**5,218**	**(28,807)**

	Usable Reserves					
Restated 2012/13 Comparative Figures	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	10,255	7,102				(17,357)
Revaluation losses on Property Plant and Equipment	14,250	13,285				(27,535)
Movements in the market value of Investment Properties	105	23				(128)
Amortisation of intangible assets	2,175					(2,175)
Revenue expenditure funded from capital under statute	6,565					(6,565)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,433	1,582				(5,015)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(3,731)					3,731
Capital expenditure charged against the General Fund and HRA balances	(1,312)	(3,406)				4,718
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(44,197)		44,197			0

	Usable Reserves					
Restated 2012/13 Comparative Figures	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Application of grants to capital financing transferred to the Capital Adjustment Account	(4)		(25,729)			25,733
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,048)	0			7,048	0
Use of the Capital Receipts Reserve to finance new capital expenditure					(2,077)	2,077
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	524				(524)	0
Adjustments primarily involving the Deferred Capital Receipts Reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement						0
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(7,048)		7,048		0
Use of the Major Repairs Reserve to finance new capital expenditure				(7,346)		7,346
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(79)					79

	Usable Reserves					
Restated 2012/13 Comparative Figures	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	22,757	179				(22,936)
Employer's pensions contributions and direct payments to pensioners payable in the year	(18,520)	(160)				18,680
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(100)					100
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	230					(230)
Total Adjustments	**(14,697)**	**11,557**	**18,468**	**(298)**	**4,447**	**(19,477)**

9. Other Operating Expenditure

2012/13 £'000		2013/14 £'000
894	Levies paid to Other Local Public Authorities	844
524	Payment to the Government Housing Capital Receipts Pool	588
(3,904)	Losses/(Profit) on the disposal of non-current assets	11,161
(93)	Deficit/(Surplus) on Trading Undertakings not included in Net Cost of Services	(37)
(2,579)	**TOTAL**	**12,556**

10. Financing and Investment Income and Expenditure

2012/13 £'000		2013/14 £'000
8,767	Interest payable and similar charges	8,384
10,868	Net interest on the net defined benefit liability	11,417
(1,160)	Interest receivable and similar income	(1,022)
(1,946)	Income and expenditure in relation to investment properties and changes in their fair value	762
16,529	**TOTAL**	**19,541**

11. Taxation, Government Grants and Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14.

2012/13		2013/14	
£'000		£'000	£'000
	Credited to Taxation and Non Specific Grant Income		
85,373	**Council Tax Income**	76,811	
0	**Business Rates Retention Scheme**	14,304	
85,373			**91,115**
50,729	**Redistributed National Non-Domestic Rate**	16,821	
	Non ringfenced government grants		
983	- Revenue Support Grant	47,821	
18,017	- Learning Disabilites Grant	0	
8,640	- Early Intervention Grant	0	
0	- Education Services Grant	2,430	
2,115	- Council Tax Freeze Grant	849	
1,398	- Housing Benefit and Council Tax Admin Grant	1,317	
1,350	- New Homes Bonus	1,807	
687	- Other	1,983	
83,919			**73,028**
	Capital Grants and Contributions		
25,479	- Education Grants	5,699	
12,699	- Decent Homes Grant	14,069	
1,142	- Mayors Grant	2,872	
877	- Outer London Fund	808	
965	- Housing Associations	2,666	
675	- Section 106 Contributions	879	
2,360	- Other Capital Grants and Contributions	676	
44,197			**27,669**
213,489	**Total**		**191,812**

2012/13		2013/14	
£'000		£'000	£'000
	Revenue Grants Credited to Services		
98,947	- Dedicated Schools Grant	104,235	
4,411	- EFA funding	0	
0	- Public Health Grant	8,384	
1,112	- Skills Funding Agency	540	
19,365	- Rent Rebate Subsidy	19,490	
61,644	- Rent Allowances	65,070	
13,910	- Council Tax Rebates	0	
2,872	- Pupil Premium	8,021	
1,351	- Other	4,472	
203,612			**210,212**
	REFCUS Grants Credited to Services		
656	- Disabled Facilities	575	
3,433	- Education Grants	3,704	
0	- Other	520	
4,089			**4,799**
421,190			**406,823**

12. Property, Plant and Equipment

Movement on balances

Movements in 2013/14	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2013	**259,293**	**370,840**	**13,729**	**43,852**	**1,619**	**12,999**	**9,673**	**712,005**
- Adjustments between depreciation and gross book value on the revaluation of assets	(7,048)	(2,079)	0	0	0	0	0	(9,127)
Sub total	**252,245**	**368,761**	**13,729**	**43,852**	**1,619**	**12,999**	**9,673**	**702,878**
- Additions	26,817	8,007	4,034	5,651	129	5,075		49,713
- Revaluation decreases recognised in the Revaluation Reserve	0	(10,036)	0	0	0	0	(1,000)	(11,036)
- Revaluation increases recognised in the Revaluation Reserve	0	29,139	0	0	0	0	31	29,170
- Revaluation decreases recognised in the surplus/deficit on the provision of services	(9,876)	(19,751)	0	0	0	0	(44)	(29,671)
- Revaluation increases recognised in the surplus/deficit on the provision of services	0	3,233	0	0	0	0	0	3,233
- Derecognition - disposal	(2,641)	(16,303)	(3,263)			(136)	(2,363)	(24,706)
- Reclassifications	0	9,859	0	0	0	(9,859)	0	0
- Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
At 31 March 2014	**266,545**	**372,909**	**14,500**	**49,503**	**1,748**	**8,079**	**6,297**	**719,581**
Accumulated Depreciation and Impairment								
At 1 April 2013	**(7,048)**	**(19,186)**	**(8,510)**	**(22,216)**	**(260)**	**0**	**(347)**	**(57,567)**
- Adjustments between depreciation and gross book value on the revaluation of assets	7,048	2,079	0	0	0	0	0	9,127
Sub total	**0**	**(17,107)**	**(8,510)**	**(22,216)**	**(260)**	**0**	**(347)**	**(48,440)**
- Depreciation Charge:								
- Depreciation written out to the surplus/deficit on the provision of services	(7,171)	(8,555)	(1,220)	(2,626)	0	0	(101)	(19,673)
- Derecognition - disposal	0	1,122	3,263	0	0	0	0	4,385
- Derecognition - other	(139)	(135)	0	0	0	0	(98)	(372)
At 31 March 2014	**(7,310)**	**(24,675)**	**(6,467)**	**(24,842)**	**(260)**	**0**	**(546)**	**(64,100)**
Net Book Value								
At 31 March 2013	**252,245**	**351,654**	**5,219**	**21,636**	**1,359**	**12,999**	**9,326**	**654,438**
At 31 March 2014	**259,235**	**348,234**	**8,033**	**24,661**	**1,488**	**8,079**	**5,751**	**655,481**

Comparative Movements in 2012/13	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2012	**257,104**	**309,725**	**11,678**	**38,888**	**1,613**	**68,803**	**10,315**	**698,126**
- Adjustments between depreciation and gross book value on the revaluation of assets	(6,769)	(3,417)	124	0	0	0	0	(10,062)
Sub total	**250,335**	**306,308**	**11,802**	**38,888**	**1,613**	**68,803**	**10,315**	**688,064**
- Additions	24,397	1,488	1,927	4,964	6	14,638		47,420
- Revaluation decreases recognised in the Revaluation Reserve	0	(2,655)	0	0	0	0	(386)	(3,041)
- Revaluation increases recognised in the Revaluation Reserve	25	10,447	0	0	0	0	0	10,472
- Revaluation decreases recognised in the surplus/deficit on the provision of services	(13,397)	(14,106)	0	0	0	0	(33)	(27,536)
- Revaluation increases recognised in the surplus/deficit on the provision of services	1	156	0	0	0	0	0	157
- Derecognition - disposal	(2,558)	(466)	0	0	0	(284)	0	(3,308)
- Reclassifications	490	69,668	0	0	0	(70,158)	(223)	(223)
- Assets reclassified (to)/from Held for Sale								0
At 31 March 2013	**259,293**	**370,840**	**13,729**	**43,852**	**1,619**	**12,999**	**9,673**	**712,005**
Accumulated Depreciation and Impairment								
At 1 April 2012	**(6,769)**	**(15,682)**	**(7,302)**	**(19,883)**	**(260)**	**0**	**(229)**	**(50,125)**
- Adjustments between depreciation and gross book value on the revaluation of assets	6,769	3,508	(124)	0	0	0	0	10,153
Sub total	**0**	**(12,174)**	**(7,426)**	**(19,883)**	**(260)**	**0**	**(229)**	**(39,972)**
- Depreciation Charge:								
- Depreciation written out to the surplus/deficit on the provision of services	(7,048)	(6,506)	(1,084)	(2,333)	0	0	(118)	(17,089)
- Derecognition - disposal	0	9	0	0	0	0	0	9
- Derecognition - other		(515)	0	0	0	0	0	(515)
At 31 March 2013	**(7,048)**	**(19,186)**	**(8,510)**	**(22,216)**	**(260)**	**0**	**(347)**	**(57,567)**
Net Book Value								
At 31 March 2012	**250,335**	**294,043**	**4,376**	**19,005**	**1,353**	**68,803**	**10,086**	**648,001**
At 31 March 2013	**252,245**	**351,654**	**5,219**	**21,636**	**1,359**	**12,999**	**9,326**	**654,438**

Depreciation

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

- Council dwellings - the depreciation is based on the componentisation of housing stock, £7.171m;
- Other Land and Buildings – Buildings element - 50 years; Services element i.e. heating, electricity, water etc - 20 years; Land - not depreciated;
- Vehicles, plant, furniture and equipment - 4 to 16 years;
- Infrastructure – gross book value is depreciated at 6%;
- Community Assets - by nature are held in perpetuity. Depreciation charges are therefore immaterial and not included in the financial statements. Any expenditure, which is not considered to enhance the asset, is depreciated in full in the year it is incurred, and;
- Surplus Assets – calculated as per its previous operational classification.

Capital Commitments

At 31 March 2014, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years which are budgeted to cost £194.3m in total. Similar commitments at 31 March 2013 were £164.9m. The major commitments are:-

	Expenditure to 31 March 2014	Estimated Total Cost
	£'000	£'000
School Expansions	30,383	103,362
Lavender Housing Partnership*	10,049	16,498
ICT Infrastructure	1,532	2,788
REFIT Programme - Energy Efficiency Council Buildings	699	1,019
Telephony Replacement	595	840
Cheam Leisure Centre Refurbishment	187	3,300

* Council element of larger regeneration scheme

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. All valuations were carried out internally. The latest valuation was carried out as at 1 April 2013.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors under the direction of the Council's Executive Head of Asset Planning, Management and Capital Delivery. The Valuer for the authority is the Asset Management section and the Asset Valuation report is signed, on behalf of the Asset management section, by Chris Litchfied BSc (Est Man), RICS, Valuation and Estates Manager.

Council dwellings have been included on the basis of the lower of net current replacement cost and net realisable value. Council dwellings reflect vacant possession value adjusted to account for their status as social housing. For 2013/14 the social housing factor for London remains at 25%.

Infrastructure and community assets have been included at historical cost.

The authority is not aware of any material change in the value of assets that have not been revalued in the year.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	0	0	8,033	24,661	1,488	8,079	0	42,261
Valued at fair value as at:								
31-Mar-14	259,235	244,842	0	0	0	0	131	504,208
31-Mar-13	0	21,300	0	0	0	0	0	21,300
31-Mar-12	0	21,111	0	0	0	0	0	21,111
31-Mar-11	0	39,441	0	0	0	0	0	39,441
31-Mar-10	0	9,434	0	0	0	0	0	9,434
31-Mar-09	0	12,106	0	0	0	0	5,620	17,726
Total Cost or Valuation	**259,235**	**348,234**	**8,033**	**24,661**	**1,488**	**8,079**	**5,751**	**655,481**

All council office buildings are revalued every year, whilst other land and buildings are revalued over a 5 year rolling programme.

Heritage Assets

General

Heritage Assets are not being reported as a distinct class of asset within Property, Plant and Equipment as the values involved are considered to be immaterial.

Nature and Significance of Assets Owned

The value of Heritage Assets not reported as a distinct class is immaterial when measured against the values being disclosed on the face of the financial statements. The Council's portfolio of Heritage Assets is unchanged in 2013/14 as no acquisitions or disposals took place. The nature and significance of these assets are detailed below.

Land and Buildings

a) Museums

Honeywood £1.791 million and Whitehall £1.242 million.

The Authority has two grade II listed museums, Honeywood and Whitehall. Both are operational, predominantly delivering services relating to knowledge and culture.

Honeywood, the borough's main museum, is a historically significant building with origins in the 17th Century. The core of the building includes several flint and chalk chequer board walls, once a significant local building style of which very few examples remain.

Whitehall is a unique building dating from c.1500. It was owned by the same family for 250 years and retains many of its original features.

The value of both museums are included in the Movement on Balances table and account for less than 0.5% of the value of Land and Buildings shown on the face of the financial statements.

<u>Little Holland House - Value £400,000</u>

Little Holland House is an Edwardian house built by Frank Dickinson in the Arts and Crafts style. The building is open to the public, but access is restricted due to the fragile nature of the internal décor. The building is grade II listed.

b) Monuments

<u>Upper Mill</u>
Upper Mill in Grove Park is on the site of a mill listed in Domesday. The current structure includes wheel pits dating from 1782, designed by John Smeaton and an early 19th century wheel. The wheel and pits are grade II listed. The remainder of the structure is a recreation of a late Victorian building designed to house an electric generator. The generator was adapted to hydro-electricity at an early date. The mill is not currently open to the public and has been damaged by vandalism. No valuation exists for this asset. However, the value is unlikely to be material.

<u>The Dovecote, Carew Manor</u>
The Dovecote dates from the early 18th century and is a scheduled monument. The Dovecote is opened to the public as part of guided tours on weekends during the summer months. No valuation exists for this asset. However, it is unlikely to be material.

Art Collection

The art collection includes about 1,110 paintings, mostly of the 19th and 20th centuries which are either local scenes or by artists who lived in the Borough. Many of the local scenes are an important record of the topography of the Borough. There are works by topographic artists such as John Hassell (father and son), Gideon Yates, Thomas Allom and William Tatton Winter. The Council also received donations including paintings during the year.

The collection also including paintings by a number of artists with a more than local reputation including Frank Moss Bennett (1874-1953), Elva Blacker (1908-84), Thomas Dibdin (1810-1893), John Drage (1856-1914), William Gilpin (1724-1804), Horace Mann Livens (1862-1936), Dorothy Moore (1897-1973), Joseph Nash (1803-78), James Pollard (1792-1867), Joseph Powell (c1780-c1834), William Tatton Winter (1855-1928), Gideon Yates (early 19th cent) and Fred Yates (d.2008).

The collection has not been formally valued. A few items have an approximate value only. The items donated in year are not considered to be material in value. The whole collection is not considered to be significant for separate insurance purposes and is covered in the standard contents cover. The collection is promoted to the public via the internet and the Council's libraries.

Museum Collection

The collection consists of objects connected to the borough's history. The majority are of a domestic nature including costume and household items. Of significance are finds from the excavations of a medieval pottery kiln in Cheam ('Cheam-ware'), one of the earliest kilns excavated in England and finds from excavations at Carew Manor, including unusual late Elizabethan garden metalwork and ceramics.

The collection has not been formally valued, however a limited number of items have a purchase price and the value of the whole collection is not considered to be material.

Glass Plate Negatives

The collection of Edwardian glass plate negatives currently held in the Borough archive consists of 11,000 original plates still in their studio wrappers. The plates are all the work of Knights-Whittome, a local photographer active from c1900-1918. Knights-Whittome was a society photographer who also photographed the royal family, aristocracy and toured Europe recording palaces and major buildings. The collection includes images of local people, national figures, buildings - many of which have been lost, and European figures and buildings. No formal valuation has been carried out for the collection but it is not considered material and the collection is covered in the standard contents cover.

13. Investment Properties

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

2012/13 £'000		2013/14 £'000
39,110	Balance at the start of the year	39,206
0	Additions	0
0	Disposals	0
(127)	Net gains/(losses) from fair value adjustments (Revaluations and Impairments)	(2,821)
223	Transfers (Reclassifications)	0
39,206	**Balance at the end of the year**	**36,385**

14. Capital Expenditure and Capital 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note:-

2012/13		**2013/14**
£'000		**£'000**
263,893	Opening Capital Financing Requirement	269,712
	Capital Investment	
47,420	- Property, Plant and Equipment	49,714
2,175	- Intangible Assets	873
6,565	- Revenue Expenditure Funded from Capital Under Statute	9,776
	Sources of Finance	
(2,079)	- Capital Receipts	(4,674)
(25,730)	- Government grants and other contributions	(38,383)
	- Sums set aside from revenue	
(18,801)	- Direct revenue contributions	(13,594)
(3,731)	- MRP / Loans fund principal	(4,042)
269,712	**Closing Capital Financing Requirement**	**269,382**
	Explanation of movements in year	
0	- Increase in underlying need to borrowing (supported by government financial assistance)	0
5,819	- Increase/(decrease) in underlying need to borrowing (unsupported by government financial assistance)	(330)
5,819	**Increase/(Decrease) in Capital Financing Requirement**	**(330)**

15. Transfers to/from Usable Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14:

	Balance at 1 April 2012	Transfers Out 2012/13	Transfers In 2012/13	Balance at 31 March 2013	Transfers Out 2013/14	Transfers In 2013/14	Balance at 31 March 2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund:							
General Fund Balances	9,049	0	3,126	12,175	(1,635)	4,451	14,991
DSG Balances	2,827	(941)	1,169	3,055	0	826	3,881
Balances held by schools under a scheme of delegation	7,628	(210)	1,544	8,962	(1,658)	1,714	9,018
Sub total	**19,504**	**(1,151)**	**5,839**	**24,192**	**(3,293)**	**6,991**	**27,890**
Earmarked Reserves:-							
- Insurance Fund	4,158	(348)	899	4,709	(44)	0	4,665
- Revenue Reserve for financing capital expenditure	2,107	(1,953)	429	583	(378)	859	1,064
- General Pooled Reserve	7,726	(7,726)	2,970	2,970	(2,970)	1,567	1,567
- Renewals and Repairs Fund	4	0	250	254	0	0	254
- Catering Reserves	618	0	169	787	(16)	156	927
- Invest to Save Reserve	838	(609)	300	529	0	100	629
- Sustainable Investment Fund	337	0	5	342	0	5	347
- Revenue Grants Unapplied	2,783	(591)	1,116	3,308	(1,194)	2,530	4,644
- Redundancy Costs	2,750	0	1,678	4,428	0	320	4,748
- Transforming Social Care	945	(945)	0	0	0	0	0
- Strategic Priorities Investment Reserve	899	(56)	0	843	0	0	843
- Extreme Weather Reserve	128	0	0	128	0	0	128
- Freedom Pass Equalisation	400	0	0	400	0	0	400
- Olympic Forum Reserve	13	0	0	13	0	0	13
- Treasury Management & Capital Programme	874	(661)	919	1,132	0	355	1,487
- Innovation Fund	100	(100)	0	0	0	0	0
- Crisis Loans and Grants	0	0	0	0	0	294	294
- Risk Reserve	0	0	9,746	9,746	(562)	1,770	10,954
- Opportunity Sutton Reserve	0	0	1,000	1,000	(567)	350	783
- Business Change	0	0	1,000	1,000	(321)	0	679
Sub total	**24,680**	**(12,989)**	**20,481**	**32,172**	**(6,052)**	**8,306**	**34,426**
HRA:							
Housing Revenue Account	1,182	0	1,161	2,343	(85)	0	2,258
Heating Reserve	596	(49)	0	547	(53)	3	497
Freeholders Contributions	0	0	5	5	0	23	28
Sub total	**1,778**	**(49)**	**1,166**	**2,895**	**(138)**	**26**	**2,783**
Capital Grants & Contributions Unapplied	16,657	(23,064)	41,784	35,377	(36,946)	32,487	30,918
Capital Receipts Reserve	1,008	(2,079)	6,526	5,455	(5,248)	10,466	10,673
Major Repairs Reserve	298	(7,346)	7,048	0	(7,227)	7,227	0
Total	**63,925**	**(46,678)**	**82,844**	**100,091**	**(58,904)**	**65,503**	**106,690**

Additional information on reserves

General Fund balance

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the adequacy of the proposed reserves during the budget making process.

The agreed policy is that a general reserve of at least 5% of net General Fund expenditure (excluding schools) is necessary to provide a minimum sound level of prudence.

The current balance of £14.991m equates to 9.2% of net General Fund expenditure (excluding the schools budget).

Earmarked Reserves

- The Insurance Fund provides cover for certain uninsured losses, including:-
  - the first £150,000 of third party and employee claims;
  - the first £100,000 of property losses

  The insurance fund also includes a contingency for potential future increases in the Scheme of Arrangement levy (currently 15%). Municipal Mutual Insurance Company (MMI) stopped writing insurance business on 30 September 1992 and the Scheme of Arrangement was entered into by all previous insureds to achieve an orderly run-off. At the board meeting on the 12 November 2012 the Directors of MMI could no longer foresee a solvent run-off and the Scheme of Arrangement was activated with responsibility of MMI’s management being passed to the scheme administrators, Ernst & Young LLP. Ernst & Young LLP review the levy rate at least annually and could choose to increase it, at which point the council will need to fund the difference. The council’s potential liabilities will be assessed by an actuary during 2014/15 to identify if a separate provision will be required for potential future liabilities.

  The Fund also provides for risk management initiatives across the Council.

- The Revenue Reserve for Financing Capital Expenditure has been established for the purpose of financing capital expenditure in future years.

- The General Pooled Reserve is in place to act as a way of holding approved carry forwards to be released in the following financial year.

- The Renewals and Repairs Fund is maintained primarily for Information Technology investment.

- The Catering Reserves comprise two separate accounts:
  - Catering Reserve Account (£250,615) representing the accumulated surplus from the Schools and Welfare Trading Account, and;
  - School Meals Delegated Funds (£676,347) representing the surplus made by schools within the Catering DSO and which is ringfenced for future use by schools.

- The Invest to Save Reserve was originally established to provide upfront investment to schemes and projects where the funding can be demonstrated to lead to improved outcomes/efficiencies for Council services and in recent years has been funding the management of the Smarter Services Sutton programme.
- Sustainable Investment Fund has been established to finance energy and carbon reduction measures where financial payback will be within 3 to 5 years.
- The Revenue Grants Unapplied reserve is in place to record grants received in year for revenue purposes but for which the expenditure will occur in future years.
- The Redundancy Costs Reserve has been established for future redundancy costs anticipated from the continuing drive to secure cost reductions in light of reductions in national public spending.
- The Transforming Social Care Reserve was established to provide investment to develop processes and infrastructure to support the delivery of social care.
- The Strategic Priorities Investment Reserve will be allocated in accordance with members future strategic priorities.
- Extreme Weather Reserve has been created to deal with additional expenditure arising from extreme weather conditions.
- Freedom Pass Equalisation Reserve will be used to smooth costs arising from changes in the way concessionary fares costs are allocated across boroughs.
- The Olympic Forum Reserve was established for the delivery of a series of events and activities in the run up to the 2012 London Olympics and to support the legacy of the 2012 London Olympics.
- The Treasury Management and Capital Programme Reserve was established to provide cover against any potential loss on the frozen Heritable Bank deposits and to support the capital programme in the future.
- The Innovation Fund is a sum set aside to be used to support innovative ideas for service improvements and efficiency in the Council.
- The Crisis Loans and Grants Reserve has been established to hold unused grant funding for possible future use.
- The Risk Reserve has been created to mitigate the financial risk of demographic growth and services with demand volatility such as adult social care services and numbers of looked after children, as well as meeting other unavoidable cost risk issues.
- The Opportunity Sutton Reserve has been set aside to deliver the Opportunity Sutton Programme. The Programme is the Boroughs flagship Economic Growth Programme that aims to deliver sustainable econcomic growth throughout the Borough.
- The Business Change Reserve was approved by the Strategy and Resources Committee at its meeting on 11 February 2013 and has been set aside to meet the implementation costs of the Smarter Council change programme and other key business change projects.

Housing Revenue Account

- The HRA Reserve balance carried forward at 31 March 2014 of £2,257,685 (£2,343,109 at 31 March 2013) reflects the decision taken in 2010/11 to raise the balance to a more prudent level over 3 years.
- The Heating Reserve of £497k holds the net balance of tenants' charges and recoveries for heating and hot water. It will be used to help smooth future volatility.
- The Freeholders Contribution to Capital Works Reserve of £28k holds the net balance of freeholders contributions to improvements works.

16. Non-usable Reserves

31 March 2013	Reserve / Balance	31 March 2014
£'000		**£'000**
91,719	Revaluation Reserve	101,914
333,568	Capital Adjustment Account	320,721
(1,188)	Financial Instruments Adjustment Account	(1,122)
139	Deferred Capital Receipts	127
(255,456)	Pensions Reserve	(300,225)
1,398	Collection Fund Adjustment Account	1,731
(4,002)	Accumulated Absences Account	(3,238)
166,178	**Total**	**119,908**

a) Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or;
- disposed of and the gains are realised.

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

2012/13		2013/14	
£'000		£'000	
85,526	**Balance as at 1 April**		**91,719**
10,471	Upward revaluation of assets	29,170	
(3,041)	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(11,036)	
7,430	Surplus or deficit on revaluation of non current assets not posted to the surplus or deficit on the provision of services	18,134	
(1,028)	Difference between fair value depreciation and historical cost depreciation	(1,000)	
(209)	Accumulated gains on assets sold or scrapped	(6,939)	
(1,237)	Amount written off to the Capital Adjustment Account	(7,939)	
91,719	**Balance at 31 March**		**101,914**

b) 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 postings 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 Authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

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

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13	Capital Adjustment Account	2013/14	
£'000			£'000
340,764	**Balance at 1 April**		**333,568**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(17,357)	- Charge for depreciation and impairment of non-current assets	(20,043)	
(27,535)	- Revaluation losses on Property, Plant and Equipment	(26,439)	
(2,175)	- Amortisation of intangible assets	(873)	
(6,565)	- Revenue expenditure funded from capital under statute	(9,776)	
(5,015)	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(21,627)	
(58,647)			(78,758)
1,028	Difference between fair value depreciation and historical cost depreciation		999
209	Accumulated gains on assets sold or scrapped		6,939
(57,410)	Net written out amount of the cost of non-current assets consumed in the year		(70,820)
	Capital financing applied in the year:		
2,079	- Use of the Capital Receipts Reserve to finance new capital expenditure	4,661	
7,346	- Use of the Major Repairs Reserve to finance new capital expenditure	7,171	
20,242	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	6,956	
9,576	- Application of grants to capital financing from the Capital Grants Unapplied Account	29,990	
3,731	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	4,042	
2,649	- Funded from Revenue Reserves	756	
4,718	- Capital expenditure charged against the General Fund and HRA balances	7,218	
50,341			60,794
(127)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(2,821)
333,568	**Balance at 31 March**		**320,721**

c) Financial Instruments Adjustments Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2014 will be charged to the General Fund over the next 28 years.

2012/13		2013/14	
£'000		**£'000**	**£'000**
(1,267)	**Balance as at 1 April**		**(1,188)**
79	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	66	
79	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		66
(1,188)	**Balance at 31 March**		**(1,122)**

d) Pension 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 Authority 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 Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

Restated 2012/13 £'000		2013/14 £'000
(229,360)	**Balance at 1 April**	**(255,456)**
(21,840)	Remeasurement of the net defined benefit liability	(36,342)
(22,936)	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	(25,556)
18,680	Employers pension contributions and direct payments to pensioners payable in the year.	17,129
(255,456)	**Balance at 31 March**	**(300,225)**

e) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority 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.

2012/13 £'000		2013/14 £'000
208	**Balance at 1 April**	**139**
(69)	Transfer to the Capital Receipts Reserve upon receipt of cash	(12)
139	**Balance at 31 March**	**127**

f) Collection Fund Adjustment Account

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

2012/13 £'000		2013/14 £'000
1,298	**Balance at 1 April**	**1,398**
100	Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	333
1,398	**Balance at 31 March**	**1,731**

g) 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.

2012/13 £'000		2013/14 £'000	
(3,772)	**Balance as at 1 April**		**(4,002)**
3,772	Settlement or cancellation of accrual at the end of the preceding year	4,002	
(4,002)	Amounts accrued at the end of the current year	(3,238)	
(230)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		764
(4,002)	**Balance at 31 March**		**(3,238)**

17. Provisions

Provisions have been established for the following purposes:

	Balance b/fwd 1 April 2013	Additional provisions made in 2013/14	Amounts used in 2013/14	Unused amounts reversed in 2013/14	Balance c/fwd 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Current Provisions					
a) Employee Accumulated Absences	**4,002**	**3,238**	**(4,002)**	**0**	**3,238**
Non-Current Provisions					
b) NNDR Appeals	0	652	0	0	652
c) Insurance Claims	1,657	818	0	0	2,475
d) Potential Employee Litigation	360	0	0	(100)	260
e) Hexagon Provision	292	0	0	(292)	0
f) Fairer charging	102	0	0	(102)	0
g) Independence Homes	338	834	(338)	0	834
h) Supported Living	178	0	(56)	0	122
i) Hillcroome	256	0	0	(256)	0
j) External Insurance	583	0	(433)	(150)	0
k) Land Charges	250	0	0	(55)	195
l) Substance Misuse costs of re-commissioning	70	0	0	0	70
	4,086	**2,304**	**(827)**	**(955)**	**4,608**
	8,088	**5,542**	**(4,829)**	**(955)**	**7,846**

a) This is required under IFRS to hold a liability in respect of annual leave which is owed to staff at the year end.

b) The provision for appeals is to cover appeal losses and backdated appeal costs (i.e. Court Costs) in respect of the Collection Fund at 31 March 2014. London Borough of Sutton share of the total provision for appeals (£2.173m) is £0.652m.

c) The Council maintains an insurance provision for claims which are likely or certain to be settled but the timing and amount of which cannot be determined accurately but can be reliably estimated. This has been established to meet claims not covered by our external insurer, including the first £150,000 of 3rd party and employee claims and the first £100,000 of property losses. The year end provision was evaluated at £2.475m.

d) A provision of £360,000 was included in the 2012/13 accounts to cover several employment related matters which could involve the Council in a financial penalty. An assessment of the number of outstanding cases has been carried out and the provision at 31 March 2014 has been reduced to £260,000.

e) A provision of £191,000 was created in 2010/11 to cover any potential recharge for clients supported by the mental health trust, and was increased by £101k to reflect clients supported by the mental health trust during 2011/12. It has been reversed out in 2013/14.

f) A provision of £608,000 was established in 2011/12 to cover potential additional payments to providers where lower payments made under 'fairer charging' are in dispute. Payments totalling £506,000 were made during the 2012/13 financial year, leaving a balance of £102,000. This provision is no longer considered necessary and has been released in 2013/14.

g) A provision of £338,000 established to cover potential costs of clients in Independence Homes where identification of the ordinary residence is in dispute has been increased to £834,000 due to a higher number of potential clients in 2013/14.

h) A provision of £178,000 was established to cover costs of clients in Supported Living Homes where identification of the ordinary residence is in dispute. £56,000 of this provision was used during 2013/14 leaving a balance of £122,000.

i) A provision of £256,000 established to cover potential employee costs under TUPE arrangements following the transfer of the Mental Health Rehabilitation Support Service from Hillcroome to Community Options is no longer considered necessary and has been released in 2013/14.

j) The Council has created a provision for the potential liability arising from its previous arrangement with the Municipal Mutual Insurance Company (MMI). MMI stopped writing insurance business on 30 September 1992 and a scheme of arrangements to achieve an orderly run-off become effective in 1994. MMI continued to pay all creditors in full until at any time in the future a solvent-run off could not be foreseen. At the board meeting on the 12 November 2012 the Directors of MMI could no longer foresee a solvent run-off and the contingent scheme of arrangement was activated with responsibility of MMI’s management being passed to the scheme administrators, Ernst & Young LLP. The administrator can levy amounts from the scheme creditors and based on an estimated deficit of 15% the estimated exposure for Sutton in 2012/13 was £583,000. During 2013/14 the final settlement was calculated at £433,000. This has been fully settled and the balance of £150,000 has been released.

k) A provision of £250,000 was established in 2012/13 to cover the potential cost of reimbursement to personal search companies of fees levied by local authorities for property searches Land Charges. This has been reassessed during 2013/14 and the potential liability reduced by £55k to £195k.

l) A provision of £70,000 has been established to cover potential pension costs under TUPE arrangements following the recommissioning of the Substance Misuse Treatment System.

18. Debtors

These are short-term debts consisting of amounts due from Government, other local authorities and amounts due for goods and services provided as at 31 March.

At 31 March 2013 £'000		At 31 March 2014 £'000
6,374	Central Government bodies	10,460
8,959	Other Local Authorities	5,856
718	NHS bodies	1,168
1,691	HRA Tenants	2,095
13,676	Other entities and individuals	16,168
5,098	Council Tax payers	6,838
36,516	**Total**	**42,585**

The following provisions have been included in the accounts for potential bad debts at 31 March.

At 31 March 2013 £'000		At 31 March 2014 £'000
(725)	HRA Tenants	(841)
(2,941)	Other entities and individuals	(3,175)
(3,074)	Council Tax payers	(3,880)
(6,740)	**Total**	**(7,896)**

The following table shows debtors at 31 March net of bad debt provision.

At 31 March 2013 £'000		At 31 March 2014 £'000
6,374	Central Government bodies	10,460
8,959	Other Local Authorities	5,856
718	NHS bodies	1,168
966	HRA Tenants	1,254
10,735	Other entities and individuals	12,993
2,024	Council Tax payers	2,958
29,776	**Total**	**34,689**

19. Creditors

These consist of amounts owed to Government and other public bodies and all unpaid sums for goods and services provided as at 31 March.

At 31 March 2013		At 31 March 2014
£'000		£'000
5,476	Central Government bodies	5,426
5,352	Other Local Authorities	8,317
1,736	NHS bodies	2,140
27,247	Other entities and individuals	32,431
39,811	**Total**	**48,314**

20. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements

At 31 March 2013		At 31 March 2014
£'000		£'000
102	Cash held by the authority	95
4,482	Bank current accounts	11,577
4,584	**Total**	**11,672**

21. Cash Flow Statement – Reconciliation of net surplus/ (deficit) on the provision of services to net cash flows from operating activities.

2012/13 £'000		2013/14 £'000
23,357	Net surplus / (deficit) on the Provision of Services	**(21,463)**
	Adjust net surplus or deficit for the provision of services for non-cash movements	
44,892	Depreciation and impairment	43,661
2,175	Amortisation	873
914	Increase / (Decrease) in creditors	10,011
1,368	(Increase) / Decrease in debtors	(1,506)
(22)	(Increase) / Decrease in inventories	(7)
4,256	Pension Liability	8,427
1,071	Contributions to / from provisions	(242)
5,015	Carrying amount of non-current assets sold	21,627
125	Other movements	240
59,794		**83,084**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(41,852)	Capital Grants credited to surplus or deficit on the provision of services	(32,855)
(7,048)	Proceeds from the sale of property plant and equipment, investments property and intangible assets	(10,988)
(48,900)		**(43,843)**
34,251	**Total**	**17,778**

22. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2012/13 £'000		2013/14 £'000
1,034	Interest received	1,126
(8,835)	Interest paid	(5,528)
(7,801)	**Total**	**(4,402)**

23. Amounts Reported for Resources Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice* . Decisions about resource allocation are taken by the Authority's Strategy and Resources Committee on the basis of budget reports analysed across Directorates in accordance with their key priorities and policies. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year, and;
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

Directorate Information 2013/14	Children, Young People & Learning Directorate	Adult Social Services, Housing and Health	Chief Executive's and Resources Directorate	Environment and Neighbour-hoods	TOTAL
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(6,259)	(11,207)	(3,174)	(15,652)	(36,292)
Government grants	(113,983)	(11,032)	(84,814)	(341)	(210,170)
Total Income	**(120,242)**	**(22,239)**	**(87,988)**	**(15,993)**	**(246,462)**
Employee expenses	94,244	14,992	6,321	17,123	132,680
Other operating expenses	68,025	65,930	85,516	33,687	253,158
Support service recharges	4,285	3,175	1,218	4,067	12,745
Total Operating Expenses	**166,554**	**84,097**	**93,055**	**54,877**	**398,583**
Cost of Services	**46,312**	**61,858**	**5,067**	**38,884**	**152,121**

Directorate Information 2012/13 Comparative Figures	Children, Young People & Learning Directorate	Adult Social Services, Housing and Health	Chief Executive's and Resources Directorate	Environment and Neighbour-hoods	TOTAL
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(7,099)	(11,016)	(4,276)	(13,943)	(36,334)
Government grants	(107,831)	(2,401)	(95,693)	(556)	(206,481)
Total Income	**(114,930)**	**(13,417)**	**(99,969)**	**(14,499)**	**(242,815)**
Employee expenses	105,894	14,131	6,782	21,930	148,737
Other operating expenses	45,898	60,042	96,742	27,621	230,303
Support service recharges	4,543	3,853	1,521	4,077	13,994
Total Operating Expenses	**156,335**	**78,026**	**105,045**	**53,628**	**393,034**
Cost of Services	**41,405**	**64,609**	**5,076**	**39,129**	**150,219**

Reconciliation of Directorate Income and Expenditure to Cost of Services in Comprehensive Income and Expenditure Statement

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

2012/13 £'000		2013/14 £'000
150,219	Net expenditure in the Group Analysis	152,121
4,387	Add services not included in main analysis	7,294
20,009	Add amounts not reported to management	22,322
1,567	Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(732)
176,182	**Net Cost of Services in Comprehensive Income and Expenditure Statement**	**181,005**

Reconciliation of Subjective Analysis

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

2013/14	Service Analysis	Services not in main analysis	Not Reported to Management	Not Included in the Income & Expenditure Statement	Net Cost of Services	Corporate Amounts	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(36,292)	0	(37,385)	3,459	(70,218)	0	(70,218)
Surplus or deficit on trading undertakings not in NCS	0	0	0	0	0	(37)	(37)
Interest and Investment Income	0	0	0	0	0	(1,022)	(1,022)
Income from Council Tax and Business Rates					0	(92,045)	(92,045)
Government grants and contributions	(210,170)	0	(4,799)	0	(214,969)	(100,698)	(315,667)
Total Income	**(246,462)**	**0**	**(42,184)**	**3,459**	**(285,187)**	**(193,802)**	**(478,989)**
Employee Expenses	132,680	334	1,481	0	134,495	11,417	145,912
Other operating expenses	253,158	14	26,085	(4,191)	275,066	2,821	277,887
Support service recharges	12,745	6,845	0	0	19,590	0	19,590
Depreciation, amortisation and impairment	0	101	36,940	0	37,041	(2,059)	34,982
Interest Payments	0	0	0	0	0	8,384	8,384
Precepts and Levies	0	0	0	0	0	844	844
Payments to Housing	0	0	0	0	0	588	588
Capital Receipts Pool					0		0
Gain or loss on Disposal of Fixed Assets	0	0	0	0	0	11,161	11,161
Total Expenditure	**398,583**	**7,294**	**64,506**	**(4,191)**	**466,192**	**33,156**	**499,348**
Surplus or deficit on the provision of services	152,121	7,294	22,322	(732)	181,005	(160,646)	20,359

2012/13 **Comparative Figures**	Service Analysis	Services not in main analysis	Not Reported to Management	Not Included in the Income & Expenditure Statement	Net Cost of Services	Corporate Amounts	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(36,334)	0	(35,979)	4,217	(68,096)	(1,946)	(70,042)
Surplus or deficit on trading undertakings not in NCS	0	0	0	0	0	(93)	(93)
Interest and Investment Income	0	0	0	0	0	(1,160)	(1,160)
Income from Council Tax	0	0	0	0	0	(85,373)	(85,373)
Government grants and contributions	(206,481)	0	(4,089)	0	(210,570)	(128,116)	(338,686)
Total Income	**(242,815)**	**0**	**(40,068)**	**4,217**	**(278,666)**	**(216,688)**	**(495,354)**
Employee Expenses	148,737	151	(2,385)	0	146,503	8,449	154,952
Other operating expenses	230,303	3,565	24,339	(2,650)	255,557	0	255,557
Support service recharges	13,994	553	0	0	14,547	0	14,547
Depreciation, amortisation and impairment	0	118	38,123	0	38,241	0	38,241
Interest Payments	0	0	0	0	0	8,767	8,767
Precepts and Levies	0	0	0	0	0	894	894
Payments to Housing Capital Receipts Pool	0	0	0	0	0 0	524	524 0
Gain or loss on Disposal of Fixed Assets	0	0	0	0	0	(3,904)	(3,904)
Total Expenditure	**393,034**	**4,387**	**60,077**	**(2,650)**	**454,848**	**14,730**	**469,578**
Surplus or deficit on the provision of services	150,219	4,387	20,009	1,567	176,182	(201,958)	(25,776)

24. External Audit Costs

2012/13		**2013/14**
£'000		**£'000**
123	Fees payable to the Grant Thornton with regard to external audit services carried out by the appointed auditor	123
32	Fees payable to the Grant Thornton for the certification of grant claims and returns	31
155		**154**

25. Education Services – Disclosure of Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department Education (DfE), the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2012. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:-

	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2013/14 before Academy recoupment			160,150
Academy figure recouped for 2013/14			55,915
Total DSG after Academy recoupment for 2013/14			104,235
Plus: Brought forward from 2012/13			3,056
Agreed budgeted distribution in 2013/14	25,045	82,874	107,291
In year adjustments	119	(3,803)	(3,684)
Final budget distribution for 2013/14	25,164	79,071	103,607
Less Actual central expenditure	24,974		24,974
Less Actual ISB deployed to schools		78,435	78,435
Carry forward to 2014/15	190	636	3,882

In 2013/14, the Council received net DSG funding of £104.235 million, after academy recoupment. This includes £134k for London Childcare provision. This has been credited against the Education service revenue account.

DfE regulations require that the under-spend of £3.882 million be carried forward to 2014/15 to support the Schools Budget in future years.

26. 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 limited another party's ability to bargain freely with the Council.

Central Government
Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties, (e.g. housing benefit). Details of transactions with government departments are set out in note 11 to the Core Financial Statements.

To comply with this requirement the Strategic Director - Resources has issued a declaration form with guidance notes to members and senior officers.

Set out below are details of declarations which are material to these accounts.

Other Local Authorities
The Authority is a partner in the South London Waste Partnership, a Joint Committee established in September 2007 to secure waste treatment and disposal services for the London Boroughs of Croydon, Merton, Royal Borough of Kingston upon Thames and Sutton. The Royal Borough of Kingston upon Thames is the lead Borough for procurement and payments totalling £8.1 million, included in the comprehensive income and expenditure account were paid to the Royal Borough of Kingston Upon Thames as lead authority.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is £909,000.
One Member's wife is the chair of the trustees of the Sutton Carers Centre. The Council paid Sutton Carers Centre £301k during 2013/14. One Member is a Trustee of Oaks Way Senior Centre. The Centre received £61k from the London Borough of Sutton during 2013/14. One Member is the Vice President of Sutton Churches Tennis Club, one the Chair of Sutton South Hello and one the Chair of Riverside Community Centre, all of which received small grants from the London Borough of Sutton in 2013/14.

The Pension Fund had an average balance of £12.9 million of surplus cash deposited with the Council during 2013/14. The Council charged the Fund £462,000 for expenses incurred in administering the Fund.

Opportunity Sutton - Mary Morrissey, Strategic Director - Environment and Neighbourhoods and Gerald Almeroth, Strategic Director - Resources, are company directors of Opportunity Sutton Ltd. There were no trading activities for Opportunity Sutton Ltd during 2013/14.

Sutton Housing Partnership (SHP), is a wholly owned subsidiary of the London Borough of Sutton. It was created to manage and improve the Council's housing stock and estates. It has the responsibility for managing approximately 6,113 homes for the Council. It is managed by a board of 12 members made up of 4 Council nominees, 3 tenants, 1 leaseholder and 4 independent community representatives with professional skills and experience to help run the services.

In 2013/14 the turnover of SHP amounted to £15.7 million and net liabilities (including the pension deficit) were valued at £4.374 million. The Council is liable to contribute to the debts and liabilities of the organisation if it is wound up, to the value of £1.

An audited copy of SHP's 2013/14 accounts can be obtained from Brendan Crossan, Executive Director of Resources, Sutton Housing Partnership, Sutton Gate, 1 Carshalton Road, Sutton SM1 4LE. The accounts are also available on SHP's website, www.suttonhousingpartnership.org.uk

27. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits under two schemes:

- Teachers employed by the authority are members of the Teachers' Pension Scheme, a defined benefit scheme administered nationally by the Teachers' Pension Agency. It provides teachers with defined benefits upon their retirement, and although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the authority's contribution rates. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees.

  The Authority contributes to the scheme at a rate of 14.1% of members' pensionable salaries and in 2013/14 the employers contribution amounted to £5.474 million and the employees contribution was £3.521 million (employers £5.431 million and employees £3.148 million in 2012/13).

  The Authority is also responsible for a proportion of the annual pension and lump sum for teachers taking early retirement. The cost to the Council in 2013/14 totalled £0.5 million (£0.4 million in 2012/13).

- The London Borough of Sutton participates in the Local Government Pension Scheme, a defined benefit scheme based on final pensionable salary. The scheme is a funded scheme meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The valuation of the fund and assessment of employer contribution rates is carried out by an independent actuary. The most recent formal valuation was carried out as at 31 March 2013, and has been updated by the Council's actuary, Hymans Robertson, to take account of the requirements of IAS19 in assessing the liabilities of the Fund as at 31 March 2014 as set out below. Pension Fund regulations require full actuarial valuations to be prepared every three years and the next valuation will be based on the financial position of the fund as at 31 March 2016.

b) Transactions Relating to Retirement Benefits

Although the benefits earned by employees will not actually be payable until employees retire, the Authority has a commitment to account for such payments at the time the employees earn their future entitlement. The financial statements therefore recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement.

As a result the following transactions have been made in the Comprehensive Income and Expenditure Statement Movement in Reserves Statement during the year:-

Restated 2012/13 £'000	Comprehensive Income and Expenditure Statement	2013/14 £'000
	Service cost comprising:	
12,389	- Current Service Cost	15,163
626	- Past Service Cost	218
(947)	- Gain/loss from settlements	(1,241)
12,068		**14,140**
10,868	Net interest expense	11,417
22,936	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**25,557**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(32,550)	- Return on plan assets (excluding the amount included in the net interest expense)	14,438
0	- Actuarial gains and losses arising on changes in demographic assumptions	12,505
55,737	- Actuarial gains and losses arising on changes in financial assumptions	29,145
(1,347)	- Other	(19,746)
44,776	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**61,899**
	Movement in Reserves Statement:	
(22,936)	- Reversal of net charges made to the Surplus or Deficit on the provision of Service for Post Employment Benefits in accordance with the Code	(25,557)
	Actual amount charged against the General Fund balance for pensions in the year:	
18,680	- Employers' Contributions Payable to Scheme	17,129

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2014 is a loss of £243.0 million.

c) Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2012/13 £'000		2013/14 £'000
651,087	Present value of defined benefit obligation	**696,597**
(395,631)	Fair value of plan assets	(396,372)
255,456	Net Liability arising from defined benefit obligation	**300,225**

d) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries, with estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2013.

The main assumptions used by the actuary in calculations have been:-

As at 31 March 2013		As at 31 March 2014
%		**%**
2.8	Rate of Inflation	2.8
5.1	Rate of Increase in Salaries	4.6
2.8	Rate of Increase in Pensions	2.8
4.5	Rate of Return on Assets	4.5
4.5	Rate for Discounting Scheme Liabilities	4.3
25	Take-Up of Option to Convert Annual Pension into Retirement Lump Sum	25
Years		**Years**
21.0	Longevity at 65 for Current Pensioners - Men	22.3
23.8	Longevity at 65 for Current Pensioners - Women	24.5
22.9	Longevity at 65 for Future Pensioners - Men	24.2
25.7	Longevity at 65 for Future Pensioners - Women	26.8

The expected return on assets by investment category and the assumed investment structure of the Fund are as follows:-

As at 31 March 2013		As at 31 March 2014
%		%
4.5	Equities	4.5
4.5	Bonds	4.5
4.5	Property	4.5
4.5	Cash	4.5
4.5	**Total Fund**	**4.5**

As at 31 March 2013		As at 31 March 2014
% of Fund		% of Fund
61	Equities	60
30	Bonds	27
5	Property	6
4	Cash	7
100	**Total Fund**	**100**

The total fund long term return is the average return across all investments based on the structure properties.

The application of these factors produced an expected return on assets of £17.7 million for 2013/14. The Council's actual return was approximately £18.5 million.

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

2012/13		2013/14
£'000		£'000
574,361	**Balance at 1 April**	**651,087**
	Movements in period	
12,389	- Current Service Cost	15,163
27,458	- Interest Cost	29,135
4,047	- Contributions by Members	4,258
0	- Actuarial gains/losses arising from changes in demographic assumptions	12,505
55,737	- Actuarial gains/losses arising from changes in financial assumptions	29,145
(813)	- Other	(19,746)
626	- Past Service Cost	218
(21,321)	- Benefits Paid	(22,661)
(1,397)	- Liabilities extinguished on settlements	(2,507)
651,087	**Balance at 31 March**	**696,597**

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

2012/13		2013/14
£'000		£'000
345,001	**Balance at 1 April**	**395,631**
	Movements in period	
16,590	- Interest income	17,718
	- Remeasurement gain/loss:	
32,550	- The return on plan assets, excluding the amount included in the net interest expense	(14,438)
16,572	- Contributions from employer	14,978
4,047	- Contributions from employees into the scheme	4,258
(19,213)	- Benefits Paid	(20,510)
84	- Other	(1,265)
395,631	**Balance at 31 March**	**396,372**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the start of the accounting period.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

g) Local Government Scheme assets comprised:

2012/13		2013/14
£'000		£'000
9,632	**Cash and Cash Equivalents**	**22,335**
	Equity instruments by industry type:	
32,093	- Consumer	30,532
20,963	- Manufacturing	19,576
24,022	- Energy and utilities	24,434
36,630	- Financial institutions	35,514
16,998	- Health and care	19,870
22,729	- Information and Technology	22,329
24,634	- Other	24,378
178,069	**Sub-total equity**	**176,633**
	Bonds by sector:	
2,004	- Corporate	5,252
11,428	- Government	14,448
7,523	- Other	8,933
20,955	**Sub-total bonds**	**28,633**

2012/13		2013/14
£'000		£'000
	Property:	
21,550	- UK	25,375
33	- Overseas	456
21,583	**Sub-total property**	**25,831**
1,231	**Private equity**	**924**
	Investment funds and unit trusts:	
61,445	- Equities	60,515
95,768	- Bonds	73,897
2,363	- Hedge funds	1,570
1,426	- Commodities	2,233
2,945	- Infrastructure	3,622
215	- Other	133
164,162	**Sub-total investment funds and unit trusts**	**141,970**
	Derivatives:	
18	- Forward foreign exchange contracts	(7)
(19)	- Other	53
(1)	**Sub-total derivatives**	**46**
395,631	**Balance at 31 March**	**396,372**

h) Scheme History

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000	£'000
Present Value of Liabilities	650,117	544,805	574,361	651,087	696,597
Fair Value of Assets	(322,353)	(333,575)	(345,001)	(395,631)	(396,372)
Deficit	327,764	211,230	229,360	255,456	300,225

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £300.2 million (based on IAS19 assumptions) has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet.

In practice, the deficit (based on long term funding assumptions, which will differ from IAS19 assumptions) will be made good over a twenty two year recovery period, as assessed by the Council's actuary.

Total employer's contributions for the year to 31 March 2015 are expected to be approximately £15.5 million.

i) Exceptional reduction in liability

The Pension Fund's net liability increased during the year by 17.5%, due to the effect on the IAS19 liabilities of falling real bond yields, which placed a much higher value on liabilities, offset by slightly higher than expected asset returns.

IAS19 figures for 2013/14 are based on rolling forward the results of the 2013 Triennial Valuation for a year, whereas in 2012/13 figures were based on rolling forward the 2010 valuation results for three years, therefore the starting position for IAS19 calculations has changed in 2013/14. This is the reason for example that the 2013/14 return on assets is a loss of £14.4m, even though the actual rate of return was slightly higher than expected . This is a complication that arises in the year after a triennial valuation.

j) History of Experience Gains and Losses

The related experience gains and losses for 31 March 2014 and earlier years are as follows:-

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
	%	%	%	%	%
On assets as % of Fair Value	21	(5)	(2)	8	(4)
On liabilities as % of Present Value	0	3	1	(5)	2

28. Contingent Assets

The Council has submitted a claim to the High Court of Justice on 19 March 2013 against Her Majesty's Revenue and Customs to reclaim Landfill Tax paid on deliveries of waste to various landfill site operators which was used by the operators of the landfill sites for engineering purposes and for the purposes of producing gas and electricity generation. The Council considers that as some of the waste was used for engineering and electricity and gas generation purposes it should not constitute as a disposal chargeable to landfill tax, and therefore landfill tax should not have been paid for this material.

The Council has created a provision to cover the potential cost of reimbursements to personal search companies of fees levied by local authorities for property searches Land Charges. The Local Government Association, on behalf of a number of local authorities are lobbying the DCLG to reopen the new burdens process whereby local authorities are given a nominal grant to cover such costs that are incurred following a change in legislation. This process of reopening the new burdens process is intended to recover most, if not all, of the liability that is likely to arise.

29. Financial Instruments

Items a) and b) form supporting notes to figures shown in the balance sheet. The revised reporting format has been used to conform with the Code of Practice on Local Authority Accounting in the UK.

a) Financial Instruments Balances

Accounting regulations require financial instruments (investments and borrowing) shown on the balance sheet to be further analysed into various defined categories. The investments and borrowing disclosed in the balance sheet are made up of the following categories of 'financial instruments'.

	Long Term		Current	
	31 March 2013	**31 March 2014**	**31 March 2013**	**31 March 2014**
	£'000	**£'000**	**£'000**	**£'000**
Investments				
Loans and receivable at amortised cost				
Loans & receivables principal amount	0	0	60,550	66,700
Heritable Deposit	0	0	572	0
Landfill Allowances Trading Scheme	0	0	2	0
Accrued Interest	0	0	393	278
Total Investments	**0**	**0**	**61,517**	**66,978**
Debtors				
Loans and Receivables	1,673	2,426	0	0
Financial assets carried at contract amounts	0	0	32,486	35,432
Total Debtors	**1,673**	**2,426**	**32,486**	**35,432**
Cash and cash equivalents	**0**	**0**	**4,584**	**11,672**
Borrowings				
Financial liabilities carried at amortised cost				
Financial liabilities principal amount	220,721	217,721	0	3,000
Accrued Interest	0	0	1,260	1,188
Total Borrowings	**220,721**	**217,721**	**1,260**	**4,188**
Creditors				
Financial liabilities carried at contract amount	0	0	30,536	44,264
Total Creditors	**0**	**0**	**30,536**	**44,264**

Notes:

1. During 2013/14 the Council did not take on any new borrowing and there were no maturities of existing loans.
2. The Councils long term borrowing total of £220.721 million includes a PWLB loan of £141.126 million to fund the HRA Settlement payment to central government. The annual cost of servicing the loans is funded by the ceasing of the previous annual subsidy payments to central government.

3. Borrowings include four Lenders Option, Borrowers Option (LOBO) Market Loans totalling £25.3 million with maturity dates between 2042-2077 three of which have entered their secondary period. This gives the lender the option to increase the interest rate. At pre-defined intervals the Council as borrower would then have the option to decline the increase and repay without penalty or accept the increase. The lender has not exercised this option to date on these three loans.

4. The Code of Practice requires authorities to include the accrued interest associated to both borrowing and investments with the carrying amount on the balance sheet. In accordance with proper accounting practice, the Council has shown accrued interest separately in current assets / liabilities where the payments / receipts are due within one year.

5. Investments include two deposits with Heritable Bank, which have been subject to an impairment charge in 2008/09. The amounts in the table above reflect the adjusted amortised cost for these assets as at 31 March 2013. Due to a significant repayment in 2013/14 the remaining balances have been cleared from the balance sheet as at 31 March 2014.

6. The Council had no material soft loans as at 31 March 2014.

b) Financial Instruments Adjustment Account

No debt restructuring was carried out in 2013/14 so there are no debt restructuring adjustments to this account to report.

c) Gains and Losses on Financial Instruments

The table below shows interest paid on existing borrowing in year (interest expense) and interest received on investments (interest income). The increase in the estimated recovery of funds from Heritable Bank is also included (see (e) below for more information).

	Financial Liabilities	**Financial Assets**		
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair value through I&E
	£'000	**£'000**	**£'000**	**£'000**
Interest Expense	(8,726)	0	0	0
Interest Income	0	636	0	0
Amounts recycled to the surplus or deficit on the provision of Services after impairment	0	344	0	0
Net gain / (loss) for the year	**(8,726)**	**980**	**0**	**0**

Fair Value and Reporting on Risks Arising From Financial Instruments

The Council must provide additional disclosure information on the fair value and risks arising from financial instruments. This information does not support or change figures included in the Balance Sheet or Income and Expenditure Account. It illustrates the impact for a number of instruments used to assess and measure risk.

d) Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- for loans from the Public Works Loan Board and other loans payable, borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- no early repayment or impairment is recognised;
- where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount, and;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The calculated fair value of each class of financial asset and liability which are carried in the balance sheet are shown in the tables below. The prior year fair values as at 31 March 2013 are also provided for comparison.

Fair Value of Liabilities Carried at Amortised Cost

	31 March 2013		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB - maturity	196,362	192,830	196,289	181,371
PWLB - annuity	0	0	0	0
PWLB – EIP	0	0	0	0
LOBOs	25,618	24,135	25,620	22,846
Financial liabilities	**221,980**	**216,965**	**221,909**	**204,217**

The fair value is less than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date.

Fair Value of Assets Carried at Amortised Cost

	31 March 2013		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Cash and cash equivalents	45,580	45,580	21,799	21,799
Fixed term deposits with banks and building societies	15,889	15,889	45,158	45,201
Financial assets	**61,469**	**61,469**	**66,957**	**67,000**
Long Term Debtors	**1,673**	**1,673**	**2,426**	**2,426**

Where the fair values of financial assets are the same as carrying values, this is because the investments held are short term and their interest rates are equal to the rates available for similar loans at the balance sheet date.

The fair value of long term debtors is assumed to be the same as the carrying amount since there is no traded market for such receivables and liabilities and it is therefore not possible to provide equivalent market rates.

e) Nature and Extent of Risks Arising from Financial Instruments

The Council's management of treasury risks actively works to minimise exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code on Treasury Management in the Public Services and investment guidance issued through the Act.

The Council has written principles for overall risk management as well as written policies and procedures (Treasury Management Practices - TMPs) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by the Council in March 2014 and is available on the Council's website. Actual performance is reported on a quarterly basis to the Audit Committee.

Credit Risk

Credit risk arises from the lending of surplus cash funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council is currently only using UK banks and high security money market funds. The Council has a policy of limiting deposits with individual institutions to a maximum of £20 million.

The Council's maximum exposure to credit risk over the last five years has been based on

- Historical experience of default
- Historical experience adjusted for market conditions as at 31 March 2014

Both of these measures have calculated the Council's future risk (excluding impaired investments) as zero.

The maximum credit limit for individual institutions was not exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

The maturity analysis of investments excluding Heritable Bank deposits is as follows:-

31 March 2013 £'000		31 March 2014 £'000
45,580	Less than three months	16,798
15,317	Three to six months	50,159
0	Six months to one year	0
0	More than one year	0
60,897	**Total**	**66,957**

The maturity analysis of customers (debtors) is as follows:

31 March 2013 £'000		31 March 2014 £'000
29,776	Less than three months	34,689
0	Three to six months	0
0	Six months to one year	0
1,673	More than one year	2,426
31,449	**Total**	**37,115**

Heritable Bank

In October 2008, the Icelandic banks Landsbanki and Kaupthing & Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration.

At that time the Council had £5.5 million deposited with Heritable Bank, a subsidiary of Landsbanki. An impairment adjustment was made to those deposits in the 2008/09 accounts. This ensured that they were included in the financial statements at no more than their estimated recoverable value which was 80% at the time. Details of the deposits are as follows:

Investment	Date Invested	Maturity date	Amount invested	Interest rate	2008/09 Carrying Amount	2008/09 Impairment
			£'000		£'000	£'000
£3.5m	1.8.08	3.11.08	3,500	5.85%	3,636	1,105
£2m	30.9.08	7.10.08	2,000	6.50%	2,065	649
Total			**5,500**		**5,701**	**1,754**

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The initial estimate from the administrators Ernst and Young of the recoverable amount was 80 pence in the pound and this was used to estimate the impairment included in the 2008/09 accounts.

The Council has made subsequent impairment adjustments in the accounts for the past four years, whilst receiving a total of fourteen repayments from the Administrators during that time. Impairment adjustments have been based on estimated recoverable amounts provided by the Administrators each year. Under accounting requirements for calculating impairments, the Council has accrued interest on these impaired investments at each investment's original interest rate. Each revised impairment charge has been calculated by discounting the expected repayments by the original interest rate of each investment and comparing this against the carrying amount for each investment. This has resulted in a reduction of £776k in the initial impairment charge of £1.754m included in the 2008/09 accounts and an overall charge of £0.290m.

As at 31 March 2014 the Council had received 94% of the claim amount, which is in excess of the previous estimate of 88% in 2012/13. This is due to the Administrators managing to recover more net assets than previously anticipated. Whilst the Administrators have yet to fully conclude the process, the Council anticipates that further amounts could be recovered. Accounting entries in 2013/14 have effectively cleared the remaining balances from the balance sheet, therefore any further repayments will be recorded in the Council's Comprehensive Income and Expenditure Statement if and when the sums are received.

The impact of the revision to the impairment charge and interest credits on the accounts between 2008/09 and 2013/14 is shown in the table below.

	08/09	09/10	10/11	11/12	12/13	13/14	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Recognition of Impairment	1,754	0	0	0	0	0	1,754
Revision to Impairment	0	(329)	4	(135)	28	(344)	(776)
Interest credited	(200)	(213)	(137)	(79)	(47)	(12)	(688)
	1,554	**(542)**	**(133)**	**(214)**	**(19)**	**(356)**	**290**

The overall net projected impairment on the accounts of £0.290m represents the £0.330m (6%) of the deposits that the administrators are currently advising may not be recovered, reduced by £0.040m to allow for the recovery of 94% of the interest accrued on the deposits up to 6 October 2008.

The Council decided not to utilise the regulations issued in March 2009 which meant the Council did not charge amounts relating to impaired investments to the General Fund.

As a result it did not transfer any of the impairment loss to the Financial Instruments Adjustment Account. Instead the Council funded the impairment from a reserve specifically set up as part of the 2009/10 budget setting process to cover this cost.

Liquidity Risk

The Council has access to borrowing from the money markets to cover day to day cash flow needed and the Public Works Loans Board (PWLB) and money markets for access to longer term funds. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The maturity structure of financial liabilities is as follows (at nominal rate):

Analysis of Liquidity Risk

On 31 March 2013	Loans Outstanding	On 31 March 2014
£'000		£'000
195,421	Public Work Loans Board	195,421
25,300	Market debt	25,300
220,721	**Total**	**220,721**
0	Less than 1 year	3,000
3,000	Between 1 and 2 years	4,000
9,250	Between 2 and 5 years	5,500
4,845	Between 5 and 10 years	4,595
203,626	More than 10 years	203,626
220,721	**Total**	**220,721**

The figures in the table above exclude accrued interest on these loans.

In the category of more than 10 years there are £25.3 million of LOBOs and a PWLB loan of £141.126 million to fund the HRA Settlement payment to central government.

Three out of four LOBOs are now in their secondary period, which provides an option for them to be called before maturity date. Any risks associated with re-financing these loans will be managed as part of the Treasury Management Statement.

Market Risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council depending on how variable and fixed interest rates move across differing financial instrument periods. For instance a rise in variable and fixed interest rates would have the following effects:

- investments and borrowing at variable rates - the interest income credited (investments) or charged (borrowing) to the Income and Expenditure Account would increase, and;
- investments and borrowing at fixed rates - the fair value of the assets and borrowing will fall.

The Council has a number of strategies for managing interest rate risk. The spreading of loan maturity dates is explained above. Variable rate loans are limited to a maximum of 20% of overall borrowing. The Council continually tracks interest rates and uses its treasury management advisers, Capita, to identify opportunities for restructuring debt. In doing so, any premiums or discounts applicable are taken into consideration when assessing whether this may be beneficial to the Council. However following a change in the way in which the PWLB calculates premiums and discounts such opportunities are now more limited as costs are higher.

There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

Analysis of Risk

	£'000
Increase in interest payable on variable rate borrowings	153
Increase in interest receivable on variable rate investments	(1,097)
Increase in government grant receivable for financing costs	0
Impact Surplus or Deficit on the Provision of Services	(944)
Share of overall impact debited to the HRA	(557)
Decrease in fair value of fixed rate investment assets	(138)
Impact on Other Comprehensive Income and Expenditure	0
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(27,998)

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

Price Risk

The Council excluding the Pension Fund does not invest in equity shares or marketable bonds.

Foreign Exchange Risk

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

Section 4

Other Financial Statements

.

Housing Revenue Account

Income and Expenditure Statement - this shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

Statement of Movement on the Housing Revenue Account Balance - this shows the increase or decrease in the year, on the basis of which rents are raised.

HRA Income and Expenditure Account
For The Year Ended 31 March 2014

2012/13		Notes	2013/14
£'000			**£'000**
	Expenditure		
14,318	Sutton Housing Partnership Management Fee		14,352
1,855	Other Operating Costs		2,052
2,404	Rents, Rates, Taxes and Other Charges		2,480
19	HRA Subsidy Payable to central government	10	0
7,102	Depreciation of Fixed Assets	8	7,227
	Impairment Costs:	9	
1,582	- Demolitions		138
13,397	- Revaluations and Disposals		10,005
262	Increase in Bad Debt Provision		279
40,939	**Total Expenditure**		**36,533**
	Income		
30,582	Gross Rent from Council Dwellings		32,165
720	Gross Non Dwellings Rent		744
4,442	Charges for Services and Facilities		4,418
216	Contributions Towards Expenditure		230
336	Other Government Grants		0
36,296	**Total Income**		**37,557**
4,643	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**		(1,024)
33	HRA Services Share of Corporate and Democratic Core		27
4,676	**Net Cost of HRA Services**		**(997)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement.		
5,753	Interest Payable and similar charges		5,790
(16)	Interest and Investment Income		(26)
0	Profit/Loss on Disposal of Fixed Assets		2,641
72	Pensions Interest Cost and Expected Return on Pension Assets		81
10,485	**Deficit for the Year on HRA Services**		**7,489**

Statement of Movement on the Housing Revenue Account Balance

2012/13 £'000		2013/14 £'000
1,182	**Balance on the Statutory HRA at the end of the previous year**	**2,343**
(10,485)	Surplus/ (Deficit) on the HRA Income and Expenditure Account for the year	(7,489)
	Adjustments between accounting basis and funding basis under statute	
	Amounts included in the HRA Income and Expenditure Account but required to be excluded when determining the HRA Surplus or Deficit for the year	
178	- Net Charges made for Retirement Benefits in Accordance with FRS17	189
0	- Amounts of no-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	2,641
14,979	- Impairment Costs and Disposals	10,194
	Amounts not included in the HRA Income and Expenditure Account but required to be included when determining the HRA Surplus or Deficit for the year	
(160)	- Employers Contributions Payable to the Pension Fund	(122)
4,512	**Net (decrease)/increase before transfers to or from reserves**	**5,413**
(3,406)	Transfer from the Major Repairs Reserve	(5,524)
5	Transfer to Freeholders Contributions to Capital Works	0
50	Transfer to Heating Reserve	49
0	Transfer to Hostel Services Reserve	(23)
2,343	**Balance on the Statutory HRA Reserve Carried Forward**	**2,258**
5	Freeholders Contributions to Capital Works	5
546	Heating Reserve – Accumulated Surplus	497
0	Hostel Services Reserve - Accumulated Surplus	23
2,894	**Total HRA Balances and Reserves**	**2,783**

Notes to the Housing Revenue Account

1. Sutton Housing Partnership

Housing services for Sutton Council's tenants and leaseholders are managed by an arms length management organisation (ALMO) named Sutton Housing Partnership Ltd. Sutton Housing Partnership is managed by a Board of Directors, which includes four tenants and leaseholders, four independent community representatives and four Council nominees. Ownership of the housing stock remains with the Council.

Sutton Housing Partnership prepares its own Statement of Accounts that is distinct from the Housing Revenue Account Statement presented above, which includes London Borough of Sutton income and expenditure.

The costs incurred by Sutton Housing Partnership in operating the arms length management organisation, including property repairs and maintenance, are shown in the HRA Income and Expenditure account under the heading "Sutton Housing Partnership Management Fee".

2. Balance Carried Forward

The HRA Reserve balance carried forward at 31 March 2014 of £2,257,685 (£2,343,109 at 31 March 2013) is considered a prudent level. In addition the HRA carries a Heating Reserve of £497,141 which holds the net balance of tenants' charges and recoveries for heating and hot water and will be used to help smooth future price volatility. Surplus service charges on our Hillcroome Road / Harrow Road properties are held in reserve against future expenditure.

3. Housing Stock

At 31 March 2014 the Council managed 6,113 tenanted and leasehold dwellings. The Council also owned a proportion of 13 equity share/shared ownership dwellings, being the equivalent of 7.25 fully-owned dwellings.

Analysis of HRA Dwellings at 31 March 2014

Total 2012/13		Bedsits	Flats	Houses	Total 2013/14
6,313	**Dwellings at 1 April**	**223**	**3,079**	**2,909**	**6,211**
(37)	Demolitions	(10)	(11)	(10)	(31)
0	Stock Transfers	0	0	0	0
(35)	Right-to-Buy Sales	0	(33)	(32)	(65)
(30)	Net Changes through Change of Use or Refurbishment	0	(2)	0	(2)
6,211	**Dwellings at 31 March**	**213**	**3,033**	**2,867**	**6,113**

5 properties were demolished during 2013/14, and carried a book value of £138,000 prior to demolition. This has been treated as an impairment charge and written out through the HRA. The impairment charges do not impact on the HRA surplus, and have been written back in the Statement of Movement on the HRA balance.

4. Stock Valuation

An interim revaluation of the Council's housing stock was completed as at 1 April 2013, price changes to 31 March 2014 were reviewed but are not reflected in the following figures as the impact was immaterial. Disposals to 31 March 2014 have been accounted for in the valuation.

Balance Sheet Valuation of HRA Assets

As at 31 March 2013		As at 31 March 2014
£'000	Operational Assets:	**£'000**
252,344	- Dwellings	259,235
3,666	- Other Land and Buildings	3,831
4,099	Non Operational Assets	3,757
260,109	**Total**	**266,823**

This valuation reflects the use of HRA dwellings as tenanted stock. The vacant possession valuation at 31 March 2014 is £1.050 million (£1.009 million at 31 March 2013). The balance sheet valuation is considerably lower because dwellings are tenanted and the rents charged reflect the position of social housing, and discounts are available to tenants who purchase their dwellings under the statutory Right-to-Buy scheme.

5. Major Repairs Reserve

The reserve is credited with an amount equivalent to the depreciation for Council Dwellings charged to the HRA each year. The reserve is only available for financing major repairs carried out to the housing stock. Any sums unspent are carried forward for use in future years.

2012/13		2013/14
£'000		£'000
298	Balance at 1 April	0
7,048	Contribution to Major Repairs Reserve	7,171
54	Depreciation on non-dwellings	56
(7,346)	MRA used on capital projects	(7,171)
(54)	Transfer to Statement of Movement on HRA balance	(56)
0	**Balance Carried Forward at 31 March**	**0**

6. HRA Capital Financing

2012/13		2013/14
£'000		£'000
24,467	HRA Capital Expenditure	**26,868**
	Financed by :	
533	Loan/Borrowing	42
12,711	Government Grants	14,175
7,346	Major Repairs Reserve	7,171
3,406	Revenue Contributions	5,480
471	Other	0
24,467	**Total**	**26,868**

7. HRA Capital Receipts

2012/13		2013/14
£'000		£'000
27	Roundshaw Stock Transfer	0
3,794	Right to Buy Sales	5,679
0	Other Disposals	56
9	Mortgage Repayments	6
3,830	**Total**	**5,741**

8. Depreciation

The Council's depreciation policy is to write down asset values over their estimated life, on a straight line basis. For Council dwellings the policy under the subsidy system has been to provide for depreciation at an amount equal to the Major Repairs Allowance (MRA). From April 2012 the policy has been to provide at an amount equivalent to the uprated MRA allowance used in the self financing settlement for the allowed transitional period while a component based system is developed. On this basis depreciation equates to £7.2 million. Assuming an average life of 50 years for Council dwellings, depreciation, excluding land values, would amount to some £3.4 million. This difference is not considered material to the overall valuation of the Council's housing stock.

2012/13		2013/14
£'000		**£'000**
	Operational Assets:	
7,048	Dwellings	7,171
54	Other Land and Buildings	56
7,102	**Total**	**7,227**

9. Impairment

Impairment charges totalling £10.010 million have been made during 2013/14. This charge is a result of the following:

- £9.872 million impairment due to a reduction of £20.113 million after applying the social housing factor to the cost of capital works during the year, offset by a 4.1% increase (£10.241 million) in the House Price Index (HPI) used in the revaluation of Council Dwellings, and;
- £0.138 million impairment due to a number of housing properties being demolished in year.

The impairment charges do not impact on the HRA balance and have been written back in the Statement of Movement on the HRA balance.

10. Housing Revenue Account Subsidy

Up to its closure in March 2012 and the implementation of self-financing, the HRA subsidy scheme redistributed rent income across all local authorities with housing functions. Sutton was a net contributor to the system.

This is made up of the following elements:

2012/13		2013/14
£'000		**£'000**
0	Allowance for Management & Maintenance	0
0	Allowance for Major Repairs	0
0	Charges for Capital	0
0	Guideline Rent Income	0
0	Interest on Receipts	0
(19)	Other	0
(19)	**Negative subsidy payable to Central Government**	**0**

11. Material item on the HRA Income and Expenditure Account

April 2012 marked a significant change in the way that council housing is financed. A new 'Self Financing Regime' became effective and the subsidy arrangements ceased. The self financing system was included within the Localism Act and received royal assent in the Autumn 2011. The abolition of the subsidy system required the Council to make a settlement payment to the Secretary of State of £141.126 million on 28 March 2012. The Council took advantage of the Public Works Loan Board (PWLB) special lower interest rate to finance the settlement and this was recognised on the Council's balance sheet.

12. Contributions to and from the Pension Reserve

The HRA is required to be charged with a share of the contribution made by the Local Authority towards the cost of retirement benefits. Although the benefits earned by employees will not actually be payable until employees retire, the Authority has a commitment to account for such payments at the time the employees earn their future entitlement. The financial statements therefore recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against the HRA is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the HRA balance.

13. Rent and Service Charge Arrears

Rent and service charge arrears at 31 March 2014 totalled £1,009,647 compared to £946,266 at 31 March 2013. As a proportion of gross rent and service income, this represents 2.80% (2.80% in 2012/13).

Total provision for uncollectable rent and service debt totalled £851,966 at 31 March 2014 compared to £735,116 at 31 March 2013.

As at 31 March 2013		As at 31 March 2014
£'000		**£'000**
1,056	Current Tenant Arrears	1,161
425	Former Tenant Arrears	487
1,481	**Total**	**1,648**
(535)	Accounts in credit	(638)
946	**Net Arrears**	**1,010**

These arrears include charges due from tenants for rent, heating and hot water, garages and other tenancy related charges.

The following provision has been included in the accounts for potential bad debts at 31 March.

As at 31 March 2013 £'000		As at 31 March 2014 £'000
(735)	Tenants rent and heating charges	(852)
(735)	**Total**	**(852)**

Collection Fund

This is the Council's statement in its capacity as an agent that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund account. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Collection Fund Income and Expenditure Account 2013/14

2012/13 £'000			2013/14 £'000
	Income		
95,203	Council Tax collectable (Note 2)		98,018
13,728	Transfers from General Fund re Council Tax Benefits (Note 2)		0
50,601	Income Collectable from Business Ratepayers (Note 3)		51,062
1,398	Income Collectable in respect of Business Rate Supplement		1,306
160,930	**Total Income**		**150,386**
	Expenditure		
	Council Tax Precepts & Demands (Note 4)		
84,586	- London Borough of Sutton		74,758
21,257	- Greater London Authority	- General	18,544
1,483		- Olympics	1,311
	National Non-domestic Rates (Business rates):		
50,393	- DCLG Payment		25,477
0	- GLA Payment		10,157
0	- London Borough of Sutton Payment		15,235
208	- Costs of Collection		210
	Cross Rail (NNDR/Business rates additional precept):		
1,390	- Payment to GLA		1,299
8	- Costs of Collection		7
	Bad and Doubtful Debts (Council Tax):		
73	- Write-offs		172
407	- Increase/(Decrease) in Provision		635
	Bad and Doubtful Debts (Business Rates):		
0	- Write-offs		907
0	- Increase/(Decrease) in Provision		6
0	- Provision for Appeals		2,174
	Contributions:		
1,000	- Distribution of Surplus		1,000
160,805	**Total Expenditure**		**151,892**
1,650	Council Tax Fund Balance 1 April		1,775
125	Council Tax Surplus/ (Deficit) for the Year		1,597
1,775			3,372
0	NNDR Fund Balance 1 April		0
0	NNDR Surplus/ (Deficit) for the Year		(3,097)
			(3,097)
1,775	**Surplus Carried Forward 31 March**		**275**
	Distribution of Council Tax part of Fund Balance:		
1,398	- London Borough of Sutton		2,662
377	- Greater London Authority		710
	Distribution of NNDR part of Fund Balance:		
0	- London Borough of Sutton		(929)
0	- Greater London Authority		(619)
0	- DCLG		(1,549)
1,775	**Total Allocation of Fund Balance**		**275**

1. General

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, in this case for London Borough of Sutton. The revenue account shows the transactions into the Fund by way of Council Tax and National Non-Domestic Rates and how the amount collected has been distributed to preceptors and the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent years. Deficits likewise are proportionately charged to the relvant precepting bodies in the following years.

In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses. It does however increase the financial risk due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. The London Borough of Sutton share is 30% with the remainder paid to precepting bodies. For London Borough of Sutton, the NNDR precepting bodies are Central Government (50% share) and Greater London Authority (20% share).

NNDR surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportion. Deficits likewise are proprtionately charged to the relevant precepting bodies in the following years.

2. Council Tax

The basic amount of Council Tax due for a property is derived by multiplying the Council Tax for a Band D property (£1,443.89 in 2013/14, London Borough of Sutton £1,140.89 and GLA £303.00) by the ratio applicable to the property.

In 2013/14, the local government finance regime was revised and Council Tax Benefit is no longer received by the Council. This has been replaced by a Council Tax Reduction Scheme which is administered by the authority. Previously grant was paid via the General Fund for council tax benefit (£13.7 million in 2012/13).

Under the new scheme the Council Tax Base is affected by the new Council Tax support system which treats Council Tax support as a discount to Council Tax. After taking account of the impact of the Council’s proposed Council Tax support system and technical changes to other discounts the Council Tax Base was set by the Strategic Director – Resources, under delegated authority, at 65,526.4 Band D equivalents, compared to 74,140.5 in 2012/13.

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, was calculated as follows:-

Valuation Office estimated market value as at April 1991	Band	Estimated Number of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings	
Less Than £40,000	A	601	6/9	401	
£40,000 - £52,000	B	5,650	7/9	4,394	
£52,000 - £68,000	C	22,415	8/9	19,924	
£68,000 - £88,000	D	21,433	9/9	21,433	
£88,000 - £120,000	E	11,223	11/9	13,716	
£120,000 - £160,000	F	6,342	13/9	9,161	
£160,000 - £320,000	G	3,415	15/9	5,692	
£320,000 or more	H	227	18/9	454	
		71,306		75,175	
Deduct :-					
Adjustment for anticipated changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons relief, reduced second homes discount and exempt properties.				8,044.2	
				67,130.8	
Adjustment for estimated collection rate.				1,604.4	2.39%
		Council Tax Base		65,526.4	97.61%
		Band D council tax charge		£1,443.89	
		Total Precept raised (Note 4)		£94,612,914	

3. Income From Business Ratepayers

The Council collects non domestic rates for its area which are based on local rateable values multiplied by a uniform rate set nationally by Central Government. In previous years the total amount, less certain reliefs and other deductions, was paid to a central pool (the NNDR pool) managed by Central Government, which in turn, was paid back to authorities as part of Formula Grant. This share was based on a standard amount per head of resident population.

In 2013/14, the administration of NNDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. The NNDR is shared in the following proportions, Central Government 50%, London Borough of Sutton 30% and the GLA 20%.

The business rates shares payable for 2013/14 were estimated before the start of the financial year as £25.391m to Central Government, £15.235m to London Borough of Sutton and £10.157m to the GLA. These sums have been paid in 2013/14 and charged to the collection fund in year.

The total income from business rate payers collected in 2013/14 was £49.099m (£50.601m in 2012/13). This sum includes £1.117m of transitional protection payments from ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum is due from Central Government.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31 March 2014. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2013/14 has been calculated at £2.174m.

The total non domestic rateable value at 31 March 2014 in Sutton was £130.265 million (£132.588 million at 31 March 2013). The Government advises local authorities of the two business rate multipliers annually. For 2013/14 these were:

- Small business non-domestic rating multiplier - 46.2p per £ (45.0p per £ in 2012/13)
- Non-domestic rating multiplier - 47.1p per £ (45.8p per £ in 2012/13)

The projected yield produced by multiplying the total non-domestic rateable value at year end and the NNDR multiplier for the year produces a significantly different figure to the NNDR income disclosed on the face of the statement. The significant difference is due to various adjustments around discounts, reliefs and exemptions (e.g. small property relief).

4. Precepts and Demands

2012/13		2013/14
£'000		**£'000**
84,586	London Borough of Sutton	74,758
22,741	Greater London Authority	19,855
107,327	**Total**	**94,613**

In addition to the £94,613 million above, the estimated surplus on the Collection Fund at 31 March 2013 of £1.000 million was shared between the Council and the GLA in 2013/14, £0.788 million and £0.212 million respectively.

Section 5

Pension Fund Accounts

These show the income and expenditure of the Sutton Local Government Pension Fund in relation to current employees and pensioners, investment transactions and the position of the Fund at year end including future liabilities.

London Borough of Sutton Pension Fund Accounts for the Year Ended 31 March 2014

2012/13 £'000		Notes	2013/14 £'000
	Contributions and Benefits		
	Contributions Receivable:		
21,136	From Employers	2	19,568
5,353	From Employees or Scheme Members	2	5,377
5,365	Transfers In	4	3,182
31,854	**Sub-Total Income**		**28,127**
	Benefits Payable:		
16,910	Pensions	3	17,712
2,634	Lump Sum Retirement Grants	3	2,998
646	Lump Sum Death Benefits	3	439
	Payments to and on account of Leavers:		
15	Refund of Contributions		5
3,283	Transfers Out	4	4,304
549	Administrative and Other Expenses		462
24,037	**Sub-Total Expenses**		**25,920**
7,817	**Net Addition from Dealings with Scheme Members**		**2,207**
	Return on Investments		
7,382	Investment Income	6d	6,285
(347)	Taxes on Income	6e	(13)
41,666	Increase/(Decrease) in Market Value of Investments		13,413
(1,445)	Investment Management Expenses	6f	(1,113)
47,256	**Net Return on Investments**		**18,572**
55,073	**Net Increase/(Decrease) in Fund During Year**		**20,779**
372,024	Opening Net Assets of the Scheme		427,097
427,097	**Total Net Assets at 31 March**		**447,876**
	Net Assets Statement		
	Investment Assets:		
245,392	Equities		265,415
43,941	Fixed Interest Securities - Public Sector		48,911
69,249	- Other		61,512
11,056	Index Linked Securities - Public Sector		8,002
22,469	Property Fund		29,448
11,449	Other		11,047
403,556	**Sub-Total Securities**	6b	**424,335**
6,485	Loans to businesses	6b	5,812
3,099	Cash		3,283
786	Debtors		703
413,926	**Total Investment Assets**	6c	**434,133**
	Current Assets		
12,365	Cash in Hand		13,506
901	Debtors		808
(95)	Current Liabilities		(571)
427,097	**Total Net Assets at 31 March**		**447,876**

1. Membership

The Fund is established under the provisions of the Superannuation Act 1972 to provide pensions and other retirement benefits for the Council's employees (other than teachers) and the Scheduled and Admitted Bodies detailed below. The fund is administered by the Council.

Scheduled Bodies:
- Carshalton College
- Sutton Housing Partnership
- Academy Schools

Admitted Bodies:
- Bandon Hill Joint Cemetery Committee
- Citizens Advice Bureaux
  - Beddington & Wallington
  - Sutton
  - St Helier (office now closed)
- Housing21
- H21 (Dementia Voice)
- ThamesReach
- The former Sutton and District Water Company (no current contributors)
- Sports and Leisure Management
- Community Options
- Community Drug Service
- Compas Catering (Overton Grange Academy)

As at 31 March, membership of the fund comprised

31 March 2013		31 March 2014
No.		No.
3,937	Employees & Council Members	4,101
3,097	Pensioners and dependants	3,191
3,593	Former Employees - deferred benefits	3,867
10,627	**Total**	**11,159**

2. Contributions to the Fund

Scheme members make contributions to the Fund by deductions from earnings. From 1 April 2008 members' contribution rates vary between 5.5% and 7.5% depending on their pay band. Following the 2010 actuarial valuation, the employers' contribution rate was set at 21.5% of employees' earnings (17.4% future service rate and 4.1% deficit contribution).

For Scheduled Bodies the employers' rates of contribution were:
- Carshalton College – 16.9% plus £228k
- Sutton Housing Partnership – 18.0% plus £94k,
  a capital payment for the deficit contribution

For Admitted Bodies the employers' rates of contribution were:
- Bandon Hill Joint Cemetery Committee – 33.7%

- Citizens Advice Bureaux – 37.3%
- Housing21 – 22.4%
- H21 (Dementia Voice) – 19.0%
- ThamesReach – 16.7%
- Sports and Leisure Management – 18.7%
- Community Options – 23.9%
- Community Drug Service – 25.5%
- Eldercare – 18.0%
- Compass Catering – 21.8%

Contributions to the Pension Fund were as follows:-

2012/13		2013/14
£'000		**£'000**
	Employers' Contributions	
14,935	London Borough of Sutton excl. Academy Schools	14,818
2,479	London Borough of Sutton - Academy Schools	2,755
1,838	London Borough of Sutton - Recovery of Early Retirement Costs	364
613	Deficit Funding Contributions	567
	Scheduled Bodies	
495	- Carshalton College	275
679	- Sutton Housing Partnership	586
97	Admitted Bodies	203
21,136		**19,568**
	Active Members' Contributions	
4,328	London Borough of Sutton excl. Academy Schools	4,267
677	London Borough of Sutton - Academy Schools	738
	Scheduled Bodies	
106	- Carshalton College	106
216	- Sutton Housing Partnership	215
26	Admitted Bodies	51
5,353		**5,377**

3. Analysis of Benefits Payable

2012/13		2013/14
£'000		**£'000**
19,521	London Borough of Sutton excl. Academy Schools	19,833
183	London Borough of Sutton - Academy Schools	272
	Scheduled Bodies	
68	- Carshalton College	383
341	- Sutton Housing Partnership	552
77	Admitted Bodies	109
20,190	**Total Benefits Payable**	**21,149**

4. Transfers

This represents the transfer of pension liabilities to and from LB Sutton's pension fund.

	2012/13		2013/14	
	Transfers Paid	Transfers received	Transfers Paid	Transfers received
	£'000	£'000	£'000	£'000
Group transfers	0	4,371	1,405	1,088
Individual transfers	3,283	994	2,899	2,094
	3,283	5,365	4,304	3,182

5. Accounting Policies

The accounts summarise the transactions of the fund and report on the net assets avaliable to pay pension benefits as at 31 March 2014. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2014. The actuarial present value of promised retirement benefits, valued on an International Accounting Standards (IAS) basis, is disclosed in Note 9 of these accounts.

The financial statements have been prepared on a going concern basis and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, which is based upon International Financial Reporting Standards (IFRS). In particular:

a) Valuation of Investments

i) Market quoted investments

Investments have been recognised at market value, so far as these have been ascertainable, with any surplus or deficit on valuations being credited directly to the fund balance.

ii) Fixed interest securities

Market values for all securities (current bid price) are determined by prices quoted on stock exchanges at 31 March 2014.

iii) Unquoted investments

Where market values have not been available, the investments have been recognised on an appropriate fair value basis. There is a risk that these investments may be under or overstated in the accounts, however this would not be likely to have a material impact on the value of the fund. Unitised insurance policy based investments, which are managed by L&G are valued by the manager at bid price, reflecting the bid value of the underlying assets. These prices are not quoted on recognised investment exchanges. Unitised pooled funds also include global equity funds with Newton, Schroders and Harding Loevner, absolute return funds with Pyrford and Baillie Gifford, a UK property fund with BlackRock and a bond fund with Aberdeen. None of these investments are quoted, however the underlying assets of these funds are quoted.

A UK property fund of funds investment held with AVIVA is also a pooled fund and is therefore not determined by valuation of listed exchanges, but is valued through calculation of the latest available net asset value of the underlying investments.

Investments held with a UK companies financing fund; M&G are unquoted and not listed on an exchange. The underlying net assets of the fund are valued on an amortised cost basis. This is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Direct investments by infrastructure manager, Partner's Group are valued at cost during construction and the ensuing initial period, after which direct equity investments are valued using a discounted cash flow or multiple approach, while direct debt investments are held at par. Primary and secondary partnership investments are valued based on latest available net asset values.

b) Non investment assets/liabilities

The accounts include some non-investment debtors and creditors. These are measured at amortised cost.

c) Investment income

i) Interest Income

Interest income is recognised in the accounts on an accruals basis and is based on an average rate of interest applicable to pooled cash that the Pension Fund has invested with money market funds and call accounts, alongside the Councils' general cash investments and the addition of interest earned in a separate Pension Fund Bank Account. Interest is calculated using the effective interest rate of the financial instruments that the cash is invested with.

ii) Dividend Income

Dividend income is recognised by the equity fund managers when the shares are quoted ex-dividend. At this point the income is accrued by the equity fund managers. The income is actually received on the offical pay date of the dividend and at this time it is added into the daily Net Asset Value.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised on the date they are issued and accrued at the end of the year if not received at that time.

iv) Movement in net market value of investments

Changes in net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

d) Investment management expenses

All investment management fees are accounted for on an accruals basis.

Fund manager, custodian and investment consultants fees are all agreed at the time of contractural arrangements. All fund manager fees are based on net asset values of the assets held, which can increase or reduce as the values change. One equity fund manager incorporates a performance related element to their fee structure. This applies when they have outperformed the relevant benchmark by more than 0.25%, in which case an additional fee of 20% of the performance value is payable.

Investment consultant fees are included in investment management expenses.

e) The transfer of liabilities arise when staff move to and from the scheme. Transfer values are accounted for on a cash basis as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

f) Fund manager assets denominated in non-sterling currencies are translated to sterling by the asset custodian using its foreign exchange rates for the balance sheet dates. For reporting purposes the custodian revalues all foreign currency holdings back to Sterling on a daily basis using the WM/Reuters 4 p.m. rate. Where applicable, Foreign Exchange transactions are executed by the investment manager using their own execution policy. In practice the only manager with discretion to execute FX deals in 2013/14 was Aberdeen, where they managed funds denominated in both GBP and USD. These accounted for 19 of 22 FX deals executed by the fund over the year. The remaining three were EUR purchases with the custodian to fund capital calls in a EUR denominated fund managed by Partners Group. Any pending FX transactions are accounted for as such in the custodian holdings and transaction reports.

g) Assumptions made about the future and other major sources of estimation uncertainty:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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. A firm of consulting actuaries is engaged to provide the fund with expert advice about these assumptions.	The effects on the net pension fund liability for the London Borough of Sutton pension fund can be measured. For example a 0.5 increase in the discount rate assumption would result in an approximate reduction of £55m in the Council's pension liability and also a fall of 3% in the future service rate (% of pay); a one year increase in member life expectancy would increase the liability by approximately £19m as well as the future service rate by 1%; a 0.5% increase in the salary increase rate would increase the liability by approximately £17m.
Unquoted investments	Some investments, such as private equity, pooled property and company financing funds are valued using bases which are not quoted and therefore there is a degree of estimation involved in the valuation	The total of investments which are valued on an unquoted basis is £19.3m. There is a risk that these investments may be under or over-stated in the accounts.

6. Fund Management

a) Allocation of Assets

The Sutton Fund is mandated to eleven different fund managers;

Pooled Global Equity Funds;
Legal & General (L&G)
Newton Investment Management (Newton)
Harding Loevner
Schroder

UK Pooled Property Funds;
Aviva Investors
BlackRock

Pooled Absolute Return Funds;
Baillie Gifford
Pyrford

Bonds;
Aberdeen

Alternative Funds;
M&G UK Companies Financing Fund
Partners Group (infrastructure)

A strategic target benchmark allocation of 42% of the total fund value is invested in global equities managed in separate, equal sized portfolios by Newton, Harding Loevner and Schroders. 13% of the fund is invested in UK equities by L&G and 15% of the fund is split equally in absolute return pooled vehicles managed by Baillie Gifford and Pyrford. 20% of the fund is targeted in bonds by Aberdeen, 10% in Property, split between 6% with BlackRock and 4% with AVIVA. Fees negotiated with fund managers for their services are on a sliding scale related to the overall value of funds managed, and include a performance element.

The market value of securities held by the fund managers at 31 March 2014 totalled £430.147 million split as follows:

	£m	% of Investment Assets
Legal & General	56.700	13.2%
Newton	63.680	14.8%
Aberdeen	74.044	17.2%
Blackrock	18.461	4.3%
M & G	5.812	1.3%
AVIVA	10.187	2.4%
Partners Group	3.304	0.8%
Schroders	64.654	15.0%
Harding Loevner	59.746	13.9%
Baillie Gifford	37.376	8.7%
Pyrford	36.183	8.4%
Total	**430.147**	**100.0%**

Fund’s assets are held in unitised form. Excluding equities, the largest unitised holding is Aberdeen's Long Dated Sterling Credit Fund, representing 8.3% of net assets. There is no other individual holding of more than 5%.

b) Analysis of Investments

31/03/2013		31/03/2014
£'000		£'000
	Equities:	
73,913	UK Quoted	80,725
171,479	Overseas Quoted	184,690
	Fixed Interest Securities:	
	- UK	
25,205	Public sector quoted	28,983
33,415	Corporate quoted	26,269
	- Overseas	
18,736	Public sector quoted	19,928
35,834	Corporate quoted	35,243
	Index linked securities:	
9,543	UK Public sector quoted	7,417
1,513	Overseas Public sector quoted	585
	Property:	
	- UK	
17,539	Property fund quoted:	19,261
	- Overseas	
4,930	Property Unit Trust unquoted	10,187
	Loans to business:	
6,485	Unit Trust unquoted	5,812
	Other:	
9,253	Quoted	7,743
2,196	Unquoted - Private Equity Infrastructure	3,304
410,041		**430,147**
	Pooled funds - additional analysis:	
	- UK	
	Equities:	
62,889	Unit Trusts	67,733
11,024	Other pooled equities	12,992
	Fixed Interest Securities:	
97,907	Fixed income bonds	55,252
	Index Linked Securities:	
9,543	Indexed linked bond	7,416
	Property:	
17,328	Unit Trust	18,460
211	Other	801
	Loans to business:	
6,485	Unit Trust	5,812
	- Overseas	
	Equities:	
107,883	Unit Trust	117,302
63,596	Other pooled equities	67,389
	Fixed Interest Securities:	
16,796	Other	55,756
	Property:	
4,930	Unit Trust	10,187
	Other:	
11,449	Other pooled investments	11,047
410,041		**430,147**

The Other category includes infrastructure, absolute return, special opportunities, commodities and insurance linked securities.

c) Investment Movement Summary

Investment Movement Summary 2013/14	Value at 01/04/2013	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2014
	£m	£m	£m	£m	£m
Equities	245.4	4.6	0.0	15.4	265.4
Bonds	124.3	11.2	(17.0)	0.0	118.5
Property	22.4	5.0	0.0	2.0	29.4
	392.1	20.8	(17.0)	17.4	413.3
Loans to:					
Businesses	6.5	0.3	0.0	(1.0)	5.8
Other	11.4	5.9	(3.1)	(3.2)	11.0
	410.0	**27.0**	**(20.1)**	**13.2**	**430.1**
Other investment balances:					
Derivative contracts	0.0	0.1	(0.3)	0.2	0.0
Cash & Cash Equivalents	3.1				3.3
Debtors	0.8				0.7
Total Investment Assets	**413.9**	**27.1**	**(20.4)**	**13.4**	**434.1**

Comparative Movements in 2012/13	Value at 01/04/2012	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2013
	£m	£m	£m	£m	£m
Equities	244.2	189.9	(206.8)	18.1	245.4
Bonds	85.0	55.9	(26.7)	10.1	124.3
Property	26.6	24.2	(23.8)	(4.6)	22.4
	355.8	270.0	(257.3)	23.6	392.1
Loans to:					
Businesses	5.5	1.2	0.0	(0.2)	6.5
Transition	0.0	262.3	(279.9)	17.6	0.0
Other	0.0	12.2	(1.5)	0.7	11.4
	361.3	**545.7**	**(538.7)**	**41.7**	**410.0**
Other investment balances:					
Derivative contracts	0.0				0.0
Cash & Cash Equivalents	3.4				3.1
Debtors	1.0				0.8
Total Investment Assets	**365.7**	**545.7**	**(538.7)**	**41.7**	**413.9**

There are no transaction costs included in the cost of purchases and in sale proceeds in 2013/14 (£152,000 in 2012/13).

d) Investment Income (Gross)

31/03/2013 £'000		31/03/2014 £'000
2,486	Equities	628
2,743	Bonds	1,829
1,282	Property	1,128
6,511		3,585
284	Loans to Business	304
587	*Other	2,396
7,382		6,285

*Other - includes income distributions from M&G and Aviva (£1.3m) and proceeds from a successful class action claim (£0.9m).

e) Taxes on Income

31/03/2013 £'000		31/03/2014 £'000
(149)	Tax Withheld - Equities	0
0	Tax Withheld - Bonds	0
(193)	Tax Withheld - Property	0
(5)	UK Income Tax - Property	(13)
(347)		(13)

f) Investment Expenses

31/03/2013 £'000		31/03/2014 £'000
1,129	Management fees	896
32	Custody fees	6
14	Performance monitoring service	15
15	Actuarial fees	97
55	Investment consultancy	67
0	Collective Investment Vehicle - CIV	25
7	Other	7
1,252		1,113

7. Non-adjusting Post Balance Sheet Event

Information may come to light after the balance sheet date which would cast doubt on the valuation of particular assets or classes of assets at the balance sheet date.

Further, it is possible that fluctuations in the value of assets may have occurred since the balance sheet date. Therefore, the Council has reviewed the latest valuation data available from its main fund managers. This revealed that as at 31 July 2014 the value of investments has increased by 2.58% (£11.5m).

At their March 2013 meeting the Pensions Committee made the decision to terminate the Fund's bond mandate with Aberdeen Asset Management and that a search process for a new active bond mandate should be started. At the end of the procurement process in March 2014, the Committee decided to appoint M&G for this mandate with 40% being invested in their Indexed-Linked fund and 60% in their Alpha Opportunities fund.

The transition was completed in early June 2014.

From 1 April 2014, the LGPS became a Career Average Revalued Earnings (CARE) scheme for the purposes of pension entitlements accrued from that date (subject to limited transitional arrangements for those approaching retirement). Associated with this was a change in the annual accrual rate from 1/60 of final salary to 1/49 of actual pay, revalued by CPI. The new scheme provides greater flexibility as to when members can retire.

There have been no events since the 31 March 2014, and up to the date when these accounts were authorised, that require any adjustment to these accounts. The accounts were authorised by the Strategic Director - Resources, Gerald Almeroth, on 30 June 2014.

8. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. Hymans Robertson, the Council's actuary has carried out an actuarial valuation of the London Borough of Sutton Pension Fund as at 31 March 2013. The valuation showed that Fund assets, which at 31 March 2013 were valued at £430 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits accrued up to that date). Following a stabilisation exercise, the overall employer contribution rate for LB Sutton broadly will remain at 21.5% for 2013-14 and thereafter increase by 1% each year for the next three years.

For 2014/15 to 2016/17 the stabilised contributions paid will be 17.4% of employees' earnings plus £3,318,000 in 2014/15, £4,139,000 in 2015/16 and £5,025,000 in 2016/17 respectively. The stabilised approach, as assessed by the Council's actuary, is structured to make good the deficit over a 22 year period.

Actuarial Assumptions

In the actuarial valuation, the Actuary has used assumptions about the factors affecting the Fund's finances in the future. Broadly, these assumptions fall into two categories - financial and demographic.

Demographic assumptions typically forecast when exactly benefits will come into payment and what form these will take. For example, when members will retire and how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the size of these benefits. For example how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help the Actuary to estimate how all these benefits will cost the Fund in today's money.

Details of the Actuary's recommended assumptions are set out below.

Financial Assumptions

A summary of the main financial assumptions adopted for the 2013 valuation of members' benefits is shown below.

Financial assumptions	31 March 2013 % p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Salary increases*	4.3%	1.8%
Price inflation (CPI)/Pension increases	2.5%	-

* Plus an allowance for promotional pay increases

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. The Actuary has adopted assumptions which give the following sample average future life expectancies for members:

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Males	Females	Males	Females
2013 valuation - baseline	19.9 years	22.8 years	20.1 years	22.5 years
2013 improvements	24.2 years	26.8 years	22.3 years	24.5 years

* based on active and deferred members aged 45 at the valuation date

9. Actuarial Present Value of Promised Retirement Benefits (IAS 26)

IAS 26 requires the 'actuarial present value of promised retirement benefits' to be disclosed. For this purpose and in accordance with the code, the most recent valuation, based on IAS 19, was used rather than the assumptions and methodology used for funding purposes.

The Actuary has calculated the actuarial present value of promised retirement benefits to be £754 million as at 31 March 2014 (£714 million as at 31 March 2013). The Council is required to provide a description of the significant actuarial assumptions made and the methods used in the calculation. This is detailed below.

a) Method

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The Actuary estimates this liability at 31 March 2014 comprises £325 million in respect of employee members, £143 million in respect of deferred pensioners and £286 million in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the Actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefits promised. The Actuary has not made any allowance for unfunded benefits.

b) Assumptions

The assumptions used are those adopted for the Sutton Council's (the administering authority's) IAS19 report as required by the Code of Practice. These are given below. The Actuary estimates that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £43 million.

(i) Financial Assumptions

The Actuary's recommended financial assumptions are summarised below:

Year ended	31 March 2014 % p.a.	31 March 2013 % p.a.
Inflation/Pension Increase Rate	2.8%	2.8%
Salary Increase Rate*	4.6%	5.1%*
Discount Rate	4.3%	4.5%

*salary increases are assumed to be 1% p.a. until 31 March 2016, reverting to the longer term assumption shown thereafter.

(ii) Longevity Assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.3 years	24.5 years
Future Pensioners*	24.2 years	26.8 years

* Future pensioners are assumed to be currently aged 45

Please note that the assumptions have changed since the previous IAS 26 disclosure for the Fund.

(iii) Commutation Assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax free cash for post-April 2008 service.

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from the London Borough of Sutton, administering authority to the Fund.

The next formal actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

10. Additional Voluntary Contributions

In accordance with regulation 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), additional voluntary contributions are not included in the Pension Fund Accounts. AVC’s are managed independently by a specialist AVC fund provider, and are invested separately from the fund in the form of personal accounts securing additional benefits on a money purchase basis, for those members electing to pay additional voluntary contributions. Members participating in this arrangement each received an annual statement made up to 31 May 2014 confirming the amounts held to their account and the movements in the year. Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May 2014 and confirming the amounts held to their accounts and the movements in the year. In the year to May 2014 AVC's paid by members amounted to £234k (£192k 2013) and £32k was paid out by the scheme (£243k in 2013). At 31 May 2014 the total value of these AVC's was £1,503k (£1,225k 2013). Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May.

11. Disclosure of Related Party Transactions

Sutton Council is a designated administering authority and is responsible for the administration of the scheme for the London Borough of Sutton employees (and certain admitted bodies), excluding teachers who have their own specific scheme. Sutton Council discharges this responsibility through a formal decision making committee known as the Pension Committee. Decisions are taken by the Strategic Director - Resources under delegated authority following Pension Committee meetings.

The scheme is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence dealings with the scheme and its assets. Disclosure of these transactions allows readers to assess the extent to which the reported financial position and results may have been affected by the existence of and dealings with related parties.

To comply with this requirement the London Borough of Sutton's Strategic Director - Resources has issued a declaration form with guidance notes to members and senior officers. Set out below are details of the declarations made which are material to the pension fund accounts.

The Pension Fund had an average balance of £12.9 million of surplus cash deposited with the Council during 2013/14. The Council charged the Fund £330,000 for expenses incurred in administering the Fund. The Council is also the single largest employer of members of the pension fund and contributed £17.937 million to the fund (£19.252 million in 2012/13), note 2 refers.

<u>Key Management Personnel</u>

The pension fund and the Council share the same key management personnel and their remuneration and benefits, excluding pension contributions are shown below.
These figures include those senior staff who are individually disclosed. The costs are disclosed in full and cannot be apportioned on a reasonable basis.

2012/13	**Remuneration Band**	**2013/14**
Number of Employees	**£**	Number of Employees
1	up to 50,000	1
1	60,000 - 65,000	1
1	125,000 - 130,000	1

Senior Officers Emoluments where the salary is £100,000 or more per year

2012/13				**2013/14**		
Salary, fees and allowances	Employers pension contributions	Total	Chief Officer	Salary, fees and allowances	Employers pension contributions	Total
£	£	£		£	£	£
129,559	22,538	152,097	Strategic Director – Resources	129,669	22,538	152,207

12. Financial Instruments

a) Classification of Financial Instruments

Accounting policies require different classes of financial instruments to be analysed into various defined categories. The following table analyses the carrying amounts of financial assets and liabilities.

	Designated at fair value through profit and loss		Loans and receivables		Financial liabilities at amortised cost	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed Interest Securities	113,190	110,423				
Index Linked Securities	11,056	8,002				
Equities	245,392	265,415				
Pooled property investments	22,469	29,449				
Private Equity/Infrastructure	3,533	3,303				
Other*	7,916	7,743				
Investment Cash			3,099	3,283		
Other investment balances			6,485	5,812		
Investment Debtors			786	703		
	403,556	**424,335**	**10,370**	**9,798**	**0**	**0**
Cash in hand			12,365	13,506		
Debtors			901	808		
	403,556	**424,335**	**23,636**	**24,112**	**0**	**0**
Financial Liabilities						
Creditors					(95)	(571)
	0	**0**	**0**	**0**	**(95)**	**(571)**
	403,556	**424,335**	**23,636**	**24,112**	**(95)**	**(571)**

Current assets, which are separate to investment assets have been additionally disclosed.

Other* includes absolute return, special opportunities, infrastructure, commodities and insurance linked securities and dividend futures.

b) Net Gains and Losses on Financial Instruments

	2012/13	2013/14
	£'000	£'000
Financial Assets		
Fair value through profit and loss	41,960	14,358
Loans and receivables	(294)	(944)
Financial liabilities measured at amortised cost	0	0
Financial liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	**41,666**	**13,414**

c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values.

	Carrying Value		Fair Value	
	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000
Financial Assets				
Fair value through profit and loss	403,556	424,335	403,556	424,335
Loans and receivables	10,370	9,798	10,370	9,798
Total financial assets	**413,926**	**434,133**	**413,926**	**434,133**
Financial Liabilities				
Fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	0	0	0
Total financial liabilities	**0**	**0**	**0**	**0**

The following table summarises the carrying values of the non-investment financial assets and liabilities by class of instrument compared with their fair values.

	Carrying Value		Fair Value	
	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000
Non-investment Financial Assets				
Cash in hand	12,365	13,506	12,365	13,506
Debtors	901	808	901	808
Total non-investment financial assets	**13,266**	**14,314**	**13,266**	**14,314**
Non-investment Financial Liabilities				
Creditors	(95)	(571)	(95)	(571)
Total non-investment financial liabilities	**(95)**	**(571)**	**(95)**	**(571)**

d) Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities

Level 2
Quoted prices are not available and valuation techniques use inputs that are based significantly on observable market data

Level 3
At least one input that could have a significant effect on valuation is not based on observable market data

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31/03/14	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Equities	208,715	56,700		265,415
Securities	118,425			118,425
Property	801	18,461	10,187	29,449
Private Equity/Infrastructure			3,304	3,304
Loans to businesses			5,812	5,812
Other*	7,743			7,743
Financial assets at fair value through profit and loss	**335,684**	**75,161**	**19,302**	**430,147**

Other* includes absolute return, special opportunities, infrastructure, commodities and insurance linked securities and dividend futures.

Level 3 Investment Movement Summary 2013/14	**Value at 31/03/2013**	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/2014**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Property	4,930	4,883		374	10,187
Private Equity/Infrastructure	2,196	4,435	(3,133)	(194)	3,304
Loans to businesses	6,485	270		(944)	5,812
	13,611			**(765)**	**19,302**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31/03/13	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Equities	193,357	52,035		245,392
Securities	124,246			124,246
Property	211	17,328	4,930	22,469
Private Equity/Infrastructure			2,196	2,196
Loans to businesses			6,485	6,485
Other*	9,253			9,253
Financial assets at fair value through profit and loss	**327,067**	**69,364**	**13,611**	**410,041**

Other* includes absolute return, special opportunities, infrastructure, commodities and insurance linked securities and dividend futures.

Level 3 Investment Movement Summary 2013/14	**Value at 31/03/2012**	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/2013**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Property	4,831	193		(94)	4,930
Private Equity/Infrastructure	0	3,600	(1,467)	63	2,196
Loans to businesses	5,544	1,235		(294)	6,485
	10,375			**(325)**	**13,611**

13. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund's activities expose it to certain financial risks, which the Council seeks to minimise as far as possible. The risk management arrangements for the Pension Fund are addressed by its Funding Strategy Statement, which contains a risk management register. This shows the alignment between key risks, including financial and investment risks and control arrangements. The Fund's primary long term risk is that the fund's assets will fall short of its liabilities. In order to minimise this risk the Fund diversifies its investments to reduce its exposure to market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. These areas are addressed in turn below.

a) Market Risk

This is the risk that financial loss could arise as a result of changes in such measures as interest rates and stock market movements, due to fluctuations in share prices, exchange rates and credit spreads.

Price Risk

The Fund is also exposed to an element of risk in relation to movements in the price of its investments, which may go up and down and result in a loss against the amount invested. To mitigate against this, the Fund has a diverse portfolio with different asset classes, countries and market sectors. The portfolio is also managed by a range of different managers with varying management styles. Any fall in prices should therefore only affect part of the Fund and not the Fund as a whole.

Potential price changes have been determined based on the observed historical volatility of asset class returns. More risky assets, such as equities display greater potential volatility than bonds. Potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. This has been applied to the year end asset mix for 2013/14 and 2012/13 as shown in the tables below.

Asset Type	Value as at 31/03/2014	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	3,283	0.6	3,303	3,263
Investment portfolio assets:				
UK bonds	55,252	6.9	59,064	51,440
Overseas bonds	55,756	9.6	61,109	50,403
UK equities	80,725	16.6	94,125	67,325
Overseas equities	184,690	19.4	220,520	148,860
Index linked gilts	7,416	5.0	7,787	7,045
Property	29,449	14.7	33,778	25,120
Private equity/infrastructure	3,303	28.4	4,241	2,365
Absolute return	7,744	11.8	8,658	6,830
Corporate bonds	5,812	0.0	5,812	5,812
Other - Debtors	703	0.0	703	703
Total assets available to pay benefits	**434,133**		**499,100**	**369,166**

Asset Type	Value as at 31/03/2013	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	3,099	0.8	3,124	3,074
Investment portfolio assets:				
UK bonds	58,620	7.9	63,251	53,989
Overseas bonds	54,570	10.4	60,245	48,895
UK equities	73,913	16.0	85,739	62,087
Overseas equities	171,479	19.0	204,060	138,898
Index linked gilts	11,056	5.9	11,708	10,404
Property	22,469	14.5	25,727	19,211
Private equity/infrastructure	2,196	27.8	2,806	1,586
Absolute return	9,253	11.8	10,345	8,161
Corporate bonds	6,485	0.0	6,485	6,485
Other - Debtors	786	0.0	786	786
Total assets available to pay benefits	**413,926**		**474,277**	**353,575**

Other financial instruments, such as cash in hand are exposed to market risk and this is addressed under the Interest Rate Risk section within this note.

Currency Risk

The Pension Fund holds financial assets or liabilities denominated in foreign currencies. It is therefore exposed to an element of risk in relation to fluctuation of foreign exchange rates. This risk is mitigated by holding investments in a range of foreign currencies.

Following analysis of historical data in consultation with the fund investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 13% for 2013/14 and 2012/13. This is the one year expected standard deviation for an individual currency. This analysis assumes no diversification with other assets and in particular that interest rates remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows;

Currency Exposure - Asset Type	Value as at 31/03/2014	Change to net asets available to pay benefits	
	£000	13%	-13%
Equities	184,690	208,700	160,680
Fixed interest securities	55,171	62,343	47,999
Index linked securities	585	661	509
Property	10,187	11,511	8,863
Private Equity/Infrastructure	3,304	3,734	2,874
Total assets available to pay benefits	253,937	286,949	220,925

Currency Exposure - Asset Type	Value as at 31/03/2013	Change to net asets available to pay benefits	
	£000	13%	-13%
Equities	171,479	193,771	149,187
Fixed interest securities	54,570	61,664	47,476
Index linked securities	1,513	1,710	1,316
Property	4,930	5,571	4,289
Private Equity/Infrastructure	2,196	2,481	1,911
Total assets available to pay benefits	234,688	265,197	204,179

Interest Rate Risk

The Pension Fund invests in financial assets in order to obtain a return on investments for the benefit of The Fund. There is a risk that changing market interest rates will cause the fair value or future cash flows of a financial instrument to fluctuate. To mitigate this risk, the Fund invests in at least one investment fund which seeks to attain a fixed rate of return. The Council also monitors The Fund's exposure to interest rate risk on an ongoing basis.

The Fund's cash in hand is directly exposed to interest rate movements and as such it is possible to assess the affect that a change in interest rates would have on this. A 100 basis point movement in interest rates is deemed a suitable level of sensitivity to apply for an assessment of this risk. The analysis below assumes that all other variables remain constant and shows the effect in the year on the cash in hand if a +/- 100bps change is applied;

	Value as at 31/03/2014	Change in year if interest rates moved by 100bps	
	£000	+100bps	-100bps
Cash in hand	13,506	135	(135)

b) Credit Risk

This is the risk that other parties may fail to pay amounts due to the Pension Fund. This can arise from deposits with financial institutions, for example a stock collapse or a due dividend failing to pay out. It can also arise through credit exposures to the Pension Fund's members and employers.

The Council actively engages with its investment managers to monitor performance on a regular basis and to ensure that risk management and reduction is part of their investment approach. Investment risk is spread across fund managers and by investment category. The Fund also employs a custodian to ensure that all transactions are settled in an orderly fashion. Contractors in the scheme under Admission Agreements agree to the provision of a reviewable bond to save the risk of financial loss to the fund.

The Council holds some cash on behalf of the Pension Fund through its treasury management arrangements. As such these funds are only invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk. The Fund's cash holding under its treasury management arrangements at 31/03/14 was £0.948m (£11.848m at 31/03/13).

c) Liquidity Risk

This is the risk that the Pension Fund might not have funds available to meet payments when they become due.

The Council manages the Pension Fund's cash flow activities and carefully monitors this to ensure that cash is available when needed. The Council holds cash investments on behalf of the Pension Fund, which could be accessed on a same day basis if necessary. If the Fund found itself in a position where it didn't have enough funds to meet its commitments, it would be able to undertake borrowing on a temporary basis. The Fund's actuaries also establish the level of contributions needed to be paid in order to meet future liabilities. Currently contributions exceed benefits.

14. Audit Costs

An audit fee of £21,000 is payable to Grant Thornton UK LLP for external audit services used by the Pension Fund for the financial year 2013/14. This fee is unchanged from 2012/13.

15. Pension Fund Annual Report

These accounts will be included in the Pension Fund Annual Report which will also include the Council's Statement of Investment Principles, governance arrangements and other key information for the operation of the fund. A copy can be obtained from the Strategic Director - Resources, or viewed on the Council's website at www.sutton.gov.uk. A summarised annual report will also be available on the website with other information and details of pension performance.

Section 6

Statutory Statements

Statement of Responsibilities

This sets out the different responsibilities of the Council and the Strategic Director – Resources in terms of financial administration and accounting.

.

Statement of Responsibilites for The Statement of Accounts

The Responsibility of the Council

The Council is required to manage its affairs in a way that secures the economic, efficient and effective use of resources and safeguards its assets.

The Council also has to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs under S151 of the Local Government Act 1972. In this Council that officer is the Strategic Director - Resources.

The Responsibilities of the Chief Finance Officer

The Strategic Director - Resources is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2014. The Strategic Director - Resources is also responsible for preparing the Pension Fund accounts administered by the Council in accordance with the current Code of Practice.

In preparing this Statement of Accounts the Strategic Director - Resources has:

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

The Strategic Director - Resources has also:

- kept proper, up to date, accounting records, and;
- taken reasonable steps for the prevention and detection of fraud and other irregularities across the Council's services.

My signature below certifies that the accounts were prepared in accordance with the requirements of the Accounts and Audit Regulations 2011 and, except where specifically stated, in accordance with all recognised statutory requirements and codes of practice applicable to local authorities. I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2014 and its income and expenditure for the year.

Strategic Director - Resources
22 September 2014

I certify that the Statement of Accounts was approved by the Audit Committee on 22? September 2014

Chair, Audit Committee
22 September 2014

.

Annual Governance Statement

This provides assurances on the Council's governance framework, that comprises the systems, processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community.

Scope and Responsibility

1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that resources are safeguarded and properly accounted for. There is also a responsibility to ensure that resources are used efficiently and effectively with arrangements to secure continuous improvement. In discharging these responsibilities, the Council is required to put in place proper governance arrangements. This statement explains how the arrangements are embedded, developed and meet the requirements of the Accounts and Audit Regulations (2011).

Purpose of the Governance Framework

2. The governance framework comprises the systems, cultures and values by which the organisation is directed and controlled, and the activities through which it engages with, leads and accounts to the community. The framework enables the Council to monitor the delivery of its policy priorities. The system of internal control is part of the framework and identifies the risks to the achievement of priorities and manages them proportionately. It cannot eliminate all risk. The framework has been in place for 2013/14 and up to the date of approval of the Statement of Accounts. Its key elements are detailed below.

The Governance Framework

Element 1: Vision, policy and decision-making

3. A corporate narrative approved by the Council, Sutton in 2020, sets out the long term vision for Sutton as a place and Sutton as a local authority and the aligned policy priorities. The Council used the budget process to review and update the 2013/14 Directorate commissioning and financial plans to reflect the priorities. The priorities will form the basis of the new corporate plan, which will be produced in the first half of 2014/15.

4. The Constitution is reviewed annually and details the rules of procedure that ensure that decision-making is legal, transparent and accountable. The Monitoring Officer provides advice on the interpretation and application of the Constitution. There are six main Committees, including the Health and Wellbeing Board. There are also four Regulatory Committees (Audit, Development Control, Licensing and Pension Fund), a Standards Committee and Local Committees. Opposition membership of the main Committees provides integrated scrutiny. There is a separate Scrutiny Committee focusing on statutory scrutiny responsibilities and a system of requisitioning (calling in a decision for further consideration before it can take effect). Overall business and financial planning is agreed by the Strategy and Resources Committee, subject to those matters that are reserved to full Council.

5. The Corporate Management Team, including the Section 151 Officer (Local Government Act 1972), supports members in the policy and decision-making process by providing assessments and advice. The implementation of decisions made is in a manner that promotes the Council’s vision and values.

Element 2: Service quality

6. Effective quality assurance reduces the risk of poor service quality and so the Council has an overarching quality assurance framework and Directorate specific arrangements. Following on from the introduction in 2012/13 of a new Children's Services quality assurance framework, we introduced a new Adult Social Care quality framework in 2013/14, reflecting the removal of national targets and assessments and the shift away from providing services to commissioning them. A regular programme of unannounced quality assurance spot checks is in place following the refocusing of the Adult Social Care Contracts Team on quality auditing.

7. Internal challenge is vital to improving service quality. Our Health Checks programme focuses on specific service areas identified through performance results, benchmarking or customer feedback. The approach to Health Checks is aligned with the Local Government Association's approach to peer reviews. Health Checks offer a 'practitioner perspective' and 'critical friend' challenge focused on driving improvement and improving efficiency.

Element 3: Roles, responsibilities and behaviour

8. The Constitution provides a summary and explanation of how the Council operates, including an outline of the rights of residents or those with business interests in the borough to engage with and participate in the Council's democratic processes. It documents the terms of reference for committees, provides a scheme of delegation specifying the appropriate point of authority for decisions and includes rules of procedure as well as various codes and protocols. In so doing it augments the statutory framework in setting out the Council's decision making powers.

9. In terms of the Councils ethical framework it also defines the personal conduct requirements of members and staff. They each have a Code of Conduct and registers of interest and hospitality. In addition, the People Plan 2013-16 includes a refreshed set of leadership behaviours for staff in senior management roles and new core behaviours for all staff.

10. Reflecting the Localism Act 2011, the Standards Committee has duties and powers for dealing with elected or co-opted members found to have breached the Councillor Code of Conduct. During 2013/14, the sanctions for dealing with members under the Code of Conduct were reviewed as part of the recommendations arising from the Monitoring Officer's annual report to the Standards Committee.

Element 4: Control framework, risk management and audit committee

11. Policies and procedures are updated regularly. The principal documents include the Financial Regulations and Contract Standing Orders which form part of the Constitution. Others include Commissioning and Financial Planning, Information Security, Anti-Fraud & Corruption, including Whistle-blowing, and Workplace Health & Safety. Safeguarding is a priority - there are multi-agency policies and procedures for safeguarding children and young people and vulnerable adults.

12. Directorate commissioning and finance plans identify the risks to achieving deliverables. Strategic risks are identified in policy decision reports. Managing risk is an integral part of the quarterly review of performance against the deliverables in the commissioning and finance plans. The Corporate Risk Register lists the high-level and cross-cutting risks and the approaches that are being taken to manage them.

13. The Treasury Management Strategy includes the Investment Strategy that specifies the criteria (credit ratings and other risk thresholds) for selecting counterparties. There are arrangements for business continuity management, change control and managing major programmes and projects, including new shared services. The Programmes and Projects Steering Group led by members and supported by a Programmes and Projects Board helps ensure that key risks and issues are mitigated at an early stage.

14. There is oversight by the Audit Committee whose terms of reference were developed to meet CIPFA guidance[1]. The committee's membership is politically proportionate and the Chair is an opposition member.

<u>Element 5: Compliance</u>

15. Managers in each Directorate are responsible for embedding assurance frameworks to monitor compliance with policies and procedures, where relevant, consistent with the expectations of statutory inspectors. Internal Audit undertakes risk based compliance reviews of the key financial systems that generate material transaction streams in the Statement of Accounts. Internal Audit review other systems based upon a risk assessment that includes an anti-fraud component. An Annual Internal Audit Plan is prepared in consultation with senior managers and the Audit Committee. Internal Audit follows the Public Sector Internal Audit Standards.

16. The Monitoring Officer is required to report on any proposal, decision or omission likely to contravene any enactment or rule of law, or any maladministration or injustice. No such report has been necessary in 2013/14. The Chief Finance Officer has not reported any case of unlawful expenditure, deficiency or unlawful item of account. Fraud against the organisation, including employee fraud, and the arrangements to counter fraud are reviewed in the Fraud Referral and Update Report and the Annual Internal Audit Report, which are scrutinised by the Audit Committee. On-line fraud awareness training is available to all members and staff.

<u>Element 6: Economic, effective and efficient use of resources</u>

17. The Council's overarching priority is to transform services, reduce costs and maintain resident satisfaction. The Smarter Services programme has been the strategic approach for delivering savings over the last four years. It is followed by the Smarter Council programme comprising a number of cross organisational projects. There are also Directorate projects to deliver savings. Directorates have been set savings targets based on their controllable budgets.

[1] Audit Committees: Practical Guidance for Local Authorities and Police (2013), Chartered Institute of Public Finance and Accountancy

18. There is considerable emphasis on working with other councils across South West London in the development and delivery of shared services to release efficiencies and support delivery of more customer focussed services. The governance implications of shared services are addressed through formal agreements under Section 101 of the Local Government Act 1972 that provide the legal framework and structure for delegated decision-making and accountability.

19. It is important that the workforce has the skills to deliver the Smarter Council. The People Plan 2013-16 supports delivery through three main components: Workforce Skills Development, Behaviour Change and Productivity, and Pay and Rewards. E-learning is used to deliver training to underpin priorities and change.

Element 7: Financial management and reporting

20. The Council recognises the importance of good financial management, particularly in the current economic climate. The annual commissioning and financial plan sets out the medium term financial position and capital programme and ensures that policy priorities are adequately funded.

21. Responsibility for financial management is set out in the Financial Regulations. All staff have some responsibility for financial management and achieving value for money. Financial management is integrated with service management throughout the planning, monitoring and reporting cycles. Budget managers are responsible for the expenditure and income in their budgets. The approval of estimates authorises revenue spend. Capital spending requires further authorisation. There are virement limits for revenue and capital. The Treasury Management Strategy includes the Annual Investment Strategy for surplus cash and borrowing, including the minimum revenue provision required to be set aside to repay debt.

22. Sutton Housing Partnership manages the housing stock. Ownership and responsibility for the Housing Revenue Account remains with the Council. Sutton Housing Partnership has its own external auditors and its own Internal Audit Plan. The Housing Revenue Account Business Plan sets out the arrangements for managing the housing stock.

Element 8: Performance management and reporting

23. The Strategy and Resources Committee receives quarterly reports that review performance against the priorities and deliverables in Directorate commissioning and financial plans. A balanced scorecard approach is used that includes feedback from residents as well as indicators of corporate health and risk. Corporate and Directorate Performance Review Boards address underperformance and significant budget variations.

24. There is a strong culture of using information to support performance improvement. The Council is developing the way information is used to identify gaps in service provision, long-term performance trends and potential business opportunities, in line with the strategic priority to deliver the Smarter Council. Data quality processes help to ensure that performance information is complete and accurate.

Element 9: Partnerships and communication

25. New health governance structures and responsibilities have been established. On 1st April 2013, the Health and Wellbeing Board became a legal entity. The One Sutton Commissioning Collaborative, comprising of managers from the Council's Adult and Children's services and from Sutton Clinical Commissioning Group, monitors the implementation of the Joint Health and Wellbeing Strategy and provides regular reports to the Health and Wellbeing Board. The new Public Health team is established and delivering its functions. SMART targets have been set, all of which have a written delivery plan based on evidence and best practice and with relevant partner agencies signed up.

26. Sutton in Partnership, the local strategic partnership for the borough, brings together representatives from the Council, schools and colleges, the local police, the fire service, the local health service and the voluntary sectors. It links to a wider network of stakeholders and forums and discusses key issues facing the borough and helps to shape and influence priorities.

27. The Community Empowerment Framework sets out the Council's commitment to and standards for involving local people. It describes how empowerment is central to work on behaviour change and service delivery. It also prioritises increasing the impact of involvement and ensuring that feedback is provided on how things have changed as a result. To support our commitment to involvement we are working towards making all public data freely available. We have started by opening up some of our existing data sets.

Review of Effectiveness

28. The Council has responsibility for conducting a review of the effectiveness of the governance framework. The review is informed by the work of members and managers who have responsibility for the maintenance and development of the framework, and by assessments undertaken by statutory inspectors, the Head of Internal Audit, external auditors and other review agencies. In particular, each Directorate conducts a review and the Audit Committee considers the Annual Review of Corporate Governance in which the arrangements are assessed against the CIPFA/SOLACE framework [2] and CIPFA's statements on the roles of the Chief Finance Officer and Head of Internal Audit. The sources of assurance are summarised below. They encompass all of the elements of the governance framework.

- The work of the full Council and committees, including the Audit Committee and Standards Committee, and scrutiny reviews
- Quarterly performance reports and the work of Corporate and Directorate Performance Review Boards
- Adult and Children's services quality assurance frameworks and reports
- The work of the Children's Services Improvement Board
- The work of the Safeguarding Boards
- The programme of internal Health Checks

[2] Delivering Good Governance in Local Government (2007), Chartered Instutute of Public Finance and Accountancy and Society of Local Authority Chief Executives

- The Annual Report of the Monitoring Officer
- Reports relating to the Smarter Council change programme
- The work of the Programmes and Projects Steering Group and the Programmes and Projects Board
- The work of the Information and Security Governance Board
- The Annual Review of the Constitution.
- The Annual Review of the Audit Committee.
- Risk assessments in commissioning and finance plans, policy decision reports, business continuity plans, information asset registers and anti fraud plans.
- The Annual Insurance Review
- The work of statutory inspectors, including the Office for Standards in Education, Care Quality Commission, Health and Safety Executive and HM Revenue and Customs
- The work and opinions of Internal Audit, including the annual review of the effectiveness of the system of internal audit, reviews of key financial systems and work on the National Fraud Initiative
- The work and opinions of the external assessor for the Eco Management and Audit Scheme
- External Audit work and opinions on the Statement of Accounts, Value for Money and Certification of Grant Claims

29. We have been advised on the implications of the result of the review of the effectiveness of the governance framework. The framework of arrangements is consistent with the best practice recommended by CIPFA/SOLACE.

Significant Governance Issues

30. The governance framework is constantly evolving due to service and regulatory developments and assessments. Where appropriate, action plans have been developed in response to the assessments and reports summarised above. Controls to manage principal risks are monitored, in particular for services with statutory responsibilities for the safety of vulnerable people. The primary issues (some are internal governance issues and some are external factors and challenges to be mindful of) that have been highlighted are set out below.

    - Safeguarding and looked after children's services continue to be a major priority for the Council and its partners. Progress in improving services was acknowledged by the Department for Education following their review in February 2014. Improvements are embedded through quality assurance activity and scrutiny. Sutton Safeguarding Children Board is increasing its role in challenging the partnership on improvement issues and the Council has provided additional resources to increase its social work capacity. In addition, a programme of work is being delivered identifying the resource implications of the Children and Families Act 2014 and implementing the changes.

    - The risks around welfare reform, including the localisation of support for council tax continue through 2014/15 and the medium term. The local council tax reduction scheme was reviewed and after taking account of changes to discretionary discounts, it was on track to deliver a broadly neutral impact. The initial funding for the scheme has been rolled into the Settlement Funding Assessment. In effect the funding will be reduced in 2014/15 and 2015/16. It is planned to review the scheme again during 2014/15 and to recommend any necessary changes with effect from April 2015.

- The Care Act 2014 includes a cap on an individual's social care costs and other reforms including the assessment of needs and the provision of care and information. There are significant delivery and financial risks due to the tight timetable and uncertainty surrounding funding of the changes in 2015/16 and subsequent years. The Care Act Programme Board is delivering a programme of work to implement the legislation. At the same time, the integration of health and social care involves sharing financial risks with the Clinical Commissioning Group as part of the Better Care Fund pooled budget and some parts of the funding are linked to the achievement of performance targets.
- Waste disposal in landfill sites is a risk due to it being unsustainable environmentally and financially costly due to landfill taxes. The planning decision notice for the Energy Recovery Facility has been issued and a Section 106 agreement signed. The Energy Recovery Facility will incinerate domestic waste that is not recycled, to generate electricity to potentially deliver heat to the new Felnex site in Hackbridge.
- The demanding projected budget gap over the medium term due to cuts in funding. Although significant savings will have been delivered by 2014/15, in order to achieve a balanced budget in 2015/16 and 2016/17 further savings need to be identified and delivered. There are delivery risks due to the short timescale and the potential impact on services and residents' satisfaction. This is being managed through the Smarter Council Programme. Legal risks associated with any proposed reductions and/or reconfigurations in service provision which may arise as a consequence will continue to be monitored by the Monitoring Officer in conjunction with the South London Legal Partnership, and appropriate advice provided to mitigate such risks prior to any reports being approved.

31. Over the coming year steps will be taken to address the above matters and to further enhance the Council's governance arrangements. The Council is satisfied that these actions will address the need for improvements that were identified in the review of effectiveness. Their implementation and operation will be assessed as part of our next annual review.

Chief Executive:

Date: 24 July 2014

Leader:

Date: 24 July 2014

On Behalf of the Council

Auditors Opinion

2013/14

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF SUTTON

Opinion on the Authority financial statements

We have audited the financial statements of the London Borough of Sutton for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the London Borough of Sutton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director - Resources and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director - Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non- financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Sutton as at 31 March 2014 and of its expenditure and income for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the London Borough of Sutton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Andy Mack

Engagement Lead
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

25 September 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF SUTTON

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Sutton for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Sutton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director - Resources and Section 151 Officer and the auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director - Resources and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director – Resources and Section 151 Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Financial Review of 2013/14 by the Chief Financial Officer to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the Financial Review of 2013/14 by the Chief Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emily Hill

Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
LONDON
NW1 2EP

25 September 2014

Section 7

Statement of Accounting Policies

1. Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 Act.
The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b Accruals of Income and Expenditure

The financial statements, other than cash flow information, have been prepared on an accruals basis. This means that activities are accounted for in the year that they take place, not simply when cash payments are made or received. For example:

- 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, and;
- revenue from the provision of services is recognised when the Authority provide the service rather than when payment is received.

Where income 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. Debtors and creditors are either actual amounts due at the end of the year or estimated amounts. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the estimated amount of income that might not be collected.

c Cash and Cash Equivalents

The Council has treated all of its cash invested within money market funds or call accounts at the balance sheet date as investments and not cash equivalents. This is because these funds are invested to achieve a return and not for cashflow purposes. The use of short dated instruments limits both counterparty risk and interest rate risk and reflects the current interest rate environment.

d Exceptional Items

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

e Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevent information about the effect of transactions, other events and conditions on the Authority’s financial position or financial performance.

f Charges to Revenue for Non-Current Assets

Service, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

g Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, eg 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 estimated as 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 benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or a decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer for voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority 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.

h Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE), and;
- the Local Government Pensions Scheme, administered by the London Borough of Sutton.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees within the service of the Authority, in accordance with the schemes' rules.

However, the national arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

- the liabilities of the London Borough of Sutton pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- liabilities are discounted to their value at current price, which is based on the single average gilt yield which gives the same present value as the (Bank of England nominal) gilt curve applied to the cash flows of a typical LGPS employer, plus the mean credit spread applying to AA corporate bonds within the iBoxx over 15 years index. Using this approach, the discount rate at 31 March 2014 was 4.5% pa.
- the assets of London Borough of Sutton pension fund attributable to the Authority are included in the Balance Sheet at bid value as required under IAS 19;
- the change in the net pensions liability is analysed into seven components:
  - 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 arising from current year decisions 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 as part of Non Distributed Costs
- interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- 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 – debited to the Pensions Reserve
- contributions paid to the London Borough of Sutton 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 Authority 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 appropriations 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 earned by employees.

i Events After the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events, and;
- 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.

j Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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 Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged directly 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.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority 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 authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

k Reserves

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the adequacy of the proposed reserves during the budget making process.

The agreed policy is that a general reserve of at least 5% of net General Fund expenditure (excluding schools) is necessary to provide a minimum sound level of prudence.

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

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

l 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 Authority when there is reasonable assurance that:

- the Authority 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 how or when the grants will be used.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors because until conditions are met the Council may be required to return the grant. 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 (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

m Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty’s Revenue and Customs. On the majority of Council functions VAT is recoverable in full. VAT receivable is excluded from income.

n Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The full cost of overheads and support services are shared between users in proportion to the benefits received, the main bases for allocation are floor area for administrative buildings and estimated staff time for central services. The exception to this are:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation, and;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

o Intangible Fixed Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority 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 Authority. The Council's policy on capital expenditure which does not involve the creation of a fixed asset is to write the expenditure down to nil in the year it is incurred. This expenditure is charged to the relevant service revenue account.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes the amortisation is not permitted to have an impact on the General Fund balance. The amortisation is therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

p Interests in Companies and other Entities

The Authority has interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. However the transactions are not considered material so group accounts do not need to be prepared. In the Authority's accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

q Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income 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.

r Heritage Assets

Heritage assets are not reported as a distinct class of asset within Property Plant and Equipment as assets are either operational assets and included within land and buildings on the balance sheet or the values of other tangible heritage assets are considered to be immaterial.

Further details of Heritage Assets are disclosed in note 12.

s Property Plant and Equipment

Property, Plant and Equipment are 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.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price, and;
- 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.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH), and;
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

- 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), and;
- 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.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired i.e. reduced in value. 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 (book value) amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- 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), and;
- 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.

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:

- council dwellings – depreciation is charged on a componentisation basis as detailed in the HRA business plan 2012/13 to 2014-42 and will rise from £7.048 million in 2012/13 to £13.634 million in 2041/42 ;
- other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – depreciated on a straight-line basis over the life of the asset as advised by a suitably qualified officer, and;
- infrastructure – gross book value is depreciated at 6% per annum

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.

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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that 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 receipts relating to council housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

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

t 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 Authority 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.

u 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. The Authority does not hold any finance 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.

The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

The Authority as Lessor

The Authority grants leases on its investment properties. Please see Investment Property policy for details of treatment.

v Financial Instruments

i. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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 Authority 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.

Gains and losses on the re-purchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where re-purchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from, or added to, the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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 Authority 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.

ii. Financial Assets

Financial assets are classified into two types:

- loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market, and;
- available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority 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 for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

w Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at cost less provisions for damage and obsolescence. Some minor stocks are not valued and are excluded. The departure from International Accounting Standard 2, which recommends that stock is valued at the lower of cost or net realisable value, has no material effect on the accounts.

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.

Section 8

Glossary

An explanation of financial terms used in the Statement of Accounts.

Accruals
Amounts that are charged to the accounts for goods and services rendered/received during the year for which payments have not been received/made.

Actuary
An independent consultant who advises on the financial position of the pension fund.

Actuarial Valuation
A review carried out every three years, by the actuary, on the assets and liabilities of the pension fund. The actuary reports to the Council on the fund's financial position and recommended employers' contribution rates.

Amortisation
Writing out of debt, usually associated with capital expenditure on deferred charges where no asset is created.

Appropriations
The transfer of resources to and from various revenue reserves.

Capital Expenditure
Expenditure on the acquisition of a fixed asset or expenditure that adds value to an existing fixed asset.

Capital Receipts
Income from the sale of capital assets such as council dwellings, land and buildings.

Central Support Services
Services that are provided by the administrative and professional service groups that support all the Council's services. They include financial, legal, personnel, information technology, property and general administrative support.

Carrying Amount
This is the nominal value of the loan / investment plus accrued interest due to the end of the financial year.

Collection Fund
A fund operated by the authority into which all receipts of Council Tax and National Non-Domestic Rates are paid. Payments are made from the fund to support the Council's general fund services and to the precepting authorities. The fund must be maintained separately from the Authority's General Fund.

Council Tax
A tax on domestic properties, introduced 1 April 1993 as a replacement for the Community Charge (Poll Tax), based on their value.

Creditors
Amount of money owed by the Council for goods or services received.

Debtors
Amount of money owed to the Council for goods or services supplied.

Deferred Charges
Expenditure of a capital nature not in connection with a Council owned asset, e.g. renovation grants and capital grants to other organisations.

Depreciation
The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

Earmarked Reserves
Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

Effective Interest Rate
This method calculates the rate of interest that is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount at initial recognition.

Extinguishment
When the loan has been repaid and is cancelled or expired.

Non-Current Assets
Tangible assets that yield benefit to the local authority and the services it provides for a period of more than one year.

General Fund
The fund within which most transactions of a local authority take place. It includes the cost of all services provided (excluding the Housing Revenue Account) which are paid from government grants, generated income and the borough's share of Council Tax and business rate income.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future; in particular, that the revenue accounts and balance sheet are not based on the assumption of an intention to curtail significantly the scale of operations.

Housing Revenue Account (HRA)
A local authority statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment
A reduction in the estimated recoverable value of an asset.

Intangible Assets
Assets that do not have physical substance, e.g. computer software licences.

Levies
Payments to London wide bodies such as the Lee Valley Regional Park Authority. The cost of these bodies is borne by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Minimum Revenue Provision
The minimum amount that the Council must charge to the revenue account to provide for the repayment of debt.

National Non-Domestic Rates (NNDR)
Business rates, or non-domestic rates, collected by councils are the way that those who are responsible for non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1 April 2013, authorities keep a proportion of the business rates paid locally. The proportions for sharing NNDR are as follows: Central Government 50%, London Borough of Sutton 30% and the GLA 20%.

Precept
The charge made by one authority (e.g. Greater London Authority) on another authority (e.g. Sutton) to finance its net expenditure.

Provisions
Amounts set aside for liabilities or losses which are certain or very likely to be incurred but where exact amounts and dates on which these will arise are uncertain.

Reserves
Amounts set aside in one financial year which can be carried forward to meet expenditure in future years. Earmarked reserves are allocated for specific purposes. Unallocated reserves are often described as balances.

Revenue Expenditure
The regular day-to-day running costs an authority incurs in providing services e.g. salaries and wages, premises costs and supplies and services.

Abbreviations used in the accounts

ALMO	Arms Length Management Organisation
AVC	Additional Voluntary Contribution
BSF	Building Schools for the Future
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Department for Communities and Local Government
DfE	Department for Education
DSG	Dedicated Schools Grant
DSO	Direct Service Organisation
HRA	Housing Revenue Account
IAS	International Accounting Standard
I&E	Income and Expenditure
IFRS	International Financial Reporting Standard
IT	Information Technology
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LOBO	“Lenders Option Borrowers Option” Loan
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
NNDR	National and Non Domestic Rates
PCT	Primary Care Trust
PWLB	Public Works Loan Board
RICS	Royal Institute of Chartered Surveyors
SHP	Sutton Housing Partnership
SORP	Statement Of Recommended Practice
TPA	Teachers’ Pension Agency
UCR	Usable Capital Receipts