# LONDON BOROUGH OF SUTTON

# STATEMENT OF ACCOUNTS

# 2014/15

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# Section 1

# Explanatory Foreword

# 2014/15

## 1. Introduction

The accounts on the following pages set out the Council's financial performance for the year to the 31 March 2015, 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 2014 the Council set a net general fund expenditure budget for 2014/15 of £151.726m, 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 £0.828m, based on the tax base for 2013/14. 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 £1,439.89.

The General Fund revenue budget outturn reported to the Strategy and Resources Committee on 29 June 2015 shows a net underspend of £1.37m (0.9%) against a net revenue budget of £151.726m. This is summarised in the table below.

| | Approved Budget | Actual Outturn Variance | Actual Outturn Variance |
|---|---|---|---|
| | £'000 | £'000 | % |
| **Commissioning Directorates** | | | |
| Children, Young People & Learning | 44,156 | 2,574 | 5.8 |
| Environment & Neighbourhoods | 36,323 | (893) | (2.5) |
| Adult Social Services, Housing & Health | | | |
| - Adult Services and Health | 63,270 | (543) | (0.9) |
| - Housing General Fund | 6,110 | (120) | (2.0) |
| - Public Health (grant) | 7,291 | (3) | (0.0) |
| **Corporate Core** | | | |
| Chief Executive's | 6,642 | (340) | (5.1) |
| Resources | 22,093 | (1,115) | (5.0) |
| Non-service revenue budgets | 10,440 | (866) | (8.3) |
| Adjustment for support cost recharge | (24,159) | 0 | 0.0 |
| | 172,166 | (1,306) | (0.8) |
| Utilisation of Public Health Grant | (8,619) | 3 | (0.0) |
| **Current Expenditure Position 2014/15** | **163,547** | **(1,303)** | **(0.8)** |
| Core grants | (11,821) | (70) | 0.6 |
| **Outturn 2014/15** | **151,726** | **(1,373)** | **(0.9)** |

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 £1.373m.

The overall outturn position also includes the previously agreed movement to reserves as follows:

- unspent Crisis Grants and Loans funding to sustain the service in future years; and
- over-achieved income from land charges to offset potential future deficits.

In addition there are two large items which arose late in the year:

- revenue receipts associated with the purchase of Cantium House moved to the Commercial Properties Investment Reserve; and
- unbudgeted Business Rate Grant income moved to General Fund Balances.

The aggregate underspend reflects a number of variations over the year. In particular:

- Adult Social Services has continued to deliver efficiencies through switch of clients from traditional service provision to a more personalised approach;
- underspends against staffing budgets in Adult Social Services as a result of the difficulties in recruiting high quality staff for positions created, following the in-house review and re-commissioning exercise completed in 2014/15;
- an underspend on the Housing General Fund budget due largely to efficiencies in contract management for housing support.
- in Environment and Neighbourhoods (E&N) there was an over achievement of Planning income against target;
- savings as a result of reduced electricity consumption from street lighting (LED) lamp rollout; and
- underspends have been achieved from staff vacancies in E&N, mainly as a result of various economies of scale initiatives such as joint working with neighbouring boroughs;

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 2014/15

In March 2014 the Council approved a capital budget, adjusted for slippage, of £81.5m. This was amended to £84.5m at revised estimates, and compares with a final outturn of £81.7m. The Service Directorates' profile of the Capital Outturn is shown below.

| Capital Programme 2014/15 | Approved Budget 2014/15 | Outturn 2014/15 | Variation |
|---|---|---|---|
| **EXPENDITURE** | £'000 | £'000 | £'000 |
| Adult Social Services, Housing & Health | 32,976 | 31,812 | (1,164) |
| Children, Young People & Learning | 25,669 | 27,208 | 1,539 |
| Environment and Neighbourhoods | 14,032 | 11,978 | (2,054) |
| Resources | 10,694 | 10,026 | (668) |
| Chief Executive's | 1,153 | 672 | (481) |
| **Total Expenditure** | **84,524** | **81,696** | **(2,828)** |

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 main variations are as follows:

Adult Social Services, Housing and Health

- re-phasing of £0.475m on the Lavender Housing Partnership due to delays in the progression of the Orlits and Corbet Close elements of the scheme and the corresponding freeholder and leaseholder buyback costs.
- re-phasing of £0.495m of the Decent Homes programme budget into 2015/16. This reflects an under spend mainly on Chaucer House due to delayed start of project and an under spend on box bathrooms; and
- re-phasing of £0.400m on Housing the Homeless to reflect the works to convert Oakleigh to bed and breakfast accommodation has only started in April 2015.

Childrens, Young People and Learning Directorate

- re-phasing of £1.460m of the school expansions budget from 2015/16 into 2014/15 mainly for expansions at Avenue Primary and Sutton Grammar Schools that have progressed faster than budgeted.

Environment and Neighbourhoods

- the LED Street Lighting project has made progress but was delayed due to a change in the contractor used and this has resulted in an under spend of £0.363m;
- public realm budgets not allocated during the year or allocated late in the year totalled £0.400m and these forecast under spends were reported to Strategy & Rersources Committee on 23 March 2015. These projects will be delivered in 2015/16;
- re-phasing of Sutton Station scheme of £0.269m due to delays in some highways works;

- re-phasing of Cheam Leisure Centre Improvements of £0.363m due to a delay in the roof construction programme;
- re-phasing Big Green Fund project of £0.266m and works now to complete in May 2015; and
- the Council was awarded a substantial sum towards renovation grant which finalises sums awarded towards assistance for empty properties. As this was awarded late in the financial year, £0.377m needs to be re-phased into 2015/16.

Resources and Chief Executives

- there has been re-profiling of the IT Infrastructure project of £0.339m following slippage on the implementation phase; and.

- there has been re-phasing of the CCTV replacement project of £0.472m due to revised options investigated for the transmission system and delays in the parking enforcement IT system while the parking contracts were procured.

## 4. External Audit

The Council's independent external auditor Grant Thornton will report their findings from the audit of these accounts to the Audit Committee on 24 September. 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 2014/15 letter will be considered by the Strategy and Resources Committee during the winter cycle of meetings. When available, a copy can also 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
- Parking Places Reserve Account
- Pension Fund Accounts
- Statement of Responsibilities for the Statement of Accounts
- Annual Governance Statement

# Section 2

# Core Financial Statements

# 2014/15

# 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

| 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 | 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

| 2014/15 | 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 2014** | 27,890 | 34,426 | 2,783 | 30,918 | 0 | 10,673 | 106,690 | 119,908 | 226,598 |
| Surplus or (Deficit) on provision of services (accounting basis) | 31,414 | 0 | 42,227 | 0 | 0 | 0 | 73,641 | 0 | 73,641 |
| Other Comprehensive Expenditure and Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 22,638 | 22,638 |
| **Total Comprehensive Expenditure and Income** | **31,414** | **0** | **42,227** | **0** | **0** | **0** | **73,641** | **22,638** | **96,279** |
| Adjustments between accounting basis and funding basis under regulations (Note 8) | (29,874) | 0 | (37,036) | (11,771) | 0 | 9,890 | (68,791) | 68,791 | 0 |
| **Net Increase/(Decrease) before transfers to Earmarked Reserves** | **1,540** | **0** | **5,191** | **(11,771)** | **0** | **9,890** | **4,850** | **91,429** | **96,279** |
| Transfers to / from Earmarked Reserves | (4,843) | 388 | (1,604) | 0 | 0 | 0 | (6,059) | 6,059 | 0 |
| **Increase / (Decrease) in Year** | **(3,303)** | **388** | **3,587** | **(11,771)** | **0** | **9,890** | **(1,209)** | **97,488** | **96,279** |
| **Balance at 31 March 2015** | **24,587** | **34,814** | **6,370** | **19,147** | **0** | **20,563** | **105,481** | **217,396** | **322,877** |

* (General Fund Balance at 31 March 2015 = General Fund £14,267k, schools £10,320k

# 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 2014/15, 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 2015

| 2013/14 | | | | | 2014/15 | | |
|---|---|---|---|---|---|---|---|
| Expenditure | Income | Net Expenditure | | Notes | Expenditure | Income | Net Expenditure |
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| 6,188 | 1,006 | 5,182 | **Central Services to the Public** | | 6,027 | 1,863 | 4,164 |
| 23,479 | 2,861 | 20,618 | **Cultural & Related Services** | | 8,256 | 3,091 | 5,165 |
| 18,662 | 2,558 | 16,104 | **Environmental & Regulatory Services** | | 17,067 | 2,991 | 14,076 |
| 4,817 | 1,967 | 2,850 | **Planning Services** | | 4,434 | 1,714 | 2,720 |
| | | | **Children's & Education** | | | | |
| 127,886 | 119,850 | 8,036 | - Schools | | 122,520 | 120,598 | 1,922 |
| 14,616 | 1,635 | 12,981 | - Non-School Funding | | 16,521 | 968 | 15,553 |
| 33,658 | 2,425 | 31,233 | - Children's Services | | 32,919 | 2,213 | 30,706 |
| 23,341 | 5,263 | 18,078 | **Highways & Transport** | | 20,431 | 5,724 | 14,707 |
| | | | **Housing Services** | | | | |
| 94,727 | 86,565 | 8,162 | - General Fund Housing | | 94,020 | 85,873 | 8,147 |
| | | | - Housing Revenue Account | | | | |
| 26,523 | 37,557 | (11,034) | - Main HRA Revenue Account | * | 27,307 | 38,235 | (10,928) |
| 138 | 0 | 138 | - Impairment – Demolitions | | 1,489 | 0 | 1,489 |
| 9,872 | 0 | 9,872 | - Revaluation loss/(gain) - Dwellings | | (41,322) | 0 | (41,322) |
| 65,413 | 12,395 | 53,018 | **Adult Social Care** | | 67,120 | 9,991 | 57,129 |
| 7,861 | 8,744 | (883) | **Public Health** | | 7,345 | 8,662 | (1,317) |
| 7,199 | 0 | 7,199 | **Corporate and Democratic Core** | | 7,819 | 0 | 7,819 |
| 1,985 | 2,361 | (376) | **Non Distributed Costs** | | 1,230 | 137 | 1,093 |
| **466,365** | **285,187** | **181,178** | **Cost of services** | | **393,183** | **282,060** | **111,123** |
| | | 12,556 | **Other Operating Expenditure** | 9 | | | 3,114 |
| | | 19,541 | **Financing and Investment Income and Expenditure** | 10 | | | 17,224 |
| | | (191,812) | **Taxation & Non-Specific Grant Income** | 11 | | | (205,102) |
| | | **21,463** | **(Surplus)/deficit on provision of services** | | | | **(73,641)** |
| | | (18,134) | Net (surplus) arising on revaluation of Property, Plant and Equipment Assets | 16a | | | (82,236) |
| | | 36,342 | Remeasurement of the net defined benefit liability on the pensions reserve | 16c | | | 59,598 |
| | | **18,208** | **Other comprehensive income and expenditure** | | | | **(22,638)** |
| | | **39,671** | **Total comprehensive income and expenditure** | | | | **(96,279)** |

***** Includes £14.947 million management fee paid to Sutton Housing Partnership, a wholly owned subsidiary of the London Borough of Sutton

# Balance Sheet

This sets out the financial position of the Council as at 31 March 2015 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 2015

| 31 March 2014 £'000 | | Notes | 31 March 2015 £'000 | 31 March 2015 £'000 |
|---|---|---|---|---|
| | **Non-Current Assets** | | | |
| | Property, Plant and Equipment | 12 | | |
| 259,235 | - Council Dwellings | | | 318,786 |
| 348,234 | - Other Land and Buildings | | | 452,409 |
| 8,033 | - Vehicles, Plant, Furniture and Equipment | | | 8,902 |
| 24,661 | - Infrastructure Assets | | | 27,825 |
| 1,488 | - Community Assets | | | 1,980 |
| 8,079 | - Assets Under Construction | | | 11,923 |
| 5,751 | - Surplus Assets Held for Disposal | | | 2,281 |
| 655,481 | Sub Total | | | 824,106 |
| 36,385 | Investment Properties | 13 | | 45,366 |
| 0 | Long Term Investments | 29 | | 35 |
| 2,426 | Long Term Debtors | 29 | | 2,234 |
| **694,292** | **Total Non-Current Assets** | | | **871,741** |
| | **Current Assets** | | | |
| 66,978 | Short Term Investments | 29 | 61,709 | |
| 320 | Inventories | | 281 | |
| 34,689 | Debtors | 18 | 43,735 | |
| 11,672 | Cash and Cash Equivalents | 20 | 5,560 | |
| **113,659** | **Total Current Assets** | | | **111,285** |
| | **Less Current Liabilities** | | | |
| 4,188 | Short Term Borrowing | 29 | 5,116 | |
| 3,059 | Capital Grants Receipt in Advance | | 4,667 | |
| 48,314 | Creditors | 19 | 54,504 | |
| 3,238 | Provisions | 17 | 3,686 | |
| **58,799** | **Total Current Liabilities** | | | **67,973** |
| | **Less Non-Current Liabilities** | | | |
| 4,608 | Provisions | 17 | 6,734 | |
| 217,721 | Long Term Borrowings | 29 | 213,721 | |
| 300,225 | Liability Related to Defined Benefit Pension Scheme | 27 | 371,721 | |
| **522,554** | **Total Non-Current Liabilities** | | | **592,176** |
| **226,598** | **Net Assets** | | | **322,877** |
| | **Non-usable Reserves** | | | |
| 101,914 | Revaluation Reserve | 16a | 179,763 | |
| 320,721 | Capital Adjustment Account | 16b | 412,988 | |
| (300,225) | Pensions Reserve | 16c | (371,721) | |
| (1,122) | Financial Instruments Adjustment Account | | (1,057) | |
| 127 | Deferred Capital Receipts/Income | | 112 | |
| 1,731 | Collection Fund Adjustment Account | | 997 | |
| (3,238) | Accumulated Absences Account | | (3,686) | |
| **119,908** | | | | **217,396** |
| | **Usable Reserves** | | | |
| 30,918 | Capital Grants & Contributions Unapplied | 15 | 19,147 | |
| 10,673 | Capital Receipts Reserve | 15 | 20,563 | |
| 0 | Major Repairs Reserve | 15 | 0 | |
| 2,783 | Housing Revenue Account | 15 | 6,370 | |
| 27,890 | General Reserves – General Fund & schools | 15 | 24,587 | |
| 34,426 | Earmarked Reserves | 15 | 34,814 | |
| **106,690** | | | | **105,481** |
| **226,598** | **Total Reserves** | | | **322,877** |

# 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

| 2013/14 £'000 | | Notes | 2014/15 £'000 |
|---|---|---|---|
| **(21,463)** | **Net surplus or (deficit) on the provision of services** | | **73,641** |
| 83,084 | Adjust net surplus or deficit on the provision of services for non cash movements | 21 | (17,969) |
| (43,843) | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 21 | (54,149) |
| **17,778** | **Net cash inflow/(outflow) from operating activities** | | **1,523** |
| (47,541) | Purchase of property, plant and equipment, investment property and intangible assets | | (61,856) |
| (482,350) | Purchase of short term and long term investments | | (528,500) |
| 11,015 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | | 11,712 |
| 477,127 | Proceeds from short term and long term investments | | 533,750 |
| 31,708 | Other receipts from investing activities | | 43,150 |
| **(10,041)** | **Net cash inflow/(outflow) from investing activities** | | **(1,744)** |
| 0 | Other receipts from financing activities | | 0 |
| 0 | Repayment of short term and long term borrowing | | (3,000) |
| (649) | Other payments for financing activities | | (2,891) |
| **(649)** | **Net cash inflow/(outflow) from financing activities** | | **(5,891)** |
| **7,088** | **Net increase/(decrease) in cash and cash equivalents** | | **(6,112)** |
| 4,584 | Cash and cash equivalents at the beginning of the reporting period | 20 | 11,672 |
| 11,672 | Cash and cash equivalents at the end of the reporting period | 20 | 5,560 |

# 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 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15, 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 notes to the core financial statements have been presented in the order of importance to the reader of the accounts.

## 2. Accounting Standards issued but not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following standards have been issued that will be adopted by the Code in 2015/16 and will be applicable from 1 April.

IFRS 13 Fair Value Measurement. This introduces a requirement for the concept of fair value measurement to be applied to all assets and liabilities which use fair value as a measurement basis. In respect of property, plant and equipment the only change is in the valuation of surplus property. Currently surplus property is valued at existing use value before being reclassified as surplus assets. In future surplus assets will be valued at fair value. Based on the current value of Surplus Assets (£2.281m as at 31 March 2015) adoption of this standard is unlikely to have a material affect on the Council's balance sheet.

IFRIC 21 Levies. This clarifies the recognition point for payment of levies as the activity which triggers the payment of the levy. This is not expected to have any impact on the Council, as this is already current accounting practice.

## 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.

**Accounting for Schools** - The Council recognises school assets for Community schools on its balance sheet. The Council does not recognise assets relating to Academies, Voluntary Aided, or Foundation schools on the balance sheet as it is of the opinion that these assets are not controlled by the Council.

When schools convert to Academy status the assets of the school are recognised as a disposal from the Council’s balance sheet for no consideration on the date on which the school converts to Academy status, not on the date the conversion is anounced.

## 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 2015 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.<br><br>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.<br><br>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 0.1 increase in the discount rate assumption would result in an approximate reduction of £14m in the Council's pension liability; a one year increase in member life expectancy would increase the liability by approximately £29m and a 0.1% increase in the salary increase rate would increase the liability by approximately £2m. |
| Debtors | At 31 March 2015, the Authority had a balance of sundry debtors for £23.484m. A review of significant balances suggested that an impairment of doubtful debts of 34% (£7.944m) 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 £0.235m 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 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, i.e. the % of lodged appeals that are successful, were to increase by 1% this would increase the cost of appeals by approximately £0.435m. |

## 5. Events after the Balance Sheet date

There were no material events after the end of the financial year which need to be reported.

## 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.

| 2013/14 | | | 2014/15 | |
|---|---|---|---|---|
| **Schools** | **Non-Schools** | Remuneration Band | **Schools** | **Non-Schools** |
| Number of Employees | | £ | Number of Employees | |
| 38 | 27 | 50,000 - 54,999 | 44 | 27 |
| 20 | 20 | 55,000 - 59,999 | 17 | 15 |
| 10 | 18 | 60,000 - 64,999 | 15 | 14 |
| 13 | 15 | 65,000 - 69,999 | 5 | 11 |
| 9 | 14 | 70,000 - 74,999 | 15 | 21 |
| 4 | 3 | 75,000 - 79,999 | 5 | 3 |
| 2 | 2 | 80,000 - 84,999 | 2 | 4 |
| 0 | 2 | 85,000 - 89,999 | 1 | 1 |
| 3 | 9 | 90,000 - 94,999 | 2 | 12 |
| 1 | 0 | 95,000 - 99,999 | 2 | 0 |
| 1 | 0 | 100,000 - 104,999 | 0 | 0 |
| 0 | 1 | 105,000 - 109,999 | 1 | 0 |
| 0 | 1 | 110,000 - 114,999 | 0 | 0 |
| 0 | 4 | 115,000 - 119,999 | 0 | 1 |
| 0 | 0 | 120,000 - 124,999 | 0 | 2 |
| 0 | 3 | 125,000 - 129,999 | 0 | 4 |
| 0 | 0 | 130,000 - 134,999 | 0 | 0 |
| 0 | 0 | 135,000 - 139,999 | 0 | 0 |
| 0 | 0 | 140,000 - 144,999 | 0 | 1 |
| 0 | 0 | 145,000 - 149,999 | 0 | 0 |
| 0 | 0 | 150,000 - 154,999 | 0 | 0 |
| 0 | 1 | 155,000 - 159,999 | 1 | 0 |
| 0 | 1 | 160,000 - 164,999 | 0 | 0 |
| 0 | 0 | 165,000 - 169,999 | 0 | 1 |
| 0 | 0 | 170,000 - 174,999 | 0 | 1 |
| 0 | 0 | 175,000 - 179,999 | 0 | 0 |
| 0 | 0 | 180,000 - 184,999 | 0 | 0 |
| 0 | 0 | 185,000 - 189,999 | 0 | 0 |
| 1 | 0 | 190,000 - 194,999 | 0 | 0 |
| **102** | **121** | **Total** | **110** | **118** |

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

| 2013/14 Salary, fees and allowances £ | 2013/14 Employers pension contributions £ | 2013/14 Total £ | Chief Officers | Note | 2014/15 Salary, fees and allowances £ | 2014/15 Employers pension contributions £ | 2014/15 Total £ |
|---|---|---|---|---|---|---|---|
| 163,635 | 28,473 | 192,108 | Chief Executive – Niall Bolger | | 165,495 | 28,796 | 194,291 |
| 190,898 | 14,178 | 205,076 | Headteacher - Isabel Ramsay | | 158,298 | 12,012 | 170,310 |
| 155,430 | 19,981 | 175,411 | Director of Public Health - Ellis Friedman | 1 | 24,215 | 0 | 24,215 |

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

| 2013/14 Salary, fees and allowances £ | 2013/14 Employers pension contributions £ | 2013/14 Total £ | Chief Officers | Note | 2014/15 Salary, fees and allowances £ | 2014/15 Employers pension contributions £ | 2014/15 Total £ |
|---|---|---|---|---|---|---|---|
| 129,528 | 22,538 | 152,066 | Strategic Director – Adult Social Services and Housing | | 129,528 | 22,538 | 152,066 |
| 129,528 | 22,538 | 152,066 | Strategic Director - Children, Young People and Learning | | 129,528 | 22,538 | 152,066 |
| 118,621 | 20,050 | 138,671 | Strategic Director – Environment and Neighbourhoods | | 121,338 | 21,339 | 142,677 |
| 129,669 | 22,538 | 152,207 | Strategic Director – Resources | | 128,473 | 0 | 128,473 |
| 71,863 | 12,504 | 84,367 | Executive Head of Policy and Customer Services (to 5 Jan 2014) | 2 | N/A | N/A | N/A |
| 18,577 | 3,232 | 21,809 | Executive Head of Policy and Customer Services (interim to Feb 2015) | 2 | 70,653 | 12,182 | 82,835 |
| N/A | N/A | N/A | Executive Head of Customers, Commissioning and Governance (from Feb 2015) | 2 | 13,716 | 2,387 | 16,103 |
| 94,334 | 16,379 | 110,713 | Executive Head of Community Safety and Youth Engagement | | 94,592 | 16,459 | 111,051 |
| 87,849 | 15,286 | 103,135 | Executive Head of Legal and Democratic Services | 2 | 34,390 | 5,984 | 40,374 |
| N/A | N/A | N/A | Director of Public Health (from June 2014) | 3 | 70,012 | 10,781 | 80,793 |

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 (direct reports to the Chief Executive).

Note 1: The post of Director of Public Health was held by Ellis Friedman until May 2014.

Note 2: A new position of Executive Head of Customers, Commissioning and Governance replaced two posts in February 2015 following a restructuring exercise. The two deleted posts were the Executive Head of Legal and Democratic Services who left in September 2014, and the Interim Executive Head of Policy and Customer Services who was in post until February 2015.

Note 3: The current Director of Public Health was in post from June 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 | |
|---|---|---|---|---|---|---|---|---|
| **£** | **2013/14** | **2014/15** | **2013/14** | **2014/15** | **2013/14** | **2014/15** | **2013/14** £ | **2014/15** £ |
| 0 - 20,000 | 14 | 16 | 25 | 3 | 39 | 19 | 426,765 | 181,294 |
| 20,001 - 40,000 | 2 | 3 | 11 | 5 | 13 | 8 | 368,737 | 239,494 |
| 40,001 - 60,000 | 2 | 1 | 0 | 1 | 2 | 2 | 97,580 | 84,974 |
| 60,001 - 80,000 | 1 | 2 | 1 | 1 | 2 | 3 | 135,685 | 228,918 |
| 80,001 - 100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100,001 - 150,000 | 0 | 1 | 0 | 1 | 0 | 2 | 0 | 226,407 |
| **Total** | **19** | **23** | **37** | **11** | **56** | **34** | **1,028,767** | **961,087** |

## 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:

| **2013/14 £'000** | | **2014/15 £'000** |
|---|---|---|
| 909 | Allowances | 889 |
| 0 | Expenses | 0 |
| **909** | **Total** | **889** |

## 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 | | | | | |
|---|---|---|---|---|---|---|
| **2014/15** | 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 | 12,599 | 8,844 | | | | (21,443) |
| Revaluation gains on Property Plant and Equipment | (22,595) | (41,322) | | | | 63,917 |
| Movements in the market value of Investment Properties | (2,485) | 0 | | | | 2,485 |
| Amortisation of intangible assets | 1,037 | 22 | | | | (1,059) |
| Revenue expenditure funded from capital under statute | 16,453 | 61 | | | | (16,514) |
| 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 | 10,894 | 2,563 | | | | (13,457) |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | | | |
| Statutory provision for the financing of capital investment | (4,089) | 0 | | | | 4,089 |
| Capital expenditure charged against the General Fund and HRA balances | (1,134) | 0 | | | | 1,134 |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (42,426) | 0 | 42,426 | | | 0 |

| 2014/15 | Usable Reserves: General Fund Balance £'000 | Usable Reserves: Housing Revenue Account £'000 | Usable Reserves: Capital Grants Unapplied £'000 | Usable Reserves: Major Repairs Reserve £'000 | Usable Reserves: Capital Receipts Reserve £'000 | Non-usable Reserves £'000 |
|---|---|---|---|---|---|---|
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | (54,197) | | | 54,197 |
| **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 | (11,738) | 0 | | | 11,738 | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | | | (1,161) | 1,161 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool. | 687 | | | | (687) | 0 |
| **Adjustment primarily involving the Major Repairs Reserve:** | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | (7,296) | | 7,296 | | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | (7,296) | | 7,296 |
| **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 | (65) | | | | | 65 |

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| **2014/15** | 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) | 30,144 | 245 | | | | (30,389) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (18,338) | (153) | | | | 18,491 |
| **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 | 734 | | | | | (734) |
| **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 | 448 | | | | | (448) |
| | | | | | | |
| **Total Adjustments** | **(29,874)** | **(37,036)** | **(11,771)** | **0** | **9,890** | **68,791** |

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| **2013/14 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 | 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 | 0 | | | | (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) | 0 | 32,487 | | | 0 |

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| **2013/14 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 | | | (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) | 0 | | | 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 |
| **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 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) | 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)** |

## 9. Other Operating Expenditure

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| 844 | Levies paid to Other Local Public Authorities | 884 |
| 588 | Payment to the Government Housing Capital Receipts Pool | 687 |
| 11,161 | Losses/(Profit) on the disposal of non-current assets | 1,716 |
| (37) | Deficit/(Surplus) on Trading Undertakings not included in Net Cost of Services | (173) |
| **12,556** | **TOTAL** | **3,114** |

## 10. Financing and Investment Income and Expenditure

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| 8,384 | Interest payable and similar charges | 8,667 |
| 11,417 | Net interest on the net defined benefit liability | 12,518 |
| (1,022) | Interest receivable and similar income | (1,548) |
| 762 | Income and expenditure in relation to investment properties and changes in their fair value | (2,413) |
| **19,541** | **TOTAL** | **17,224** |

## 11. Taxation, Government Grants and Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15.

| 2013/14 | | 2014/15 | |
|---|---|---|---|
| £'000 | | £'000 | £'000 |
| | **Credited to Taxation and Non Specific Grant Income** | | |
| 76,811 | Council Tax Income | 78,916 | |
| 14,304 | Business Rates Retention Scheme | 13,221 | |
| **91,115** | | | **92,137** |
| 16,821 | Business Rates Retention Scheme Top Up Payment | 17,148 | |
| | **Non ringfenced government grants** | | |
| 47,821 | - Revenue Support Grant | 41,707 | |
| 0 | - Social Care Grant | 3,379 | |
| 2,430 | - Education Services Grant | 2,732 | |
| 849 | - Council Tax Freeze Grant | 860 | |
| 1,317 | - Housing Benefit and Council Tax Admin Grant | 1,199 | |
| 1,807 | - New Homes Bonus | 2,628 | |
| 1,983 | - Other | 1,557 | |
| **73,028** | | | **71,210** |
| | **Capital Grants and Contributions** | | |
| 5,699 | - Education Grants | 10,849 | |
| 14,069 | - Decent Homes Grant | 20,272 | |
| 2,872 | - Mayors Grant | 2,768 | |
| 808 | - Outer London Fund | 0 | |
| 2,666 | - Housing Associations | 1,485 | |
| 879 | - Section 106 Contributions | 1,116 | |
| 0 | - Leaseholder Contributions | 2,969 | |
| 676 | - Other Capital Grants and Contributions | 2,296 | |
| **27,669** | | | **41,755** |
| **191,812** | **Total** | | **205,102** |

| 2013/14 | | 2014/15 | |
|---|---|---|---|
| £'000 | | £'000 | £'000 |
| | **Revenue Grants Credited to Services** | | |
| 104,235 | - Dedicated Schools Grant | 106,876 | |
| 0 | - Education Funding Agency funding | 5,576 | |
| 8,384 | - Public Health Grant | 8,619 | |
| 540 | - Skills Funding Agency | 0 | |
| 19,490 | - Rent Rebate Subsidy | 19,594 | |
| 65,070 | - Rent Allowances | 64,527 | |
| 8,021 | - Pupil Premium | 5,170 | |
| 4,472 | - Other | 3,658 | |
| **210,212** | | | **214,020** |
| | **REFCUS Grants Credited to Services** | | |
| 575 | - Disabled Facilities | 624 | |
| 3,704 | - Education Grants | 0 | |
| 520 | - Other | 27 | |
| **4,799** | | | **651** |
| **406,823** | | | **419,773** |

## 12. Property, Plant and Equipment

Movement on balances

| Movements in 2014/15 | 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 2014** | **266,545** | **372,909** | **14,500** | **49,503** | **1,748** | **8,079** | **6,297** | **719,581** |
| - Adjustments between depreciation and gross book value on the revaluation of assets | (7,310) | (18,885) | 0 | 0 | 0 | 0 | 0 | (26,195) |
| **Sub total** | **259,235** | **354,024** | **14,500** | **49,503** | **1,748** | **8,079** | **6,297** | **693,386** |
| - Additions | 29,579 | 15,139 | 1,973 | 6,135 | 394 | 3,844 | 0 | 57,064 |
| - Revaluation decreases recognised in the Revaluation Reserve | 0 | (752) | 0 | 0 | 0 | 0 | 0 | (752) |
| - Revaluation increases recognised in the Revaluation Reserve | 0 | 82,884 | 0 | 0 | 100 | 0 | 1 | 82,985 |
| - Revaluation decreases recognised in the surplus/deficit on the provision of services | 0 | (5,601) | 0 | 0 | 0 | 0 | 0 | (5,601) |
| - Revaluation increases recognised in the surplus/deficit on the provision of services | 41,322 | 28,190 | 0 | 0 | 0 | 0 | 0 | 69,512 |
| - Derecognition - disposal | (2,564) | (7,421) | 0 | 0 | 0 | 0 | (3,629) | (13,614) |
| - Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - Assets reclassified (to)/from Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **At 31 March 2015** | **327,572** | **466,463** | **16,473** | **55,638** | **2,242** | **11,923** | **2,669** | **882,980** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| **At 1 April 2014** | **(7,310)** | **(24,675)** | **(6,467)** | **(24,842)** | **(260)** | **0** | **(546)** | **(64,100)** |
| - Adjustments between depreciation and gross book value on the revaluation of assets | 7,310 | 18,885 | 0 | 0 | 0 | 0 | 0 | 26,195 |
| **Sub total** | **0** | **(5,790)** | **(6,467)** | **(24,842)** | **(260)** | **0** | **(546)** | **(37,905)** |
| - Depreciation Charge: | | | | | | 0 | | |
| - Depreciation written out to the surplus/deficit on the provision of services | (7,297) | (8,482) | (1,104) | (2,971) | (2) | 0 | (101) | (19,957) |
| - Derecognition - disposal | 0 | 218 | 0 | 0 | 0 | 0 | 259 | 477 |
| - Derecognition - other | (1,489) | 0 | 0 | 0 | 0 | 0 | 0 | (1,489) |
| **At 31 March 2015** | **(8,786)** | **(14,054)** | **(7,571)** | **(27,813)** | **(262)** | **0** | **(388)** | **(58,874)** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2014** | **259,235** | **348,234** | **8,033** | **24,661** | **1,488** | **8,079** | **5,751** | **655,481** |
| **At 31 March 2015** | **318,786** | **452,409** | **8,902** | **27,825** | **1,980** | **11,923** | **2,281** | **824,106** |

| Comparative 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 | 0 | 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) | 0 | 0 | (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** |

**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, £7.296m;
- 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 – opening 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 2015, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years which are budgeted to cost £169.5m in total. Similar commitments at 31 March 2014 were £194.3m. The major commitments are:-

| | Expenditure to 31 March 2015 | Estimated Total Cost |
|---|---|---|
| | £'000 | £'000 |
| School Expansions | 54,787 | 118,746 |
| Lavender Housing Partnership* | 11,436 | 18,498 |
| ICT Infrastructure | 2,343 | 3,098 |
| Local Authority New Build | 129 | 22,046 |
| Denmark Road Accommodation Changes | 158 | 677 |
| Civic Offices Upgrade | 12 | 900 |
| Parking Ticket Machine Replacement | 0 | 625 |

* Council element of larger regeneration scheme

## Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment (PP&E) 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 2014, with the exception of Council Dwellings which was carried out as at 31 March 2015.

A minimum of one fifth of the Council's PP&E classified properties are valued each year as well as any asset with a value greater than 1% of the IFRS asset classification it sits in. In addition buildings subject to major refurbishment which complete in year and a number of specified PP&E will be valued each year. Public offices are also revalued each year.

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 Litchfield 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 2014/15 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 | 8,902 | 28,170 | 1,980 | 11,923 | 0 | 50,975 |
| Valued at fair value as at: | | | | | | | | |
| 31-Mar-15 | 318,671 | 399,021 | 0 | 0 | 0 | 0 | 128 | 717,820 |
| 31-Mar-14 | 0 | 5,710 | 0 | 0 | 0 | 0 | 0 | 5,710 |
| 31-Mar-13 | 0 | 982 | 0 | 0 | 0 | 0 | 0 | 982 |
| 31-Mar-12 | 0 | 32,465 | 0 | 0 | 0 | 0 | 0 | 32,465 |
| 31-Mar-11 | 0 | 4,168 | 0 | 0 | 0 | 0 | 0 | 4,168 |
| 31-Mar-10 | 0 | 9,651 | 0 | 0 | 0 | 0 | 2,153 | 11,804 |
| **Total Cost or Valuation** | **318,671** | **451,997** | **8,902** | **28,170** | **1,980** | **11,923** | **2,281** | **823,924** |

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 2014/15 as no acquisitions or disposals took place. The nature and significance of these assets are detailed below.

### Land and Buildings

#### a) Museums

Honeywood £1.892 million and Whitehall £1.920 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.

Little Holland House - Value £394,000

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

Upper Mill

Upper Mill in Grove Park is on the site of a mill listed in the Domesday book. 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.

The Dovecote, Carew Manor

The Dovecote dates from the early 18$^{th}$ 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 following table summarises the movement in the fair value of investment properties over the year:

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| 39,206 | Balance at the start of the year | 36,385 |
| 0 | Additions | 6,817 |
| 0 | Disposals | (320) |
| (2,821) | Net gains/(losses) from fair value adjustments (Revaluations and Impairments) | 2,484 |
| **36,385** | **Balance at the end of the year** | **45,366** |

## 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:-

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| 269,712 | Opening Capital Financing Requirement | 269,382 |
| | Capital Investment | |
| 49,714 | - Property, Plant and Equipment | 63,881 |
| 873 | - Intangible Assets | 1,059 |
| 9,776 | - Revenue Expenditure Funded from Capital Under Statute | 16,514 |
| | Sources of Finance | |
| (4,674) | - Capital Receipts | (1,161) |
| (38,383) | - Government grants and other contributions | (54,197) |
| | - Sums set aside from revenue | |
| (13,594) | - Direct revenue contributions | (14,518) |
| (4,042) | - MRP / Loans fund principal | (4,089) |
| **269,382** | **Closing Capital Financing Requirement** | **276,871** |
| | Explanation of movements in year | |
| (330) | - Increase/(decrease) in underlying need to borrowing (unsupported by government financial assistance) | 7,489 |
| **(330)** | **Increase/(Decrease) in Capital Financing Requirement** | **7,489** |

## 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 2014/15:

| | Balance at 1 April 2013 | Transfers Out 2013/14 | Transfers In 2013/14 | Balance at 31 March 2014 | Transfers Out 2014/15 | Transfers In 2014/15 | Balance at 31 March 2015 |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **General Fund:** | | | | | | | |
| General Fund Balances | 12,175 | (1,635) | 4,451 | 14,991 | (2,588) | 1,865 | 14,268 |
| DSG Balances | 3,055 | 0 | 826 | 3,881 | (1,299) | 0 | 2,582 |
| Balances held by schools under a scheme of delegation | 8,962 | (1,658) | 1,714 | 9,018 | (3,253) | 1,972 | 7,737 |
| **Sub total** | **24,192** | **(3,293)** | **6,991** | **27,890** | **(7,140)** | **3,837** | **24,587** |
| Earmarked Reserves:- | | | | | | | |
| - Insurance Fund | 4,709 | (44) | 0 | 4,665 | (80) | 0 | 4,585 |
| - Revenue Reserve for financing capital expenditure | 583 | (378) | 859 | 1,064 | (860) | 341 | 545 |
| - General Pooled Reserve | 2,970 | (2,970) | 1,567 | 1,567 | (1,130) | 1,326 | 1,763 |
| - Renewals and Repairs Fund | 254 | 0 | 0 | 254 | 0 | 0 | 254 |
| - Catering Reserves | 787 | (16) | 156 | 927 | (393) | 81 | 615 |
| - Invest to Save Reserve | 529 | 0 | 100 | 629 | 0 | 100 | 729 |
| - Sustainable Investment Fund | 342 | 0 | 5 | 347 | (42) | 0 | 305 |
| - Revenue Grants Unapplied | 3,308 | (1,194) | 2,530 | 4,644 | (2,676) | 5,495 | 7,463 |
| - Redundancy Costs | 4,428 | 0 | 320 | 4,748 | (961) | 0 | 3,787 |
| - Strategic Priorities Investment Reserve | 843 | 0 | 0 | 843 | (814) | 0 | 29 |
| - Extreme Weather Reserve | 128 | 0 | 0 | 128 | 0 | 124 | 252 |
| - Freedom Pass Equalisation | 400 | 0 | 0 | 400 | 0 | 0 | 400 |
| - Olympic Forum Reserve | 13 | 0 | 0 | 13 | (13) | 0 | 0 |
| - Treasury Management & Capital Programme | 1,132 | 0 | 355 | 1,487 | (327) | 0 | 1,160 |
| - Crisis Loans and Grants | 0 | 0 | 294 | 294 | 0 | 334 | 628 |
| - Risk Reserve | 9,746 | (562) | 1,770 | 10,954 | (1,671) | 1,103 | 10,386 |
| - Opportunity Sutton Reserve | 1,000 | (567) | 350 | 783 | (329) | 260 | 714 |
| - Business Change | 1,000 | (321) | 0 | 679 | (369) | 380 | 690 |
| - Commercial Property Investment Reserve | 0 | 0 | 0 | 0 | 0 | 509 | 509 |
| **Sub total** | **32,172** | **(6,052)** | **8,306** | **34,426** | **(9,665)** | **10,053** | **34,814** |
| **HRA:** | | | | | | | |
| Housing Revenue Account | 2,343 | (85) | 0 | 2,258 | 0 | 3,555 | 5,813 |
| Heating Reserve | 547 | (53) | 3 | 497 | 0 | 18 | 515 |
| Freeholders Contributions | 5 | 0 | 23 | 28 | 0 | 14 | 42 |
| **Sub total** | **2,895** | **(138)** | **26** | **2,783** | **0** | **3,587** | **6,370** |
| Capital Grants & Contributions Unapplied | 35,377 | (36,946) | 32,487 | 30,918 | (54,197) | 42,426 | 19,147 |
| Capital Receipts Reserve | 5,455 | (5,248) | 10,466 | 10,673 | (1,161) | 11,051 | 20,563 |
| Major Repairs Reserve | 0 | (7,227) | 7,227 | 0 | (9,017) | 9,017 | 0 |
| **Total** | **100,091** | **(58,904)** | **65,503** | **106,690** | **(81,180)** | **79,971** | **105,481** |

## 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 £14.268m equates to 9.4% of net General Fund expenditure (excluding the schools balances).

### 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 28%). 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. The Council's potential liabilities was assessed by an actuary during 2014/15 and identified that a separate provision is 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 (£258,118) representing the accumulated surplus from the Schools and Welfare Trading Account, and;
  - School Meals Delegated Funds (£356,407) 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 and the Smarter Council 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 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 Crisis Loans and Grants Reserve has been established to hold unused grant funding for future use now that direct grant funding for the scheme has been withdrawn.
- 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 support the Opportunity Sutton Programme. This is the Borough's flagship Economic Growth Programme that aims to deliver sustainable economic 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.
- The Commercial Property Investment Reserve is used to hold compensation received as part of the Cantium House purchase for rent-free periods in current tenancy agreements. The compensation will be held in this reserve and released in future years to offset non-receipt of rent from these tenancies.

**Housing Revenue Account**

- The HRA Reserve balance carried forward at 31 March 2015 of £5,812,663 (£2,257,685 at 31 March 2014) reflects the decision taken in 2010/11 to raise the balance to a more prudent level.
- The Heating Reserve of £515k 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 £42k holds the net balance of freeholders contributions to improvements works.

## 16. Non-usable Reserves

| 31 March 2014 | Reserve / Balance | | 31 March 2015 |
|---|---|---|---|
| £'000 | | | £'000 |
| 101,914 | (a) | Revaluation Reserve | 179,763 |
| 320,721 | (b) | Capital Adjustment Account | 412,988 |
| (300,225) | (c) | Pensions Reserve | (371,721) |
| (1,122) | | Financial Instruments Adjustment Account | (1,057) |
| 127 | | Deferred Capital Receipts | 112 |
| 1,731 | | Collection Fund Adjustment Account | 997 |
| (3,238) | | Accumulated Absences Account | (3,686) |
| **119,908** | **Total** | | **217,396** |

Details of the most significant movements are detailed in the following tables:

## 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.

| 2013/14 £'000 | | 2014/15 £'000 | |
|---|---|---|---|
| **91,719** | **Balance at 1 April** | | **101,914** |
| 29,170 | Upward revaluation of assets | 82,986 | |
| (11,036) | Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services | (752) | |
| 18,134 | Surplus or deficit on revaluation of non current assets not posted to the surplus or deficit on the provision of services | 82,234 | |
| (1,000) | Difference between fair value depreciation and historical cost depreciation | (1,371) | |
| (6,939) | Accumulated gains on assets sold or scrapped | (3,014) | |
| (7,939) | Amount written off to the Capital Adjustment Account | (4,385) | |
| **101,914** | **Balance at 31 March** | | **179,763** |

## 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.

| 2013/14 | Capital Adjustment Account | 2014/15 | |
|---|---|---|---|
| £'000 | | £'000 | £'000 |
| **333,568** | **Balance at 1 April** | | **320,721** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| (20,043) | - Charge for depreciation and impairment of non-current assets | (21,443) | |
| (26,439) | - Revaluation (losses)/Gains on Property, Plant and Equipment | 63,911 | |
| (873) | - Amortisation of intangible assets | (1,059) | |
| (9,776) | - Revenue expenditure funded from capital under statute | (16,514) | |
| (21,627) | - 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 | (13,457) | |
| (78,758) | | | 11,438 |
| 999 | Difference between fair value depreciation and historical cost depreciation | | 1,371 |
| 6,939 | Accumulated gains on assets sold or scrapped | | 3,014 |
| (70,820) | Net written out amount of the cost of non-current assets consumed in the year | | 15,823 |
| | Capital financing applied in the year: | | |
| 4,661 | - Use of the Capital Receipts Reserve to finance new capital expenditure | 1,161 | |
| 7,171 | - Use of the Major Repairs Reserve to finance new capital expenditure | 7,296 | |
| 6,956 | - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 8,465 | |
| 29,990 | - Application of grants to capital financing from the Capital Grants Unapplied Account | 45,732 | |
| 4,042 | - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 4,089 | |
| 756 | - Funded from Revenue Reserves | 6,082 | |
| 7,218 | - Capital expenditure charged against the General Fund and HRA balances | 1,134 | |
| 60,794 | | | 73,959 |
| (2,821) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | 2,485 |
| **320,721** | **Balance at 31 March** | | **412,988** |

## c) 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.

| **2013/14** | | **2014/15** |
|---|---|---|
| **£'000** | | **£'000** |
| **(255,456)** | **Balance at 1 April** | **(300,225)** |
| (36,342) | Remeasurement of the net defined benefit liability | (59,598) |
| (25,556) | 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 | (30,389) |
| 17,129 | Employers pension contributions and direct payments to pensioners payable in the year. | 18,491 |
| **(300,225)** | **Balance at 31 March** | **(371,721)** |

## 17. Provisions

Provisions have been established for the following purposes:

| | Balance b/fwd 1 April 2014 | Additional provisions made in 2014/15 | Amounts used in 2014/15 | Unused amounts reversed in 2014/15 | Balance c/fwd 31 March 2015 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Current Provisions** | | | | | |
| a) Employee Accumulated Absences | **3,238** | **3,686** | **(3,238)** | **0** | **3,686** |
| **Non-Current Provisions** | | | | | |
| b) NNDR Appeals | 652 | 1,468 | (389) | 0 | 1,731 |
| c) Insurance Claims | 2,475 | 33 | 0 | (99) | 2,409 |
| d) Potential Employee Litigation | 260 | 0 | 0 | 0 | 260 |
| e) Disputed Social Care Supported Living Costs | 956 | 537 | (178) | 0 | 1,315 |
| f) External Insurance | 0 | 714 | 0 | 0 | 714 |
| g) Land Charges | 195 | 40 | 0 | 0 | 235 |
| h) Substance Misuse costs of re-commissioning | 70 | 0 | 0 | 0 | 70 |
| | **4,608** | **2,792** | **(567)** | **(99)** | **6,734** |
| | **7,846** | **6,478** | **(3,805)** | **(99)** | **10,420** |

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 2015. London Borough of Sutton share of the total provision for appeals (£5.769m) is £1.731m.

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 third party and employee claims and the first £100,000 of property losses. The year end provision was evaluated at £2.409m.

d) A provision of £260,000 was included in the 2013/14 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 2015 has been maintained at £260,000.

e) A provision of £956,000 was established to cover potential costs of clients in supported living placements where identification of the ordinary residence is in dispute. £178,000 of this provision was used in 2014/15 and additional provisions were made to increase this provision to £1,315,000 due to a higher number of potential clients in 2014/15.

f) Municipal Mutual Insurance Limited (MMI) insured many public sector authorities before it ceased underwriting operations in September 1992. Most of MMI's public sector members elected to participate in the Scheme of Arrangement and effectively became Scheme Creditors. Following several years of deteriorating financials, with a significant and growing deficit, on 13 November 2012, the Directors announced that they were triggering the Scheme of Arrangement. In a letter dated April 2013, the scheme administrator referred to a financial model suggesting that a levy of 9.5% to 28% would be required to achieve a projected solvent run-off. An initial levy of 15% was set and the scheme administrator issued levy notices in January 2014. However, there remains uncertainty over MMI's ultimate outcome and whether or not further levies may be required. Sutton's initial levy amount was £433k. Following an actuarial assessment it is recommended that the Council hold a provision based on a 28% levy (the top of the range given within the April 2013 letter from the Scheme Administrators) and an estimate of the Council's share of the ongoing liabilities. The sum of these two amounts is £1,147k, however, £433k has already been paid, leaving an outstanding provision amount of £714k.

g) A provision 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 2014/15 and the potential liability increased by £40k to £235k.

h) 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 2014 £'000 | | At 31 March 2015 £'000 |
|---|---|---|
| 10,460 | Central Government bodies | 11,899 |
| 5,856 | Other Local Authorities | 4,572 |
| 1,168 | NHS bodies | 3,780 |
| 2,095 | HRA Tenants | 2,450 |
| 16,168 | Other entities and individuals | 21,787 |
| 6,838 | Local Tax payers | 7,191 |
| **42,585** | **Total** | **51,679** |

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

| At 31 March 2014 £'000 | | At 31 March 2015 £'000 |
|---|---|---|
| (841) | HRA Tenants | (1,060) |
| (3,175) | Other entities and individuals | (3,713) |
| (3,880) | Local Tax payers | (3,171) |
| **(7,896)** | **Total** | **(7,944)** |

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

| At 31 March 2014 £'000 | | At 31 March 2015 £'000 |
|---|---|---|
| 10,460 | Central Government bodies | 11,899 |
| 5,856 | Other Local Authorities | 4,572 |
| 1,168 | NHS bodies | 3,780 |
| 1,254 | HRA Tenants | 1,390 |
| 12,993 | Other entities and individuals | 18,074 |
| 2,958 | Local Tax payers | 4,020 |
| **34,689** | **Total** | **43,735** |

## 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 2014 | | At 31 March 2015 |
|---|---|---|
| £'000 | | £'000 |
| 5,426 | Central Government bodies | 8,278 |
| 8,317 | Other Local Authorities | 8,724 |
| 2,140 | NHS bodies | 2,850 |
| 32,431 | Other entities and individuals | 34,652 |
| **48,314** | **Total** | **54,504** |

## 20. Cash and cash equivalents

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

| At 31 March 2014 | | At 31 March 2015 |
|---|---|---|
| £'000 | | £'000 |
| 95 | Cash held by the authority | 75 |
| 11,577 | Bank current accounts | 5,485 |
| **11,672** | **Total** | **5,560** |

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

| 2013/14 | | 2014/15 |
|---|---|---|
| **£'000** | | **£'000** |
| **(21,463)** | Net surplus / (deficit) on the Provision of Services | **73,641** |
| | Adjust net surplus or deficit for the provision of services for non-cash movements | |
| 43,661 | Depreciation, impairments and revaluation losses/(Gain: | (44,953) |
| 873 | Amortisation | 1,059 |
| 10,011 | Increase / (Decrease) in creditors | 4,868 |
| (1,506) | (Increase) / Decrease in debtors | (7,130) |
| (7) | (Increase) / Decrease in inventories | 39 |
| 8,427 | Pension Liability | 11,898 |
| (242) | Contributions to / from provisions | 2,574 |
| 21,627 | Carrying amount of non-current assets sold | 13,457 |
| 240 | Other movements | 219 |
| **83,084** | | **(17,969)** |
| | Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities | |
| (32,855) | Capital Grants credited to surplus or deficit on the provision of services | (42,426) |
| (10,988) | Proceeds from the sale of property plant and equipment, investments property and intangible assets | (11,723) |
| **(43,843)** | | **(54,149)** |
| **17,778** | **Total** | **1,523** |

## 22. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2013/14 | | 2014/15 |
|---|---|---|
| **£’000** | | **£’000** |
| 1,126 | Interest received | 1,567 |
| (5,528) | Interest paid | (7,811) |
| **(4,402)** | **Total** | **(6,244)** |

## 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 2014/15** | 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 | (5,109) | (10,758) | (3,402) | (12,575) | (31,844) |
| Government grants | (118,669) | (8,744) | (85,016) | (1,215) | (213,644) |
| **Total Income** | **(123,778)** | **(19,502)** | **(88,418)** | **(13,790)** | **(245,488)** |
| Employee expenses | 95,841 | 13,758 | 5,867 | 17,925 | 133,391 |
| Other operating expenses | 71,837 | 70,157 | 85,226 | 27,525 | 254,745 |
| Support service recharges | 4,143 | 2,980 | 1,142 | 4,148 | 12,413 |
| **Total Operating Expenses** | **171,821** | **86,895** | **92,235** | **49,598** | **400,549** |
| **Cost of Services** | **48,043** | **67,393** | **3,817** | **35,808** | **155,061** |

| **Directorate Information 2013/14 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 | (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 | 68,198 | 65,930 | 85,516 | 33,687 | 253,331 |
| Support service recharges | 4,285 | 3,175 | 1,218 | 4,067 | 12,745 |
| **Total Operating Expenses** | **166,727** | **84,097** | **93,055** | **54,877** | **398,756** |
| **Cost of Services** | **46,485** | **61,858** | **5,067** | **38,884** | **152,294** |

## 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.

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| 152,294 | Net expenditure in the Group Analysis | 155,061 |
| 7,294 | Add services not included in main analysis | 7,920 |
| 22,322 | Add amounts not reported to management | (54,029) |
| (732) | Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement | 2,171 |
| **181,178** | **Net Cost of Services in Comprehensive Income and Expenditure Statement** | **111,123** |

## 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.

| **2014/15** | 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 | (31,845) | 0 | (38,692) | 2,773 | (67,764) | 0 | (67,764) |
| Surplus or deficit on trading undertakings not in NCS | 0 | 0 | 0 | 0 | 0 | (173) | (173) |
| Interest and Investment Income | 0 | 0 | 0 | 0 | 0 | (1,548) | (1,548) |
| Income from Council Tax and Business Rates | 0 | 0 | 0 | 0 | 0 | (92,137) | (92,137) |
| Government grants and contributions | (213,644) | 0 | (652) | 0 | (214,296) | (112,965) | (327,261) |
| **Total Income** | **(245,489)** | **0** | **(39,344)** | **2,773** | **(282,060)** | **(206,823)** | **(488,883)** |
| Employee Expenses | 133,392 | 334 | 3,563 | (1,185) | 136,104 | 12,518 | 148,622 |
| Other operating expenses | 254,745 | 2,677 | 29,045 | 791 | 287,258 | 0 | 287,258 |
| Support service recharges | 12,413 | 4,808 | 0 | (208) | 17,013 | 0 | 17,013 |
| Depreciation, amortisation and impairment | 0 | 101 | (47,293) | 0 | (47,192) | (2,413) | (49,605) |
| Interest Payments | 0 | 0 | 0 | 0 | 0 | 8,667 | 8,667 |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | 884 | 884 |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 687 | 687 |
| | | | | | | | 0 |
| Gain or loss on Disposal of Fixed Assets | 0 | 0 | 0 | 0 | 0 | 1,716 | 1,716 |
| **Total Expenditure** | **400,550** | **7,920** | **(14,685)** | **(602)** | **393,183** | **22,059** | **415,242** |
| **Surplus or deficit on the provision of services** | 155,061 | 7,920 | (54,029) | 2,171 | 111,123 | (184,764) | (73,641) |

| **2013/14** **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 | (36,292) | 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 | 0 | 0 | 0 | 0 | (91,114) | (91,114) |
| 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)** | **(192,871)** | **(478,058)** |
| Employee Expenses | 132,680 | 334 | 1,481 | 0 | 134,495 | 11,417 | 145,912 |
| Other operating expenses | 253,331 | 14 | 26,085 | (4,191) | 275,239 | 2,821 | 278,060 |
| 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 Capital Receipts Pool | 0 | 0 | 0 | 0 | 0<br>0 | 588 | 588<br>0 |
| Gain or loss on Disposal of Fixed Assets | 0 | 0 | 0 | 0 | 0 | 11,161 | 11,161 |
| **Total Expenditure** | **398,756** | **7,294** | **64,506** | **(4,191)** | **466,365** | **33,156** | **499,521** |
| **Surplus or deficit on the provision of services** | 152,294 | 7,294 | 22,322 | (732) | 181,178 | (159,715) | 21,463 |

## 24. External Audit Costs

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| 123 | Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor | 126 |
| 31 | Fees payable to Grant Thornton for the certification of grant claims and returns | 20 |
| **154** | | **146** |

## 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 2013. 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 2014/15 are as follows:-

| | Central Expenditure | Individual Schools Budget (ISB) | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Final DSG for 2014/15 before Academy recoupment | | | 162,779 |
| Academy figure recouped for 2014/15 | | | 56,307 |
| Total DSG after Academy recoupment for 2014/15 | | | 106,472 |
| Plus: brought forward from 2013/14 | | | 3,882 |
| Less: carry forward to 2015/16 agreed in advance | 0 | 0 | 3,882 |
| Agreed budgeted distribution in 2014/15 | 24,814 | 81,658 | 106,472 |
| In year adjustments | 131 | 0 | 131 |
| Final budget distribution for 2014/15 | 24,945 | 81,658 | 106,603 |
| Less actual central expenditure | 26,869 | | 26,869 |
| Less actual ISB deployed to schools | | 81,033 | 81,033 |
| **Carry forward to 2015/16** | (1,924) | 625 | 2,583 |

In 2014/15, the Council received net DSG funding of £106.472 million, after Academy recoupment. This includes an in year adjustment for Early Years funding for 2013/14 and 2014/15 of £58k and £73k (estimate) respectively. This has been credited against the Education service revenue account.

DfE regulations require that the under-spend of £2.583 million be carried forward to 2015/16 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 £6.6 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 2014/15 is £889,000.
One member is the Advisory Board Chair of London Waste and Recycling Board Efficiency committee. One member received payment of £24,850 for the development of five self contained flats which will be leased back to council under the Empty Homes Scheme. One member is on the executive committee of the Arts Network Sutton, one the Trustee of Wandle Valley Regional Park, all of which received grants from the London Borough of Sutton in 2014/15.

**The Pension Fund** had an average balance of £14.6 million of surplus cash deposited with the Council during 2014/15. The Council charged the Fund £326,200 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 2014/15.

**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 7,500 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 2014/15 the turnover of SHP amounted to £16.1 million and net liabilities (including the pension deficit) were valued at £7.981 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 2014/15 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 2014/15 the employers contribution amounted to £5.591 million and the employees contribution was £3.866 million (employers £5.474 million and employees £3.521 million in 2013/14).

  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 2014/15 totalled £0.5 million (£0.5 million in 2013/14).

- 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. This has been updated on an informal basis by the Council's actuary, Barnett Waddingham, to take account of the requirements of IAS19 in assessing the liabilities of the Fund as at 31 March 2015 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:-

| 2013/14 £'000 | Comprehensive Income and Expenditure Statement | 2014/15 £'000 |
|---|---|---|
| | Service cost comprising: | |
| 15,163 | - Current Service Cost | 17,243 |
| 218 | - Past Service Cost | 569 |
| (1,241) | - Gain/loss from settlements | (362) |
| **14,140** | | **17,450** |
| 11,417 | Net interest expense | 12,518 |
| 0 | Administration expenses | 421 |
| **25,557** | **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **30,389** |
| | Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | |
| 14,438 | - Return on plan assets (excluding the amount included in the net interest expense) | (16,523) |
| 12,505 | - Actuarial gains and losses arising on changes in demographic assumptions | 0 |
| 29,145 | - Actuarial gains and losses arising on changes in financial assumptions | 78,718 |
| (19,746) | - Other | (2,597) |
| **61,899** | **Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement** | **89,987** |
| | Movement in Reserves Statement: | |
| (25,557) | - Reversal of net charges made to the Surplus or Deficit on the provision of Service for Post Employment Benefits in accordance with the Code | (30,389) |
| | Actual amount charged against the General Fund balance for pensions in the year: | |
| 17,129 | - Employers' Contributions Payable to Scheme | 18,491 |

### 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:

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| **696,597** | Present value of defined benefit obligation | **796,826** |
| (396,372) | Fair value of plan assets | (425,105) |
| **300,225** | Net Liability arising from defined benefit obligation | **371,721** |

### 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 Barnett Waddingham, 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 2014 | | As at 31 March 2015 |
|---|---|---|
| **%** | | **%** |
| 2.8 | Rate of Inflation | 2.4 |
| 4.6 | Rate of Increase in Salaries | 4.2 |
| 2.8 | Rate of Increase in Pensions | 2.4 |
| 4.5 | Rate of Return on Assets | 4.3 |
| 4.3 | Rate for Discounting Scheme Liabilities | 3.3 |
| 25 | Take-Up of Option to Convert Annual Pension into Retirement Lump Sum | 25 |
| **Years** | | **Years** |
| 22.3 | Longevity at 65 for Current Pensioners - Men | 21.7 |
| 24.5 | Longevity at 65 for Current Pensioners - Women | 25.0 |
| 24.2 | Longevity at 65 for Future Pensioners - Men | 23.7 |
| 26.8 | Longevity at 65 for Future Pensioners - Women | 27.0 |

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

| As at 31 March 2014 | | As at 31 March 2015 |
|---|---|---|
| % | | % |
| 4.5 | Equities | 4.3 |
| 4.5 | Bonds | 4.3 |
| 4.5 | Property | 4.3 |
| 4.5 | Cash | 4.3 |
| **4.5** | **Total Fund** | **4.3** |

| As at 31 March 2014 | | As at 31 March 2015 |
|---|---|---|
| % of Fund | | % of Fund |
| 60 | Equities | 62 |
| 27 | Bonds | 29 |
| 6 | Property | 6 |
| 7 | Cash | 3 |
| **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 estimated return on assets of £18.3 million for 2014/15. The Council's actual return was approximately £34.0 million.

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

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| **651,087** | **Balance at 1 April** | **696,597** |
| | Movements in period | |
| 15,163 | - Current Service Cost | 17,243 |
| 29,135 | - Interest Cost | 29,436 |
| 4,258 | - Contributions by Members | 4,432 |
| 12,505 | - Actuarial gains/losses arising from changes in demographic assumptions | 0 |
| 29,145 | - Actuarial gains/losses arising from changes in financial assumptions | 78,718 |
| (19,746) | - Other | (2,597) |
| 218 | - Past Service Cost | 569 |
| (22,661) | - Benefits Paid | (25,604) |
| (2,507) | - Liabilities extinguished on settlements | (1,968) |
| **696,597** | **Balance at 31 March** | **796,826** |

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

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| **395,631** | **Balance at 1 April** | **396,372** |
| | Movements in period | |
| 17,718 | - Interest income | 16,918 |
| | - Remeasurement gain/loss: | |
| (14,438) | - The return on plan assets, excluding the amount included in the net interest expense | 16,523 |
| 14,978 | - Contributions from employer | 15,950 |
| 4,258 | - Contributions from employees into the scheme | 4,432 |
| (20,510) | - Benefits Paid | (23,484) |
| (1,265) | - Other | (1,606) |
| **396,372** | **Balance at 31 March** | **425,105** |

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:

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| **22,335** | **Cash and Cash Equivalents** | **11,053** |
| | Equity instruments by industry type: | |
| 30,532 | - Consumer | 53,563 |
| 19,576 | - Manufacturing | 27,632 |
| 24,434 | - Energy and utilities | 25,506 |
| 35,514 | - Financial institutions | 47,187 |
| 19,870 | - Health and care | 32,733 |
| 22,329 | - Information and Technology | 40,385 |
| 24,378 | - Other | 23,806 |
| **176,633** | **Sub-total equity** | **250,812** |
| | Bonds by sector: | |
| 5,252 | - Corporate | 850 |
| 14,448 | - Government | 15,729 |
| 8,933 | - Other | 10,628 |
| **28,633** | **Sub-total bonds** | **27,207** |

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| | Property: | |
| 25,375 | - UK | 28,482 |
| 456 | - Overseas | 425 |
| **25,831** | **Sub-total property** | **28,907** |
| | Investment funds and unit trusts: | |
| 61,439 | - Equities | 6,802 |
| 73,897 | - Bonds | 85,446 |
| 1,570 | - Hedge funds | 2,976 |
| 2,233 | - Commodities | 1,700 |
| 3,622 | - Infrastructure | 5,951 |
| 179 | - Other | 4,251 |
| **142,940** | **Sub-total investment funds and unit trusts** | **107,126** |
| **396,372** | **Balance at 31 March** | **425,105** |

## h) Scheme History

| | 31 March 2011 | 31 March 2012 | 31 March 2013 | 31 March 2014 | 31 March 2015 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Present Value of Liabilities | 544,805 | 574,361 | 651,087 | 696,597 | 796,826 |
| Fair Value of Assets | (333,575) | (345,001) | (395,631) | (396,372) | (425,105) |
| Deficit | 211,230 | 229,360 | 255,456 | 300,225 | 371,721 |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £371.7 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.

## i) Exceptional increase in liability

The Pension Fund's net liability increased during the year by 23.8%, mainly 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 over the year.

### j) History of Experience Gains and Losses

The related experience gains and losses for 31 March 2015 and earlier years are as follows:-

| | 31 March 2011 | 31 March 2012 | 31 March 2013 | 31 March 2014 | 31 March 2015 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| On assets as % of Fair Value | (5) | (2) | 8 | (4) | 4 |
| On liabilities as % of Present Value | 3 | 1 | (5) | 2 | (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 2014 | 31 March 2015 | 31 March 2014 | 31 March 2015 |
| | £'000 | £'000 | £'000 | £'000 |
| **Investments** | | | | |
| **Loans and receivable at amortised cost** | | | | |
| Loans & receivables principal amount | 0 | 0 | 66,700 | 61,450 |
| Municipal Bond Agency | 0 | 35 | 0 | 0 |
| Accrued Interest | 0 | 0 | 278 | 259 |
| **Total Investments** | **0** | **35** | **66,978** | **61,709** |
| **Debtors** | | | | |
| Loans and Receivables | 2,426 | 2,234 | 0 | 0 |
| Financial assets carried at contract amounts | 0 | 0 | 35,432 | 41,739 |
| **Total Debtors** | **2,426** | **2,234** | **35,432** | **41,739** |
| **Cash and cash equivalents** | **0** | **0** | **11,672** | **7,298** |
| **Borrowings** | | | | |
| **Financial liabilities carried at amortised cost** | | | | |
| Financial liabilities principal amount | 217,721 | 213,721 | 3,000 | 4,000 |
| Accrued Interest | 0 | 0 | 1,188 | 1,116 |
| **Total Borrowings** | **217,721** | **213,721** | **4,188** | **5,116** |
| **Creditors** | | | | |
| Financial liabilities carried at contract amount | 0 | 0 | 44,264 | 48,490 |
| **Total Creditors** | **0** | **0** | **44,264** | **48,490** |

Notes:

1. During 2014/15 the Council did not take on any new borrowing. One Public Works Loan Board loan for £3m matured on 29 December 2014.
2. The Councils long term borrowing total of £213.721 million includes a Public Works Loan Board 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 and 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. The Council had no material soft loans as at 31 March 2015.

## b) Financial Instruments Adjustment Account

No debt restructuring was carried out in 2014/15 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).

| | **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 | (8,652) | 0 | 0 | 0 |
| Interest income | 0 | 617 | 0 | 0 |
| Net gain / (loss) for the year | **(8,652)** | **617** | **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 2014 are also provided for comparison.

### Fair Value of Liabilities Carried at Amortised Cost

| | 31 March 2014 | | 31 March 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| PWLB - maturity | 196,289 | 181,371 | 193,217 | 214,248 |
| LOBOs | 25,620 | 22,846 | 25,620 | 29,504 |
| **Financial liabilities** | **221,909** | **204,217** | **218,837** | **243,752** |

The fair value is higher than the carrying amount because the Authority's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

**Fair Value of Assets Carried at Amortised Cost**

| | 31 March 2014 | | 31 March 2015 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Call and notice accounts | 21,799 | 21,799 | 46,557 | 46,557 |
| Fixed term deposits with banks and building societies | 45,158 | 45,201 | 15,089 | 15,090 |
| **Financial assets** | **66,957** | **67,000** | **61,646** | **61,647** |
| **Long Term Debtors** | **2,426** | **2,426** | **2,234** | **2,234** |

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 2015 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 using highly rated institutions 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 2015

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 is as follows:-

| 31 March 2014 £'000 | | 31 March 2015 £'000 |
|---|---|---|
| 16,798 | Less than three months | 26,545 |
| 50,159 | Three to six months | 35,101 |
| 0 | Six months to one year | 0 |
| 0 | More than one year | 0 |
| **66,957** | **Total** | **61,646** |

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

| 31 March 2014 £'000 | | 31 March 2015 £'000 |
|---|---|---|
| 34,689 | Less than three months | 43,735 |
| 0 | Three to six months | 0 |
| 0 | Six months to one year | 0 |
| 2,426 | More than one year | 2,234 |
| **37,115** | **Total** | **45,969** |

**Heritable Bank**

The Council has received 94p in the £ from the administrators of Heritable Bank as at 31st March 2015. The Council has since been notified that an additional dividend in respect of Heritable Bank is anticipated to be declared and paid in August 2015. A prudent estimate is that a sum in the region of 4p in the £ (amounting to £222k in total) is likely to be received. The original amount invested was £5.5m in 2008. Due to the current uncertainty over the timing and the amount of the dividend to be received, there has been no adjustment made to the 2014/15 accounts and balance sheet position, and any amount received will be treated as a "windfall" in the 2015/16 accounts.

**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 2014 | Loans Outstanding | On 31 March 2015 |
|---|---|---|
| £'000 | | £'000 |
| 195,421 | Public Work Loans Board | 192,421 |
| 25,300 | Market debt | 25,300 |
| **220,721** | **Total** | **217,721** |
| 3,000 | Less than 1 year | 4,000 |
| 4,000 | Between 1 and 2 years | 5,000 |
| 5,500 | Between 2 and 5 years | 500 |
| 4,595 | Between 5 and 10 years | 4,595 |
| 203,626 | More than 10 years | 203,626 |
| **220,721** | **Total** | **217,721** |

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 Strategy.

**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.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

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 2015, 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 | (996) |
| Increase in government grant receivable for financing costs | 0 |
| **Impact Surplus or Deficit on the Provision of Services** | (843) |
| **Share of overall impact debited to the HRA** | (498) |
| Decrease in fair value of fixed rate investment assets | (3) |
| 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) | (36,437) |

**Price Risk**

The Authority does not generally invest in equity shares or marketable bonds but does hold an equity stake in the newly formed Municipal Bonds Agency (Local Capital Finance Company). This investment is a policy investment, rather than a treasury management investment and is not material. The Investment is disclosed in the Council's Balance Sheet at cost, as a long-term investment.

**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 2015

| 2013/14 | | Notes | 2014/15 |
|---|---|---|---|
| **£'000** | | | **£'000** |
| | **Expenditure** | | |
| 14,352 | Sutton Housing Partnership management fee | | 14,947 |
| 2,052 | Other operating costs | | 2,130 |
| 2,480 | Rents, rates, taxes and other charges | | 2,463 |
| 7,227 | Depreciation of fixed assets | 8 | 7,377 |
| | Impairment costs: | 9 | |
| 138 | - demolitions | | 1,489 |
| 10,005 | - revaluations and disposals | | (41,322) |
| 279 | Increase in bad debt provision | | 425 |
| **36,533** | **Total Expenditure** | | **(12,491)** |
| | **Income** | | |
| 32,165 | Gross rent from Council dwellings | | 33,048 |
| 744 | Gross non dwellings rent | | 747 |
| 4,418 | Charges for services and facilities | | 4,228 |
| 230 | Contributions towards expenditure | | 251 |
| 0 | Other government grants | | 0 |
| **37,557** | **Total Income** | | **38,274** |
| (1,024) | **Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement** | | (50,765) |
| 27 | HRA services share of Corporate and Democratic Core | | 39 |
| **(997)** | **Net Cost of HRA Services** | | **(50,726)** |
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement.** | | |
| 5,790 | Interest payable and similar charges | | 5,790 |
| (26) | Interest and investment income | | (17) |
| 2,641 | (Profit)/Loss on disposal of fixed assets | | 2,563 |
| 81 | Pensions interest cost and expected return on pension assets | | 103 |
| **7,489** | **Deficit/(Surplus) for the Year on HRA Services** | | **(42,287)** |

## Statement of Movement on the Housing Revenue Account Balance

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| **2,343** | **Balance on the Statutory HRA at the end of the previous year** | **2,258** |
| (7,489) | Surplus/ (Deficit) on the HRA Income and Expenditure Account for the year | 42,287 |
| | **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 | |
| 189 | - Net Charges made for Retirement Benefits in Accordance with FRS17 | 245 |
| 2,641 | - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES | 2,563 |
| 10,194 | - Impairment Costs and Disposals | (39,750) |
| | 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 | |
| (122) | - Employers Contributions Payable to the Pension Fund | (153) |
| **5,413** | **Net (decrease)/increase before transfers to or from reserves** | **5,192** |
| (5,524) | Transfer from the Major Repairs Reserve | (1,604) |
| 0 | Transfer to Freeholders Contributions to Capital Works | 0 |
| 49 | Transfer to Heating Reserve | (18) |
| (23) | Transfer to Hostel Services Reserve | (15) |
| **2,258** | **Balance on the Statutory HRA Reserve Carried Forward** | **5,813** |
| 5 | Freeholders Contributions to Capital Works | 5 |
| 497 | Heating Reserve – Accumulated Surplus | 515 |
| 23 | Hostel Services Reserve - Accumulated Surplus | 37 |
| **2,783** | **Total HRA Balances and Reserves** | **6,370** |

## 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. The statement above 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 2015 of £5,812,663 (£2,257,685 at 31 March 2014) includes £3,514,100 held over to fund the 2015/16 Capital programme. The underlying balance of £2,298,563 is considered a prudent level. In addition the HRA carries a Heating Reserve of £515,124 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 the Council's Hillcroome Road / Harrow Road properties are held in reserve against future expenditure.

## 3. Housing Stock

At 31 March 2015 the Council managed 5,999 tenanted dwellings plus a further 1,446 leasehold. 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 2015**

| Total 2013/14 | | Bedsits | Flats | Houses | Total 2014/15 |
|---|---|---|---|---|---|
| **6,211** | **Dwellings at 1 April** | **213** | **3,033** | **2,867** | **6,113** |
| (31) | Demolitions | (23) | (9) | (8) | (40) |
| (65) | Right-to-Buy Sales | (2) | (38) | (35) | (75) |
| (2) | Net Changes through Change of Use or Refurbishment | 0 | 1 | 0 | 1 |
| **6,113** | **Dwellings at 31 March** | **188** | **2,987** | **2,824** | **5,999** |

40 properties were demolished during 2014/15, and carried a book value of £1,489,147 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 2014. Price changes to 31 March 2015 were reviewed and considered material so stock valuation for Council Dwellings is based on March 2015 prices. Disposals to 31 March 2015 have been accounted for in the valuation. The following valuations are included in the Council's balance sheet:

**Balance Sheet Valuation of HRA Assets**

| As at 31 March 2014 | | As at 31 March 2015 |
|---|---|---|
| **£’000** | Operational Assets: | **£’000** |
| 259,235 | - Dwellings | 318,786 |
| 3,831 | - Other Land and Buildings | 622 |
| 3,757 | Non Operational Assets | 3,774 |
| **266,823** | **Total** | **323,182** |

This valuation reflects the use of HRA dwellings as tenanted stock. The vacant possession valuation at 31 March 2015 is £1.275 million (£1.050 million at 31 March 2014). The balance sheet valuation is considerably lower because dwellings are tenanted and the rents charged reflect that the properties are used to provide 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.

| 2013/14 | | 2014/15 |
|---|---|---|
| **£'000** | | **£'000** |
| 0 | Balance at 1 April | 0 |
| 7,171 | Contribution to Major Repairs Reserve | 7,296 |
| 56 | Depreciation on non-dwellings | 58 |
| (7,171) | MRA used on capital projects | (7,296) |
| (56) | Transfer to Statement of Movement on HRA balance | (58) |
| **0** | **Balance Carried Forward at 31 March** | **0** |

## 6. HRA Capital Financing

| 2013/14 | | 2014/15 |
|---|---|---|
| **£'000** | | **£'000** |
| **26,868** | HRA Capital Expenditure | **29,661** |
| | Financed by : | |
| 42 | Loan/Borrowing | 60 |
| 14,175 | Government Grants | 20,331 |
| 7,171 | Major Repairs Reserve | 7,296 |
| 5,480 | Revenue Contributions | 1,723 |
| 0 | Right to Buy receipts | 27 |
| 0 | Other | 224 |
| **26,868** | **Total** | **29,661** |

## 7. HRA Capital Receipts

| 2013/14 | | 2014/15 |
|---|---|---|
| **£'000** | | **£'000** |
| 5,679 | Right to Buy Sales | 7,680 |
| 56 | Other Disposals | 29 |
| 6 | Mortgage Repayments | 3 |
| **5,741** | **Total** | **7,712** |

## 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 £7.3 million. Assuming an average life of 50 years for Council dwellings, depreciation, excluding land values, would amount to some £4.2 million. This difference is not considered material to the overall valuation of the Council's housing stock.

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| | Operational Assets: | |
| 7,171 | Dwellings | 7,297 |
| 56 | Other Land and Buildings | 58 |
| **7,227** | **Total** | **7,355** |

## 9. Impairment

Reverse Impairment charges totalling £39.833 million have been made during 2014/15. This charge is a result of the following:

- £41.322 million reverse impairment due to a reduction of £22.184 million after applying the social housing factor to the cost of capital works during the year, offset by a 24.4% increase (£63.506 million) in the House Price Index (HPI) used in the revaluation of Council Dwellings, and;
- £1.489 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. 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.

## 11. Rent and Service Charge Arrears

Rent and service charge arrears at 31 March 2015 totalled £1,204,976 compared to £1,009,647 at 31 March 2014. As a proportion of gross rent and service income, this represents 3.26% (2.80% in 2013/14).

Total provision for uncollectable rent and service debt totalled £1,072,500 at 31 March 2015 compared to £851,966 at 31 March 2014.

| As at 31 March 2014 | | As at 31 March 2015 |
|---|---|---|
| **£'000** | | **£'000** |
| 1,161 | Current Tenant Arrears | 1,268 |
| 487 | Former Tenant Arrears | 596 |
| **1,648** | **Total** | **1,864** |
| (638) | Accounts in credit | (659) |
| **1,010** | **Net Arrears** | **1,205** |

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 2014 | | As at 31 March 2015 |
|---|---|---|
| **£'000** | | **£'000** |
| (852) | Tenants rent and heating charges | (1,072) |
| **(852)** | **Total** | **(1,072)** |

# 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 2014/15

| Restated 2013/14 £'000 | | | 2014/15 £'000 |
|---|---|---|---|
| | **Income** | | |
| 98,018 | Council Tax collectable | | 99,527 |
| 49,944 | Income Collectable from Business Ratepayers (Note 3) | | 52,219 |
| 1,306 | Income Collectable in respect of Business Rate Supplement | | 1,355 |
| **149,268** | **Total Income** | | **153,101** |
| | **Expenditure** | | |
| | Council Tax Precepts & Demands (Note 4) | | |
| 74,758 | - London Borough of Sutton | | 76,086 |
| 18,544 | - Greater London Authority | - General | 18,640 |
| 1,311 | | - Olympics | 1,300 |
| | National Non-domestic Rates (Business rates): | | |
| 25,477 | - DCLG Payment | | 25,847 |
| 10,157 | - GLA Payment | | 10,339 |
| 15,235 | - London Borough of Sutton Payment | | 15,715 |
| 210 | - Costs of Collection | | 207 |
| | Cross Rail (NNDR/Business rates additional precept): | | |
| 1,299 | - Payment to GLA | | 1,349 |
| 7 | - Costs of Collection | | 6 |
| | Bad and Doubtful Debts (Council Tax): | | |
| 172 | - Write-offs | | 529 |
| 635 | - Increase/(Decrease) in Provision | | (600) |
| | Bad and Doubtful Debts (Business Rates): | | |
| 907 | - Write-offs | | 696 |
| 6 | - Increase/(Decrease) in Provision | | 18 |
| 2,174 | - Provision for Appeals | | 3,595 |
| 0 | - Successful Appeals | | 1,298 |
| | Transition Payment (Business Rates) | | |
| 0 | - DCLG Payment 2014/15 | | 267 |
| | Contributions: | | |
| 1,000 | - Distribution of Surplus | | 1,898 |
| **151,892** | **Total Expenditure** | | **157,190** |
| 1,775 | Council Tax Fund Balance 1 April | | 3,372 |
| 1,597 | Council Tax Surplus/ (Deficit) for the Year | | 1,673 |
| 3,372 | | | 5,045 |
| 0 | NNDR Fund Balance 1 April | | (4,215) |
| (4,215) | NNDR Surplus/ (Deficit) for the Year | | (5,744) |
| (4,215) | | | (9,959) |
| **(843)** | **Surplus Carried Forward 31 March** | | **(4,914)** |
| | Distribution of Council Tax part of Fund Balance: | | |
| 2,662 | - London Borough of Sutton | | 3,992 |
| 710 | - Greater London Authority | | 1,053 |
| | Distribution of NNDR part of Fund Balance: | | |
| (1,265) | - London Borough of Sutton | | (2,988) |
| (843) | - Greater London Authority | | (1,992) |
| (2,107) | - DCLG | | (4,979) |
| **(843)** | **Total Allocation of Fund Balance** | | **(4,914)** |

## 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 (£1,439.89 in 2014/15, London Borough of Sutton £1,140.89 and GLA £299.00) by the ratio applicable to the property.

In 2013/14, the local government finance regime was revised and Council Tax Benefit is no longer funded by Central Government. This has been replaced by a Council Tax Reduction Scheme which is administered by the authority.

Under the new scheme the Council Tax Base is affected by the new Council Tax Reduction Scheme which treats council tax support as a discount to Council Tax. After taking account of the impact of the Council's proposed Council Tax Reduction Scheme and technical changes to other discounts the Council Tax Base was set by the Strategic Director – Resources, under delegated authority, at 66,690.4 Band D equivalents, compared to 65,526.4 in 2013/14.

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 | 610 | 6/9 | 407 | |
| £40,000 - £52,000 | B | 5,734 | 7/9 | 4,460 | |
| £52,000 - £68,000 | C | 22,502 | 8/9 | 20,002 | |
| £68,000 - £88,000 | D | 21,477 | 9/9 | 21,477 | |
| £88,000 - £120,000 | E | 11,300 | 11/9 | 13,811 | |
| £120,000 - £160,000 | F | 6,388 | 13/9 | 9,227 | |
| £160,000 - £320,000 | G | 3,424 | 15/9 | 5,707 | |
| £320,000 or more | H | 232 | 18/9 | 465 | |
| | | 71,667 | | 75,556 | |
| 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. | | | | 7,232.7 | |
| | | | | 68,323.3 | |
| Adjustment for estimated collection rate. | | | | 1,632.9 | 2.39% |
| | | Council Tax Base | | 66,690.4 | 97.61% |
| | | Band D council tax charge | | £1,439.89 | |
| | | Total Precept raised (Note 4) | | £96,026,840 | |

## 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 some incentive to encourage business growth 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 2014/15 were estimated before the start of the financial year as £25.847m to Central Government, £15.715m to London Borough of Sutton and £10.339m to the GLA. These sums have been paid in 2014/15 and charged to the collection fund in year.

The total income from business rate payers collected in 2014/15 was £52.219m (£49.099m in 2013/14).

The DCLG identified post audit of the Authority's accounts an accounting error in respect of the figures for transition payment protection which showed that Sutton owed a payment to them. A consequence of this error is that the 2013/14 Collection Fund accounts have to be re-stated by £1.118 million.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by Valuation Office Agency and hence business rates outstanding as at 31 March 2015. 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 2014/15 has been calculated at £4.893m.

The total non domestic rateable value at 31 March 2015 in Sutton was £126.637 million (£130.265 million at 31 March 2014). The Government advises local authorities of the two business rate multipliers annually. For 2014/15 these were:

- Small business non-domestic rating multiplier - 47.1p per £ (46.2p per £ in 2013/14)
- Non-domestic rating multiplier - 48.2p per £ (47.1p per £ in 2013/14)

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

| 2013/14 £'000 | | 2014/15 £'000 |
|---|---|---|
| 74,758 | London Borough of Sutton | 76,086 |
| 19,855 | Greater London Authority | 19,941 |
| **94,613** | **Total** | **96,027** |

In addition to the £96.027 million above, the estimated surplus on the Collection Fund at 31 March 2014 of £1.898 million was shared between the Council and the GLA in 2014/15, £1.500 million and £0.398 million respectively.

# Parking Places Reserve Account

Section 55 of the Road Traffic Regulation Act 1984, as amended by the Traffic Management Act 2004, requires all English authorities to keep an account of all parking income and expenditure in designated (i.e. on-street) parking spaces which are in a Civil Enforcement Area, and of their income and expenditure related to their functions as an enforcement authority.  This statement does not include figures for off-street parking i.e. multi-storey and surface car parks.

The Local Government Transparency Code 2014 also requires this information to be published annually and requires Local authorities to place a link on their website to the published data or to place the data itself on its website.

In order to comply with these requirements the London Borough of Sutton has included the Parking Places Reserve Account within its annual statement of accounts.

## On Street Parking Income and Expenditure Statement For The Year Ended 31 March 2015

| 2013/14 | | 2014/15 |
|---|---|---|
| £ | | £ |
| | **Expenditure** | |
| 440,078 | Employees | 535,858 |
| 117,879 | Premises | 112,377 |
| 63,073 | Transport | 62,899 |
| 119,860 | Supplies and services | 139,084 |
| 938,719 | Third party payments | 949,543 |
| 102,600 | Support costs | 101,800 |
| **1,782,209** | **Total Expenditure** | **1,901,560** |
| | **Income** | |
| 1,617,723 | Penalty charge notices | 1,440,118 |
| 533,789 | Pay and display tickets | 515,429 |
| 185,816 | Residents/visitor parking | 201,998 |
| 21,631 | Other | 36,689 |
| **2,358,959** | **Total Income** | **2,194,235** |
| **(576,750)** | **Net (Surplus)/Deficit transferred to the PPRA** | **(292,674)** |

## Parking Places Reserve Account

| 2013/14 | | 2014/15 |
|---|---|---|
| **0** | **Balance at 1 April** | **0** |
| **(576,750)** | (Surplus)/Deficit transferred from Parking Trading A/C | **(292,674)** |
| | **Application of the surplus on the PPRA** | |
| 576,750 | Repayment to General Fund for previous years deficits | 20,280 |
| 0 | Contribution to General Fund for Off street parking | 272,394 |
| 597,030 | **Deficit owed to General Fund B/F** | 20,280 |
| (576,750) | Repaid | (20,280) |
| **20,280** | **Balance at 31 March** | **(0)** |

# 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.

## Sutton Pension Fund Accounts
## for the Year Ended 31 March 2015

| 2013/14 £'000 | | Notes | 2014/15 £'000 |
|---|---|---|---|
| | **Contributions and Benefits** | | |
| | Contributions Receivable: | | |
| 19,568 | From Employers | 2 | 21,611 |
| 5,377 | From Employees or Scheme Members | 2 | 5,797 |
| 3,182 | Transfers In | 4 | 1,033 |
| **28,127** | **Sub-Total Income** | | **28,441** |
| | **Benefits Payable:** | | |
| 17,712 | Pensions | 3 | 18,729 |
| 2,998 | Lump Sum Retirement Grants | 3 | 3,953 |
| 439 | Lump Sum Death Benefits | 3 | 840 |
| | Payments to and on account of Leavers: | | |
| 5 | Refund of Contributions | | 34 |
| 4,304 | Transfers Out | 4 | 2,990 |
| 2,816 | Management expenses | 6f | 3,236 |
| **28,274** | **Sub-Total Expenses** | | **29,782** |
| **(147)** | **Net Addition from Dealings with Scheme Members** | | **(1,341)** |
| | **Return on Investments** | | |
| 6,285 | Investment Income | 6d | 5,450 |
| (13) | Taxes on Income | 6e | (19) |
| 14,654 | Increase/(Decrease) in Market Value of Investments | | 54,820 |
| **20,926** | **Net Return on Investments** | | **60,251** |
| **20,779** | **Net Increase/(Decrease) in Fund During Year** | | **58,910** |
| 427,097 | Opening Net Assets of the Scheme | | 447,876 |
| **447,876** | **Total Net Assets at 31 March** | | **506,786** |
| | **Net Assets Statement** | | |
| | Investment Assets: | | |
| 265,415 | Equities | | 308,293 |
| 48,911 | Fixed Interest Securities - Public Sector | | 34,947 |
| 61,512 | - Other | | 58,703 |
| 8,002 | Index Linked Securities - Public Sector | | 34,574 |
| 29,448 | Property Fund | | 33,143 |
| 11,047 | Other | | 14,825 |
| **424,335** | **Sub-Total Securities** | 6b | **484,485** |
| 5,812 | Loans to businesses | 6b | 4,768 |
| 3,283 | Cash | | 1,452 |
| 703 | Debtors | | 404 |
| **434,133** | **Total Investment Assets** | 6c | **491,109** |
| | Current Assets | | |
| 13,506 | Cash in Hand | | 15,277 |
| 808 | Debtors | | 965 |
| (571) | Current Liabilities | | (565) |
| **447,876** | **Total Net Assets at 31 March** | | **506,786** |

## 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 (17)

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)
- Eldercare
- Mitie (facilities management)

As at 31 March, membership of the fund comprised

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| No. | | No. |
| 4,101 | Employees & Council Members | 4,044 |
| 3,191 | Pensioners and dependants | 3,340 |
| 3,867 | Former Employees - deferred benefits | 4,138 |
| **11,159** | **Total** | **11,522** |

From 1 April 2014 the LGPS was closed to elected members. Councillors already in the Scheme on 31 March 2014 were allowed to continue membership until their existing terms of offices ended. (In the case of LBS this was 26 May 2014).

## 2. Contributions to the Fund

The Scheme's current members make contributions to the Fund by deductions from earnings. From 1 April 2014 with the introduction of the LGPS 2014 Career Average Revalued Earnings (CARE) scheme, revised contribution banding rates of between 5.5% and 12.5% applied. These are assessed on a monthly basis based on the members' (annualised) actual pensionable pay in each pay period. Following the 2013 actuarial valuation, the employers' stabilised contribution rate for the Sutton Pool was set at 22.5% of employees' earnings (17.4% future service rate and a deficit contribution equal to £3.318m).

Academy schools were separately assessed as individual scheme employers with employer contributions for the majority in the range 25% to 32%. However, these academies' rates were stabilised at 1% over the Sutton Pool, for 2014/15 this was set at 23.5%. One of the academy school's contribution rate was substantially higher at 41% and a separate agreement set their rate for 2014/15 at 32%.

For Scheduled Bodies the employers' rates of contribution were:

- Carshalton College – 18.2% plus £319k
- Sutton Housing Partnership – 19.5% plus £155k, a capital payment for the deficit contribution

For Admitted Bodies the employers' rates of contribution were:

- Bandon Hill Joint Cemetery Committee – 30.6%
- Citizens Advice Bureaux – 21.0% plus £31k
- ThamesReach – 20.0%
- Sports and Leisure Management – 18.7%
- Community Options – 23.9%
- Community Drug Service – 25.5%
- Compass Catering – 21.8%
- Eldercare – 18.0%
- Mitie – 23.7%

Contributions to the Pension Fund were as follows:-

| 2013/14 | | 2014/15 |
|---|---|---|
| £'000 | | £'000 |
| | **Employers' Contributions** | |
| 14,818 | London Borough of Sutton incl. community schools | 16,011 |
| 2,755 | Academy schools | 3,070 |
| 364 | London Borough of Sutton - Recovery of early retirement costs | 535 |
| 567 | Deficit Funding Contributions (SHP & Carshalton College) | 731 |
| | Scheduled Bodies | |
| 275 | - Carshalton College | 274 |
| 586 | - Sutton Housing Partnership | 657 |
| 203 | Admitted Bodies | 333 |
| **19,568** | | **21,611** |
| | **Active Members' Contributions** | |
| 4,267 | London Borough of Sutton incl. community schools | 4,547 |
| 738 | Academy schools | 827 |
| | Scheduled Bodies | |
| 106 | - Carshalton College | 96 |
| 215 | - Sutton Housing Partnership | 239 |
| 51 | Admitted Bodies | 88 |
| **5,377** | | **5,797** |

## 3. Analysis of Benefits Payable

| 2013/14 | | 2014/15 |
|---|---|---|
| **£'000** | | **£'000** |
| 19,833 | London Borough of Sutton incl. community schools | 22,001 |
| 272 | London Borough of Sutton - Academy schools | 283 |
| | Scheduled Bodies | |
| 383 | - Carshalton College | 365 |
| 552 | - Sutton Housing Partnership | 686 |
| 109 | Admitted Bodies | 187 |
| **21,149** | **Total Benefits Payable** | **23,522** |

## 4. Transfers

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

| | 2013/14 | | 2014/15 | |
|---|---|---|---|---|
| | Transfers Paid | Transfers received | Transfers Paid | Transfers received |
| | £'000 | £'000 | £'000 | £'000 |
| Bulk transfers | 1,405 | 1,088 | 0 | 0 |
| Individual transfers | 2,899 | 2,094 | 2,990 | 1,033 |
| | 4,304 | 3,182 | 2,990 | 1,033 |

## 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 2015. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2015. 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 2014/15, 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 2015.

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 M&G. 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 with 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 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 who had discretion to execute foreign exchange deals in 2014/15 was Aberdeen, where they managed funds denominated in both GBP and USD. These accounted for 3 of 15 foreign exchange deals executed by the fund over the year. This mandate is no longer active and the discretion is therefore cancelled. During the year there was one EUR purchase with the custodian to fund capital calls in a EUR denominated fund managed by Partners Group and 11 foreign exchange's executed on the transition account that included varying currencies. However it's worth noting that all these transaction purchased Sterling or Euro's. Any pending foreign exchange 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:

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asssets statement at 31 March 2015 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** |
|---|---|---|
| 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 0.1 increase in the discount rate assumption would result in an approximate reduction of £14m in the Council's pension liability; a one year increase in member life expectancy would increase the liability by approximately £29m and a 0.1% increase in the salary increase rate would increase the liability by approximately £2m. |
| 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 £22.2m. 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

**Pooled Absolute Return Funds;**
Baillie Gifford
Pyrford

**Bonds;**
M&G

**UK Pooled Property Funds;**
Aviva Investors
BlackRock

**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 2015 totalled £489.253 million split as follows:

| | **£m** | **% of Investment Assets** |
|---|---|---|
| M & G Bonds | 81.005 | 16.6% |
| Newton | 77.220 | 15.8% |
| Schroders | 74.942 | 15.3% |
| Harding Loevner | 73.673 | 15.1% |
| Legal & General | 60.494 | 12.4% |
| Baillie Gifford | 40.640 | 8.3% |
| Pyrford | 38.680 | 7.9% |
| Blackrock | 20.329 | 4.1% |
| AVIVA | 11.586 | 2.3% |
| Partners Group | 5.916 | 1.2% |
| M&G Financing Fund | 4.768 | 1.0% |
| **Total** | **489.253** | **100.0%** |

Fund’s assets are held in unitised form. Excluding equities, the largest unitised holding is M&G's Alpha Opportunities Fund, representing 9.2% of net assets. There is no other individual holding of more than 5%.

## b) Analysis of Investments

| 31 March 2014 £m | | 31 March 2015 £m |
|---|---|---|
| | **Equities:** | |
| 80.7 | UK Quoted | 86.6 |
| 184.7 | Overseas Quoted | 221.7 |
| | **Fixed Interest Securities:** | |
| | **- UK** | |
| 29.0 | Public sector quoted | 23.7 |
| 26.3 | Corporate quoted | 18.7 |
| | **- Overseas** | |
| 19.9 | Public sector quoted | 11.3 |
| 35.2 | Corporate quoted | 40.0 |
| | **Index linked securities:** | |
| 7.4 | UK Public sector quoted | 33.5 |
| 0.6 | Overseas Public sector quoted | 1.0 |
| | **Property:** | |
| | **- UK** | |
| 19.3 | Property fund quoted: | 21.6 |
| | **- Overseas** | |
| 10.2 | Property Unit Trust unquoted | 11.6 |
| | **Loans to business:** | |
| 5.8 | Unit Trust unquoted | 4.8 |
| | **Other:** | |
| 7.7 | Quoted | 8.9 |
| 3.3 | Unquoted - Private Equity Infrastructure | 5.9 |
| **430.1** | | **489.3** |
| | **Pooled funds - additional analysis:** | |
| | **- UK** | |
| | **Equities:** | |
| 67.7 | Unit Trusts | 73.3 |
| 13.0 | Other pooled equities | 13.3 |
| | **Fixed Interest Securities:** | |
| 55.2 | Fixed income bonds | 42.4 |
| | **Index Linked Securities:** | |
| 7.4 | Indexed linked bond | 33.6 |
| | **Property:** | |
| 18.5 | Unit Trust | 20.3 |
| 0.8 | Other | 1.2 |
| | **Loans to business:** | |
| 5.8 | Unit Trust | 4.8 |
| | **- Overseas** | |
| | **Equities:** | |
| 117.3 | Unit Trust | 139.3 |
| 67.4 | Other pooled equities | 82.4 |
| | **Fixed Interest Securities:** | |
| 55.8 | Other | 52.3 |
| | **Property:** | |
| 10.2 | Unit Trust | 11.6 |
| | **Other:** | |
| 11.0 | Other pooled investments | 14.8 |
| **430.1** | | **489.3** |

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

## c) Investment Movement Summary

| Investment Movement Summary 2014/15 | Value at 1 April 2014 | Purchases at Cost | Sales Proceeds | Change in Market Value | Value at 31 March 2015 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Equities | 265.2 | 0.6 | (0.6) | 43.1 | 308.3 |
| Bonds | 117.8 | 76.9 | (75.6) | 9.1 | 128.2 |
| Property | 29.7 | 0.4 | (0.3) | 3.3 | 33.1 |
| | 412.7 | 77.9 | (76.5) | 55.5 | 469.6 |
| Loans to: | | | | | |
| Businesses | 5.8 | 0.3 | 0.0 | (1.3) | 4.8 |
| Other | 11.5 | 3.3 | (0.5) | 0.5 | 14.8 |
| **Total Investment Assets** | **430.0** | **81.5** | **(77.0)** | **54.7** | **489.2** |
| Other investment balances: | | | | | |
| Derivative contracts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash & Cash Equivalents | 3.4 | | | 0.1 | 1.5 |
| Debtors | 0.7 | | | | 0.4 |
| **Total Assets** | **434.1** | **81.5** | **(77.0)** | **54.8** | **491.1** |

| Comparative Movements in 2013/14 | Value at 1 April 2013 | Purchases at Cost | Sales Proceeds | Change in Market Value | Value at 31 March 2014 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Equities | 245.4 | 4.5 | (0.5) | 16.0 | 265.4 |
| Bonds | 124.2 | 11.2 | (17.2) | 0.1 | 118.3 |
| Property | 22.5 | 5.0 | (0.4) | 2.3 | 29.4 |
| | 392.1 | 20.7 | (18.1) | 18.4 | 413.1 |
| Loans to: | | | | | |
| Businesses | 6.5 | 0.3 | 0.0 | (0.9) | 5.9 |
| Other | 11.4 | 5.9 | (3.3) | (2.9) | 11.1 |
| **Total Investment Assets** | **410.0** | **26.9** | **(21.4)** | **14.6** | **430.1** |
| Other investment balances: | | | | | |
| Derivative contracts | 0.0 | 0.1 | (0.3) | 0.2 | 0.0 |
| Cash & Cash Equivalents | 3.1 | | | (0.1) | 3.3 |
| Debtors | 0.8 | | | | 0.7 |
| **Total Assets** | **413.9** | **27.0** | **(21.7)** | **14.7** | **434.1** |

There are no transaction costs included in the cost of purchases and in sale proceeds.

**d) Investment Income (Gross)**

| 31 March 2014 £'000 | | 31 March 2015 £'000 |
|---|---|---|
| 628 | Equities | 597 |
| 1,829 | Bonds | 1,635 |
| 1,128 | Property | 1,622 |
| 3,585 | | 3,854 |
| 304 | Loans to Business | 252 |
| 2,396 | *Other | 1,344 |
| 6,285 | Total Investment Income | 5,450 |

*Other - includes £1.0m of income distributions from M&G

**e) Taxes on Income**

| 31 March 2014 £'000 | | 31 March 2015 £'000 |
|---|---|---|
| 13 | UK Income Tax - Property | 19 |
| 13 | | 19 |

**f) Management Expenses**

| 31 March 2014 £'000 | | 31 March 2015 £'000 |
|---|---|---|
| 469 | Administrative costs | 634 |
| 2,142 | Investment management expenses | 2,495 |
| 205 | Oversight and governance costs | 107 |
| 2,816 | | 3,236 |

This analysis of the costs of managing the Pension Fund during the year has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £121.5k (£106.8k 2013/14) in respect of performance-related fees paid/payable to an investment fund manager.

## 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.

It is also 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 30 June 2015 the value of investments has decreased by 2.7% (£13.1m).

There have been no events since the 31 March 2015, and up to the date when these accounts were authorised, that require any adjustment to these accounts.

## 8. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. Hymans Robertson, the Council's actuary (until 2014) 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 remained at 21.5% for 2013/14 and thereafter increased by 1% each year for the next three years. This will be paid through increases in lump sum contributions.

For 2014/15 to 2016/17 the stabilised contributions paid will be 17.4% of employees' earnings plus deficit contributions of £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.

<u>Actuarial Assumptions</u>

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 - demographic and financial.

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' salaries (final and career average) 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.

<u>Financial Assumptions</u>

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

| | 31 March 2013 | |
|---|---|---|
| | % p.a. | % p.a. |
| Financial assumptions | Nominal | 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:

| | Actives & Deferreds | | Current Pensioners | |
|---|---|---|---|---|
| Assumed life expectancy at age 65 | 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 £881 million as at 31 March 2015 (£754 million as at 31 March 2014). 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 2015 comprises £378 million in respect of employee members, £181 million in respect of deferred pensioners and £322 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 2015 is to increase the actuarial present value by £92 million.

(i) Financial Assumptions

The Actuary's recommended financial assumptions are summarised below:

| Year ended | 31 March 2014 % p.a. | 31 March 2015 % p.a. |
|---|---|---|
| Inflation/Pension Increase Rate | 2.8% | 2.4% |
| Salary Increase Rate* | 4.6% | 4.2% |
| Discount Rate | 4.3% | 3.3% |

*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 | 21.7 years | 25.0 years |
| Future Pensioners* | 23.7 years | 27.0 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 2015 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 2015 and confirming the amounts held to their accounts and the movements in the year. In the year to May 2015 AVC's paid by members amounted to £189k (£234k in 2014) and £649k was paid out by the scheme (£32k in 2014). At 31 May 2015 the total value of these AVC's was £1,185k (1,503k in 2014).

## 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 can also be 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. There have been no declarations made which are material to the pension fund accounts.

The Pension Fund had an average balance of £14.6 million of surplus cash deposited with the Council during 2014/15. The Council charged the Fund £326,200 for expenses incurred in administering the Fund. The Council is also the single largest employer of members of the pension fund and contributed £19.616 million to the fund (£17.937 million in 2013/14).

Key Management Personnel

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.

| **2013/14** | **Remuneration Band** | **2014/15** |
|---|---|---|
| Number of Employees | **£** | Number of Employees |
| 1 | up to 50,000 | 0 |
| 0 | 50,000 - 55,000 | 1 |
| 1 | 60,000 - 65,000 | 1 |
| 1 | 125,000 - 130,000 | 1 |
| **3** | **Total** | **3** |

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

| **2013/14** | | | | **2014/15** | | |
|---|---|---|---|---|---|---|
| Salary, fees and allowances | Employers pension contributions | Total | Chief Officer | Salary, fees and allowances | Employers pension contributions | Total |
| £ | £ | £ | | £ | £ | £ |
| 129,669 | 22,538 | 152,207 | Strategic Director – Resources | 128,473 | 0 | 128,473 |

## 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 | |
|---|---|---|---|---|---|---|
| | 2013/14 £'000 | 2014/15 £'000 | 2013/14 £'000 | 2014/15 £'000 | 2013/14 £'000 | 2014/15 £'000 |
| **Financial Assets** | | | | | | |
| Fixed Interest Securities | 110,423 | 93,650 | 0 | 0 | 0 | 0 |
| Index Linked Securities | 8,002 | 34,574 | 0 | 0 | 0 | 0 |
| Equities | 265,415 | 308,293 | 0 | 0 | 0 | 0 |
| Pooled property investments | 29,449 | 33,143 | 0 | 0 | 0 | 0 |
| Private Equity/Infrastructure | 3,303 | 5,916 | 0 | 0 | 0 | 0 |
| Other* | 7,743 | 8,909 | 0 | 0 | 0 | 0 |
| Investment Cash | 0 | 0 | 3,283 | 1,453 | 0 | 0 |
| Other investment balances | 5,812 | 4,768 | 0 | 0 | 0 | 0 |
| Investment Debtors | 0 | 0 | 703 | 404 | 0 | 0 |
| | **430,147** | **489,253** | **3,986** | **1,857** | **0** | **0** |
| Cash in hand | 0 | 0 | 13,506 | 15,277 | 0 | 0 |
| Debtors | 0 | 0 | 808 | 965 | 0 | 0 |
| | **430,147** | **489,253** | **18,300** | **18,099** | **0** | **0** |
| **Financial Liabilities** | | | | | | |
| Creditors | 0 | 0 | 0 | 0 | (571) | (565) |
| | **0** | **0** | **0** | **0** | **(571)** | **(565)** |
| | **430,147** | **489,253** | **18,300** | **18,099** | **(571)** | **(565)** |

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

| | 2013/14 £'000 | 2014/15 £'000 |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit and loss | 15,598 | 56,087 |
| Loans and receivables | (944) | (1,268) |
| 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** | **14,654** | **54,819** |

Net gains and losses at fair value through profit and loss have been re-stated for 2013/14, as the change in the market value of investments has been adjusted to reflect management fees that have been deducted at source.

### 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 | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | £'000 | £'000 | £'000 | £'000 |
| **Financial Assets** | | | | |
| Fair value through profit and loss | 424,335 | 484,485 | 424,335 | 484,485 |
| Loans and receivables | 9,798 | 6,625 | 9,798 | 6,625 |
| **Total financial assets** | **434,133** | **491,110** | **434,133** | **491,110** |
| **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 | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | £'000 | £'000 | £'000 | £'000 |
| **Non-investment Financial Assets** | | | | |
| Cash in hand | 13,506 | 15,277 | 13,506 | 15,277 |
| Debtors | 808 | 965 | 808 | 965 |
| **Total non-investment financial assets** | **14,314** | **16,242** | **14,314** | **16,242** |
| **Non-investment Financial Liabilities** | | | | |
| Creditors | (571) | (565) | (571) | (565) |
| **Total non-investment financial liabilities** | **(571)** | **(565)** | **(571)** | **(565)** |

### 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 March 2015** | **Level 1** | **Level 2** | **Level 3** | |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial Assets** | | | | |
| Equities | 247,799 | 60,494 | 0 | 308,293 |
| Securities | 128,224 | 0 | 0 | 128,224 |
| Property | 1,228 | 20,329 | 11,586 | 33,143 |
| Private Equity/Infrastructure | 0 | 0 | 5,916 | 5,916 |
| Loans to businesses | 0 | 0 | 4,768 | 4,768 |
| Other* | 8,909 | 0 | 0 | 8,909 |
| **Financial assets at fair value through profit and loss** | **386,161** | **80,822** | **22,270** | **489,253** |

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

| **Level 3 Investment Movement Summary 2014/15** | **Value at 31 March 14** | Purchases at Cost | Sales Proceeds | Change in Market Value | **Value at 31 March 15** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Property | 10,187 | 421 | (152) | 1,130 | 11,586 |
| Private Equity/Infrastructure | 3,304 | 3,256 | (527) | (116) | 5,916 |
| Loans to businesses | 5,812 | 252 | (27) | (1,268) | 4,768 |
| | **19,302** | **3,929** | **(706)** | **(254)** | **22,270** |

| | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | Total |
|---|---|---|---|---|
| **Values at 31 March 2014** | **Level 1** | **Level 2** | **Level 3** | |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial Assets** | | | | |
| Equities | 208,715 | 56,700 | 0 | 265,415 |
| Securities | 118,425 | 0 | 0 | 118,425 |
| Property | 801 | 18,461 | 10,187 | 29,449 |
| Private Equity/Infrastructure | 0 | 0 | 3,304 | 3,304 |
| Loans to businesses | 0 | 0 | 5,812 | 5,812 |
| Other* | 7,743 | 0 | 0 | 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 March 13** | Purchases at Cost | Sales Proceeds | Change in Market Value | **Value at 31 March 14** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Property | 4,930 | 4,883 | (181) | 555 | 10,187 |
| Private Equity/Infrastructure | 2,196 | 4,435 | (3,349) | 21 | 3,304 |
| Loans to businesses | 6,485 | 303 | (33) | (944) | 5,812 |
| | **13,611** | **9,622** | **(3,563)** | **(368)** | **19,302** |

## 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 2014/15 and 2013/14 as shown in the tables overleaf.

| Asset Type | Value as at 31/03/2015 | % Change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| Cash and cash equivalents | 1,453 | 0.6 | 1,461 | 1,443 |
| **Investment portfolio assets:** | | | | |
| UK bonds | 42,392 | 6.7 | 45,232 | 39,552 |
| Overseas bonds | 52,287 | 9.5 | 57,254 | 47,320 |
| UK equities | 86,610 | 17.0 | 101,334 | 71,886 |
| Overseas equities | 221,683 | 20.1 | 266,241 | 177,125 |
| Index linked gilts | 33,545 | 4.8 | 35,155 | 31,935 |
| Property | 33,143 | 14.7 | 38,015 | 28,271 |
| Private equity/infrastructure | 5,916 | 15.9 | 6,857 | 4,975 |
| Absolute return | 8,909 | 12.0 | 9,978 | 7,840 |
| Corporate bonds | 4,768 | 9.5 | 5,221 | 4,315 |
| Other - Debtors | 404 | 0.0 | 404 | 404 |
| **Total assets available to pay benefits** | **491,110** | | **567,152** | **415,066** |

| 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** |

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.

<u>Currency Risk</u>

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 2014/15 and 2013/14. 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 March 2015 | Change to net asets available to pay benefits 13% | -13% |
|---|---|---|---|
| | £000 | £000 | £000 |
| Equities | 221,683 | 250,502 | 192,864 |
| Fixed interest securities | 51,258 | 57,922 | 44,594 |
| Index linked securities | 1,029 | 1,163 | 895 |
| Property | 11,586 | 13,092 | 10,080 |
| Private Equity/Infrastructure | 5,916 | 6,685 | 5,147 |
| **Total assets available to pay benefits** | **291,472** | **329,363** | **253,581** |

| **Currency Exposure - Asset Type** | Value as at 31 March 2014 | Change to net asets available to pay benefits 13% | -13% |
|---|---|---|---|
| | £000 | £000 | £000 |
| 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** |

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 March 2015 | Change in year if interest rates moved by 100bps | |
|---|---|---|---|
| | | +100bps | -100bps |
| | £000 | £000 | £000 |
| Cash in hand | 15,277 | 153 | (153) |

**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.

At 31 March 2015 the Council held £15.277m cash on behalf of the Pension Fund through its treasury management arrangements. £12.410m was held in a dedicated Pension Fund bank account and the remaining £2.860m was invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk.

**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 2014/15. This fee is unchanged from 2013/14.

## 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

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# Statement of Responsibilities

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

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# 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 2015. 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 2015 and its income and expenditure for the year.

Strategic Director - Resources
24 September 2015

I certify that the Statement of Accounts was approved by the Audit Committee on 24 September 2015.

Chair, Audit Committee

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# 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.

## 1. Scope and responsibility

1.1 Sutton Council is required to put in place governance arrangements, including a system of internal control, to ensure that its business is conducted in accordance with the law and proper standards, and that resources are safeguarded, properly accounted for, and used efficiently and effectively with arrangements to secure continuous improvement. This statement explains the governance arrangements and it includes a review of the effectiveness of the system of internal control in accordance with Section 4(2) of the Accounts and Audit (England) Regulations 2011.

## 2. Purpose of the governance framework

2.1 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 and accounts to the community. The system of internal control is a significant part of the governance framework and it helps to increase the likelihood that the Council's objectives will be met. It cannot eliminate all risk of failure and can therefore only provide reasonable and not absolute assurance of effectiveness. The governance framework has been in place for 2014/15 and up to the date of approval of the Statement of Accounts. Its key elements are detailed below.

## 3. Key elements of the governance framework

| 3.1 | Decision-making, vision and policy priorities: | Evidenced by: |
|---|---|---|
| a) | The Constitution explains the Council's decision making structure. Opposition membership of the Standing Committees provides integrated scrutiny of decision-making. There is a separate Scrutiny Committee focusing on statutory scrutiny responsibilities that engages with local people and institutional stakeholders. A system of requisitioning enables the calling in of decisions for further consideration before they can take effect. Decision-making is transparent – decisions reports and committee minutes are published on the Council's website along with details of decisions made by officers under delegated authority. | • The Constitution (Section 2)<br>• Committee decision reports and minutes<br>• Scrutiny Committee work plan<br>• The Corporate Plan 2014/15 – 2018/19<br>• The People Plan 2013-16<br>• The Smarter Council Programme |
| b) | The Corporate Plan exemplifies the Council's strategic leadership by setting out the long term vision for Sutton as a place and a local authority. It includes the related policy priorities under the themes 'Open, Fair, Green and Smart' reflecting the Council's values and the planned outcomes for the community. | |
| c) | The efficient use of resources is an overarching policy priority given the projected budget gap over the medium term due to cuts in Government funding. The Smarter Council programme is the strategic approach to transforming services, reducing costs and maintaining resident satisfaction. It includes cross organisational and directorate specific projects. Directorates have savings targets based on their controllable budgets. The People Plan supports delivery and meets responsibility to staff through skills development, behaviour change and productivity improvement, and aligned pay and rewards. | |

**3.2 Development area:**

- A review is being undertaken to revise the Constitution to strengthen open and transparent decision making, enhance the scrutiny function and assist members and staff to work in a more efficient way. Once the review is complete, the Council will update and formally adopt its Local Code of Corporate Governance, which shows that its governance arrangements are consistent with good practice.

| 3.3 | Roles, responsibilities and behaviour: | Evidenced by: |
|---|---|---|
| a) | The Constitution sets out the roles and responsibilities of committees and senior employees for specific statutory functions and details the framework for the administrative conduct of the Council and its committees. During 2014/15, the Council restructured its senior management and directorate structure to meet changing needs and demands for services. The statutory roles of the Director of Children's Services and the Director of Adult Social Care have been combined. | • The Constitution (Section 3, 4 and 5)<br>• Codes of conduct and protocols<br>• Leadership and core behaviours |
| b) | The role of the Corporate Management Team, including the statutory chief officers, such as the Section 151 Officer (Local Government Act 1972), is to support members in the policy and decision-making process by providing assessments and advice to ensure that decision-making is rigorous. | • Staff appraisal system<br>• Staff training courses |
| c) | There are codes of conduct and protocols for members and staff to ensure responsibilities are carried out with high standards of conduct and effective governance. The protocols include leadership behaviours for staff in senior management roles and core behaviours for all staff. Staff appraisals ensure that behaviours are put into practice and identify training needs. The 'Rising Stars Programme' encourages and nurtures new talent helping to balance continuity and renewal. Themed training helps to ensure that members have the skills they need to perform well in their committee roles. | • Rising Stars Programme<br>• Themed training for members<br>• Standards Committee terms of reference |
| d) | 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 Councillors Code of Conduct. | |

**3.4 Development area:**

- A review is being undertaken to revise the Constitution to reinforce clarity in terms of member and officer relationships.

| 3.5 | Control activities: | Evidenced by: |
|---|---|---|
| a) | Control activities are the policies and procedures that help ensure that management directives are carried out. The principal documents include the Financial Regulations and Contract Standing Orders which are part of the Constitution. Others include Commissioning and Financial Planning, and Workplace Health & Safety. There are multi-agency policies and procedures for safeguarding vulnerable people. | • Policies and procedures specified herein<br>• Risk Management Strategy |
| b) | Senior managers identify strategic risk by monitoring information flows relating to changes in the business environment, including changes in government policy, funding and demographics. The Corporate Plan and Medium Term Financial Plan are updated to reflect impacts. This helps to ensure that the services delivered are what the community requires. Change management risks are managed through programme and project risk management. Operational risk management is an integral part of performance management undertaken by managers to ensure services are delivered effectively. There are arrangements for business continuity management and information security management. | • Sutton Approach to Programme and Project Management<br>• Emergency Management Strategy (business continuity)<br>• Information Security Policy |
| c) | The Treasury Management Strategy includes the Annual Investment Strategy that specifies the criteria (credit ratings and other risk thresholds) for selecting counterparties. | • Treasury Management Strategy |

| | | |
|---|---|---|
| d) | Financial control is integrated with service management through the Annual Commissioning and Financial Plan that is underpinned by the Corporate Plan and Medium Term Financial Plan. Service managers are responsible for 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. | • Annual Commissioning and Financial Plan<br>• Medium Tem Financial Plan |

| **3.6** | **Monitoring:** | **Evidenced by:** |
|---|---|---|
| a) | Control activities are be monitored through processes that assess performance. Service managers are responsible for embedding assurance frameworks to monitor compliance with policies and procedures, where relevant, consistent with the expectations of statutory inspectors. To ensure that the Council does the right things, the right way, there is as an overarching quality assurance framework and specific arrangements in Children's Services and Adult Social Services. The Adult Social Services arrangements reflect the move towards commissioning services. | • Management reviews and verifications of performance, including the Sutton Quality Assurance Framework, Children's Services Quality Assurance Framework and Quality Management Framework for Adult Social Care |
| b) | The Strategy and Resources Committee receives quarterly reports that review performance against the priorities and deliverables in the Annual Commissioning and Financial Plan. To ensure accountability to local people and institutional stakeholders the reports are published on the Council's website. A balanced scorecard approach is used that includes feedback from residents, including complaints, as well as indicators of corporate health and risk. Corporate and Directorate Performance Review Boards address underperformance and budget variations. | • Quarterly Performance and Finance Report |
| c) | The major programmes and projects board ensures Council projects are delivered to cost, time and quality. The board provides oversight of Sutton's portfolio of programmes and projects and ensures that the correct resources are in place, and efforts are co-ordinated in such a way that the Council achieves the full benefit of the programme or project. | • Major Programmes and Projects Board work plan<br>• Internal Audit Plan 2014-2015, including Anti-Fraud Work |
| d) | Internal Audit undertakes risk based compliance reviews of the financial systems that generate material transaction streams in the Statement of Accounts. They review other systems of internal control 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 agreement of the Audit Committee. The Internal Audit Charter defines Internal Audit's purpose, authority, responsibility and position within the Council and shows that it complies with the Public Sector Internal Audit Standards. | • Internal Audit Charter<br>• Anti-Fraud and Corruption Policy and Procedures including Whistle-blowing |
| e) | Anti-fraud arrangements are designed to dovetail with the Home Office's Local Government Fraud Strategy 'Fighting Fraud Locally' and the transfer of housing benefit fraud responsibilities to the national Single Fraud Investigation Service. As a result, the Council's Counter Fraud and Investigation function is now delivered by a Shared Service hosted by the London Borough of Wandsworth. On-line fraud awareness training is available to all members and staff who are encouraged to be alert to the risk of malpractice and report any concerns by whistle-blowing. | • Audit Committee work plan |
| f) | There is oversight of control activities by the Audit Committee whose terms of reference and work plan are consistent with CIPFA guidance ('*Audit Committees: Practical Guidance for Local Authorities and Police*'. The committee's membership is politically proportionate and the Chair is an opposition member. | |

| | |
|---|---|
| **3.7** | **Development area:** |
| ● | A review is being undertaken to strengthen performance management by making reporting more timely and outcome-focussed. |

| **3.8** | **Partnerships:** | **Evidenced by:** |
|---|---|---|
| a) | There is considerable emphasis on working with other councils through shared services to release efficiencies and support delivery of more customer focussed services. The governance implications of shared services are addressed through formal agreements. Section 101 of the Local Government Act 1972 allows the delegation of functions to other local authorities and Section 102 allows functions to be discharged through joint committees. | ● Shared Services Agreements, including ITC Shared Service and the South London Waste Partnership<br>● Better Care Fund Agreement<br>● Housing Revenue Account Business Plan |
| b) | On 1 April 2015 the Council entered into a Section 75 (National Health Service Act 2006) agreement with NHS Sutton Clinical Commissioning Group relating to the commissioning of health and social care services within the Better Care Fund. The agreement allows the pooling of funds and joining together of staff to integrate the provision of health related services from managerial level to the front line. | |
| c) | Sutton Housing Partnership manages the Council's 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. | |

| **3.9** | **Communication:** | **Evidenced by:** |
|---|---|---|
| a) | The constitution provides a summary and explanation of how the Council operates, including an outline of the rights of local residents, businesses, the voluntary sector and other public sector organisations to engage with and participate in the Council's democratic processes. This helps to ensure that the relationship between the Council and the public is clear so that each knows what to expect of the other. | ● The Constitution (Section 1)<br>● The Open Council Policy<br>● Sutton's Future Consultation<br>● Local Committee agendas, reports and minutes |
| b) | The 'Open Council' policy is a framework of community engagement setting out the Council's commitment to and standards for involving local people to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning. 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, the Council is working towards making more public data freely available. | |
| c) | c) The Consultation Hub, part of the Council's website, helps stakeholders find and participate in consultations that interest them. In particular, the 'Sutton's Future' consultation gives everyone the opportunity to understand the financial challenges facing the Council due to cuts in Government funding and have their say. | |

d) d) Local committees are used to communicate with local people and ensure they have the chance to be heard. Six local committees, local meetings of ward councillors and community representatives which are open to the public, discuss matters of local interest, influence the decisions that the Council takes and encourage public services to work together to solve local problems.

**3.10 Development area:**

- A review is being undertaken of the Constitutional elements of Local Committees.

## 4. Review of Effectiveness

4.1 The review of the effectiveness has shown that the governance framework is consistent with the principles of the CIPFA/SOLACE Framework[1] and CIPFA's statements on the roles of the Chief Finance Officer and Head of Internal Audit. The review of effectiveness is informed by the work of members and managers who have responsibility for the maintenance and development of the governance framework, and by assessments undertaken by the Head of Internal Audit, external audit and other review agencies. The work is summarised below. This shows that the governance framework, including the system of internal audit and the internal control environment, continues to be regarded as fit for purpose.

- The review of the Constitution
- The work of the Full Council and committees, including the Audit Committee, Scrutiny Committee and Standards Committee
- Work and reports relating to the Smarter Council change programme, including 'Delivering the Smarter Council - Senior Management Review'
- Assurance Statements on the roles of the Director of Children's Services and the Director of Adult Social Services
- Work and reports relating to staff appraisals
- Annual Commissioning and Financial Plan
- Medium Term Financial Plan
- Treasury Management Reports
- Quarterly Performance and Finance reports and the work of Corporate and Directorate Performance Review Boards
- The review of the performance management system
- Adult and Children's Services Quality Assurance Reports
- The work of the Safeguarding Boards
- Peer Review of Adult Social Care Commissioning
- Work and reports relating to workplace health and safety
- 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 Report of the Audit Committee
- The Annual Review of Risk Management
- Risk assessments in commissioning and finance plans, policy decision reports, business continuity plans, information asset registers and anti-fraud plans

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Delivering Good Governance in Local Government (2007), Chartered Institute of Public Finance and Society of Local Authority Chief Executives

- The work and opinions of Internal Audit, including the Internal Audit Annual Report containing the Annual Effectiveness Review of the system of Internal Audit and the Head of Internal Audit's opinion on the adequacy of the Council's internal control environment
- External Audit work and opinions on the Statement of Accounts, Value for Money and Certification of Grant Claims
- The work and opinions of the external assessor for the Eco Management and Audit Scheme.

## 5. Significant Governance Issues

5.1 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 significant governance issues identified in the review of effectiveness are summarised below. They are preceded by an update on the issues reported in the 2013/14 Annual Governance Statement.

| Significant issues reported for 2013/14: | Update: |
|---|---|
| • Improving safeguarding and looked after children's services. | • Good progress in improving services acknowledged by the external assessor. Improvement Notice lifted. Improvements embedded through quality assurance activity and scrutiny. |
| • The risks around welfare reform, including the localisation of support for council tax. | • A survey has been carried out to obtain views on how the Council has advised and supported residents through the Welfare Reform changes. The findings will help to ensure that the Council's approach to the Universal Credit roll out is successful. The continuing economic recovery is expected to result in further reductions in the number of residents eligible for help from the local council tax reduction scheme, which is broadly based on the national default scheme. |
| • 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. At the same time, there are risks around the introduction of the Better Care Fund. | • The Care Act Programme Board is successfully delivering a programme of work to implement the legislation, including liaison across SW London boroughs and nationally to learn best practice and develop efficient forms of delivery and manage financial risk. Approval received from NHS England to access the Better Care Fund and Section 75 (NHS Act 2006) pooled budget agreement in place. Financial risks remain as stated in the latest approved financial planning report to Full Council in March 2015. |

| | |
|---|---|
| • Waste disposal in landfill sites is a risk due to it being unsustainable environmentally and financially costly due to landfill taxes. | • Good progress has been made commissioning the Energy Recovery Facility that will incinerate waste that is not recycled to generate electricity. The planning decision notice for the facility has been issued (upheld following legal challenge) and a Section 106 agreement signed. London Waste and Recycling Board funded programme to improve recycling rates in the borough. |
| • The demanding projected budget gap over the medium term. Risks around the delivery of savings. | • The demanding projected budget gap over the medium term. Risks around the delivery of savings. |

| Significant issues reported for 2014/15: | Actions |
|---|---|
| • Demanding projected medium term budget gap due to: government funding reductions, demographics and other demand pressures, in particular from adult and children's social care, and key national policy developments imposing new responsibilities and expectations that may not be fully funded. Significant risk of reductions in government funding at least as deep in the next five years to 2020 as in the previous 5 years to 2014/15. | • The Smarter Council Programme provides a structured approach to identifying and delivering the required savings. The budget proposals for 2015/16 included details of the savings to be delivered in-year and an outline of savings over the period to 2020. There are reserves to allow timing flexibility – risk reserve to manage in-year risks and general fund balances. |

5.2 Over the coming year action will be taken to address the above development areas in the Council's governance arrangements. Progress will be monitored in-year and assessed as part of the next annual review.

**Chief Executive:**

**Date:** 9 July 2015

**Leader:**

**Date:** 10 July 2015

**On Behalf of the Council**

# Auditors Opinion

# 2014/15

# 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 London Borough of Sutton for the year ended 31 March 2015 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 Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund Income and Expenditure Account, the Statement of Accounting Policies, 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 2014/15.

This report is made solely to the members of London Borough of Sutton, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 2014/15, 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 also 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 London Borough of Sutton as at 31 March 2015 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 2014/15 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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, and having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that in all significant respects London Borough of Sutton has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

**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.

Christian Heeger
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Fleming Way
Manor Royal
Crawley
RH10 9GT

29 September 2015

# 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 2015 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 2014/15.

This report is made solely to the Members of London Borough of Sutton, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension fund’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 pension fund financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited pension fund 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 financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

**Opinion on other matters**

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

Susan M. Exton
Director

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

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

29 September 2015

# Section 7

# Statement of Accounting Policies

# 1. Accounting Policies

## a General Principles

The Statement of Accounts summarises the Authority’s transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15, 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 2015 was 3.3% 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 six 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
- Net interest on the net defined benefit liability (asset) – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pension’s liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These changes are debited to the Pensions Reserve as Other Income and Expenditure.
- 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.

## I 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 Tax Income (Council Tax and Non Domestic Rates (NDR)

### Council Tax

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be the accrued income for that year.

The collection of Council Tax is in substance an agency arrangement. The cash collected by the billing authority from Council Tax payers belongs proportionately to the billing authority (London Borough of Sutton) and the major preceptor (the GLA). There will therefore be a debtor/ creditor position between the billing authority and the GLA to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council taxpayers.
If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax payers in the year, the billing authority will recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor will recognise a credit adjustment for the same amount to the debtor/creditor position between them brought forward from the previous year.

### National Non-Domestic Rates

Until 31 March 2013 NNDR (Business Rates) was collected on an agency arrangement on behalf of the DCLG NNDR pool. Following the introduction of Business Rate Localisation in 2013/14 billing authorities are responsible for collecting and distributing the income from the business rates they collect. 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 the GLA (20% share).

## n 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.

## o 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 2014/15 (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.

## p 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.

## q 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.

## r 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.

## s 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 to the core financial statements.

## t 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 2041/42 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.

## u Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the Borough are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Foundation

Schools Non-Current Assets are recognised on the Balance Sheet where the Council directly owns the assets and where the Council holds the balance of control of the assets. Community schools are owned by the Council and are, therefore, recognised on the Balance Sheet.

Voluntary Aided and Foundation schools are not considered to be controlled by the Council as no formal rights to use the assets through a licence arangement are passed to the School or Governing Bodies. As a result these schools are not recognised on the Balance Sheet.

## v 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.

## w 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.

## x 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.

## y 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 |