LONDON BOROUGH OF SUTTON

STATEMENT OF ACCOUNTS

2015/16

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CONTENTS

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Section 1

Narrative Report

2015/16

1. Introduction

The Narrative Report replaces the Explanatory Foreword (a change in requirements from 2015/16 onwards) and provides a summary of the the key issues affecting the Council and its accounts.

It summarises the Council's financial performance for the year to the 31 March 2016, and its financial position at that date. The report 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. The structure of the report is as below:

- Financial Performance against budget for the year
  - Revenue Expenditure
  - Capital Expenditure
- Financial Planning
- Main Changes to the Core Statements and significant transactions
  - Changes to Accounting Policies
  - Pension Liability
  - Provisions and contingencies
- Structure of the Statement of Accounts
- External Audit

2. Financial performance against budget for the year

Revenue expenditure

In March 2015 the Council set a net general fund expenditure budget for 2015/16 of £148.390m, which resulted in a Band D Council Tax for Sutton purposes of £1,163.60 and a total Band D Council Tax including the Greater London Authority precept of £1,458.60.

The General Fund revenue budget outturn reported to the Strategy and Resources Committee on 18 July 2016 showed a net overspend of £0.231m (0.2%) against a net revenue budget of £148.390m.

The provisional outturn position was a net underspend of £0.7m after recommended adjustments, but before carry forwards. The report to Strategy and Resources Committee on 18 July recommended carry forwards of £0.96m and after taking account of the carry forwards resulted in a net deficit and a final outturn position of £0.231m. In addition it is agreed to utilise up to £350k of General Fund balances in 2016/17 on priority works in the Civic Offices.

This is summarised in the table below.

	Approved Budget	Actual Outturn Variance	Actual Outturn Variance
	£'000	£'000	%
Commissioning Directorates			
People			
- Adult Social Care, Children's Services, Wellbeing	116,560	2,569	2.2
- Public Health	8,619	0	0.0
- Public Health Grant utilisation	(8,619)	0	0.0
- DSG Delegated Budgets	109,541	1,058	1.0
- Dedicated Schools Grant	(109,541)	(1,058)	(1.0)
Environment, Housing & Regeneration	38,193	(477)	(1.2)
Corporate Core			
Chief Executive's	5,463	(15)	(0.3)
Resources	22,607	(427)	(1.9)
Non-service revenue budgets	(2,454)	(1,950)	79.5
Adjustment for support cost recharge	(23,455)	0	0.0
	156,914	(300)	(0.2)
Current Expenditure Position 2015/16	**156,914**	**(300)**	**(0.2)**
Core grants	(8,524)	531	(6.2)
Outturn 2015/16	**148,390**	**231**	**0.2**

The General Fund outturn postion for People Services Directorate is an overspend of £2.569m (2.2%).

The overspend is predominately in Children's Safeguarding due to continued pressure in the service but it is proposed to utilise £500k from the Risk Reserve to offset part of the underlying overspend. The most significant variations are:

- £1.136m relating to placement costs for looked after children (LAC). The overspend is driven mainly by the rise in LAC numbers and a relatively higher number of LAC in residential care;
- £493k relating to agency staff costs being higher than assumed, particularly in Family Support and Care Planning and Referral & Assessment. Agency staff are still required to ensure vulnerable children remain safe and that the Council meets its statutory obligation;
- £400k relating to court costs and council fees;
- £271k relating to Children with Disabilities short breaks. The overspend is due to the under achievement of income from selling respite nights at Cedar Lodge and an increase in the number of care packages; and
- £219k relating to LAC placement support costs where the overspend is largely due to increased transport costs and in particular the use of secure transport.

Education and Early Intervention overspend is £573k. The most significant variation relates to the Sutton Family Centre (£437k) and is due to a higher than budgeted number of families with No Recourse to Public Funds.

Adults Social Care overspend is £503k. Major variances include additional pressures on the budget from increased charges for nursing care being demanded by providers (£223k), the increased complexity of needs for those people supported at home (£560k) and an increase in the bad debt provision for the Directorate (£375k). These are being partially offset by staffing vacancies within adult social care (£172k) and by the release of £500k previously held centrally against cost pressures arising from Care Act implementation.

Wellbeing outturn is an underspend of £332k. The major variations are due to staffing vacancies following a reconfiguration of services within Community Wellbeing and the Library Service (£238k), early savings from prevention services and income from rental of buildings (£142k) and a reduction in the use of taxi-cards (£86k). This is partially offset by unachieved income from within the library service (£177k).

The Public Health Grant for 2015/16 was fully spent.

The Dedicated Schools Grant is an overspend of £1.058m which will be funded from previous years balances, leaving a balance of £1.525m. The overspend is predominately due to pressures on Special Education Need Services (£1m) including pupil and place led funding and the placement costs at specialist colleges (19 to 25 year olds).

The outturn position for the Environment, Housing and Regeneration Directorate is an underspend of £477k. The most significant variations are:

- An overspend due to the underachievement of income against target in Off Street Parking (£404k);
- An underspend due to the early achievement of savings through recommissioning of services and review of funding arrangements for Housing Support Services (£564k);
- An underspend in planning due to the overachievement of income from an increased number of major planning applications received during the year (£384k); and
- An overspend due to the increased costs of Bed and Breakfast due to a 20% increase in demand of homelessness cases accepted during the year (£266k).

The outturn position for the Resources Directorate is an underspend of £427k. The main variation is an underspend on Revenues and Benefits (£696k) due to an overachievement of income and an underspend on salaries offset by an overspend on the shared ICT services (£288k) including the costs of systems upgrades.

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, and as set out in the Core Financial Statements Section as part of the Comprehensive Income and Expenditure Statement.

Capital Expenditure 2015/16

In March 2015 the Council approved a capital budget, adjusted for rephasing of £97.617 million. This was amended to £85.428 million at revised estimates, and compares with a final outturn of £78.855 million. The Service Groups' profile of the Capital Outturn is shown below.

Capital Programme 2015/16	Approved Budget 2015/16	Outturn 2015/16	Variation
EXPENDITURE	£'000	£'000	£'000
Environment, Housing & Regeneration	41,989	38,765	(3,224)
People	38,217	34,756	(3,461)
Resources	4,403	4,521	118
Chief Executive's	819	813	(6)
Total Expenditure	**85,428**	**78,855**	**(6,573)**

During the year the Council implemented a number of key capital projects. This includes major improvements to the Council's housing stock to contribute to meeting Decent Homes standards and preparation work for new build council housing, investments to increase the primary, secondary and SEN school places, investing in IT and accommodation changes, as well as rolling programmes to improve highways, pavements and street lighting.

The reasons for the main capital variations are as follows:

Environment, Housing & Regeneration Directorate

- Re-phasing of £0.729m of the Decent Homes programme budget into 2016/17. This reflects an under spend mainly on communal boiler replacement, fire risk assessments and box bathrooms.
- Re-phasing of £0.557m on the Lavender Housing Partnership due to delays in the progression of the Orlits and Corbet Close phases of the scheme and the final corresponding freeholder and leaseholder buyback costs.
- Revisions to the new build council house programme of £0.219m.
- Re-phasing of the final grant payment of £0.100m on the housing the homeless scheme at Oakleigh following the delayed completion of this scheme.
- The LED Lighting project has made progress but was delayed due to a change in the contractor used in 2014/15 and this has resulted in a further under spend of £0.219m in 2015/16.
- Public realm budgets not committed during the year or committed late in the year totalled £0.208m and these forecast under spends were reported to Strategy & Resources Committee on 8 February 2016. These projects will be delivered in 2016/17.

- An under spend of £0.449m on TFL Corridors schemes due to capacity issues. TFL have agreed for expenditure on the Corridors schemes to be delivered in 2016/17.

People Directorate

- Re-phasing of £3.005m of the school expansions budget from 2015/16 mainly at Barrow Hedges Key Stage 2, Brookfield, Bandon Hill Primary, Overton Grange and Sherwood Park, as well as only one out of three bulge classes provided in September 2015 requiring capital investment, the remaining bulge class provision will be used to support bulge classes for September 2016.

Resources and Chief Executives

- An overspend of £0.477m on the ICT Infrastructure for the migration of users to the Modern Desktop and business application migrations. This project has taken longer than expected resulting in increased costs. There were also more technical difficulties than envisaged, partly as a result of the age of some legacy systems.

- There has been re-phasing of the CCTV replacement project following on from the review of options for the transmission system and delays in the implementation of the parking enforcement IT system while parking contracts were procured.

3. Financial Planning

For 2016/17, the Council had to meet a budget gap of £9.858m. The Council's report on Commissioning and Financial Planning 2016/17 to 2018/19, reported to the Strategy and Resources Committee on 8 February 2016 and approved at Full Council on 7 March 2016, detailed how this gap was met and also updated the medium term position to 2018/19. The budget gap for 2017/18 is currently estimated at £7.211m and £6.876m for 2018/19.

Councils are required to agree a budget that allows for a level of balances that provides a prudent reserve against possible evantualities and assurance that the future finances of the Council remain on a sound footing. The existing Council policy is that a general reserve of at least 5% on the net General Fund expenditure (excluding the schools budget) is necessary to provide a sound minimum level of prudence. In 2012 Full Council agreed, in the light of identified financial risks and the potential for turbulence in the following period, to increase reserves wherever the financial plans permit in order to maintain the maximum amount of flexibility in the future.

It is not lawful for local authorities to set deficit budgets (funded by borrowing) and so reserves are key to ensuring that the Council can meet its obligations when it needs to. Over the next four years the Council faces significant reductions in funding alongside continuing demographic pressure on key services. Although the identification and delivery of savings options to close the funding gap is continuing, time is needed to redesign and implement the transformational change to services that is necessary to achieve the required savings.

The forward plan includes planned contribution from reserves in each of the next three years, £1.309m in 2016/17 and £2m in the following two years. This policy will be reviewed annually as part of the budget process. Following these contribtions it is expected that the general fund balances will remain at a prudent level at the end of 2018/19 at £9.1m, representing 6.4% of the projected net revenue budget.

A full copy of the report, including details of the Capital Programme 2016/17 and capital programme resources, can be found on the Council's website, Agenda item 56 - Commissioning and financial planning 2016/17 to 2018/19, or by clicking on this link.

4. Main changes to the core statements and significant transactions

Accounting policies

There have been no significant changes in accounting policies for 2015/16.

In 2016/17 the Authority will be required to change how Highways and Infrastructure assets are valued. Currently Infastructure assets are held on the balance sheet at depreciated historic cost. From 2016/17 they will be valued at depreciated replacement cost. It is expected that changing the valuation method will result in a significant increase in the value of these assets on the balance sheet which would normally require a retrospective restatement of the Council's balance sheet. However, CIPFA/LASAAC has introduced transitional arrangements so that this change will be applied from 1 April 2016 with no requirement to restate the information for the prior year.

Pension liability

The Council has net pension liabilities of £329m in the Balance Sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund. In addition, the Council’s pension fund has to be revalued every three years to set future contribution rates. The last valuation was in 2013 and reported a funding level of 67%. The Council has a deficit recovery plan in place to make additional contributions into the Pension Fund over a 22 year period in line with the Funding Strategy Statement. Further information on the Pension Fund can be found in note 27 of the main accounts and in the Pension Fund Accounts.

Provisions and contingencies

Details of provisions can be found in the notes to the core financial statement, note 17.

5. The main statements in this document are:

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

The purpose and relationship between the different statements are explained on the title page for each statement.

6. External Audit

The Council's independent external auditor Grant Thornton UK LLP will report their findings from the audit of these accounts to the Audit Committee on 22 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 2015/16 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.

Section 2

Core Financial Statements

2015/16

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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 charged 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

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

2015/16	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 2015	24,587	34,814	6,370	19,147	0	20,563	105,481	217,396	322,877
Surplus or (Deficit) on provision of services (accounting basis)	(46,422)		38,558	0	0	0	(7,864)	0	(7,864)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	67,593	67,593
Total Comprehensive Expenditure and Income	**(46,422)**	**0**	**38,558**	**0**	**0**	**0**	**(7,864)**	**67,593**	**59,729**
Adjustments between accounting basis and funding basis under regulations (Note 8)	40,333	0	(34,063)	(9,304)	1,635	(1,168)	(2,567)	2,567	0
Net Increase/(Decrease) before transfers to Earmarked Reserves	**(6,089)**	**0**	**4,495**	**(9,304)**	**1,635**	**(1,168)**	**(10,431)**	**70,160**	**59,729**
Transfers to / (from) Earmarked Reserves	3,183	(3,631)	(8,425)	0	0	0	(8,873)	8,873	0
Increase / (Decrease) in Year	**(2,906)**	**(3,631)**	**(3,930)**	**(9,304)**	**1,635**	**(1,168)**	**(19,304)**	**79,033**	**59,729**
Balance at 31 March 2016	**21,681**	**31,183**	**2,440**	**9,843**	**1,635**	**19,395**	**86,177**	**296,429**	**382,606**

* (General Fund Balance at 31 March 2016 = General Fund £12,752k, schools £8,929k

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 2015/16, 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 2016

2014/15					2015/16		
Expenditure	Income	Net Expenditure		Notes	Expenditure	Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
6,027	1,863	4,164	**Central Services to the Public**		6,964	1,297	5,667
8,256	3,091	5,165	**Cultural & Related Services**		12,952	2,660	10,292
17,067	2,991	14,076	**Environmental & Regulatory Services**		18,581	4,638	13,943
4,434	1,714	2,720	**Planning Services**		4,854	2,229	2,625
			Children's & Education				
122,520	120,598	1,922	- Schools		160,114	122,286	37,828
16,521	968	15,553	- Non-School Funding		14,392	1,127	13,265
32,919	2,213	30,706	- Children's Services		35,979	2,294	33,685
20,431	5,724	14,707	**Highways & Transport**		22,840	5,503	17,337
			Housing Services				
94,020	85,873	8,147	- General Fund Housing		94,727	84,237	10,490
			- Housing Revenue Account				
27,307	38,235	(10,928)	- Main HRA Revenue Account	*	28,902	39,101	(10,199)
1,489	0	1,489	- Impairment – Demolitions		0	0	0
(41,322)	0	(41,322)	- Revaluation loss/(gain) - Dwellings	8	(30,097)	0	(30,097)
67,120	9,991	57,129	**Adult Social Care**		74,342	19,967	54,375
7,345	8,662	(1,317)	**Public Health**		11,026	9,351	1,675
7,819	0	7,819	**Corporate and Democratic Core**		9,241	0	9,241
1,230	137	1,093	**Non Distributed Costs**		(5,230)		(5,230)
393,183	**282,060**	**111,123**	**Cost of services**	23	**459,587**	**294,690**	**164,897**
		3,114	**Other Operating Expenditure**	9			27,131
		17,224	**Financing and Investment Income and Expenditure**	10			16,441
		(205,102)	**Taxation & Non-Specific Grant Income**	11			(200,605)
		(73,641)	**(Surplus)/deficit on provision of services**				**7,864**
		(82,236)	Net (surplus) arising on revaluation of Property, Plant and Equipment Assets	16a			(21,419)
		59,598	Remeasurement of the net defined benefit liability on the pensions reserve	16c			(46,174)
		(22,638)	**Other comprehensive income and expenditure**				**(67,593)**
		(96,279)	**Total comprehensive income and expenditure**				**(59,729)**

***** Includes £15.289 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 2016 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 2016

31 March 2015 £'000		Notes	31 March 2016 £'000	31 March 2016 £'000
	Non-Current Assets			
	Property, Plant and Equipment	12		
318,786	- Council Dwellings			365,655
452,409	- Other Land and Buildings			451,773
8,902	- Vehicles, Plant, Furniture and Equipment			11,477
27,825	- Infrastructure Assets			28,531
1,980	- Community Assets			2,407
11,923	- Assets Under Construction			12,670
2,281	- Surplus Assets Held for Disposal			2,232
824,106	Sub Total			874,745
45,366	Investment Properties	13		27,148
35	Long Term Investments	29		100
2,234	Long Term Debtors	29		2,213
871,741	**Total Non-Current Assets**			**904,206**
	Current Assets			
61,709	Short Term Investments	29	65,260	
281	Inventories		206	
43,735	Debtors	18	39,098	
5,560	Cash and Cash Equivalents	20	(1,071)	
111,285	**Total Current Assets**			**103,493**
	Less Current Liabilities			
5,116	Short Term Borrowing	29	16,767	
4,667	Capital Grants Receipt in Advance		2,315	
54,504	Creditors	19	57,230	
3,686	Provisions	17	3,586	
67,973	**Total Current Liabilities**			**79,898**
	Less Non-Current Liabilities			
6,734	Provisions	17	6,989	
213,721	Long Term Borrowings	29	208,721	
371,721	Liability Related to Defined Benefit Pension Scheme	27	329,485	
592,176	**Total Non-Current Liabilities**			**545,195**
322,877	**Net Assets**			**382,606**
	Non-usable Reserves			
179,763	Revaluation Reserve	16a	182,650	
412,988	Capital Adjustment Account	16b	446,377	
(371,721)	Pensions Reserve	16c	(329,485)	
(1,057)	Financial Instruments Adjustment Account		(992)	
112	Deferred Capital Receipts/Income		109	
997	Collection Fund Adjustment Account		1,356	
(3,686)	Accumulated Absences Account		(3,586)	
217,396				**296,429**
	Usable Reserves			
19,147	Capital Grants & Contributions Unapplied	15	9,843	
20,563	Capital Receipts Reserve	15	19,395	
0	Major Repairs Reserve	15	1,635	
6,370	Housing Revenue Account	15	2,440	
24,587	General Reserves – General Fund & schools	15	21,681	
34,814	Earmarked Reserves	15	31,183	
105,481				**86,177**
322,877	**Total Reserves**			**382,606**

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

2014/15 £'000			Notes	2015/16 £'000
73,641		**Net surplus or (deficit) on the provision of services**		**(7,864)**
(17,969)		Adjust net surplus or deficit on the provision of services for non cash movements	21	51,785
(54,149)		Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	21	(52,607)
1,523		**Net cash inflow/(outflow) from operating activities**		**(8,686)**
(61,856)		Purchase of property, plant and equipment, investment property and intangible assets		(54,335)
(528,500)		Purchase of short term and long term investments		(478,465)
11,712		Proceeds from the sale of property, plant and equipment, investment property and intangible assets		9,181
533,750		Proceeds from short term and long term investments		474,850
43,150		Other receipts from investing activities		42,586
(1,744)		**Net cash inflow/(outflow) from investing activities**		**(6,183)**
0		Cash receipts of short and long term borrowing	29	10,800
(3,000)		Repayment of short term and long term borrowing		(4,000)
(2,891)		Other payments for financing activities		1,438
(5,891)		**Net cash inflow/(outflow) from financing activities**		**8,238**
(6,112)		**Net increase/(decrease) in cash and cash equivalents**		**(6,631)**
		Represented by:		
11,672	a	Cash and cash equivalents at the beginning of the reporting period	20	5,560
5,560	b	Cash and cash equivalents at the end of the reporting period	20	(1,071)
(6,112)		**Net increase/(decrease) in cash and cash equivalents (b - a)**		(6,631)

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 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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 2015/16 (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 2016/17 and will be applicable from 1 April.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) - Highways Network Asset, takes effect from 1 April 2016. The code confirms that the changes arising for the Highways Network Asset do not require prior year restatement. Under the code the Highways Network Asset will be recognised as a single asset and reported seperately on the Balance Sheet and this will be measured at depreciated replacement cost.

In addition there are a number of minor amendments to the International Financial Reporting Standards but these are not expected to have any material impact on the Council.

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 announced.

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 2016 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. 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. 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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £750k for every year that useful lives had to be reduced. 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. The effect of any over or under estimation on the revaluation of property, plant and equipment cannot be quantified until an asset is disposed
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension fund liability for the London Borough of Sutton pension fund can be measured. For example a 0.1 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 £25m and a 0.1% increase in the salary increase rate would increase the liability by approximately £2m.
Debtors	At 31 March 2016, the Authority had a balance of sundry debtors for £33.677m. A review of significant balances suggested that an impairment of doubtful debts of 27% (£9.139m) 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 £0.337m 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.	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 £0.087m.

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 but including redundancy payments, was £50,000 or more in bands of £5,000. These figures include those senior staff who are individually disclosed over leaf.

2014/15			2015/16	
Schools	**Non-Schools**	Remuneration Band	**Schools**	**Non-Schools**
Number of Employees		£	Number of Employees	
44	27	50,000 - 54,999	50	28
17	15	55,000 - 59,999	14	25
15	14	60,000 - 64,999	15	8
5	11	65,000 - 69,999	10	12
15	21	70,000 - 74,999	11	14
5	3	75,000 - 79,999	7	6
2	4	80,000 - 84,999	3	3
1	1	85,000 - 89,999	3	1
2	12	90,000 - 94,999	0	3
2	0	95,000 - 99,999	0	7
0	0	100,000 - 104,999	2	0
1	0	105,000 - 109,999	1	0
0	0	110,000 - 114,999	0	0
0	1	115,000 - 119,999	0	1
0	2	120,000 - 124,999	0	0
0	4	125,000 - 129,999	1	3
0	0	130,000 - 134,999	0	2
0	0	135,000 - 139,999	0	0
0	1	140,000 - 144,999	0	0
0	0	145,000 - 149,999	0	0
0	0	150,000 - 154,999	0	0
1	0	155,000 - 159,999	0	0
0	0	160,000 - 164,999	0	0
0	1	165,000 - 169,999	0	2
0	1	170,000 - 174,999	0	0
110	**118**	**Total**	**117**	**115**

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

2014/15 Salary, fees and allowances £	2014/15 Employers pension contributions £	2014/15 Total £	Chief Officers	Note	2015/16 Salary, fees and allowances £	2015/16 Employers pension contributions £	2015/16 Total £
165,495	28,796	194,291	Chief Executive – Niall Bolger		167,355	29,120	196,475
158,298	12,012	170,310	Headteacher - Isabel Ramsay		127,092	5,853	132,945
24,215	0	24,215	Director of Public Health - Ellis Friedman (until May 2014)		0	0	0

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

2014/15 Salary, fees and allowances £	2014/15 Employers pension contributions £	2014/15 Total £	Chief Officers	Note	2015/16 Salary, fees and allowances £	2015/16 Employers pension contributions £	2015/16 Total £
129,528	22,538	152,066	Strategic Director – Adult Social Services and Housing	1	3,368	586	3,954
129,528	22,538	152,066	Strategic Director - People	1	129,208	22,538	151,746
121,338	21,339	142,677	Strategic Director – Environment, Housing and Regeneration	1	129,528	22,538	152,066
128,473	0	128,473	Strategic Director – Resources		128,672	0	128,672
70,653	12,182	82,835	Executive Head of Policy and Customer Services (interim to Feb 2015)	2	0	0	0
13,716	2,387	16,103	Executive Head of Customers, Commissioning and Governance (from Feb 2015)	2	94,775	16,707	111,482
34,390	5,984	40,374	Executive Head of Legal and Democratic Services	2	0	0	0
70,012	10,781	80,793	Director of Public Health (from June 2014)	3	94,910	13,569	108,479

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: Following a restructuring exercise the number of Directorates has been reduced from 5 to 4. 3 posts, the Strategic Director of Children, Young People and Learning, the Strategic Director of Environment and neighbourhoods and the post of Strategic Director Adult Social Services and Housing were deleted and replaced with 2 posts, the Strategic Director of People and the Strategic Director of Environment, Housing and Regeneration.

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	
£	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15** £	**2015/16** £
0 - 20,000	16	22	3	22	19	44	181,294	319,920
20,001 - 40,000	3	9	5	23	8	32	239,494	831,656
40,001 - 60,000	1	0	1	2	2	2	84,974	107,297
60,001 - 80,000	2	0	1	0	3	0	228,918	0
80,001 - 100,000	0	0	0	0	0	0	0	0
100,001 - 150,000	1	0	1	0	2	0	226,407	0
Total	**23**	**31**	**11**	**47**	**34**	**78**	**961,087**	**1,258,873**

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:

2014/15 £'000		**2015/16 £'000**
889	Allowances	897
0	Expenses	0
889	**Total**	**897**

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					
2015/16	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	20,323	7,349				(27,672)
Revaluation loss/(gain) on Property Plant and Equipment	7,538	(30,097)				22,559
Movements in the market value of Investment Properties	(121)	0				121
Amortisation of intangible assets	577	0				(577)
Revenue expenditure funded from capital under statute	26,348	0				(26,348)
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	32,370	3,476				(35,846)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(4,434)	0				4,434
Capital expenditure charged against the General Fund and HRA balances	(1,336)	0				1,336
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(43,422)	0	43,422			0

	Usable Reserves					
2015/16	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			(52,726)			52,726
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,633)	(7,555)			9,188	0
Use of the Capital Receipts Reserve to finance new capital expenditure					(9,534)	9,534
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	822				(822)	0
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(7,349)		7,349		0
Use of the Major Repairs Reserve to finance new capital expenditure				(5,714)		5,714
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					
2015/16	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)	21,779	284				(22,063)
Employer's pensions contributions and direct payments to pensioners payable in the year	(17,954)	(171)				18,125
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	(359)					359
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	(100)					100
Total Adjustments	**40,333**	**(34,063)**	**(9,304)**	**1,635**	**(1,168)**	**2,567**

	Usable Reserves					
2014/15 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	12,599	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

	Usable Reserves					
2014/15 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			(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 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)	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**

9. Other Operating Expenditure

2014/15 £'000		2015/16 £'000
884	Levies paid to Other Local Public Authorities	754
687	Payment to the Government Housing Capital Receipts Pool	822
1,716	Losses/(Profit) on the disposal of non-current assets	26,657
(173)	Deficit/(Surplus) on Trading Undertakings not included in Net Cost of Services	(1,102)
3,114	**TOTAL**	**27,131**

10. Financing and Investment Income and Expenditure

2014/15 £'000		2015/16 £'000
8,667	Interest payable and similar charges	7,947
12,518	Net interest on the net defined benefit liability	11,780
(1,548)	Interest receivable and similar income	(927)
(2,413)	Income and expenditure in relation to investment properties and changes in their fair value	(2,359)
17,224	**TOTAL**	**16,441**

11. Taxation, Government Grants and Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16.

2014/15		2015/16	
£'000		**£'000**	**£'000**
	Credited to Taxation and Non Specific Grant Income		
78,916	Council Tax Income	81,489	
13,221	Business Rates Retention Scheme	15,988	
92,137			**97,477**
17,148	Business Rates Retention Scheme Top Up Payment	17,476	
	Non ringfenced government grants		
41,707	- Revenue Support Grant	33,796	
3,379	- Social Care Grant	0	
2,732	- Education Services Grant	2,158	
860	- Council Tax Freeze Grant	0	
1,199	- Housing Benefit and Council Tax Admin Grant	1,009	
2,628	- New Homes Bonus	3,252	
0	- Adult Social Care New Burdens	1,017	
981	- Section 31 Business Rate Grant	1,116	
576	- Other	361	
71,210			**60,185**
	Capital Grants and Contributions		
10,849	- Education Grants	21,569	
20,272	- Decent Homes Grant	12,582	
2,768	- Mayors Grant (GLA)	1,469	
1,485	- Housing Associations	1,754	
1,116	- Section 106 Contributions	1,908	
2,969	- Leaseholder Contributions	206	
2,296	- Other Capital Grants and Contributions	3,455	
41,755			**42,943**
205,102	**Total**		**200,605**

2014/15		2015/16	
£'000		£'000	£'000
	Revenue Grants Credited to Services		
106,876	- Dedicated Schools Grant	109,541	
5,576	- Education Funding Agency funding	6,346	
8,619	- Public Health Grant	9,286	
19,594	- Housing Rent Rebate Subsidy	19,437	
64,527	- Housing Rent Allowances	62,227	
5,170	- Pupil Premium (schools)	4,561	
3,658	- Other	4,576	
214,020			**215,974**
	REFCUS Grants Credited to Services		
624	- Disabled Facilities	677	
0	- Education Grants	252	
27	- Other	0	
651			**929**
419,773			**417,508**

12. Property, Plant and Equipment

Movement on balances

Movements in 2015/16	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 2015	**327,572**	**466,463**	**16,473**	**55,638**	**2,242**	**11,923**	**2,669**	**882,980**
- Adjustments between depreciation and gross book value on the revaluation of assets	(8,786)	(1,508)	0	0	0	0	0	(10,294)
Sub total	**318,786**	**464,955**	**16,473**	**55,638**	**2,242**	**11,923**	**2,669**	**872,686**
- Additions	27,597	6,669	3,480	4,044	427	9,623	0	51,840
- Revaluation decreases recognised in the Revaluation Reserve	0	(9,586)	0	0	0	0	0	(9,586)
- Revaluation increases recognised in the Revaluation Reserve	0	31,005	0	0	0	0	0	31,005
- Revaluation decreases recognised in the surplus/deficit on the provision of services	(20,698)	(12,382)	0	0	0	0	0	(33,080)
- Revaluation increases recognised in the surplus/deficit on the provision of services	50,795	4,844	0	0	0	0	0	55,639
- Derecognition - disposal	(3,476)	(28,638)	0	0	0	(4,765)	0	(36,879)
- Reclassifications	0	22,218	0	0	0	(4,111)	0	18,107
- Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0
At 31 March 2016	**373,004**	**479,085**	**19,953**	**59,682**	**2,669**	**12,670**	**2,669**	**949,732**
Accumulated Depreciation and Impairment								
At 1 April 2015	**(8,786)**	**(14,054)**	**(7,571)**	**(27,813)**	**(262)**	**0**	**(388)**	**(58,874)**
- Adjustments between depreciation and gross book value on the revaluation of assets	8,786	1,508	0	0	0	0	0	10,294
Sub total	**0**	**(12,546)**	**(7,571)**	**(27,813)**	**(262)**	**0**	**(388)**	**(48,580)**
- Depreciation Charge:						0		
- Depreciation written out to the surplus/deficit on the provision of services	(7,349)	(16,031)	(905)	(3,338)	0	0	(49)	(27,672)
- Derecognition - disposal	0	1,265	0	0	0	0	0	1,265
- Derecognition - other	0	0	0	0	0	0	0	0
At 31 March 2016	**(7,349)**	**(27,312)**	**(8,476)**	**(31,151)**	**(262)**	**0**	**(437)**	**(74,987)**
Net Book Value								
At 31 March 2015	**318,786**	**452,409**	**8,902**	**27,825**	**1,980**	**11,923**	**2,281**	**824,106**
At 31 March 2016	**365,655**	**451,773**	**11,477**	**28,531**	**2,407**	**12,670**	**2,232**	**874,745**

Comparative 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**

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, £7.349m;
- 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 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years which are budgeted to cost £182.0m in total. Similar commitments at 31 March 2015 were £169.5m. The major commitments are:-

	Expenditure to 31 March 2016	Estimated Total Cost
	£'000	£'000
School Expansions	85,503	150,930
Lavender Housing Partnership*	17,799	18,413
CCTV Programme	872	1,143
Denmark Road Accommodation Changes	822	862
Digital Programme	807	5,564
Civic Offices Upgrade	769	900
Local Authority New Build	695	24,425
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 2015, with the exception of Council Dwellings which was carried out as at 31 March 2016.

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 Institutution 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 (£1,463 million) adjusted to account for their status as social housing. For 2015/16 the social housing factor for London remains at 25% which results in a vacant possession value adjusted for the social housing factor of £365.655 million.

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	11,477	28,531	2,407	12,670	0	55,085
Valued at fair value as at:								
31-Mar-16	365,655	199,505	0	0	0	0	125	565,285
31-Mar-15	0	243,759	0	0	0	0	0	243,759
31-Mar-14	0	2,217	0	0	0	0	0	2,217
31-Mar-13	0	769	0	0	0	0	0	769
31-Mar-12	0	1,225	0	0	0	0	0	1,225
31-Mar-11	0	4,298	0	0	0	0	2,107	6,405
Total Cost or Valuation	**365,655**	**451,773**	**11,477**	**28,531**	**2,407**	**12,670**	**2,232**	**874,745**

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 2015/16 as no acquisitions or disposals took place. The nature and significance of these assets are detailed below.

Land and Buildings

a) Museums

Honeywood £1.796 million and Whitehall £1.804 million.

The Authority has two grade II listed museums, Honeywood and Whitehall. Honeywood is currently operational, predominantly delivering services relating to knowledge and culture. Whitehall closed for refurbishment on11 April 2016 and will reopen in June 2017.

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 £388,000

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 18th century and is a scheduled monument. The Dovecote is opened to the public as part of guided tours on weekends during the summer months. No valuation exists for this asset, however it is unlikely to be material.

Art Collection

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

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

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

Museum Collection

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

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

Glass Plate Negatives

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

13. Investment Properties

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

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

2014/15		2015/16
£'000		£'000
36,385	Balance at the start of the year	45,366
0	Reclassifications	(18,107)
6,817	Additions	0
(320)	Disposals	(232)
2,484	Net gains/(losses) from fair value adjustments (Revaluations and Impairments)	121
45,366	**Balance at the end of the year**	**27,148**

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:-

2014/15 £'000		2015/16 £'000
269,382	Opening Capital Financing Requirement	276,871
	Capital Investment	
63,881	- Property, Plant and Equipment	51,840
1,059	- Intangible Assets	577
16,514	- Revenue Expenditure Funded from Capital Under Statute	26,361
	Sources of Finance	
(1,161)	- Capital Receipts	(9,534)
(54,197)	- Government grants and other contributions	(52,726)
	- Sums set aside from revenue	
(14,518)	- Direct revenue contributions	(16,043)
(4,089)	- MRP / Loans fund principal	(4,434)
276,871	**Closing Capital Financing Requirement**	**272,912**
	Explanation of movements in year	
7,489	- Increase/(decrease) in underlying need to borrowing (unsupported by government financial assistance)	(3,959)
7,489	**Increase/(Decrease) in Capital Financing Requirement**	**(3,959)**

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 2015/16:

	Balance at 1 April 2014	Transfers Out 2014/15	Transfers In 2014/15	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund:							
General Fund Balances	14,991	(2,588)	1,865	14,268	(1,623)	107	12,752
DSG Balances	3,881	(1,299)	0	2,582	(1,058)	0	1,524
Balances held by schools under a scheme of delegation	9,018	(3,253)	1,972	7,737	(2,584)	2,252	7,405
Sub total	**27,890**	**(7,140)**	**3,837**	**24,587**	**(5,265)**	**2,359**	**21,681**
Earmarked Reserves:-							
- Insurance Fund	4,665	(80)	0	4,585	(14)	942	5,513
- Revenue Reserve for financing capital expenditure	1,064	(860)	341	545	(86)	932	1,391
- General Pooled Reserve	1,567	(1,130)	1,326	1,763	(1,327)	1,770	2,206
- Renewals and Repairs Fund	254	0	0	254	0	0	254
- Catering Reserves	927	(393)	81	615	(265)	34	384
- Invest to Save Reserve	629	0	100	729	(116)	100	713
- Sustainable Investment Fund	347	(42)	0	305	0	0	305
- Revenue Grants Unapplied	4,644	(2,676)	5,495	7,463	(5,210)	1,471	3,724
- Redundancy Costs	4,748	(961)	0	3,787	(1,301)	0	2,486
- Strategic Priorities Investment Reserve	843	(814)	0	29	(512)	918	435
- Extreme Weather Reserve	128	0	124	252	0	0	252
- Freedom Pass Equalisation	400	0	0	400	(400)	0	0
- Olympic Forum Reserve	13	(13)	0	0	0	0	0
- Treasury Management & Capital Programme	1,487	(327)	0	1,160	0	770	1,930
- Crisis Loans and Grants	294	0	334	628	(217)	265	676
- Risk Reserve	10,954	(1,671)	1,103	10,386	(1,434)	440	9,392
- Opportunity Sutton Reserve	783	(329)	260	714	(421)	219	512
- Business Change	679	(369)	380	690	(681)	0	9
- Commercial Property Investment Reserve	0	0	509	509	(349)	56	216
- Planning Income Reserve	0	0	0	0	0	785	785
Sub total	**34,426**	**(9,665)**	**10,053**	**34,814**	**(12,333)**	**8,702**	**31,183**
HRA:							
Housing Revenue Account	2,258	0	3,555	5,813	(3,918)	0	1,895
Heating Reserve	497	0	18	515	(24)	4	495
Freeholders Contributions	28	0	14	42	0	8	50
Sub total	**2,783**	**0**	**3,587**	**6,370**	**(3,942)**	**12**	**2,440**
Capital Grants & Contributions Unapplied	30,918	(54,197)	42,426	19,147	(52,726)	43,422	9,843
Capital Receipts Reserve	10,673	(1,161)	11,051	20,563	(9,534)	8,366	19,395
Major Repairs Reserve	0	(9,017)	9,017	0	(14,358)	15,993	1,635
Total	**106,690**	**(81,180)**	**79,971**	**105,481**	**(98,158)**	**78,854**	**86,177**

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 £12.752m equates to 8.6% 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 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 (£134,666) representing the accumulated surplus from the Schools and Welfare Trading Account, and;
  - School Meals Delegated Funds (£249,069) 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 has been 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.
- The Planning Income Reserve will be used to smooth fluctuations in planning income.

Housing Revenue Account

- The HRA Reserve balance carried forward at 31 March 2016 is £1,894,810 (£5,812,663 at 31 March 2015).

- The Heating Reserve of £494k 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 £50k holds the net balance of freeholders contributions to improvements works.

16. Non-usable Reserves

31 March 2015 £'000	Reserve / Balance		31 March 2016 £'000
179,763	(a)	Revaluation Reserve	182,650
412,988	(b)	Capital Adjustment Account	446,377
(371,721)	(c)	Pensions Reserve	(329,485)
(1,057)		Financial Instruments Adjustment Account	(992)
112		Deferred Capital Receipts	109
997		Collection Fund Adjustment Account	1,356
(3,686)		Accumulated Absences Account	(3,586)
217,396	**Total**		**296,429**

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.

2014/15 £'000		2015/16 £'000	
101,914	**Balance at 1 April**		**179,763**
82,986	Upward revaluation of assets	31,005	
(752)	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(9,586)	
82,234	Surplus or deficit on revaluation of non current assets not posted to the surplus or deficit on the provision of services	21,419	
(1,371)	Difference between fair value depreciation and historical cost depreciation	(4,976)	
(3,014)	Accumulated losses on assets sold or scrapped	(13,556)	
(4,385)	Amount written off to the Capital Adjustment Account	(18,532)	
179,763	**Balance at 31 March**		**182,650**

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.

2014/15	Capital Adjustment Account	2015/16	
£'000		£'000	£'000
320,721	**Balance at 1 April**		**412,988**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(21,443)	- Charge for depreciation and impairment of non-current assets	(27,672)	
63,911	- Revaluation (losses)/gains on Property, Plant and Equipment	22,559	
(1,059)	- Amortisation of intangible assets	(577)	
(16,514)	- Revenue expenditure funded from capital under statute	(26,361)	
(13,457)	- 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	(35,846)	
11,438			(67,897)
1,371	Difference between fair value depreciation and historical cost depreciation		4,976
3,014	Accumulated losses on assets sold or scrapped		13,556
15,823	Net written out amount of the cost of non-current assets consumed in the year		(49,365)
	Capital financing applied in the year:		
1,161	- Use of the Capital Receipts Reserve to finance new capital expenditure	9,534	
7,296	- Use of the Major Repairs Reserve to finance new capital expenditure	5,714	
45,732	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	43,426	
8,465	- Application of grants to capital financing from the Capital Grants Unapplied Account	9,300	
4,089	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	4,434	
6,082	- Funded from Revenue Reserves	8,889	
1,134	- Capital expenditure charged against the General Fund and HRA balances	1,336	
73,959			82,633
2,485	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		121
412,988	**Balance at 31 March**		**446,377**

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.

2014/15		2015/16
£'000		£'000
(300,225)	**Balance at 1 April**	**(371,721)**
(59,598)	Remeasurement of the net defined benefit liability	46,174
(30,389)	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	(22,063)
18,491	Employers pension contributions and direct payments to pensioners payable in the year.	18,125
(371,721)	**Balance at 31 March**	**(329,485)**

17. Provisions

Provisions have been established for the following purposes:

	Balance b/fwd 1 April 2015	Additional provisions made in 2015/16	Amounts used in 2015/16	Unused amounts reversed in 2015/16	Balance c/fwd 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Current Provisions					
a) Employee Accumulated Absences	**3,686**	**3,586**	**(3,686)**	**0**	**3,586**
Non-Current Provisions					
b) NNDR Appeals	1,731	44	(1,061)	0	714
c) Insurance Claims	2,409	0	(226)	0	2,183
d) Potential Employee Litigation	260	0	0	(50)	210
e) Disputed Social Care Supported Living Costs	1,315	810	(304)	0	1,821
f) External Insurance	714	0	0	0	714
g) Land Charges	235	7	(165)	0	77
h) Substance Misuse costs of re-commissioning	70	0	0	0	70
i) Water and Sewerage Claims	0	1,200	0	0	1,200
	6,734	**2,061**	**(1,756)**	**(50)**	**6,989**
	10,420	**5,647**	**(5,442)**	**(50)**	**10,575**

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 2016. The total provision is £2.379m and is shared 50% Department of Communities and Local Government (£1.190m), 30% London Borough of Sutton (£0.714m) and 20% Greater London Authority (£0.472m).

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 is evaluated at £2.183m.

d) A provision of £260,000 was included in the 2014/15 accounts to cover several employment related matters which could involve the Council incurring costs. An assessment of the outstanding cases has been carried out and the provision at 31 March 2016 has been reduced to £210,000.

e) A provision of £1,315,000 was included to cover potential costs of clients in supported living placements where identification of the ordinary residence is in dispute. £304,000 of this provision was used in 2015/16 and additional provisions were made to increase this provision to £1,821,000 due to a higher number of potential clients in 2015/16.

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. In November 2012, following several years of deteriorating financials, with a significant and growing deficit, 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 9.5-28% would be required to achieve a projected solvent run-off.

   Following an actuarial assessment it was recommended that the council hold a provision based on a 28% levy (£809k) and an estimate of the council's share of the ongoing liabilities (£338k). The sum of these is £1,147k, however, £433k (the current levy amount of 15%) has already been paid, leaving an outstanding provision of £714k.

   In January 2016, the scheme administrator revised its levy range to 15-34%. They also recommended an increase to the levy rate itself, which will be confirmed next financial year. Once the new rate has been confirmed, the council will obtain a new actuarial assessment to ensure that its provision is at a prudent level.

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 was reassessed during 2014/15 and the potential liability increased by £40k to £235k. In 2015/16 £165k was paid out of this provision. The provision now stands at £77k following the latest assessment.

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.

i) A High Court ruling, published in March 2016, established that a London Borough had, for several years, not passed on discounts to its tenants for water and sewerage charges. The discounts were granted under an agreement with the water company and acted as an administration fee for collection of charges on behalf of the water authority. The result of this ruling is that local authorities and housing associations, including Sutton, may face claims from tenants for overpaid water charges. Whilst the value of individual claims may be relatively small collectively, due to the number of properties the Council manages, the potential liability has been assessed at up to £1.2m.

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 2015	Gross Debtors	At 31 March 2016
£'000		£'000
11,899	Central Government bodies	10,905
4,572	Other Local Authorities	2,578
3,780	NHS bodies	1,077
2,450	HRA Tenants	2,936
21,787	Other entities and individuals	23,604
7,191	Local Tax payers	7,137
51,679	**Total**	**48,237**

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

At 31 March 2015	Bad Debt Provision	At 31 March 2016
£'000		£'000
(1,060)	HRA Tenants	(1,267)
(3,713)	Other entities and individuals	(4,446)
(3,171)	Local Tax payers	(3,426)
(7,944)	**Total**	**(9,139)**

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

At 31 March 2015	Net Debtors	At 31 March 2016
£'000		£'000
11,899	Central Government bodies	10,905
4,572	Other Local Authorities	2,578
3,780	NHS bodies	1,077
1,390	HRA Tenants	1,669
18,074	Other entities and individuals	19,158
4,020	Local Tax payers	3,711
43,735	**Total**	**39,098**

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 2015		At 31 March 2016
£'000		**£'000**
8,278	Central Government bodies	11,124
8,724	Other Local Authorities	9,066
2,850	NHS bodies	3,439
34,652	Other entities and individuals	33,601
54,504	**Total**	**57,230**

20. Cash and cash equivalents

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

At 31 March 2015		At 31 March 2016
£'000		**£'000**
75	Cash held by the authority	63
5,485	Bank current accounts	(1,134)
5,560	**Total**	**(1,071)**

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

2014/15 £'000		2015/16 £'000
73,641	Net surplus / (deficit) on the Provision of Services	**(7,864)**
	Adjust net surplus or deficit for the provision of services for non-cash movements	
(44,953)	Depreciation, impairments and revaluation losses/(Gains)	4,992
1,059	Amortisation	577
4,868	Increase / (Decrease) in creditors	5,005
(7,130)	(Increase) / Decrease in debtors	1,197
39	(Increase) / Decrease in inventories	75
11,898	Pension Liability	3,938
2,574	Contributions to / (from) provisions	155
13,457	Carrying amount of non-current assets sold	35,846
219	Other movements	0
(17,969)		**51,785**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(42,426)	Capital Grants credited to surplus or deficit on the provision of services	(43,422)
(11,723)	Proceeds from the sale of property plant and equipment, investments property and intangible assets	(9,185)
(54,149)		**(52,607)**
1,523	**Total**	**(8,686)**

22. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2014/15 £’000		2015/16 £’000
1,567	Interest received	926
(7,811)	Interest paid	3,555
(6,244)	**Total**	**4,481**

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 2015/16	Chief Executive's	Resources	Environment, Housing and Regeneration	People Services	TOTAL
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	0	(3,661)	(11,608)	(24,999)	(40,268)
Government grants	(84)	(81,960)	(1,709)	(131,301)	(215,054)
Total Income	**(84)**	**(85,621)**	**(13,317)**	**(156,300)**	**(255,322)**
Employee expenses	1,267	4,497	16,461	112,625	134,850
Other operating expenses	1,254	81,014	30,354	157,538	270,160
Support service recharges	185	861	4,220	7,324	12,590
Total Operating Expenses	**2,706**	**86,372**	**51,035**	**277,487**	**417,600**
Cost of Services	**2,622**	**751**	**37,718**	**121,187**	**162,278**

Directorate Information 2014/15 Comparative Figures (this table has been restated to reflect the council re-organisation from 1 April 2015)	Chief Executive's	Resources	Environment, Housing and Regeneration	People Services	TOTAL
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	0	(3,515)	(11,207)	(17,122)	(31,844)
Government grants	(97)	(84,919)	(1,140)	(127,488)	(213,644)
Total Income	**(97)**	**(88,434)**	**(12,347)**	**(144,610)**	**(245,488)**
Employee expenses	573	4,725	17,349	110,744	133,391
Other operating expenses	1,138	83,546	28,415	141,646	254,745
Support service recharges	31	971	4,040	7,371	12,413
Total Operating Expenses	**1,742**	**89,242**	**49,804**	**259,761**	**400,549**
Cost of Services	**1,645**	**808**	**37,457**	**115,151**	**155,061**

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.

2014/15		2015/16
£'000		**£'000**
155,061	Net expenditure in the Group Analysis	162,278
7,920	Add services not included in main analysis	9,290
(54,029)	Add amounts not reported to management	(8,807)
2,171	Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	2,136
111,123	**Net Cost of Services in Comprehensive Income and Expenditure Statement**	**164,897**

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.

2015/16	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	(40,268)	0	(41,286)	2,848	(78,706)	0	(78,706)
Surplus or deficit on trading undertakings not in NCS	0	0	0	0	0	(1,100)	(1,100)
Interest and Investment Income	0	0	0	0	0	(927)	(927)
Income from Council Tax and Business Rates	0	0	0	0	0	(97,477)	(97,477)
Government grants and contributions	(215,055)	0	(929)	0	(215,984)	(103,128)	(319,112)
Total Income	**(255,323)**	**0**	**(42,215)**	**2,848**	**(294,690)**	**(202,632)**	**(497,322)**
Employee Expenses	59,822	341	(1,655)	(1,114)	57,394	11,778	69,172
Other operating expenses	345,189	2,229	25,930	632	373,980	0	373,980
Support service recharges	12,590	6,720	0	(230)	19,080	0	19,080
Depreciation, amortisation and impairment	0	0	9,133	0	9,133	(2,359)	6,774
Interest Payments	0	0	0	0	0	7,947	7,947
Precepts and Levies	0	0	0	0	0	754	754
Payments to Housing Capital Receipts Pool	0	0	0	0	0	822	822
Gain or loss on Disposal of Fixed Assets	0	0	0	0	0	26,657	26,657
Total Expenditure	**417,601**	**9,290**	**33,408**	**(712)**	**459,587**	**45,599**	**505,186**
(Surplus) or deficit on the provision of services	162,278	9,290	(8,807)	2,136	164,897	(157,033)	7,864

2014/15 **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	(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)

24. External Audit Costs

2014/15 £'000		2015/16 £'000
126	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	94
20	Fees payable to Grant Thornton for the certification of grant claims and returns	13
16	Fees payable in respect of other services provided by external auditors during the year	0
162		**107**

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 2014. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:-

	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2015/16 before Academy recoupment			173,639
Less Academy figure recouped for 2015/16			(64,139)
Total DSG after Academy recoupment for 2015/16			109,500
Plus: brought forward from 2014/15			2,583
Less: carry forward to 2016/17 agreed in advance	0	0	2,583
Agreed initial budgeted distribution in 2015/16	26,220	83,280	109,500
In year adjustments	136	(94)	42
Final budget distribution for 2015/16	26,356	83,186	109,542
Less actual central expenditure	27,512		27,512
Less actual ISB deployed to schools		83,088	83,088
Carry forward to 2016/17	(1,156)	98	1,525

In 2015/16, the Council received net DSG funding of £109.542 million, after academy recoupment. This includes an in year adjustment for Early Years funding for 2015/16 of £42k. This has been credited against the Education service revenue account.

DfE regulations require that the under-spend of £1.525 million be carried forward to 2016/17 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 £6.2 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 2015/16 is £897,000.
One member received direct payments of £34,752 for four self contained flats leased back to the Council under the Empty Homes Scheme. One member is the Vice Chair of Sutton Town Twinning, one is Vice Chair of London Councils Transport and Enviroment Committee and its Executive Committee and one the Trustee of Wandle Valley Regional Park, all of which received grants from the London Borough of Sutton in 2015/16.

The Pension Fund had an average balance of £11.6 million of surplus cash deposited with the Council during 2015/16. The Council charged the Fund £299,700 for expenses incurred in administering the Fund.

Opportunity Sutton - Mary Morrissey, Strategic Director Environment, Housing and Regeneration and Phil Butlin, Executive Head of Finance, are company directors of Opportunity Sutton Ltd. There were no trading activities for Opportunity Sutton Ltd during 2015/16.

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 7,400 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 2015/16 the turnover of SHP amounted to £16.7 million and net liabilities (including the pension deficit) were valued at £6.750 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 2015/16 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 contributed to the scheme at a rate of 14.1% of members' pensionable salaries until September 2015 when the rate changed to 16.5%. In 2015/16 the employers contribution amounted to £6.047 million and the employees contribution was £3.689 million (employers £5.591 million and employees £3.866 million in 2014/15).
  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 2015/16 totalled £0.5 million (£0.5 million in 2014/15).

- The London Borough of Sutton participates in the Local Government Pension Scheme, a defined benefit scheme based on final pensionable salary, and from 1 April 2014, career average revalued earnings (CARE). 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 2016 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 and this will be reported in the following year.

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:-

2014/15 £'000	Comprehensive Income and Expenditure Statement	2015/16 £'000
	Service cost comprising:	
17,243	- Current Service Cost	18,419
569	- Past Service Cost	1,425
(362)	- (Gain)/loss from settlements	(10,035)
17,450		**9,809**
12,518	Net interest expense	11,780
421	Administration expenses	474
30,389	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**22,063**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(16,523)	- Return on plan assets (excluding the amount included in the net interest expense)	5,110
0	- Actuarial (gains) and losses arising on changes in demographic assumptions	0
78,718	- Actuarial (gains) and losses arising on changes in financial assumptions	(50,148)
(2,597)	- Other	(1,136)
89,987	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**(24,111)**
	Movement in Reserves Statement:	
(30,389)	- Reversal of net charges made to the (Surplus) or Deficit on the provision of Service for Post Employment Benefits in accordance with the Code	(22,063)
	Actual amount charged against the General Fund balance for pensions in the year:	
18,491	- Employers' Contributions Payable to Scheme	18,125

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:

2014/15 £'000		2015/16 £'000
796,826	Present value of defined benefit obligation	**749,579**
(425,105)	Fair value of plan assets	(420,094)
371,721	Net Liability arising from defined benefit obligation	**329,485**

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 2015		As at 31 March 2016
%		**%**
2.4	Rate of Inflation	2.3
4.2	Rate of Increase in Salaries	4.1
2.4	Rate of Increase in Pensions	2.3
4.3	Rate of Return on Assets	3.3
3.3	Rate for Discounting Scheme Liabilities	3.6
25	Take-Up of Option to Convert Annual Pension into Retirement Lump Sum	25
Years		**Years**
21.7	Longevity at 65 for Current Pensioners - Men	21.8
25.0	Longevity at 65 for Current Pensioners - Women	25.1
23.7	Longevity at 65 for Future Pensioners - Men	23.8
27.0	Longevity at 65 for Future Pensioners - Women	27.1

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

As at 31 March 2015		As at 31 March 2016
%		%
4.3	Equities	3.3
4.3	Bonds	3.3
4.3	Property	3.3
4.3	Cash	3.3
4.3	**Total Fund**	**3.3**

As at 31 March 2015		As at 31 March 2016
% of Fund		% of Fund
62	Equities	62
29	Bonds	28
6	Property	7
3	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 £13.9 million for 2015/16. The Council's actual return was approximately £8.4 million.

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

2014/15		2015/16
£'000		£'000
696,597	**Balance at 1 April**	**796,826**
	Movements in period	
17,243	- Current Service Cost	18,419
29,436	- Interest Cost	25,515
4,432	- Contributions by Members	4,152
0	- Actuarial (gains)/losses arising from changes in demographic assumptions	0
78,718	- Actuarial (gains)/losses arising from changes in financial assumptions	(50,148)
(2,597)	- Other	(1,136)
569	- Past Service Cost	1,425
(25,604)	- Benefits Paid	(28,984)
(1,968)	- Liabilities extinguished on settlements	(16,490)
796,826	**Balance at 31 March**	**749,579**

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

2014/15		2015/16
£'000		£'000
396,372	**Balance at 1 April**	**425,105**
	Movements in period	
16,918	- Interest income	13,735
	- Remeasurement gain/loss:	
16,523	- The return on plan assets, excluding the amount included in the net interest expense	(5,110)
15,950	- Contributions from employer	15,550
4,432	- Contributions from employees into the scheme	4,152
(23,484)	- Benefits Paid	(26,883)
(1,606)	- Other	(6,455)
425,105	**Balance at 31 March**	**420,094**

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:

2014/15		2015/16
£'000		£'000
11,053	Cash and Cash Equivalents	9,242
257,614	Equities	248,276
112,653	Bonds	88,640
28,907	Property	30,667
5,951	Infrastructure	7,982
8,927	Other	35,287
425,105		**420,094**

Further details of the assets are shown below for 2015/16, where each asset class has been split according to those that have a quoted market price in an active market and those that do not and whether those assets represent UK or overseas holdings.

		2015/16		
		£'000 Quoted	£'000 Unquoted	£'000 Total
Cash and cash equivalents		9,242	0	9,242
Equities	UK	71,416	0	71,416
	Overseas	176,860	0	176,860
Bonds				0
Fixed Interest Government Securities	UK	15,543	0	15,543
	Overseas	6,722	0	6,722
Index Linked Government Securities	UK	29,827	0	29,827
	Overseas	0	0	0
Corporate Bonds	UK	14,703	0	14,703
	Overseas	21,845	0	21,845
Property	All	1,260	29,407	30,667
Infrastructure		0	7,982	7,982
Other		31,926	3,361	35,287
		379,344	**40,750**	**420,094**

h) Scheme History

	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
	£'000	£'000	£'000	£'000	£'000
Present Value of Liabilities	574,361	651,087	696,597	796,826	749,579
Fair Value of Assets	(345,001)	(395,631)	(396,372)	(425,105)	(420,094)
Deficit	229,360	255,456	300,225	371,721	329,485

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £329.5 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 decreased during the year by 11.4%, mainly due to the effect on the IAS19 liabilities of an increase in real bond yields, which places a lower value on liabilities, offset slightly by lower than assumed asset returns over the year.

j) History of Experience Gains and Losses

The related experience gains and losses for 31 March 2016 and earlier years are as follows:-

	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
	%	%	%	%	%
On assets as % of Fair Value	(2)	8	(4)	4	(1)
On liabilities as % of Present Value	1	(5)	2	(2)	1

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.

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 2015	**31 March 2016**	**31 March 2015**	**31 March 2016**
	£'000	**£'000**	**£'000**	**£'000**
Investments				
Loans and receivable at amortised cost				
Loans & receivables principal amount	0	0	61,450	65,000
Municipal Bond Agency	35	100	0	0
Accrued Interest	0	0	259	260
Total Investments	**35**	**100**	**61,709**	**65,260**
Debtors				
Loans and Receivables	2,234	2,213	0	0
Financial assets carried at contract amounts	0	0	41,739	41,681
Total Debtors	**2,234**	**2,213**	**41,739**	**41,681**
Cash and cash equivalents	**0**	**0**	**5,560**	**(1,071)**
Borrowings				
Financial liabilities carried at amortised cost				
Financial liabilities principal amount	213,721	208,721	4,000	15,800
Accrued Interest	0	0	1,116	967
Total Borrowings	**213,721**	**208,721**	**5,116**	**16,767**
Creditors				
Financial liabilities carried at contract amount	0	0	48,490	48,398
Total Creditors	**0**	**0**	**48,490**	**48,398**

Notes:

1. During 2015/16 the Council did not take on any new long term borrowing. Two loans totalling £4m from the Public Works Loan Board matured during the year. £2m matured on 26 May 2015 and was repaid and £2m matured on 26 October 2015 and was repaid.

2. The Councils long term borrowing total of £208.721 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 Council's short term borrowing total of £15.800 million comprises of £5m PWLB loans maturing in less than one year and £10.8 million of temporary borrowing that was undertaken at year end to manage cash flow requirements.
5. 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.
6. The Council had no material soft loans as at 31 March 2016.

b) Financial Instruments Adjustment Account

No debt restructuring was carried out in 2015/16 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	(8,211)	0	0	0
Interest income	0	555	0	0
Net gain / (loss) for the year	**(8,211)**	**555**	**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 2015 are also provided for comparison.

Fair Value of Liabilities Carried at Amortised Cost

	31 March 2015		31 March 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Temporary Borrowing	0	0	10,800	10,800
PWLB - maturity	193,217	214,248	189,065	210,287
LOBOs	25,620	29,504	25,623	30,478
Financial liabilities	**218,837**	**243,752**	**225,488**	**251,565**

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 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £210.2m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £189.1m would be valued at £210.2m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £245.1m.

Fair Value of Assets Carried at Amortised Cost

	31 March 2015		**31 March 2016**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£'000	**£'000**	**£'000**	**£'000**
Call and notice accounts	46,557	46,557	30,107	30,107
Fixed term deposits with banks and building societies	15,089	15,090	35,061	35,097
Financial assets	**61,646**	**61,647**	**65,168**	**65,204**
Long Term Debtors	**2,234**	**2,234**	**2,213**	**2,213**

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 2016 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, and
- historical experience adjusted for market conditions as at 31 March 2016

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 2015		31 March 2016
£'000		£'000
26,545	Less than three months	25,056
35,101	Three to six months	40,112
0	Six months to one year	0
0	More than one year	0
61,646	**Total**	**65,168**

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

31 March 2015		31 March 2016
£'000		£'000
43,735	Less than three months	39,098
0	Three to six months	0
0	Six months to one year	0
2,234	More than one year	2,213
45,969	**Total**	**41,311**

Heritable Bank

In August 2015 the Council received the fifteenth instalment of the recovery of the £5.5m funds invested with Heritable Bank, bringing the total funds recovered to date to just over £5.4m, approximately 98p in the pound. It is still not clear whether this is a final dividend. The administrators have retained a reserve to provide for legal costs and expenses until the conclusion of the administration. They do not intend to make further distributions to unsecured creditors until all outcomes are fully known. Due to the uncertainty over the timing and the amount of any further dividends to be received, no adjustments have been made to the 2015/16 accounts and balance sheet position. Any future amounts received will be treated as a "windfall".

During the year the Council initiated a claim against Landsbanki, the parent company of Heritable Bank. The claim is dependant on the conclusion of the administration of Heritable, after which no further dividend payments will be made to creditors. If the Council receives any further amounts from Heritable, these will be offset against the subsequent claim against Landsbanki.

Liquidity Risk

The Council has access to borrowing from the money markets to cover day to day cash flow needs and to 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 2015	Loans Outstanding	On 31 March 2016
£'000		£'000
192,421	Public Work Loans Board	188,421
25,300	Market debt	25,300
0	Temporary Loans	10,800
217,721	**Total**	**224,521**
4,000	Less than 1 year	15,800
5,000	Between 1 and 2 years	250
500	Between 2 and 5 years	345
4,595	Between 5 and 10 years	4,500
203,626	More than 10 years	203,626
217,721	**Total**	**224,521**

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 2016, 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	(697)
Increase in government grant receivable for financing costs	0
Impact Surplus or Deficit on the Provision of Services	(544)
Share of overall impact debited to the HRA	
Decrease in fair value of fixed rate investment assets	(321)
Impact on Other Comprehensive Income and Expenditure	(96)
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)	(36,024)

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.

30. Pooled Budgets with Sutton Clinical Commissioning Group

The Council (host authority) has entered into a Pooled Budget arrangement with Sutton Clinical Commissioning Group for the provision of Adult Social Care services within the London Borough of Sutton area.

At 31 March 2016 the 2015/16 outturn position was a £443k underspend which will be carried forward for funding in 2016/17.

	At 31 March 2016
	£'000
Funding:	
London Borough of Sutton	4,432
Sutton Clinical Commissioning Group	7,911
Joint	3,379
Total Funding	15,722
Expenditure:	
London Borough of Sutton	4,259
Sutton Clinical Commissioning Group	8,026
Joint	2,994
Total Expenditure	15,279
Total underspend to be carry forward to 2016/17	**443**

Section 4

Other Financial Statements

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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 2016

2014/15		Notes	2015/16
£'000			£'000
	Expenditure		
14,947	Sutton Housing Partnership management fee		15,228
2,130	Other operating costs		3,240
2,463	Rents, rates, taxes and other charges		2,717
7,377	Depreciation of fixed assets	8	7,408
	Impairment costs:	9	
1,489	- demolitions		0
(41,322)	- revaluations and disposals		(30,097)
425	Increase in bad debt provision		250
(12,491)	**Total Expenditure**		**(1,254)**
	Income		
33,048	Gross rent from Council dwellings		33,591
747	Gross non dwellings rent		746
4,228	Charges for services and facilities		4,525
251	Contributions towards expenditure		239
38,274	**Total Income**		**39,101**
(50,765)	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**		(40,355)
39	HRA services share of Corporate and Democratic Core		63
(50,726)	**Net Cost of HRA Services**		**(40,292)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement.		
5,790	Interest payable and similar charges		5,745
(17)	Interest and investment income		(43)
2,563	(Profit)/Loss on disposal of non current assets		(4,079)
103	Pensions interest cost and expected return on pension assets		111
(42,287)	**Deficit/(Surplus) for the Year on HRA Services**		**(38,558)**

Statement of Movement on the Housing Revenue Account Balance

2014/15 £'000		2015/16 £'000
2,258	**Balance on the Statutory HRA at the end of the previous year**	**5,813**
42,287	Surplus/ (Deficit) on the HRA Income and Expenditure Account for the year	38,558
	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	
245	- Net Charges made for Retirement Benefits in Accordance with FRS17	284
2,563	- (Profit)/Loss on disposal of non current assets	(4,079)
(39,750)	- Impairment Costs and Disposals	(30,097)
	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	
(153)	- Employers Contributions Payable to the Pension Fund	(171)
5,192	**Net (decrease)/increase before transfers to or from reserves**	**4,495**
(1,604)	Transfer to the Major Repairs Reserve	(8,426)
(18)	Transfer (to)/from Heating Reserve	21
(15)	Transfer to Hostel Services Reserve	(8)
5,813	**Balance on the Statutory HRA Reserve Carried Forward**	**1,895**
5	Freeholders Contributions to Capital Works	5
515	Heating Reserve – Accumulated Surplus	494
37	Hostel Services Reserve - Accumulated Surplus	46
6,370	**Total HRA Balances and Reserves**	**2,440**

Notes to the Housing Revenue Account

1. Sutton Housing Partnership Limited (SHP)

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.

SHP 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 SHP 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 2016 of £1,894,810 (£5,812,663 at 31 March 2015) is considered a prudent level. In addition the HRA carries a Heating Reserve of £494,148 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 2016 the Council owned and managed 5,938 tenanted dwellings plus it manages a further 1,470 leasehold properties. The Council also owned a proportion of 13 equity share/shared ownership dwellings, being the equivalent of 6.75 fully-owned dwellings.

Analysis of HRA Dwellings at 31 March 2016

Total 2014/15		Bedsits	Flats	Houses	Total 2015/16
6,113	**Dwellings at 1 April**	**188**	**2,987**	**2,824**	**5,999**
(40)	Demolitions / Transfers	0	0	(2)	(2)
(75)	Right-to-Buy Sales	(1)	(37)	(21)	(59)
1	Net Changes through Change of Use or Refurbishment	0	0	0	0
5,999	**Dwellings at 31 March**	**187**	**2,950**	**2,801**	**5,938**

4. Stock Valuation

A full revaluation of the Council’s housing stock was completed during 2015/16 as a result of the requirements of the Local Government Transparancy Code 2015. Disposals to 31 March 2016 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 2015		As at 31 March 2016
£’000	Operational Assets:	**£’000**
318,786	- Dwellings	365,655
622	- Other Land and Buildings	4,035
3,774	Non Operational Assets	0
323,182	**Total**	**369,690**

This valuation reflects the use of HRA dwellings as tenanted stock. The vacant possession value on the balance sheet at 31 March 2016 is £1,463 million (£1,275 million at 31 March 2015). The balance sheet valuation (£365.655 million after applying the 25% social housing factor for London) 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 dwelling 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.

2014/15		**2015/16**
£'000		**£'000**
0	Balance at 1 April	0
7,296	Contribution to Major Repairs Reserve	7,349
58	Depreciation on non-dwellings	59
(7,296)	MRA used on capital projects	(5,714)
(58)	Transfer to Statement of Movement on HRA balance	(59)
0	**Balance Carried Forward at 31 March**	**1,635**

6. HRA Capital Financing

2014/15		**2015/16**
£'000		**£'000**
29,661	HRA Capital Expenditure	**27,610**
	Financed by :	
60	Loan/Borrowing	479
20,331	Government Grants	12,582
7,296	Major Repairs Reserve	5,714
1,723	Revenue Contributions	8,524
27	Right to Buy receipts	89
224	Other	222
29,661	**Total**	**27,610**

7. HRA Capital Receipts

2014/15		**2015/16**
£'000		**£'000**
7,680	Right to Buy Sales	7,382
29	Other Disposals	173
3	Mortgage Repayments	3
7,712	**Total**	**7,558**

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 £7.4 million. Assuming an average life of 50 years for Council dwellings, depreciation, excluding land values, would amount to some £4.9 million. This difference is not considered material to the overall valuation of the Council's housing stock.

2014/15		2015/16
£'000		£'000
	Operational Assets:	
7,297	Dwellings	7,349
58	Other Land and Buildings	59
7,355	**Total**	**7,408**

9. Impairment

Reverse Impairment charges totalling £30.097 million have been made during 2015/16. This charge is a result of the following:

- A reduction of £20.698 million after applying the social housing factor to the cost of capital works (£27.597 million) during the year, offset by an increase of £50.795 million as a result of the revaluation of Council Dwellings.

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 2016 totalled £1,523,026 compared to £1,204,976 at 31 March 2015. As a proportion of gross rent and service income, this represents 4.0% (3.26% in 2014/15).

Total provision for uncollectable rent and service debt totalled £1,280,750 at 31 March 2016 compared to £1,072,500 at 31 March 2015.

As at 31 March 2015 £'000		As at 31 March 2016 £'000
1,268	Current Tenant Arrears	1,512
596	Former Tenant Arrears	670
1,864	**Total**	**2,182**
(659)	Accounts in credit	(659)
1,205	**Net Arrears**	**1,523**

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 2015 £'000		As at 31 March 2016 £'000
(1,072)	Tenants rent and heating charges	(1,281)
(1,072)	**Total**	**(1,281)**

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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 2015/16

Restated 2014/15 £'000			2015/16 £'000
	Income		
99,527	Council Tax collectable		102,591
50,827	Income Collectable from Business Ratepayers (Note 3)		51,428
1,355	Income Collectable in respect of Business Rate Supplement		1,330
151,709	**Total Income**		**155,349**
	Expenditure		
	Council Tax Precepts & Demands (Note 4)		
76,086	- London Borough of Sutton		81,130
18,640	- Greater London Authority	- General	19,208
1,300		- Olympics	1,360
	Business Rates Precepts Shares and Collection Costs:		
25,797	- DCLG Payment		25,261
10,319	- GLA Payment		10,104
15,478	- London Borough of Sutton Payment		15,157
207	- Costs of Collection		245
	Cross Rail Precept Share and Cost of Collection:		
1,349	- Payment to GLA		1,427
6	- Costs of Collection		5
	Charges to Collection Fund (Council Tax):		
529	- Write-off Uncollectable Debt		159
(600)	- Increase/(Decrease) in Provision for Bad and Doubtful Debts		296
	Charges to Collection Fund (Business Rates):		
696	- Write-off Uncollectable Debt		674
18	- Increase/(Decrease) in Provision for Bad and Doubtful Debts		(112)
3,595	- Changes in Provision for Appeals		(3,390)
0	- Transition Payment to DCLG		1,344
	Contributions Prior Year (Deficit)/Surplus:		
1,898	- Council Tax Distribution		3,366
100	- Business Rates Distribution		(6,104)
155,418	**Total Expenditure**		**150,130**
(3,709)	**Total Income Less Expenditure**		**5,219**
3,372	Council Tax Fund Balance 1 April		5,045
1,673	Council Tax Surplus/ (Deficit) for the Year		(2,928)
5,045	Balance at 31 March		2,117
(4,215)	NNDR Fund Balance 1 April		(9,597)
(5,382)	NNDR Surplus/ (Deficit) for the Year		8,147
(9,597)	Balance at 31 March		(1,450)
(4,552)	**Surplus/(Deficit) Carried Forward 31 March**		**667**
	Distribution of Council Tax part of Fund Balance:		
3,992	- London Borough of Sutton		1,689
1,053	- Greater London Authority		428
	Distribution of NNDR part of Fund Balance:		
(2,879)	- London Borough of Sutton		(435)
(1,919)	- Greater London Authority		(290)
(4,799)	- DCLG		(725)
(4,552)	**Total Allocation of Fund Balance**		**667**

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 relevant 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 (£1,458.60 in 2015/16, London Borough of Sutton £1,163.60 and GLA £295.00) 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 69,723.2 Band D equivalents, compared to 66,690.4 in 2014/15.

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	689	6/9	459	
£40,000 - £52,000	B	6,048	7/9	4,704	
£52,000 - £68,000	C	23,502	8/9	20,892	
£68,000 - £88,000	D	21,903	9/9	21,903	
£88,000 - £120,000	E	11,513	11/9	14,071	
£120,000 - £160,000	F	6,514	13/9	9,409	
£160,000 - £320,000	G	3,464	15/9	5,773	
£320,000 or more	H	241	18/9	482	
		73,874		77,693	
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.				7,265.5	
				70,427.5	
Adjustment for estimated collection rate.				704.3	1.00%
		Council Tax Base		69,723.2	99.00%
		Band D council tax charge		£1,458.60	
		Total Precept raised (Note 4)		£101,698,303	

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 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 2015/16 were estimated before the start of the financial year as £22.209m to Central Government, £13.325m to London Borough of Sutton and £8.883m to the GLA. These sums have been paid in 2015/16 and charged to the collection fund in year.

The total income collectable from business rate payers in 2015/16 was £51.428m (£52.219m in 2014/15).

The London Borough of Sutton identified post audit of the Authority's accounts some accounting errors in respect of the Collection Fund figures which changed the Collection Fund deficit balance brought forward from 2014/15. A consequence of the errors is that the 2014/15 Collection Fund accounts have been restated by £0.362 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 Valluation Office Agency and hence business rates outstanding as at 31 March 2016. 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 2015/16 has been calculated at £1.854 million. This leaves a total end of year Provision for Appeals balance of £2.379 million of which the London Borough of Sutton's share is £0.714 million.

The total non domestic rateable value at 31 March 2016 in Sutton was £125.574 million (£126.637 million at 31 March 2015). The Government advises local authorities of the two business rate multipliers annually. For 2015/16 these were:

- Small business non-domestic rating multiplier - 48.0p per £ (47.1p per £ in 2014/15)
- Non-domestic rating multiplier - 49.3p per £ (48.2p per £ in 2014/15)

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

2014/15 £'000		2015/16 £'000
76,086	London Borough of Sutton	81,130
19,941	Greater London Authority	20,568
96,027	**Total**	**101,698**

In addition to the £101.698 million above, the estimated surplus on the Collection Fund at 31 March 2015 of £3.366 million was shared between the Council and the GLA in 2015/16, £2.662 million and £0.704 million respectively.

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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 2016
Fund Account

Restated 2014/15 £'000		Notes	2015/16 £'000
	Contributions and Benefits		
	Contributions Receivable:		
21,611	From Employers	2	23,188
5,797	From Employees or Scheme Members	2	5,889
1,033	Transfers In	4	1,510
28,441	**Sub-Total Income**		**30,587**
	Benefits Payable:		
18,729	Pensions	3	19,667
3,953	Lump Sum Retirement Grants	3	4,233
840	Lump Sum Death Benefits	3	496
	Payments to and on account of Leavers:		
34	Refund of Contributions		53
2,990	Transfers Out	4	8,181
3,236	Management expenses	6f	3,192
29,782	**Sub-Total Expenses**		**35,822**
(1,341)	**Net Addition from Dealings with Scheme Members**		**(5,235)**
	Return on Investments		
4,181	Investment Income	6d	3,473
(19)	Taxes on Income	6e	(20)
56,034	Increase/(Decrease) in Market Value of Investments		2,172
60,196	**Net Return on Investments**		**5,625**
58,855	**Net Increase/(Decrease) in Fund During Year**		**390**
447,876	Opening Net Assets of the Scheme		506,731
506,731	**Total Net Assets at 31 March**		**507,121**
	Net Assets Statement		
	Investment Assets:		
308,293	Equities		311,384
34,947	Fixed Interest Securities - Public Sector		29,217
58,703	- Other		57,623
34,574	Index Linked Securities - Public Sector		37,755
33,143	Property Fund		35,239
14,825	Other		18,456
4,713	Loans to businesses	6b	3,778
489,198	**Sub-Total Securities**	6b	**493,452**
1,452	Cash		1,312
404	Debtors		117
491,054	**Total Investment Assets**	6c	**494,881**
	Current Assets		
15,277	Cash in Hand		12,065
965	Debtors		1,829
(565)	Current Liabilities		(1,654)
506,731	**Total Net Assets at 31 March**		**507,121**

1. Membership

The London Borough of Sutton Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by London Borough of Sutton. The council is the reporting entity for this pension fund.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension scheme administered by London Borough of Sutton to provide pensions and other benefits for pensionable employees of London Borough of Sutton and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

Organisations participating in the London Borough of Sutton Pension Fund are as follows;

Scheduled Bodies:
- Carshalton College
- Sutton Housing Partnership
- Academy Schools (21)

Admitted Bodies:
- Bandon Hill Joint Cemetery Committee
- Citizens Advice Bureaux
  - Beddington & Wallington
  - Sutton
  - St Helier (office now closed)
- Housing21
- 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)
- Cygnet (Schools ICT)
- Vinci Park
- Nviro (Wallington High School for Girls Academy)
- Sutton Theatres Trust

As at 31 March, membership of the fund comprised

31 March 2015		31 March 2016
No.		No.
4,044	Employees & Council Members	4,923
3,340	Pensioners and dependants	3,518
4,138	Former Employees - deferred benefits	4,207
11,522	**Total**	**12,648**

Active members at 31 March 2016 now include additional records for each pensionable post held by a member of the scheme and undecided leavers yet to be processed.

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 in 2014/15, £4.139m in 2015/16 and £5.024m in 2016/17).

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 2015/16 this was set at 24.5% (23.5% in 2014/15).

For the other Scheduled Bodies the employers' rates of contribution were:

- Carshalton College – 19.2% plus £333k cash deficit contribution
- Sutton Housing Partnership – 20.9% plus £161k cash deficit contribution

For Admitted Bodies the employers' rates of contribution were:

- Bandon Hill Joint Cemetery Committee – 30.6%
- Citizens Advice Bureaux – 21.0% plus £37k cash deficit contribution
- ThamesReach – 21.6%
- Sports and Leisure Management – 20.0%
- Community Options – 23.9%
- Community Drug Service – 25.5%
- Compass Catering – 21.8%
- Eldercare – 18.0%
- Mitie – 23.7%
- Cygnet (Schools ICT) – 17.7%
- Vinci Park – 28.6%
- Nviro (Wallington High School for Girls Academy) – 23.7%
- Sutton Theatres Trust – 25.6%

Contributions to the Pension Fund were as follows:-

2014/15		2015/16
£'000		**£'000**
	Employers' Contributions	
16,011	London Borough of Sutton incl. community schools	15,666
3,070	Academy schools	3,978
535	London Borough of Sutton - Recovery of early retirement costs	798
731	Deficit Funding Contributions (SHP & Carshalton College)	762
	Scheduled Bodies	
274	- Carshalton College	252
657	- Sutton Housing Partnership	776
333	Admitted Bodies	956
21,611		**23,188**
	From Employees or Scheme Members	
4,547	London Borough of Sutton incl. community schools	4,249
827	Academy schools	1,025
	Scheduled Bodies	
96	- Carshalton College	85
239	- Sutton Housing Partnership	259
88	Admitted Bodies	271
5,797		**5,889**

3. Analysis of Benefits Payable

2014/15		2015/16
£'000		**£'000**
22,001	London Borough of Sutton incl. community schools	22,329
283	London Borough of Sutton - Academy schools	474
	Scheduled Bodies	
365	- Carshalton College	431
686	- Sutton Housing Partnership	728
187	Admitted Bodies	434
23,522	**Total Benefits Payable**	**24,396**

4. Transfers

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

	2014/15		2015/16	
	Transfers Out	Transfers In	Transfers Out	Transfers In
	£'000	£'000	£'000	£'000
Bulk transfers	0	0	7,357	0
Individual transfers	2,990	1,033	824	1,510
	2,990	1,033	8,181	1,510

The above bulk transfers out were in respect of ICT staff transferred to RB Kingston and Carshalton College staff transferred to RB Kingston KSEP.

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 2016. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2016. 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 2015/16, which is based upon International Financial Reporting Standards (IFRS). In particular:

a) Valuation of Investments

The valuation of investment holdings are undertaken by the fund managers and reported by Northern Trust.

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 2016.

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 Legal & General 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. During the year there were 5 foreign currency exchange’s executed on the transition account. All these transactions purchased Sterling, US Dollars 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 assets statement at 31 March 2016 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 £25m 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 £26.4m. 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 assets held by the fund managers at 31 March 2016 totalled £493.452 million split as follows:

	£m	% of Investment Assets
M & G Bonds	81.698	16.6%
Newton	79.048	16.0%
Schroders	71.852	14.5%
Harding Loevner	75.221	15.2%
Legal & General	58.226	11.8%
Baillie Gifford	40.265	8.1%
Pyrford	39.317	7.9%
Blackrock	21.534	4.4%
AVIVA	12.255	2.5%
Partners Group	10.108	2.0%
M&G Financing Fund	3.778	1.0%
London Collective Investment Vehicle	0.150	0.0%
Total	**493.452**	**100.0%**

Fund’s assets are held in unitised form. Excluding equities, the largest unitised holding is M&G's Alpha Opportunities Fund, representing 9.1% of net assets. There is no other individual holding of more than 5%.

b) Analysis of Investments

31 March 2015 £m		31 March 2016 £m
	Equities:	
86.6	UK Quoted	84.9
221.7	Overseas Quoted	226.5
	Fixed Interest Securities:	
	- UK	
23.7	Public sector quoted	16.5
18.7	Corporate quoted	21.0
	- Overseas	
11.3	Public sector quoted	12.7
40.0	Corporate quoted	36.5
	Index linked securities:	
33.5	UK Public sector quoted	36.9
1.0	Overseas Public sector quoted	1.0
	Property:	
	- UK	
21.6	Property fund quoted:	22.9
	- Overseas	
11.6	Property Unit Trust unquoted	12.3
	Loans to business:	
4.7	Unit Trust unquoted	3.8
	Other:	
8.9	Quoted	8.2
5.9	Unquoted - Private Equity Infrastructure	10.3
489.2		**493.5**
	Pooled funds - additional analysis:	
	- UK	
	Equities:	
73.3	Unit Trusts	73.6
13.3	Other pooled equities	11.4
	Fixed Interest Securities:	
42.4	Fixed income bonds	37.5
	Index Linked Securities:	
33.6	Indexed linked bond	36.9
	Property:	
20.3	Unit Trust	21.5
1.2	Other	1.5
	Loans to business:	
4.7	Unit Trust	3.8
	- Overseas	
	Equities:	
139.3	Unit Trust	135.5
82.4	Other pooled equities	90.9
	Fixed Interest Securities:	
52.3	Other	50.1
	Property:	
11.6	Unit Trust	12.3
	Other:	
14.8	Other pooled investments	18.5
489.2		**493.5**

The Other category includes absolute return and insurance linked securities.

c) Investment Movement Summary

Investment Movement Summary 2015/16	Value at 1 April 2015	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2016
	£m	£m	£m	£m	£m
Equities	308.3	11.9	(12.3)	(1.5)	306.4
Bonds	128.2	19.3	(18.3)	(0.1)	129.1
Property	33.1	1.4	(1.5)	2.0	35.0
	469.6	32.6	(32.1)	0.4	470.5
Loans to:					
Businesses	4.7	0.2	(1.2)	0.0	3.7
Other	14.8	11.4	(8.8)	1.8	19.2
Total Investment Assets	**489.1**	**44.2**	**(42.1)**	**2.2**	**493.4**
Other investment balances:					
Cash & Cash Equivalents	1.5				1.3
Debtors	0.4				0.1
Total Assets	**491.0**	**44.2**	**(42.1)**	**2.2**	**494.8**

Comparative Movements in 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	(1.3)	(0.1)	4.7
Other	11.5	3.3	(0.5)	0.5	14.8
Total Investment Assets	**430.0**	**81.5**	**(78.3)**	**55.9**	**489.1**
Other investment balances:					
Cash & Cash Equivalents	3.4			0.1	1.5
Debtors	0.7				0.4
Total Assets	**434.1**	**81.5**	**(78.3)**	**56.0**	**491.0**

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

d) Investment Income (Gross)

31 March 2015 £'000		31 March 2016 £'000
597	Equities	221
1,635	Bonds	1,426
1,623	Property	1,008
3,855		2,655
252	Loans to Business	218
74	Other	600
4,181	Total Investment Income	3,473

e) Taxes on Income

31 March 2015 £'000		31 March 2016 £'000
19	UK Income Tax - Property	20
19		20

f) Management Expenses

31 March 2015 £'000		31 March 2016 £'000
634	Administrative costs	433
2,495	Investment management expenses	2,658
107	Oversight and governance costs	101
3,236		3,192

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 £306.6k (£121.5k 2014/15) 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.

Further, it is possible that fluctuations in the value of assets may have occurred since the balance sheet date. Therefore, the Council has reviewed the latest valuation data available from its main fund managers. This revealed that as at 30 June 2016 the value of investments has increased by 5.6% (£28.3m).

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 London Borough of 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.

Actuarial Assumptions

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

Financial Assumptions

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:

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

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

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

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

The Actuary has calculated the actuarial present value of promised retirement benefits to be £855 million as at 31 March 2016 (£881 million as at 31 March 2015). 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 2016 comprises £358.5 million in respect of employee members, £174.8m million in respect of deferred pensioners and £321.6 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 2016 is to decrease the actuarial present value by £55 million.

(i) Financial Assumptions

The Actuary's recommended financial assumptions are summarised below:

Year ended	31 March 2015 % p.a.	31 March 2016 % p.a.
Inflation/Pension Increase Rate	2.4%	2.4%
Salary Increase Rate*	4.2%	4.2%
Discount Rate	3.3%	3.7%

*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	21.8 years	25.1 years
Future Pensioners*	23.8 years	27.1 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 2016 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 2016 and confirming the amounts held to their accounts and the movements in the year. In the year to May 2016 AVC's paid by members amounted to £193k (£189k in 2015) and £369k was paid out by the scheme (649k in 2015). At 31 May 2016 the total value of these AVC's was £1,027k (£1,185k in 2015).

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 £13.7 million of surplus cash deposited with the Council during 2015/16. The Council charged the Fund £299.7k for expenses incurred in administering the Fund. The Council is also the single largest employer of members of the pension fund and contributed £20.442 million to the fund (£19.616 million in 2014/15).

<u>Key Management Personnel</u>

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

2014/15	Remuneration Band	2015/16
Number of Employees	£	Number of Employees
1	50,000 - 54,999	1
1	60,000 - 64,999	1
1	125,000 - 129,999	1
3	**Total**	**3**

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

2014/15			Chief Officer	2015/16		
Salary, fees and allowances	Employers pension contributions	Total		Salary, fees and allowances	Employers pension contributions	Total
£	£	£		£	£	£
128,473	0	128,473	Strategic Director – Resources	128,672	0	128,672

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	
	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000
Financial Assets						
Fixed Interest Securities	93,650	86,840	0	0	0	0
Index Linked Securities	34,574	37,755	0	0	0	0
Equities	308,293	311,384	0	0	0	0
Pooled property investments	33,143	35,239	0	0	0	0
Private Equity/Infrastructure	5,916	10,108	0	0	0	0
Other*	8,909	8,347	0	0	0	0
Investment Cash	0	0	1,453	1,312	0	0
Other investment balances	4,713	3,778	0	0	0	0
Investment Debtors	0		404	117	0	0
	489,198	**493,451**	**1,857**	**1,429**	**0**	**0**
Cash in hand	0	0	15,277	12,064	0	0
Debtors	0	0	965	1,829	0	0
	489,198	**493,451**	**18,099**	**15,322**	**0**	**0**
Financial Liabilities						
Creditors	0		0	0	(565)	(1,653)
	0	**0**	**0**	**0**	**(565)**	**(1,653)**
	489,198	**493,451**	**18,099**	**15,322**	**(565)**	**(1,653)**

Current assets, which are separate to investment assets have been additionally disclosed.
Other* includes absolute return, commodities, insurance linked securities and investment in the London Collective Investment Vehicle.

b) Net Gains and Losses on Financial Instruments

	2014/15 £'000	2015/16 £'000
Financial Assets		
Fair value through profit and loss	56,088	2,387
Loans and receivables	(55)	24
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	**56,033**	**2,411**

Net gains and losses at fair value through profit and loss has been re-stated for 2014/15. The change in the market value of investments has been adjusted to treat income from distributions from the M&G UK Companies Financing Fund as a reduction of capital as opposed to receipt of income.

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	
	2014/15	**2015/16**	**2014/15**	**2015/16**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Fair value through profit and loss	489,198	493,451	489,198	493,451
Loans and receivables	1,857	1,429	1,857	1,429
Total financial assets	**491,055**	**494,880**	**491,055**	**494,880**
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	
	2014/15	**2015/16**	**2014/15**	**2015/16**
	£'000	**£'000**	**£'000**	**£'000**
Non-investment Financial Assets				
Cash in hand	15,277	12,064	15,277	12,064
Debtors	965	1,829	965	1,829
Total non-investment financial assets	**16,242**	**13,893**	**16,242**	**13,893**
Non-investment Financial Liabilities				
Creditors	(565)	(1,653)	(565)	(1,653)
Total non-investment financial liabilities	**(565)**	**(1,653)**	**(565)**	**(1,653)**

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 2016	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Equities	253,157	58,226	0	311,383
Securities	124,595	0	0	124,595
Property	1,450	21,534	12,255	35,239
Private Equity/Infrastructure	0	0	10,108	10,108
Loans to businesses	0	0	3,778	3,778
Other*	8,198	0	150	8,348
Financial assets at fair value through profit and loss	**387,400**	**79,760**	**26,291**	**493,451**

Other* includes absolute return, commodities and insurance linked securities and investment in the London Collective Investment Vehicle.

Level 3 Investment Movement Summary 2015/16	**Value at 31 March 15**	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31 March 16**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Property	11,586	0	(119)	788	12,255
Private Equity/Infrastructure	5,916	3,271	(945)	1,866	10,108
Loans to businesses	4,713	0	(1,171)	236	3,778
London Collective Investment Vehicle	0	150	0	0	150
	22,215	**3,421**	**(2,235)**	**2,890**	**26,291**

	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	4,713	4,713
Other*	8,909	0	0	8,909
Financial assets at fair value through profit and loss	**386,161**	**80,822**	**22,215**	**489,198**

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	(1,296)	(55)	4,713
	19,302	**3,929**	**(1,975)**	**959**	**22,215**

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 2015/16 and 2014/15 as shown in the tables overleaf. The estimated volatility of asset classes, such as global equities includes the impact of unhedged currency movements.

Asset Type	Value as at 31/03/2016	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	1,312	0.6	1,320	1,309
Investment portfolio assets:				
UK bonds	37,584	6.7	40,103	35,066
Overseas bonds	50,117	9.5	54,878	45,356
UK equities	84,940	17.1	99,465	70,415
Overseas equities	226,444	19.6	270,827	182,061
Index linked gilts	36,894	5.1	38,775	35,012
Property	35,239	14.7	40,419	30,059
Private equity/infrastructure	10,258	15.5	11,848	8,668
Absolute return	8,198	12.7	9,239	7,157
Corporate bonds	3,778	9.5	4,137	3,419
Other - Debtors	117	0.0	117	117
Total assets available to pay benefits	**494,881**		**571,128**	**418,639**

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	4,713	9.5	5,161	4,265
Other - Debtors	404	0.0	404	404
Total assets available to pay benefits	**491,055**		**567,092**	**415,016**

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

Currency Risk

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

Following analysis of historical data in consultation with the fund investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 10% for 2015/16 and 13% for 2014/15. 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 10% 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 2016	Change to net asets available to pay benefits 10%	-10%
	£000	£000	£000
Equities	226,444	249,088	203,800
Fixed interest securities	49,256	54,182	44,330
Index linked securities	861	947	775
Property	12,255	13,481	11,030
Private Equity/Infrastructure	10,258	11,284	9,232
Total assets available to pay benefits	**299,074**	**328,982**	**269,167**

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**

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 2016	Change in year if interest rates moved by 100bps	
		+100bps	-100bps
	£000	£000	£000
Cash in hand	12,065	121	(121)

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. Note 6 b) sets out the market value of securities held by the fund managers at 31 March 2016.

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 2016 the Council held £12.065m cash on behalf of the Pension Fund through its treasury management arrangements. £0.08m was held in a dedicated Pension Fund bank account and the remaining £11.985m was invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk.

The Council's treasury management arrangements ensure that no deposits are made with banks or financial institutions unless they are rated independently and meet the Council's credit criteria. The Council also sets limits that determine how much can be placed with any one institution and for how long. By investing in a range of banks and money market funds the Council ensures that investment risk is spread. The money market funds chosen by the Council are all AAA rated.

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 2015/16. This fee is unchanged from 2014/15.

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.

16. Prior Year Restatement

During 2015/16 The Fund's custodian took two fund managers (AVIVA and M&G UK Companies Financing Fund) into their reporting service, which had previously been accounted for separately by The Council. Adjustments have been made to 2014/15 figures for investment income, change in market value of investments and the market value of loans to businesses in order to reflect the different approach that the custodian takes in reporting these holdings. These changes are also reflected throughout the notes to the accounts. The impact of these changes are as follows;

	Original 2014/15	Restated 2014/15	Difference 2014/15
	£'000	£'000	£'000
Investment Income	5,450	4,181	(1,269)
Increase/(Decrease) in Market Value of Investment	54,820	56,034	1,214
Loans to businesses	4,768	4,713	(55)

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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 2016. 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 2016 and its income and expenditure for the year.

G. Ollerenshaw

Strategic Director - Resources
22 September 2016

I certify that the Statement of Accounts was approved by the Audit Committee on 22 September 2016.

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. Introduction

1.1 Sutton Council's code of governance consists of a framework of arrangements, including a system of internal control, that:

- facilitates the exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management is sound; and
- includes effective arrangements for the management of risk.

1.2 This statement explains the framework of arrangements, which are consistent with the principles of the CIPFA / SOLACE[1] best practice framework, *Delivering Good Governance in Local Government (2007)* and the *Addendum (2012)*, and it includes the review of the effectiveness of the system of internal control required by The Accounts and Audit Regulations 2015, paragraph 6.-(1) (a).

1.3 The governance framework has been in place for 2015/16 and up to the date of approval of the Statement of Accounts. Its key elements are summarised below along with supporting evidence.

2. Key elements of the governance framework

2.1	Decision-making, vision and policy priorities:	Evidenced by:
a)	The Constitution sets out the decision making structure. Full Council is the ultimate governing body. Opposition membership of the Standing Committees, Regulatory Committees and Scrutiny Committees provides robust challenge. All of these committees are appointed on the basis of political proportionality. Decision-making is transparent. Decisions reports and committee minutes are published on *sutton.gov.uk* along with details of decisions made by officers under delegated authority.	• The Constitution • Committee terms of reference • The Corporate Plan • 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 in which all can take part and all can take pride. It includes the related policy priorities under the themes 'Open, Fair, Green and Smart'.	• The People Plan
c)	The Smarter Council programme is the process for delivering efficiency savings, including service transformation through commissioning. It includes cross organisational and directorate specific projects. The People Plan supports delivery and meets responsibility to staff through skills development, behaviour change and productivity improvement, and aligned pay and rewards.	
Development area:		
•	The Market Development Strategy 2016 – 21 has been introduced to help maximise the benefits of market opportunities and facilitate service transformation through commissioning.	

2.2	Roles, responsibilities and behaviour:	Evidenced by:
a)	The Constitution sets out the roles and responsibilities of members and senior employees. The role of the Corporate Management Team, including the statutory chief officers, such as the Head of the Paid Service, Monitoring Officer and Section 151 Officer, is to support members in the policy and decision-making process by providing assessments and advice to ensure that decision-making is rigorous.	• The Constitution • Codes of conduct and protocols • Leadership and core behaviours

[1] Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives

b)	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 senior managers and core behaviours for all staff. Staff appraisals ensure that behaviours are put into practice and identify training needs. Themed training helps to ensure that members have the skills they need to perform well in their committee roles.	• Staff appraisal system • Staff training courses • Themed training for members
c)	The Standards Committee helps to promote and maintain high standards of conduct and probity for all members, assisting them to observe the Code of Conduct.	• Standards Committee terms of reference

2.3	**Control activities:**	**Evidenced by:**
a)	Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. The principal documents include the Contract Standing Orders and Financial Regulations.	• Contract Standing Orders and Financial Regulations
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 annual financial planning process is used to review and update the Strategic Commissioning Plan that is used to deliver the Corporate Plan. There is an aligned Medium Term Financial Strategy and Capital Programme. The approval of budget estimates authorises revenue spend. Capital spending requires further authorisation. There are virement limits for revenue and capital. The aligned Treasury Management Strategy includes the Annual Investment Strategy that specifies the criteria (credit ratings and other risk thresholds) for selecting counterparties.	• Strategic Commissioning Plan • Medium Term Financial Strategy • Capital Programme • Treasury Management Strategy • Commissioning Framework
c)	The Strategic Commissioning Plan sets out the continuing need for service review and change. The 'Analyse' phase of the commissioning framework is the point at which all needs and issues are identified and assessed, including whether an Integrated Impact Assessment is required. The Commissioning Board provides challenge at Gateway points to ensure impacts of service changes on communities are properly assessed and where appropriate, mitigating actions taken. Change management risks are managed through programme and project risk management.	• Integrated Impact Assessment methodology • Commissioning Board • Sutton Approach to Programme and Project Management
d)	Anti-Bribery, Anti-Money Laundering and Whistleblowing policies are in place across the Council. 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. A counter fraud and investigation service is commissioned from the South West London Fraud Partnership. The partnership works to the Code of Practice on Managing the Risk of Fraud and Corruption and benchmarks performance to understand fraud risks and target resources.	• South West London Fraud Partnership Shared Service Agreement • Information and Security Governance Framework
e)	There is a robust framework for managing information to ensure legal compliance and access to NHS information. The Information and Security Governance Framework sets out management and accountability structures, governance processes, documented policies and procedures, and training arrangements.	

2.4	Monitoring:	Evidenced by:
a)	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.	• Sutton Quality Assurance Framework • Children's Services Quality Assurance Framework
b)	The Strategy and Resources Committee receives regular reports that review performance against the priorities and deliverables in the Strategic Commissioning Plan and financial plans. These plans are an integral part of the performance management framework. Progress is reported throughout the year to the Strategy and Resources Committee through the Performance and Finance Report. To ensure accountability to local people and institutional stakeholders the reports are published on *sutton.gov.uk* . A balanced scorecard approach is used that includes feedback from residents, including complaints, as well as indicators of corporate health. Operational risk management is an integral part of performance management. Corporate and Directorate Performance Review Boards address underperformance and budget variations.	• Quality Management Framework for Adult Social Care • Joint Health and Social Care Self-Assessment Framework • Strategy and Resources Committee work plan
c)	An internal audit service is commissioned from the South West London Audit Partnership. The partnership undertakes reviews of the risk management, control and governance process based upon a risk assessment that includes an anti-fraud component. The Internal Audit Charter defines Internal Audit's purpose, authority, responsibility and position within the Council and shows how it complies with the Public Sector Internal Audit Standards.	• Performance management and budget monitoring frameworks • Internal Audit Plan • Internal Audit Charter
d)	There is oversight by the Audit Committee whose terms of reference and work plan are consistent with best practice guidance. The Chair is an opposition member.	• Audit Committee work plan
e)	The Information Security and Governance Board are responsible for the maintenance and review of the framework for managing information. The Board reviews assurance reports and security incidents and initiates resolution and learning. Caldicott Guardians are responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information-sharing.	• Information Security and Governance Board work plan

Development area:

To strengthen the transparency and scrutiny of performance reporting, we have enhanced the capacity and use across the organisation of Covalent, our performance management system, and improved our Key Performance Indicators, all in preparation for a new approach of reporting on performance issues direct to service committees as well as Strategy and Resources Committee.

2.5	Partnerships:	Evidenced by:
a)	The Council is a member of the South London Partnership, a sub-regional collaboration of five London boroughs focussed on promoting sustainable growth, securing devolution to unlock opportunities and working through shared services to release efficiencies. The governance implications of shared services are addressed through formal agreements and there is oversight by Shared Service Governance Boards.	• South London Partnership Agreement • Shared Services Agreements

b)	The Council has 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.	• Better Care Fund Agreement • Better Care Fund Plan
c)	Sutton Housing Partnership manages the Council's housing stock. Ownership and responsibility for the Housing Revenue Account remains with the Council. The Sutton Housing Partnership Delivery Plan sets out the arrangements for managing the housing stock.	• Sutton Housing Partnership Delivery Plan
Development area:		
The recent peer challenge review of the Council conducted by the Local Government Association suggested that the Council needed to foster a greater understanding of sub regional arrangements and priorities amongst members, and proposals have been agreed to rectify this.		

2.6	**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 • Local Committee forward plans • The Open Council Policy • Sutton's Future Consultation
b)	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 and influence the decisions that the Council takes.	
c)	The Consultation Hub, part of the Council's website, helps stakeholders participate in consultations. 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 in how we change, reduce and in some cases stop services.	
d)	The Council works closely with Healthwatch Sutton the local consumer champion for health and social care whose role is to represent residents of the borough and to influence decision making using local people's views.	

3. Review of effectiveness of the governance framework

3.1 The review 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.

- Governance Review - Scheme of Delegation and Scrutiny Function.
- Outside Bodies Review.
- Market Development Strategy Review.
- Mayorality Review.

- Report on dealing with Standards Allegations under the Localism Act 2011.
- Reports relating to staff appraisals.
- Review of Contract Standing Orders.
- Commissioning Reviews.
- Integrated Impact Assessments.
- Performance and Finance Reports incl. corporate risks.
- Treasury Management Reports.
- Project Management Reports.
- Joint Health and Social Care Self-Assessment Report.
- Performance Reports, incl. Adult Social Care.
- Local Safeguarding Children's Board Annual Report and Serious Case Reviews.
- Safeguarding Adults Annual Report and Safeguarding Reviews.
- Internal Audit Reports, incl. the Annual Internal Audit Report and Fraud Referral Reports.
- External Audit Reports, incl. Grant Claims and Statement of Accounts.
- The Annual Review of the Audit Committee.
- Reports to the Information and Security Governance Board.
- Information Governance Statement of Compliance Assessment and Internal Audit Validation Report.
- Caldicott Guardian reports.
- Workplace Health & Safety Reports.
- Review of the Council's Work with the South London Partnership.
- Better Care Fund Update Reports.
- Human Resources Shared Service Report.
- Peer Review by the Local Government Association.
- Healthwatch Sutton Annual Report.

3.2 The review has shown that the governance framework is consistent with the principles of the CIPFA / SOLACE best practice framework and the examples of the arrangements that should be in place. In particular, Internal Audit has reviewed the effectiveness of the system of internal control for 2015/16. The Head of Audit opinion based on this work, is that the system of internal control is generally sound and effective. Controls to manage principal risks are monitored by service managers. This includes services with statutory responsibilities for the safety of vulnerable people.

3.3 The governance framework is constantly evolving due to service and regulatory developments and reviews. Where appropriate, action plans have been developed in response to the developments and reviews summarised above. The latter include a limited number of activities where Internal Audit concluded that the expected high standards of control have not been achieved.

4. Significant Governance Issues

4.1 The significant governance issues identified in the review of effectiveness are summarised below. They are preceded by an update on the issues reported in 2014/15.

Significant issues reported for 2014/15:	Update:
• 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 as in the previous five years.	• In the joint Spending Review and Autumn Statement published on 25 November 2015 the Government continued to focus on the elimination of the deficit. Local government continues to be particularly impacted by significant funding reductions over the period to 2019/20. • Taking up the 2% council tax precept for social care will help to mitigate the cost pressures on adult social care arising from changes introduced by the Government which have not been fully funded.

Significant issues reported for 2015/16:	Actions
• The identification and delivery of required savings to meet existing targets and projected future requirements remains challenging along with continuing demographic pressure on key services. On current assumptions there are significant further savings to be identified every year over the next four years. There is also a risk of slippage against delivery timescales for savings already identified.	• The Smarter Council Programme remains the strategic approach to re-shaping the Council for the future in the light of the financial forecast and need for further savings. There are prudent reserves. If necessary further funding can be provided in-year to mitigate a risks such as demand led pressures on children's social care.

4.2 Progress managing these issues will be monitored in-year and assessed as part of the next annual review.

Chief Executive: **Leader:**

Date: 18 July 2016 **Date:** 18 July 2016

On Behalf of the Council

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Auditors Opinion

2015/16

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 (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Notes to the Core Financial Statements, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance and the related notes, the Collection Fund and the related notes and the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 the Strategic Director – Resources 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director – Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘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 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Christian Heeger

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

The Explorer Building
Fleming Way
Manor Royal
Crawley RH10 9GT

29 September 2016

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 (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 for The Statement of Accounts 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 2015/16, which 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 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 Authority's Statement of Accounts 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:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Grant Patterson

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

The Colmore Building
20 Colmore Circus
Birmingham B4 6AT

29 September 2016

Section 7

Statement of Accounting Policies

1. Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16, 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 2016 was 3.7% 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 2015/16 (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;
- surplus assets - fair value, determined by the measurement of the highest and best use value of the asset;
- 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 considered to be entities of the Council. Rather than produce group accounts the income, expenditure, current assets, current 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

School 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.

Non-current assets for Voluntary Aided and Foundation schools are not directly owned by the Council and 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.

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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.

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%.

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.

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
CCG	Clinical Commissioning Group
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Department for Communities and Local Government
DfE	Department for Education
DSG	Dedicated Schools Grant
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
PWLB	Public Works Loan Board
RICS	Royal Institution of Chartered Surveyors
SHP	Sutton Housing Partnership
TFL	Transport for London
TPA	Teachers’ Pension Agency
UCR	Usable Capital Receipts