

**LONDON BOROUGH OF SUTTON**

**STATEMENT OF ACCOUNTS**

**2018/19**

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Interim Strategic Director - Resources



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# 1. Narrative Report 2018/19

Local authorities in England are required under the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting to include a Narrative Report with their published Statement of Accounts. The Narrative Report does not form part of the Accounts and so is not subject to the same inspection regime.



# Narrative Report

## 1. Introduction

This report is a summary of the London Borough of Sutton's main objectives and strategies and the principal risks it currently faces. The report also provides information on how the Council has used its resources to achieve its desired outcomes in line with those objectives and strategies.

This report is intended to provide a fair, balanced and understandable guide to the most significant aspects of the Council's financial performance, year-end financial position and cash flow for the year to 31 March 2019, as well as providing information as to how the Council will develop over the medium term.

## 2. About the Borough

In 2018 Sutton had a projected population of 207,300 residents and this is estimated to increase to 222,200 by 2030 (7% increase).

Sutton is home to a higher proportion of older residents compared with London, which peaks at the 70-75 age bracket.

The Borough has a large proportion of one person households at 34%. 12% represents one person households aged 65+, and 7% is lone parent households with a dependent child.

Sutton's population is 84% economically active, which means Sutton has the second highest percentage in London. The highest group of those economically active in Sutton is 'professionals' at 24%.

Sutton ranks as the fifth least deprived borough in London and is 126th out of 152 authorities in England. Nonetheless, there are pockets of relative deprivation. The Index of Multiple Deprivation ranks every small area (LSOA) in England. 15 of Sutton's 121 LSOAs fall within the top 30% for deprivation in the country.

Sutton has the lowest crime rate comparison in London between April 2018 and March 2019, specifically including antisocial behaviour, burglary, car theft, and violence and sexual offences which are significantly lower than the London average.

For more information about the Borough visit [data.sutton.gov.uk](http://data.sutton.gov.uk).

## 3. Organisational overview

Sutton Council's vision is to build a community in which all can take part and all can take pride. This vision encapsulates the community based approach and commitment to addressing quality of life issues and inclusiveness.

The Council's five core values reinforce the vision and provide the underlying context to the way in which the Council does its work. The values form the acronym PRIDE and show how the Council is committed to being; people focused, responsible, innovative, diverse and enterprising.

The Council's FTE staff count has reduced by 600 since 2015 and currently stands at 1,117 as of 31 March 2019. The Council has:

- Employed 37 new apprentices in 2018/19 (11 in 2017/18) and is continuing to promote the use of apprentices across the Council.
- The percentage of BAME staff in the workforce has increased by over 4% since 2015. BAME staff earning over £50k has also increased significantly since 2015 to over 14%.
- Structural changes to the workforce have had an impact on the Council's gender pay gap which in 2018 increased to 15% from 5% in March 2017. Since March 2018, the Council has also recruited a new female Chief Executive.



## Narrative Report (continued)

### 4. Operational Model

The Council's new Corporate Plan (Ambitious for Sutton) which is themed around Outcome Based Commissioning Reviews, sets out the key objectives for the Council over the period 2018 - 2023. These objectives are to be delivered under the following themes: Being Active, Making Informed Choices, Living Well Independently, Keeping People Safe, and Smarter Ways of Working, which are all in accordance with the direction of travel and future shape of the Council.

Needs assessments will identify the strategic objectives for each outcome area and define outcomes to be achieved. Each commissioning strategy will then link investment to agreed desired outcomes, and will consider options for delivering these. These strategies will define the range and quality of future services and how the Council works in partnership to put these plans in place.

The Council's service performance is now closely scrutinised at service committees rather than via a corporate balanced scorecard.

### 5. Risks

The Council continues to face unprecedented financial pressures as a result of grant reductions, new (and sometimes underfunded) burdens from Government and increased demand for services as a result of demographic pressures.

There are a number of areas where there are growing risks to the Council's ability to meet its statutory obligations, including Homelessness, SEN provision, Unaccompanied Asylum Seeking Children (UASC), homecare adult services and services for Looked After Children.

The key corporate risks and mitigations the Council face are:

- A balanced budget has been set for 2019/20, but a significant budget gap is anticipated in 2020/21. Outcomes Based Commissioning Reviews have commenced to assist in identifying additional savings.
- Demographic and other demand pressures, in particular from adult and children's social care. Mitigations include the use of relevant data to track and evidence changes and ensure early warning to the organisation, as well as the use of London and national networks to articulate challenges and seek external solutions.
- Potential difficulties in integrating health and social care will pose a risk to the Council and Sutton Clinical Commissioning Group (Sutton CCG). Evidence based, best practice service models are currently being explored.
- Exposure to a catastrophic incident, and the following response. The relevant emergency response plans have been created and successfully exercised and annual exercise training occurs.

The Council's Medium Term Financial Plan (MTFP) details the current position and anticipated future for the Council's finances, including demonstrating how Sutton is proactively responding to the current financial challenges of reducing Government funding and increasing demographic pressures. The latest version of the MTFP is published here: [Full Council](#).

### 6. Revenue Financial Performance

The Council continues to manage significant budget and delivery risks arising from Government funding reductions, demographic growth and government policy developments. At quarter 3 2018/19 a £1.122m overspend was forecast on the revenue budget. The final outturn is £2.341m underspend. This change has been principally driven by retained Business Rates via the London 100% Business Rates pool pilot which was only guaranteed for one year and therefore kept outside the budget for 2018/19. Certainty of final gain from the pool was also not confirmed until March 2019 as it relied on Business Rates growth across London. Sutton received £3.8m from this. The improvement has meant there has not been a need to further draw on General Fund balances

The breakdown of the outturn position is presented on the following page.

## Narrative Report (continued)

	<b>Budget</b>	<b>Outturn</b>	<b>Variance</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
People - Adult Social Care and Children's Services	86,200	88,050	1,850	2.1
People - DSG Centrally Retained	97,592	96,484	(1,108)	(1.1)
People - Dedicated Schools Grant	(97,592)	(96,484)	1,108	(1.1)
Environment, Housing and Regeneration	33,994	33,767	(227)	(0.7)
Chief Executive's	24,537	24,894	357	1.5
Chief Executive's - Public Health	9,845	9,865	20	0.2
Chief Executive's - Public Health Grant	(9,813)	(9,813)	0	0.0
Resources	18,045	17,023	(1,022)	(5.7)
Non-service revenue budgets	(14,343)	(13,513)	830	(5.8)
<b>Current Expenditure Position 2018/19</b>	<b>148,465</b>	<b>150,273</b>	<b>1,808</b>	<b>1.2</b>
Core grants	(7,115)	(7,495)	(380)	5.3
<b>Net Outturn 2018/19</b>	<b>141,350</b>	<b>142,778</b>	<b>1,428</b>	<b>1.0</b>
<b>Funding Sources:</b>				
Retained Business Rates (including Collection Fund deficit)	(32,791)	(32,791)	0	0.0
Top Up Grant	(12,020)	(12,072)	(52)	0.4
Business Rate Pool	(84)	(3,800)	(3,716)	4,423.8
Council Tax	(95,178)	(95,178)	0	0.0
Collection Fund Council Tax surplus	(1,277)	(1,278)	(1)	0.1
<b>Total Funding</b>	<b>(141,350)</b>	<b>(145,119)</b>	<b>(3,769)</b>	<b>2.7</b>
<b>Total</b>	<b>0</b>	<b>(2,341)</b>	<b>(2,341)</b>	

## Narrative Report (continued)

### People Directorate

The General Fund revenue outturn position for People Services Directorate is summarised below.

	£m
Children's Safeguarding	1.426
Education	0.391
Adult Social Care	(0.075)
Better Care Fund	0.108
<b>Total</b>	<b>1.850</b>

#### Safeguarding

Leaving Care, including UASC amounts for the bulk of the Safeguarding overspend at £1.526m. This was largely due to an increase in the number of UASC from 20 at the end of 2017/18 to 30 at the end of 2018/19. This in year increase is due to the removal of maximum number of Home Office rota referrals. Approximately 50% of direct client costs for UASC clients can be claimed through the Home Office UASC grant.

This overspend also includes costs for new responsibilities in supporting Care Leavers aged 21-25.

Adoption Allowances, Special Guardianship and Residence Orders also overspent by £0.271m. Increased or steady spending in this area is more desirable than on placements due to providing a lower cost option with improved outcomes. The pattern predicts that spending on placements will decrease when spend in this area increases.

Placements underspent by £0.410m. The number of looked after children in residential placements has reduced from 20 at the end of 2017/18 to 10 at the end of 2018/19 with 2 clients in secure placements.

#### Education

The overspend on Education is £0.391m for 2018/19. This is largely due to the SEN transport service underachieving a savings target of £0.772m which led to the re-profiling of savings for the service over the next 3 years.

#### Adult Social Care

In 2018/19 this service had a £75k underspend. The main areas within this are:

Commissioning overspent by £0.324m. The main overspending areas were Domiciliary Care (£0.867m) due to increased dependency of new entrants to the system via hospital discharge, and also in Day Services (£0.188m) due to increased activity. These overspends were offset by underspends in Direct Payments (£0.442m - due to reclaims of credit balances on client accounts), Supported Living (£0.136m - due to reduction in client numbers), Residential Care (£0.129m - due to reduction in client numbers) and other minor areas (£24k).

Staffing costs underspent by £0.164m and other minor areas collectively underspent by £0.235m (mainly due to savings realised on the mental health provider contracts).

#### Better Care Fund

Under the risk share agreement with Sutton CCG, the Council has a £0.108m overspend on the Better Care Fund (BCF) in 2018/19. The overspend in general is largely due to additional hours worked in the Start Service (Reablement) to meet increased demand.

## Narrative Report (continued)

### Dedicated Schools Grant (DSG) Funded

The DSG outturn position for 2018/19 is an underspend of £1.108m. The DSG is divided into 4 blocks, with underspends on the Schools Block (£0.649m), Early Years Block (£0.503m, and High Needs Block (£97k). There is an overspend on the Central School Services (CSS) Block of £0.141m.

In the Schools Block the underspend primarily relates to a one-off receipt of backdated Business Rates adjustments for 8 primary schools. The overspend in the CSS Block relates to a reduction in income from academies for annual compensation payments. It should be noted that the underspend on the High Needs Block factors in a transfer of £0.737m from the Schools Block and an additional allocation of £0.506m from the Department for Education (announced in December 2018) which is not guaranteed future funding. The Early Years Block underspend is based on forecast additional income from the Early Years Census data from January 2019 which will not be confirmed until July 2019.

The DSG brought forward balance as at 1 April 2018 was a deficit of £40k. There is now a surplus of £1.068m to be carried forward to 2019/20.

### Environment, Housing and Regeneration

This Directorate's outturn position is a £0.227m underspend. This has mainly been achieved through additional, unplanned, savings accruing from the extended commissioning of the ERF. Despite the underspend, budget pressures are still underlying in building control, off street parking and highways and transport services.

#### Chief Executive's

The Public Health grant of £9.814m is £20k overspent at outturn. One-off costs of £0.168m of the Healthy Child Programme were contained through underspends on Sexual Health (£70k) due to a better negotiated geographical weighting rate applied to the charges outlined in the integrated sexual health contract. Healthchecks (£17k), Pharmaceutical Needs Assessment (£25k) and the Population Health Project (£25k) all also underspent in 2018/19.

Elsewhere under Chief Executive's, Customers, Commissioning and Governance (C,C&G) overspent by £0.470m due to the E-Volve savings target not being met and £0.236m of redundancy payments being funded by the services in CC&G rather than being corporately funded (Council wide approach in 2018/19). This overspend is offset by an underspend in Wellbeing of £0.113m.

### Resources

The Resources outturn position is an underspend of £1.022m which is the net of the following variances:

- Business Services - £0.490m underspent. This is largely due to a Support Functions Service underspend of £0.263m relating to the Social Care Support Team which carried a substantial level of vacancies throughout the year, with recruitment being held back whilst savings reviews were taking place. Revenues and Benefits collective areas also underspent by £0.223m. This was largely due to Housing Benefit Admin underspending by £0.363m due to improved anticipated income and additional grants, offset by an overspend by Council Tax of £0.164m.
- Property/ Estates Management collective areas underspent by £0.272m. The majority of this underspend is from Industrial Estates at (£0.112m) which is due to backdated rent increases on several properties. Programmes and Project Management contributes a further (£0.106m) underspend which is due to several high value projects. Additional income from the rental of Council owned properties to Cognos together with net underspends within the service contribute a further underspend of £54k.

## Narrative Report (continued)

- Human Resources underspent by £0.115m in areas of operations, learning and development, and payroll systems. The Sutton only budget of the shared service contingency also wasn't spent.
- Legal Services underspent by £0.198m. The majority of this (£0.213m) relates to an underspend on South London Legal Partnership (SLLP) hard charging.
- Finance underspent by £0.211m due to savings originally planned for 2019/20 (£0.241m) being brought forward to 2018/19 meaning spend on staffing was lower than anticipated
- ICT overspent by £0.264m. This was largely due, unachieved telephony savings (£0.293m), underachievement of street naming and numbering income (£93k), a one-off previous years pension cost (£72k), and in year increases in Microsoft licences (£35k). These have been offset by an underspend on recharge budgets (£40k), extra savings identified in the shared service (£89k), and half the shared service underspend (£0.102m).

### Non Service Revenue Accounts (NSRA)

There was a £0.830m overspend for 2018/19 under this area. This was largely due to a £1.676m exceptional item which was charged to NSRA and which contributes to the overspend on Leisure after a £1.858m draw down from reserves in 2018/19, and a £0.991m underspend on interest payable largely due to timing of long term borrowing.

### Funding and Core Grants

There was a £4.148m overachievement of income for 2018/19 under funding and core grants.

- £3.768m of retained Business Rates was received via the London 100% Business Rates pool pilot. This was only guaranteed for one year, hence kept outside the budget, and certainty on the amount was not confirmed until March 2019 as it relied on Business Rates growth across London.
- £0.269m of extra S31 NNDR grants income was received. S31 NNDR grants are not finalised annually until April on return of the NNDR3 form therefore small variances often occur (total grant value for 2018/19 is £3.447m).
- Other small grant variances of £0.111m.

### Reserves

The Council's General Fund Reserve has reduced slightly to £8.416m. This represents 5.79% of the Council Budget Requirement for 2019/20 which is above the current policy and best practise of a minimum of 5%. Other Reserves, including the General Fund Reserve amount to £29.711m as at 31 March 2019 (£33.063m at 31 March 2018). Of the £29.711m, £5.786m relates to the Insurance Reserve and £4.102m is for the Council's general Risk Reserve.

In 2018/19 there has been renewed scrutiny of the level of reserves as it is one of the measures that can be used to judge the financial standing and sustainability of an organisation. New earmarked reserves have been set up alongside some alterations to existing reserves to clearly distinguish and set out the reserves held.

The key changes are:

- All capital and treasury focused reserves have been combined to form one Capital and Treasury Reserve.
- The Risk Reserve now encompasses the former Smarter Council Reserve, Invest to Save Reserve and General Pooled Reserve. All existing commitments are now therefore held under this one Risk Reserve.
- A Town Centre Reserve was created and holds £0.938m of committed expenditure.
- A Brexit Reserve was created to hold Government funding given to assist the lead up to the UK leaving the EU.

## Narrative Report (continued)

### 7. Capital Expenditure

The table below summarises the position for each Directorate as at 31 March 2019.

Capital Programme 2018/19	Budget 2018/19	Outturn 2018/19	Variation
Expenditure	£'000	£'000	£'000
Environment, Housing and Regeneration	48,263	43,554	(4,709)
People	31,910	30,761	(1,149)
Resources	30,212	6,116	(24,096)
Chief Executive's	1,070	1,165	95
<b>Total Expenditure</b>	<b>111,455</b>	<b>81,596</b>	<b>(29,859)</b>

The year end spend is £81.596m compared to a current capital programme budget of £111.455m resulting in an underspend of £29.859m (26.79%). A sum of £32.904m is the net impact of movements between years with expenditure planned for 2018/19 being rephased into 2019/20. The balance of £3.045m reflects an increase in 2018/19 of invest to save schemes, use of S106, additional grants and other minor funding adjustments.

During the year the Council implemented a number of key capital projects. These included major improvements to the Council's housing stock to meet the Decent Homes Standards, continuation of the delivery of new build council housing on the sites of Richmond Green, Ludlow Lodge and Fellows Road, and the start of the delivery of new build phase 2.

Also, there was delivery of the new Belmont secondary school, 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

- Rephasing of £0.851m of the costs for LA New Build at Richmond Green, Ludlow Lodge and Fellows Road into 2019/20. While Fellows Road new build has been completed, Ludlow Lodge and Richmond Green will be completed in May and June 2019 respectively.

- Rephasing of £0.451m on phase 2 of the new build housing scheme due to delay arising from the complexities of the sites and planning and public consultations.
- An underspend of £0.785m on property acquisitions due to a higher budgeted sum than required.
- A net overspend on works to council housing due to the early delivery of works to fire safety areas. This will be funded by bringing forward an earmarked budget from 2019/20.
- Rephasing of £0.122m on estate regeneration due to delay in the delivery of the schemes.

## Narrative Report (continued)

- Travellers' site (The Pastures) £0.1m rephasing into 2019/20.
- Weekly waste collection scheme rephasing of £0.188m into future years as uptake of compost bins by residents is less than anticipated. The service is reviewing the scheme now.
- Highway resurfacing project rephasing of £0.165m due to works committed but not yet undertaken.
- Street lighting rephasing of £0.233m due to late start of programme.
- Rephasing of £0.432m on Public realm projects due to projects agreed in year not being fully delivered.
- CIL growth impact fund of £0.125m rephased into 2019/20 to be used towards neighbourhood schemes to be agreed by local committees.
- Beddington Major Scheme rephasing of £1.204m due to delays in land transfers and scheme preparation.
- Various projects on corridors and neighbourhoods (£0.439m) have been agreed by Transport for London for rephasing to 2019/20

### People Directorate

- A net overspend of £0.250m on primary expansions projects made up of an overspend of £0.364m on the Hackbridge School as enabling works progressed quicker than anticipated, offset by an underspend of £0.114m due to final retention for Cheam Park Farm Junior and Manor Park Primary expansion works. The net £0.250m will be funded from existing 2019/20 budget provision.
- Rephasing of £0.916m on the new secondary school (NS3) which is due to timing of work done as at the end of March 2019.
- Whitehall (Heritage Lottery Fund). The scheme is complete but rephasing of £0.208m occurred which relates to final fit-out.
- Rephasing of £0.130m invest to save assisted technology social care into 2019/20. The equipment is to be provided in 2019/20 for users.
- Rephasing of £0.140m adult social services IT replacement. A review has been completed and plan for development in progress and continuing in 2019/20.

### Resources and Chief Executive's

- Rephasing £25.795m of the Commercial Investment Portfolio as acquisitions are delayed until 2019/20.
- A new invest to save spend project of £2.333m on the Commercial Investment Portfolio which was for town centre regeneration purposes. It is expected that rental income generated will pay off the borrowing.
- Rephasing of £0.198m of information management. The corporate IT refresh from 2018/19 due to issues with existing infrastructure in Kingston delaying project work until 2019/20.
- Rephasing £0.233m of Solar Power PV Installation. Delays to future projects due to inability to install on HRA properties. Investigating further solar PV works at existing sites.
- Additional cost of Digital IT Programme of £0.145m met by forward funding from 2019/20 allowed in budget.

### 8. Pensions Liability

The Council has net pension liabilities of £357m 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 2016 and reported a funding level of 80%. The Council has a deficit recovery plan in place to make additional contributions into the Pension Fund over a 19 year period in line with the Funding Strategy Statement. Further information on the Pension Fund can be found in note 31 of the main accounts and in the Pension Fund Accounts.

### 9. Explanation of Accounting Statements

The Statement of Accounts sets out the Council's income and expenditure for the year and its financial position as at the 31 March 2019. It comprises core and supplementary statements as well as disclosure notes that provide additional information and explanation to the reader. Both the format and content of the financial statements are prescribed by CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which in turn is underpinned by International Financial Reporting Standards.

The core statements are listed below and are explained on the relevant page:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

The accounts also include:

- Notes to the Accounts
- Collection Fund
- Housing Revenue Account
- Pension Fund Accounts
- Group Accounts



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## 2. Statement of Responsibilities

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



# Statement of Responsibilities 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 safeguard 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 Interim Strategic Director - Resources

## The Responsibilities of the Chief Finance Officer

The Interim 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 2019. The Interim Strategic Director - Resources is also responsible for preparing the Pension Fund Accounts administered by the Council in accordance with the current Code of Practice.

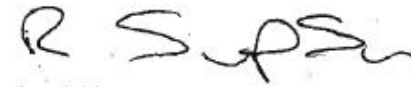
In preparing this Statement of Accounts the Interim Strategic Director - Resources has:

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

The Interim 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 service.

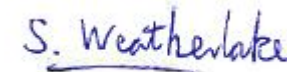
My signature below certifies that the accounts were prepared in accordance with the requirements of the Accounts and Audit Regulations 2015 and, except where specifically stated, in accordance with all recognised statutory requirements and codes of practice applicable to local authorities. I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2019 and its income and expenditure for the year.



Richard Simpson  
Interim Strategic Director - Resources  
(S151 Officer)  
25 July 2019

## Approval of the Statement of Accounts

I certify that the Statement of Accounts was approved by the Audit and Governance Committee on 25 July 2019.



Chair, Audit and Governance Committee

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## 3. Auditor's Reports 2018/19

Auditor's Report on the Financial Statements

Auditor's Report on the Pension Fund Financial Statements



# Auditor's Report on the Financial Statements

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of London Borough of Sutton (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, and the notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include, Notes to the Core Statements, the Expenditure and Funding Analysis, Accounting Policies, Critical Judgements in applying accounting policies, Notes to the Housing Revenue Account, Notes to the Collection Fund and Notes to the Group Accounts. 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Strategic Director - Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Strategic Director - Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Auditor's Report on the Financial Statements (continued)

### Other information

The Interim Strategic Director - Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement other than the Authority and group financial statements and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit, or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit, or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit..

We have nothing to report in respect of the above matters.

## Auditor's Report on the Financial Statements (continued)

### **Responsibilities of the Authority, the Interim Strategic Director – Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Strategic Director – Resources. The Interim 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Interim Strategic Director – Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Strategic Director – Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### **Responsibilities of the Authority**

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

## Auditor's Report on the Financial Statements (continued)

### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Delay in certification of completion of the audit**

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not

have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### **Use of our report**

This report is made solely to the members of the Authority as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Iain Murray*

Iain Murray, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP,  
Local Auditor

London

31 July 2019

# Auditor's Report on the Pension Fund Financial Statements

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

### Report on the Audit of the Pension Fund Financial Statements

#### Opinion

We have audited the financial statements of the London Borough of Sutton Pension Fund (the 'pension fund') administered by the London Borough of Sutton (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant 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 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Strategic Director - Resources use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Interim Strategic Director - Resources has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.



## Auditor's Report on the Pension Fund Financial Statements (continued)

### Other information

The Interim Strategic Director - Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard

### Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in the above matters.

## Auditor's Report on the Pension Fund Financial Statements (continued)

### **Responsibilities of the Authority, the Interim Strategic Director - Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Strategic Director – Resources. The Interim Strategic Director - Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Interim Strategic Director – Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Interim Strategic Director – Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Iain Murray*

Iain Murray

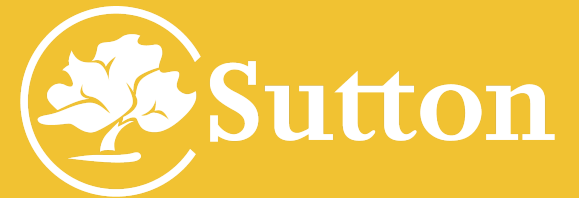
For and on behalf of Grant Thornton UK LLP,  
Appointed Auditor

London

31 July 2019

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# 4. Core Financial Statements 2018/19



# Comprehensive Income and 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 2018/19, rather than the amount to be funded from taxation. Councils 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.

Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Gross Income	Net Expenditure
2017/18	2017/18	2017/18			2018/19	2018/19	2018/19
£000	£000	£000			£000	£000	£000
34,251	(13,998)	20,253	<b>Chief Executive's</b>		34,723	(8,321)	26,402
51,851	(13,331)	38,520	<b>Environment, Housing and Regeneration</b>		53,897	(17,616)	36,281
248,172	(139,193)	108,979	<b>People Services</b>		254,381	(140,739)	113,642
91,671	(66,132)	25,539	<b>Resources</b>		87,912	(65,544)	22,368
			<b>Housing Revenue Account</b>				
25,377	(38,444)	(13,067)	- Main HRA Revenue Account		26,103	(38,802)	(12,699)
11,877	-	11,877	- Revaluation loss/(gain) - Dwellings	HRA10	15,396	-	15,396
396	(3,817)	(3,421)	<b>Non Service Revenue Accounts</b>		4,871	(4,580)	291
<b>463,595</b>	<b>(274,915)</b>	<b>188,680</b>	<b>Cost of services</b>		<b>477,283</b>	<b>(275,602)</b>	<b>201,681</b>

## Comprehensive Income and Expenditure Statement (continued)

Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
2017/18	2017/18	2017/18			2018/19	2018/19	2018/19
£000	£000	£000			£000	£000	£000
90,943	(1,314)	89,629	Other operating expenditure	6	26,212	(875)	25,337
17,992	(6,426)	11,566	Financing and investment income and expenditure	7	24,989	(573)	24,416
-	(181,546)	(181,546)	Taxation and non-specific grant income	8	-	(186,751)	(186,751)
<b>572,530</b>	<b>(464,201)</b>	<b>108,329</b>	<b>(Surplus) or deficit on the provision of services</b>		<b>528,484</b>	<b>(463,801)</b>	<b>64,683</b>
			<b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b>				
-	-	(23,363)	Net (surplus) / deficit arising on revaluation of Property, Plant and Equipment Assets	12a	-	-	(21,366)
-	-	(31,921)	Remeasurement of the net defined benefit liability on the pensions reserve	12c	-	-	(48,587)
		<b>(55,284)</b>	<b>Other comprehensive income and expenditure</b>				<b>(69,953)</b>
		<b>53,045</b>	<b>Total comprehensive income and expenditure (surplus)/deficit</b>				<b>(5,270)</b>

Figures for 2017/18 service lines have been re-presented to reflect structure changes.

# Movement in Reserves Statement

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

2018/19	Memorandum		Usable Reserves						Non-usable Reserves	Total Authority Reserves
	General Fund Balance	Earmarked General Fund Reserves	Total General Fund Balance & Earmarked Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
<b>Balance at 31 March 2018</b>	(12,738)	(23,989)	(36,727)	(3,104)	(22,368)	(4,574)	(17,646)	<b>(84,419)</b>	<b>(116,670)</b>	<b>(201,089)</b>
Movement during 2018/19:										
Total Comprehensive Expenditure and Income	55,191	-	55,191	9,492	-	-	-	<b>64,683</b>	<b>(69,953)</b>	<b>(5,270)</b>
Adjustments between accounting basis and funding basis under regulations (Note 10)	(53,337)	-	(53,337)	(15,974)	1,553	5,696	6,314	<b>(55,748)</b>	<b>55,748</b>	-
<b>Net Increase/(Decrease) before transfers to Earmarked Reserves</b>	<b>1,854</b>	-	<b>1,854</b>	<b>(6,482)</b>	<b>1,553</b>	<b>5,696</b>	<b>6,314</b>	<b>8,935</b>	<b>(14,205)</b>	<b>(5,270)</b>
Transfers to / (from) Earmarked Reserves (Note 11)	(2,432)	2,694	262	6,474	-	(6,474)	4	<b>266</b>	<b>(266)</b>	-
<b>Increase / (Decrease) in Year</b>	<b>(578)</b>	<b>2,694</b>	<b>2,116</b>	<b>(8)</b>	<b>1,553</b>	<b>(778)</b>	<b>6,318</b>	<b>9,201</b>	<b>(14,471)</b>	<b>(5,270)</b>
<b>Balance at 31 March 2019</b>	<b>(13,316)</b>	<b>(21,295)</b>	<b>(34,611)</b>	<b>(3,112)</b>	<b>(20,815)</b>	<b>(5,352)</b>	<b>(11,328)</b>	<b>(75,218)</b>	<b>(131,141)</b>	<b>(206,359)</b>

## Movement in Reserves Statement (continued)

2017/18 Comparative	Memorandum		Usable Reserves					Non-usable Reserves	Total Authority Reserves	
	General Fund Balance	Earmarked General Fund Reserves	Total General Fund Balance & Earmarked Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve			Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance at 31 March 2017</b>	(12,461)	(30,167)	(42,628)	(1,817)	(15,268)	(697)	(23,016)	(83,426)	(170,708)	(254,134)
Movement during 2017/18:										
Total Comprehensive Expenditure and Income	106,925	-	106,925	1,404	-	-	-	108,329	(55,284)	53,045
Adjustments between accounting basis and funding basis under regulations (Note 10)	(102,746)	-	(102,746)	(8,454)	(7,129)	(1,906)	5,370	(114,865)	114,865	-
<b>Net Increase/(Decrease) before transfers to Earmarked Reserves</b>	<b>4,179</b>	<b>-</b>	<b>4,179</b>	<b>(7,050)</b>	<b>(7,129)</b>	<b>(1,906)</b>	<b>5,370</b>	<b>(6,536)</b>	<b>59,581</b>	<b>53,045</b>
Transfers to / (from) Earmarked Reserves (Note 11)	(4,456)	6,178	1,722	5,763	29	(1,971)	-	5,543	(5,543)	-
<b>Increase / (Decrease) in Year</b>	<b>(277)</b>	<b>6,178</b>	<b>5,901</b>	<b>(1,287)</b>	<b>(7,100)</b>	<b>(3,877)</b>	<b>5,370</b>	<b>(993)</b>	<b>54,038</b>	<b>53,045</b>
<b>Balance at 31 March 2018</b>	<b>(12,738)</b>	<b>(23,989)</b>	<b>(36,727)</b>	<b>(3,104)</b>	<b>(22,368)</b>	<b>(4,574)</b>	<b>(17,646)</b>	<b>(84,419)</b>	<b>(116,670)</b>	<b>(201,089)</b>

# Balance Sheet

This sets out the financial position of the Council as at 31 March 2019 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 Council. The net assets of the council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council 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'.

31 March 2018		Notes	31 March 2019
£'000			£'000
	Non-Current Assets		
771,403	Property, Plant and Equipment	13	771,353
104,760	Investment Properties	14	96,228
100	Long Term Investments	17a	11
4,360	Long Term Debtors	17a	4,199
<b>880,623</b>	<b>Total Non-Current Assets</b>		<b>871,791</b>
	Current Assets		
21,786	Short Term Investments	17a	22,496
466	Assets Held for Sale	15	1,009
60	Inventories		60
50,887	Debtors	18	41,091
(9,354)	Cash and Cash Equivalents	20	243
<b>63,845</b>	<b>Total Current Assets</b>		<b>64,899</b>



## Balance Sheet (continued)

31 March 2018		Notes	31 March 2019
£'000			£'000
	Less Current Liabilities		
(16,494)	Short Term Borrowing	17a	(27,438)
(1,833)	Capital Grants Receipt in Advance		(4,451)
(55,300)	Creditors	19	(47,737)
<b>(73,627)</b>	<b>Total Current Liabilities</b>		<b>(79,626)</b>
	Less Non-Current Liabilities		
(6,921)	Provisions	21	(9,236)
(267,221)	Long Term Borrowings	17a	(284,521)
(395,610)	Liability Related to Defined Benefit Pension Scheme	31c	(356,948)
<b>(669,752)</b>	<b>Total Non-Current Liabilities</b>		<b>(650,705)</b>
<b>201,089</b>	<b>Net Assets</b>		<b>206,359</b>
(116,670)	Total Unusable Reserves	12	(131,141)
(84,419)	Total Usable Reserves	11	(75,218)
<b>(201,089)</b>	<b>Total Reserves</b>		<b>(206,359)</b>

# Cash Flow Statement

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

2017/18		2018/19	
£000		Notes	£000
(108,329)	Net (surplus) or deficit on the provision of services	-	(64,683)
130,223	Adjustment to the net surplus or deficit on the provision of services for non-cash movements	22	99,754
(27,849)	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities	22	(41,058)
<b>(5,955)</b>	<b>Net cash flows from operating activities</b>		<b>(5,987)</b>
(46,098)	Net cash flows from investing activities	23	(12,652)
41,762	Net cash flows from financing activities	24	28,236
<b>(10,291)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,597</b>
<b>Represented by:</b>			
937	a Cash and cash equivalents at the beginning of the reporting period	20	(9,354)
(9,354)	b Cash and cash equivalents at the end of the reporting period	20	243
<b>(10,291)</b>	<b>Net increase/(decrease) in cash and cash equivalents (b-a)</b>		<b>9,597</b>

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# 5. Notes to the Core Financial Statements



# Note 1 Accounting Policies

## a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 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 2018/19, 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.

## b) Accruals of Income and Expenditure

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

- expenses in relation to services received (including services provided by employees) are recorded as an 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 cash invested in 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 cash flow purposes. The use of short dated instruments limits both counterparty risk and interest rate risk and reflects the current interest rate environment.

## d) Material Items

When items of income or 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 how significant the items are to the authority's financial performance.

## e) Changes in Accounting Policies

Changes are only made when required by accounting practice or the change provides more reliable or relevant information about the effects of transactions, events and conditions on the Council's financial position or performance.

## f) Charges to Revenue for Non-Current Assets and Minimum Revenue Provision

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 adjusting transaction in 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, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates 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 relevant service 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 2 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 (LGPS), administered by the London Borough of Sutton.

Both schemes provide 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 People 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 LGPS 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;
- the discount rate is the annualised yield on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the employer's liability. Using this approach, the discount rate at 31 March 2019 was 2.4% per annum.
- 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 pension liability is analysed into 6 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.
  - 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 in 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.
  - remeasurement 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 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 both favourable and unfavourable, that occur between the end of the reporting period and the date when the Accounts are 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 benefit 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 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 and the existence will only be confirmed by the occurrence of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise 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 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. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

### **l) Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, Government grants, 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 repay 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) Council Tax and Business Rates**

Billing authorities act as agents, collecting Council Tax (CT) and Business Rates (NNDR) on behalf of the major preceptors (including Government for NNDR) and, as principals, collecting CT and NNDR for themselves. Billing councils are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of CT and NNDR.

Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central Government share proportionately the

risks and rewards the amount of CT and NNDR collected could be less or more than predicted.

CT and NNDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year and regulations determine the amount of CT and NNDR that must be included in the Council's General Fund. Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the year end balances of CT and NNDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of the likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

#### **n) Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. On the majority of Council functions VAT is recoverable in full. VAT receivable is excluded from income.

#### **o) Support Services**

Local authorities are required to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

Local authorities are no longer required to report the cost of individual services in their Comprehensive Income and Expenditure Statement in accordance with Section 3 of the SeRCOP. Instead, where support services are a directorate in their own right, the Comprehensive Income and Expenditure Statement will display them separately in line with the Council's departmental management structure.

#### **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. The Authority has a three material subsidiaries:

- Sutton Housing Partnership Limited which is a community interest company wholly owned by the Council;
- Encompass LATC Ltd which is also wholly owned and providing a range of services within housing and social care, and;
- Cognus Limited which is 75% owned and mainly provides educational services.

The accounts of the 3 subsidiaries listed above are consolidated into the Council's Group Accounts. Other bodies (Opportunity Sutton Limited, Sutton Living Ltd, Sutton Decentralised Energy Network limited) are not consolidated in the Group Accounts as the interest in these companies is not material. They are however recorded as financial assets at cost, less any provision for losses.

#### **r) Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties, and some of its financial instruments as fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or



- In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

### s) Investment Properties

Investment properties are those that are used solely to earn rental income 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.

Rental income 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.

### t) 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 13 to the core financial statements.

### u) 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 – current value, determined using the basis of existing use value for social housing (EUV-SH);
- surplus assets - current value measurement base is fair value, determined by the measurement of the highest and best use value of the asset, and;
- Other land and buildings - current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at current value are revalued regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every 5 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 2018/19 to 2047/48 and will rise from £6.538m in 2018/19 to £16.143m in 2047/48;
- 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. 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 £10k are categorised as capital receipts. Receipts relating to council housing disposal, net of statutory deductions and allowances are retained and spent on the provision of social housing. The balance of receipts are 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.

## v) 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 arrangement are passed to the School or Governing Bodies. As a result these schools are not recognised on the Balance Sheet.

Non current assets for academy schools are derecognised from the Balance Sheet in the year of conversion.

## w) 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.

## x) 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**

Rental income paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from the 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 the Investment Property policy for details of treatment.

### **y) Financial Instruments**

Financial instruments are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

#### **Financial Liabilities**

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

#### **Financial Assets**

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement;

- Fair Value Through Other Comprehensive Income (FVOCI) - These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of;
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

## Note 2 Accounting Standards issued but not yet adopted

At the Balance Sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice on Local Government Accounting in the United Kingdom:

**IFRS 16 Leases** removes the existing classifications of operating and finance leases under ISA 17 Leases for Lessees. It will require local authorities that are lessees to recognise most leases on their Balance Sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). Implementation of IFRS 16 has been deferred until 1 April 2020.

**IFRS 9 Financial Instruments amendments to prepayment features with negative compensation.** The change clarifies that amortisation cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

**IFRIC 22 Foreign Currency Transaction and Advance Consideration** clarifies the treatment of payments in foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of this amendment.

**IFRIC 23 Uncertainty over Income Tax treatments** provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the single entity accounts and minimal impact on the group accounts.

**ISA 40 Investment Property** provides further explanation of the instances in which a property can be reclassified as an investment property. This will have no impact on the Council as it is already complied with.

## Note 3 Critical Judgements in Applying Accounting Policies

In applying the Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in Accounts are:

**Funding** - There remains a high degree of uncertainty about the sustainability of current funding levels for local government. However the Council has determined that this uncertainty is not sufficient to provide any indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

In view of the economic position and the uncertainty over future funding, the Council has planned efficiency savings and holds established earmarked reserves to help meet the cost of implementing those future savings.

**Property Plant and Equipment** - The Council applies a de minimis level of £10k in accordance with the concept of materiality, capitalising expenditure on property plant and equipment. Expenditure below the de minimis level is written out to service revenue accounts in the year that it incurred and treated as a revenue expenditure funded from capital under statute. This does not apply to expenditure wholly funded from external grants.

**Accrual Materiality** - As per the Code the accounts have been prepared under the accounting concept of materiality. The Council has stipulated a de minimis level for all accruals set at £1k order related and £5k non order related on revenue and £10k for capital accruals.

**Group Accounts** - The group boundaries (and interest in companies that fall within those boundaries) have been assessed under the Code. The assessment has found that interest in two other subsidiaries; Cognus Limited and Encompass LATC Ltd are now material and therefore accompany Sutton Housing Partnership CIC in the Council's consolidated Group Accounts.

## Note 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.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>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.</p> <p>Our accounting policy is to depreciate assets on their brought forward values at the 1 April and any effects of in-year revaluations are not taken into account until the year following the revaluation.</p> <p>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.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.</p> <p>It is estimated that the annual depreciation charge for building would increase by £750k for every year that useful lives had to be reduced.</p> <p>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.</p> <p>The effect of any over or under estimation on the revaluation of property, plant and equipment cannot be quantified until an asset is disposed.</p>
Pension Liability	<p>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.</p> <p>There is further uncertainty arising from a legal challenge to the Government's transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. The Government was refused appeal to the Supreme Court in June 2019 and now it is for the Scheme Advisory Body to determine how this matter is to be resolved.</p> <p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p>	<p>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 £16.0m in the Council's pension liability; a one year increase in member life expectancy would increase the liability by approximately £34.0m and a 0.1% increase in the salary increase rate would increase the liability by approximately £1.0m.</p> <p>The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council's actuaries have applied the same assumptions as used to prepare the IAS19 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.6%, or £5.2m. The projected service cost of £19.6m would increase by £0.4m, equating to 2.2%. These figures are based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report.</p>
Debtors	<p>At 31 March 2019, the Authority had a balance of sundry debtors for £40.334m. A review of significant balances suggested that an impairment of doubtful debts of 27.09% (£10.928m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, an increase of 1% of the amount of impairment of doubtful debts would require an additional £0.403m to set aside as an allowance.</p>

## Note 5 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (Government grants, rents, Council Tax and Business Rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

<b>2018/19</b>	As reported for resource management	Adjustment to arrive at net amount chargeable to GF and HRA	Net Expenditure chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Chief Executive's	26,622	(153)	<b>26,469</b>	(67)	<b>26,402</b>
Environment, Housing and Regeneration	33,767	-	<b>33,767</b>	2,514	<b>36,281</b>
Peoples Services	88,050	-	<b>88,050</b>	25,592	<b>113,642</b>
Resources	17,023	3,332	<b>20,355</b>	2,013	<b>22,368</b>
Housing Revenue Account	(12,730)	-	<b>(12,730)</b>	15,427	<b>2,697</b>
Non Service Revenue Accounts	3,350	-	<b>3,350</b>	(3,059)	<b>291</b>
<b>Net cost of services</b>	<b>156,082</b>	<b>3,179</b>	<b>159,261</b>	<b>42,420</b>	<b>201,681</b>
Other Operating Expenditure	596	153	<b>749</b>	24,588	<b>25,337</b>
Financing and Investment income	6,682	(3,332)	<b>3,350</b>	21,066	<b>24,416</b>
Taxation and Special Grants	(152,570)	-	<b>(152,570)</b>	(34,181)	<b>(186,751)</b>
Statement of Movement on General Fund Balances	(13,139)	4,457	<b>(8,682)</b>	8,682	-
<b>(Surplus) or Deficit</b>	<b>(2,349)</b>	<b>4,457</b>	<b>2,108</b>	<b>62,575</b>	<b>64,683</b>
Opening General Fund and HRA Balance			<b>(39,831)</b>		
Add (Surplus) or Deficit on General Fund and HRA Balance in Year			2,108		
<b>Closing General Fund and HRA Balance at 31 March</b>			<b>(37,723)</b>		



## Note 5 Expenditure and Funding Analysis (continued)

<b>2017/18 Comparative figures</b>	As reported for resource management	Adjustment to arrive at net amount chargeable to GF and HRA	Net Expenditure chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Chief Executive's	20,031	(173)	<b>19,858</b>	395	<b>20,253</b>
Environment, Housing and Regeneration	34,846	-	<b>34,846</b>	3,674	<b>38,520</b>
Peoples Services	93,767	-	<b>93,767</b>	15,212	<b>108,979</b>
Resources	17,885	3,058	<b>20,943</b>	4,596	<b>25,539</b>
Housing Revenue Account	(13,086)	-	<b>(13,086)</b>	11,896	<b>(1,190)</b>
Non Service Revenue Accounts	2,990	-	<b>2,990</b>	(6,411)	<b>(3,421)</b>
<b>Net cost of services</b>	<b>156,433</b>	<b>2,885</b>	<b>159,318</b>	<b>29,362</b>	<b>188,680</b>
Other Operating Expenditure	606	173	<b>779</b>	88,850	<b>89,629</b>
Financing and Investment income	6,739	(3,058)	<b>3,681</b>	7,885	<b>11,566</b>
Taxation and Special Grants	(148,741)	-	<b>(148,741)</b>	(32,805)	<b>(181,546)</b>
Statement of Movement on General Fund Balances	(16,484)	6,061	<b>(10,423)</b>	10,423	-
<b>(Surplus) or Deficit</b>	<b>(1,447)</b>	<b>6,061</b>	<b>4,614</b>	<b>103,715</b>	<b>108,329</b>
Opening General Fund and HRA Balance			<b>(44,445)</b>		
Add (Surplus) or Deficit on General Fund and HRA Balance in Year			<b>4,614</b>		
<b>Closing General Fund and HRA Balance at 31 March</b>			<b>(39,831)</b>		

## Note 5a Note to the Expenditure and Funding Analysis

### Adjustments between Funding and Accounting Basis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts.

Rental Income and Expenditure and Levy reported at Directorate Level	Net transfers from reserves and balances	Total to arrive at amount charged to GF and HRA	2018/19	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments between Funding and Accounting Basis
£'000	£'000	£'000		£'000	£'000	£'000	£'000
(153)	-	(153)	Chief Executive's	(752)	693	(8)	(67)
-	-	-	Environment, Housing and Regeneration	3,959	350	(1,795)	2,514
-	-	-	Peoples Services	24,292	1,279	21	25,592
-	3,332	3,332	Resources	1,551	850	(388)	2,013
-	-	-	Housing Revenue Account	15,396	31	-	15,427
-	-	-	Non Service Revenue Accounts	35	(3,124)	30	(3,059)
<b>(153)</b>	<b>3,332</b>	<b>3,179</b>	Net cost of services	<b>44,481</b>	<b>79</b>	<b>(2,140)</b>	<b>42,420</b>
153	-	153	Other Operating Expenditure			24,588	24,588
-	(3,332)	(3,332)	Financing and Investment income	11,219	9,847	-	21,066
-	-	-	Taxation and Special Grants	(36,923)	-	2,742	(34,181)
-	4,457	4,457	Statement of Movement on General Fund Balances	-	-	8,682	8,682
-	4,457	4,457	<b>Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>18,777</b>	<b>9,926</b>	<b>33,872</b>	<b>62,575</b>

Note 5a Note to the Expenditure and Funding Analysis (continued)  
Adjustments between Funding and Accounting Basis

Rental Income and Expenditure and Levy reported at Directorate Level	Net transfers from reserves and balances	Total to arrive at amount charged to GF and HRA	2017/18 Comparative Figures	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments between Funding and Accounting Basis
£'000	£'000	£'000		£'000	£'000	£'000	£'000
(173)	-	(173)	Chief Executive's	-	402	(6)	396
-	-	-	Environment, Housing and Regeneration	4,810	373	(1,508)	3,675
-	-	-	Peoples Services	13,720	1,554	(62)	15,212
-	3,058	3,058	Resources	3,854	903	(161)	4,596
-	-	-	Housing Revenue Account	11,877	18	-	11,895
-	-	-	Non Service Revenue Accounts	-	(6,571)	159	(6,412)
(173)	3,058	2,885	Net cost of services	34,261	(3,321)	(1,578)	29,362
173	-	173	Other Operating Expenditure	-	-	88,851	88,851
-	(3,058)	(3,058)	Financing and Investment income	(2,943)	10,827	-	7,884
-	-	-	Taxation and Special Grants	(34,334)	-	1,529	(32,805)
-	6,061	6,061	Statement of Movement on General Fund Balances	-	-	10,423	10,423
-	6,061	6,061	Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(3,016)	7,506	99,225	103,715

## Note 5b Expenditure and Income Analysed by Nature

The Council' expenditure and income is analysed as follows:

2017/18		2018/19
£000		£000
	<b>Expenditure</b>	
141,424	Employee expenses	138,449
306,376	Other operating expenses	332,500
26,609	Depreciation, amortisation and impairment	24,096
762	Payments to Housing Capital Receipts Pool	686
7,165	Interest payments	7,227
779	Precept and Levies	749
89,415	Gain or Loss on disposal of non-current assets	24,777
<b>572,530</b>	<b>Total expenditure</b>	<b>528,484</b>
	<b>Income</b>	
(93,632)	Fees and charges and other service income	(97,297)
(1,314)	Surplus on trading undertakings not in the Net Cost of Services	(875)
(445)	Interest and investment income	(573)
(123,954)	Income from Council Tax and Business Rates	(145,119)
(244,856)	Government grants and contributions	(219,937)
<b>(464,201)</b>	<b>Total income</b>	<b>(463,801)</b>
<b>108,329</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>64,683</b>

## Note 6 Other operating expenditure

2017/18		2018/19
£'000		£'000
779	Levies paid	749
762	Payment to the Government Housing Capital Receipts Pool	686
89,402	Net Losses/(Profit) on the disposal of non-current assets	24,777
(1,314)	Deficit/(Surplus) on Trading Undertakings not included in Net Cost of Services	(875)
<b>89,629</b>	<b>TOTAL</b>	<b>25,337</b>

## Note 7 Financing and investment income and expenditure

2017/18		2018/19
£'000		£'000
7,165	Interest payable and similar charges	7,227
10,827	Net interest on the net defined benefit pension scheme liability	9,847
(445)	Interest receivable and similar income	(572)
0	Financial Instruments	28
(5,981)	Income and expenditure in relation to investment properties and changes in their fair value	7,886
<b>11,566</b>	<b>TOTAL</b>	<b>24,416</b>

## Note 8 Taxation and non-specific grant income

This note consolidates all non-specific grants and contributions receivable that cannot be identified to particular service expenditure and therefore cannot be credited to the gross income amount relevant to the service area. All capital grants and contributions are credited to non-specific grant income even if service specific. The note also identifies the Council's proportion of Council Tax and Business Rates used to fund in year service activities

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(90,287)	Council Tax Income (including Collection Fund surplus)	(96,456)
(15,555)	Retained Business Rates (including Collection Fund deficit)	(32,791)
(18,112)	Business Rates Top Up Grant	(12,072)
-	Business Rates Pool	(3,800)
(24,768)	Non ringfenced government grants	(7,495)
(32,824)	Capital grants and contributions	(34,137)
<b>(181,546)</b>	<b>Total Credited to Taxation and Non-Specific Grant Income</b>	<b>(186,751)</b>

## Note 9 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

2017/18	Grants Credited to Taxation and Non-Specific Grant Income	2018/19
£'000	Non ringfenced government grants:	£'000
(16,830)	Revenue Support Grant	-
(440)	Education Services Grant	-
(783)	Housing Benefit and Council Tax Admin Grant	(758)
(2,763)	New Homes Bonus	(2,669)
(741)	Adult Social Care Support Grant	(461)
(1,333)	Transition Grant	-
(1,682)	Section 31 Business Rates Grant	(3,447)
(196)	Other	(160)
<b>(24,768)</b>	<b>Total</b>	<b>(7,495)</b>
	<b>Capital Grants and Contributions:</b>	
(22,160)	Education Grants	(28,261)
(2,178)	Mayors Grant (GLA)	(2,108)
(74)	Housing Associations	(35)
(2,494)	Section 106 Contributions	(1,541)
(1,011)	Leaseholder Contributions	(804)
(2,928)	Heritage Lottery Fund	(748)
(1,528)	Private Developers SDEN Loan	-
-	Pot Hole Funding	(519)
(451)	Other Capital Grants and Contributions	(121)
<b>(32,824)</b>	<b>Total</b>	<b>(34,137)</b>

## Note 9 Grant Income (continued)

2017/18	Revenue Grants Credited to Services	2018/19
£'000		£'000
(102,644)	Dedicated Schools Grant	(97,186)
(2,476)	Education Funding Agency funding	(2,724)
-	Teachers Pay Grant	(316)
(10,073)	Public Health Grant	(9,814)
(13,729)	Housing Benefit Rebate Subsidy	(12,237)
(925)	Housing Benefit Rebate Subsidy - outside HRA	(1,992)
(44,793)	Housing Benefit Allowances	(39,591)
-	Discretionary Housing Payments	(492)
(3,446)	Pupil Premium (schools)	(2,925)
(2,405)	Improved Better Care Fund Grant	(3,203)
(550)	Asylum Seekers	(778)
(637)	Troubled Families Grant	(363)
(1,861)	Universal Infants Free School Meals	(1,396)
-	Flexible Homelessness grant	(1,113)
(2,196)	Other	(3,603)
<b>(185,735)</b>	<b>Total Revenue Grants included in Cost of Services</b>	<b>(177,733)</b>
	<b>REFCUS Grants included in Cost of Services</b>	
(1,529)	Disabled Facilities	(1,784)
<b>(1,529)</b>	<b>Total REFCUS Grants included in Cost of Services</b>	<b>(1,784)</b>



## Note 10 Adjustments 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 Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. Set out below are descriptions of the reserves that the adjustments are made against.

### **General Fund Balance**

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

The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment at the end of the financial year.

### **Housing Revenue Account Balance**

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains a balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### **Major Repairs Reserve**

The authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or financing of historical capital expenditure by the HRA.

The balance shows the capital resources that have yet to be applied at the year end.

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

2018/19	Usable Reserves					Non-usable Reserves
	General Fund Balance	Housing Revenue Account	Capital Grants Unapplied	Major Repairs Reserve	Capital Receipts Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000
<b>ADJUSTMENTS TO THE REVENUE RESOURCES</b>						
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>						
Pensions costs (transferred to (or from) the Pensions Reserve)	(9,800)	(125)	-	-	-	9,925
Financial instruments (transferred to the Financial Instruments Adjustments Account)	94	-	-	-	-	(94)
Council tax and NDR (transfers to or from the Collection Fund Adjustment Account)	(284)	-	-	-	-	284
Holiday pay (transferred to the Accumulated Absences Reserve)	384	-	-	-	-	(384)
Charges for depreciation and impairment of non-current assets	(17,901)	(6,195)	-	-	-	24,096
Revaluation loss/(gain) on Property Plant and Equipment	(1,544)	(15,396)	-	-	-	16,940
Movements in the market value of Investment Properties	(10,831)	-	-	-	-	10,831
Amortisation of intangible assets	(1,690)	-	-	-	-	1,690
Revenue expenditure funded from capital under statute	(26,211)	-	-	-	-	26,211
Financial Revaluation reserve	(28)	-	-	-	-	28
<b>TOTAL ADJUSTMENTS TO REVENUE RESOURCES</b>	<b>(67,811)</b>	<b>(21,716)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>89,527</b>
<b>ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES</b>						
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	(24,436)	(6,818)	-	-	-	31,254

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

2018/19 (continued)	Usable Reserves					Non-usable Reserves
	General Fund Balance	Housing Revenue Account	Capital Grants Unapplied	Major Repairs Reserve	Capital Receipts Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	68	6,442	-	-	(6,510)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account	3,509	-	-	-	-	(3,509)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	54	-	-	-	-	(54)
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(686)	-	-	-	686	-
Payment towards administrative costs of non-current assets disposal (funded by a transfer from the Capital Receipts Reserve)	-	(77)	-	-	-	77
Posting of HRA resources from revenue to the Major Repairs Reserve		6,195	-	(6,195)	-	-
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	35,965	-	(35,965)	-	-	-
<b>TOTAL ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES</b>	<b>14,474</b>	<b>5,742</b>	<b>(35,965)</b>	<b>(6,195)</b>	<b>(5,824)</b>	<b>27,768</b>
<b>ADJUSTMENTS TO CAPITAL RESOURCES</b>						
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	12,138	(12,138)
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	11,892	-	(11,892)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	37,518	-	-	(37,518)
<b>TOTAL ADJUSTMENTS TO CAPITAL RESOURCES</b>	<b>-</b>	<b>-</b>	<b>37,518</b>	<b>11,892</b>	<b>12,138</b>	<b>(61,548)</b>
<b>Total Adjustments</b>	<b>(53,337)</b>	<b>(15,974)</b>	<b>1,553</b>	<b>5,697</b>	<b>6,314</b>	<b>55,747</b>

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

2017/18 Comparative Figures	Usable Reserves					Non-usable Reserves
	General Fund Balance	Housing Revenue Account	Capital Grants Unapplied	Major Repairs Reserve	Capital Receipts Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000
<b>ADJUSTMENTS TO THE REVENUE RESOURCES</b>						
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>						
Pensions costs (transferred to (or from) the Pensions Reserve)	(7,401)	(84)	-	-	-	7,485
Financial instruments (transferred to the Financial Instruments Adjustments Account)	84	-	-	-	-	(84)
Council tax and NDR (transfers to or from the Collection Fund Adjustment Account)	(267)	-	-	-	-	267
Holiday pay (transferred to the Accumulated Absences Reserve)	208	-	-	-	-	(208)
Charges for depreciation and impairment of non-current assets	(20,713)	(5,896)	-	-	-	26,609
Revaluation loss/(gain) on Property Plant and Equipment	(1,360)	(11,877)				13,237
Movements in the market value of Investment Properties	2,733	-				(2,733)
Amortisation of intangible assets	(3,008)	-				3,008
Revenue expenditure funded from capital under statute	(17,807)	-				17,807
<b>TOTAL ADJUSTMENTS TO REVENUE RESOURCES</b>	<b>(47,531)</b>	<b>(17,857)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,388</b>
<b>ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES</b>						
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	(93,597)	(3,281)				96,878

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

2017/18 Comparative Figures (continued)	Usable Reserves					Non-usable Reserves
	General Fund Balance	Housing Revenue Account	Capital Grants Unapplied	Major Repairs Reserve	Capital Receipts Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	823	6,789	-	-	(7,612)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account	3,287	-	-	-	-	(3,287)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	681	-	-	-	-	(681)
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(762)	-	-	-	762	-
Posting of HRA resources from revenue to the Major Repairs Reserve		5,895	-	(5,895)	-	-
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	34,353	-	(34,353)	-	-	-
<b>TOTAL ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES</b>	<b>(55,215)</b>	<b>9,403</b>	<b>(34,353)</b>	<b>(5,895)</b>	<b>(6,850)</b>	<b>92,910</b>
<b>ADJUSTMENTS TO CAPITAL RESOURCES</b>						
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-	12,220	(12,220)
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	3,989	-	(3,989)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	27,224	-	-	(27,224)
<b>TOTAL ADJUSTMENTS TO CAPITAL RESOURCES</b>	<b>-</b>	<b>-</b>	<b>27,224</b>	<b>3,989</b>	<b>12,220</b>	<b>(43,433)</b>
<b>Total Adjustments</b>	<b>(102,746)</b>	<b>(8,454)</b>	<b>(7,129)</b>	<b>(1,906)</b>	<b>5,370</b>	<b>114,865</b>

## Note 11 Transfers to / from Earmarked and 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 2018/19:

	Balance at 1 April 2017	Transfers Out	Transfers In	Balance at 31 March 2018	Transfers Out	Transfers In	Transfers Between	Balance at 31 March 2019
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>General Fund:</b>								
General Fund balances	(8,114)	3,912	(4,873)	(9,075)	2,000	(3,047)	1,706	(8,416)
DSG Balances	735	-	(695)	40	-	(1,108)	-	(1,068)
Balances held by schools under a scheme of delegation	(5,082)	1,873	(494)	(3,703)	952	(1,081)	-	(3,832)
<b>Sub total</b>	<b>(12,461)</b>	<b>5,785</b>	<b>(6,062)</b>	<b>(12,738)</b>	<b>2,952</b>	<b>(5,236)</b>	<b>1,706</b>	<b>(13,316)</b>
<b>Earmarked Reserves:-</b>								
- Insurance Fund	(5,698)	600	(712)	(5,810)	260	(236)	-	(5,786)
- Risk Reserve	(9,760)	3,576	(1,055)	(7,239)	3,162	-	(25)	(4,102)
- Redundancy Costs	(2,486)	691	-	(1,795)	-	-	-	(1,795)
- Revenue Grants Unapplied	(2,967)	2,937	(1,433)	(1,463)	472	(687)	-	(1,678)
- Transitional Grant Reserve	(1,081)	410	(1,333)	(2,004)	433	-	-	(1,571)
- Commercial Property Investment Reserve	(368)	-	(449)	(817)	-	(599)	-	(1,416)
- Capital & Treasury Reserve	(862)	573	(403)	(692)	316	-	(797)	(1,173)
- Town Centre Reserve	-	-	-	-	-	-	(938)	(938)
- Non Grant Carry Forwards	-	-	-	-	-	-	(601)	(601)
- Sustainable Investment Fund	(304)	-	-	(304)	-	-	(251)	(555)
- Opportunity Sutton Reserve	(482)	89	(379)	(772)	281	-	-	(491)
- Welfare Support	(647)	120	(53)	(580)	96	-	-	(484)
- Planning Income Reserve	(785)	500	-	(285)	-	-	-	(285)

## Note 11 Transfers to / from Earmarked and Usable Reserves (continued)

	Balance at 1 April 2017	Transfers Out	Transfers In	Balance at 31 March 2018	Transfers Out	Transfers In	Transfer Between	Balance at 31 March 2019
	£000s	£000s	£000s	£000s	£000s	£000s		£000s
Earmarked Reserves continued:-								
- Catering Reserve (School Meals Delegated Funds)	(388)	239	(29)	(178)	16	(30)	-	(192)
- Renewals and Repairs Fund	(254)	91	-	(163)	48	-	-	(115)
- Brexit Reserve	-	-	-	-	-	-	(105)	(105)
- Other	-	-	-	-	-	(8)	-	(8)
- Parking Places Reserve	-	564	(564)	-	688	(688)	-	-
- Smarter Council Reserve	-	635	(869)	(234)	720	-	(486)	-
- Invest to Save Reserve	(756)	845	(89)	-	65	-	(65)	-
- Extreme Weather Reserve	(252)	-	-	(252)	-	-	252	-
- General Pooled Reserve	(896)	338	(46)	(604)	91	-	513	-
- Treasury Management & Capital Programme	(1,906)	1,109	-	(797)	-	-	797	-
- Strategic Priorities Investment Reserve	(275)	275	-	-	-	-	-	-
<b>Sub total</b>	<b>(30,167)</b>	<b>13,592</b>	<b>(7,414)</b>	<b>(23,989)</b>	<b>6,648</b>	<b>(2,248)</b>	<b>(1,706)</b>	<b>(21,295)</b>
<b>HRA:</b>								
Housing Revenue Account	(1,225)	-	(1,273)	(2,498)	-	(13)	-	(2,511)
Heating Reserve	(540)	-	(8)	(548)	-	(5)	-	(553)
Freeholders Contributions	(52)	8	(14)	(58)	10	-	-	(48)
<b>Sub total</b>	<b>(1,817)</b>	<b>8</b>	<b>(1,295)</b>	<b>(3,104)</b>	<b>10</b>	<b>(18)</b>	<b>-</b>	<b>(3,112)</b>
Capital Grants and Contributions Unapplied	(15,268)	19,005	(26,105)	(22,368)	37,751	(36,198)	-	(20,815)
Capital Receipts Reserve	(23,016)	11,848	(6,478)	(17,646)	11,006	(4,688)	-	(11,328)
Major Repairs Reserve	(697)	7,781	(11,658)	(4,574)	11,891	(12,669)	-	(5,352)
<b>Total</b>	<b>(83,426)</b>	<b>58,019</b>	<b>(59,012)</b>	<b>(84,419)</b>	<b>70,258</b>	<b>(61,057)</b>	<b>-</b>	<b>(75,218)</b>

## Note 11 Transfers to / from Earmarked and Usable Reserves (continued)

### Additional information on key reserves of the Council

#### Earmarked Reserves

- The **Insurance Fund** provides risk management initiatives across the Council and also cover for certain uninsured losses, including:-
  - the first £0.150m of third party and employee claims;
  - the first £0.100m of property losses.
- The **Redundancy Costs Reserve** is established for future redundancy costs anticipated from the continuing drive to secure cost reductions in light of Government grant reductions.
- The **Risk Reserve** has been created to mitigate the financial risk of demographic growth and cost pressures to services with demand volatility in areas such as adult and children's social care, as well as meeting other specific unavoidable cost risk issues. This reserve also holds funds for Invest to Save purposes and the Smarter Council programme.
- The **Revenue Grants Unapplied Reserve** holds non ring-fenced grants received in year for revenue purposes but for which the expenditure will occur in future years.
- The **Transitional Grant Reserve** holds this grant paid in 2016 and 2017 and is set aside for spending on key areas such as tackling domestic violence and adult and children's social care transformation.
- **Capital and Treasury Reserve** has been established to fund and support future capital schemes as part of the planned capital programme.

#### Housing Revenue Account

- **The HRA Reserve** reflects a statutory obligation to account separately for housing provision.
- **The Heating Reserve** holds the net balance of tenants' charges and recoveries for heating and hot water. It is used to help smooth future volatility.



## Note 12 Unusable Reserves

31 March 2018		31 March 2019
£'000		£'000
(132,790)	(a) Revaluation Reserve	(140,842)
(382,761)	(b) Capital Adjustment Account	(350,372)
395,610	(c) Pensions Reserve	356,948
842	(d) Financial Instruments Adjustment Account	748
(363)	(e) Deferred Capital Receipts	(343)
(98)	(f) Collection Fund Adjustment Account	187
2,890	(g) Accumulated Absences Account	2,505
-	(h) Financial Instruments Revaluation Reserve	28
<b>(116,670)</b>	<b>TOTAL</b>	<b>(131,141)</b>

Further details of movements in these reserves are shown in the following tables:

## Note 12 Unusable Reserves (continued)

### 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.

2017/18		2018/19
£'000		£'000
(159,873)	<b>Balance at 1 April</b>	(132,790)
(29,546)	Upward revaluation of assets	(23,838)
6,183	Downward revaluation of assets and impairment losses not charged to the surplus/(deficit) on the provision of services	2,472
(23,363)	Surplus/(deficit) on revaluation of non current assets not posted to the surplus/(deficit) on the provision of services	(21,366)
4,294	Difference between fair value depreciation and historical cost depreciation	3,975
46,152	Accumulated losses on assets sold or scrapped	9,339
50,446	Amount written off to the Capital Adjustment Account	13,314
<b>(132,790)</b>	<b>Balance at 31 March</b>	<b>(140,842)</b>

## Note 12 Unusable Reserves (continued)

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

2017/18		2018/19
£'000		£'000
(434,429)	<b>Balance at 1 April</b>	<b>(382,761)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
26,609	Charge for depreciation and impairment of non-current assets	24,096
13,237	Revaluation gains/(losses) on Property, Plant and Equipment	16,920
3,008	Amortisation of intangible assets	1,690
17,807	Revenue expenditure funded from capital under statute	26,211
96,878	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	31,254
<b>157,539</b>		<b>100,171</b>
(4,294)	Difference between fair value depreciation and historical cost depreciation	(3,975)
(46,152)	Accumulated losses on assets sold or scrapped	(9,339)
<b>107,093</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>86,857</b>

## Note 12 Unusable Reserves (continued)

### Capital Adjustment Account (continued)

2017/18		2018/19
£'000		£'000
	<b>Capital financing applied in the year:</b>	
(12,220)	Use of the Capital Receipts Reserve to finance new capital expenditure	(12,138)
(3,989)	Use of the Major Repairs Reserve to finance new capital expenditure	(6,568)
(19,958)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(34,549)
(7,266)	Application of grants to capital financing from the Capital Grants Unapplied Account	(2,969)
(3,287)	Statutory provision for the financing of capital investment charged against the General Fund and HRA Balances	(3,509)
(5,291)	Funded from Revenue Reserves	(5,512)
(681)	Capital expenditure charged against General Fund and HRA balances	(54)
(52,692)		(65,299)
(2,733)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	10,831
<b>(382,761)</b>	<b>Balance at 31 March</b>	<b>(350,372)</b>

## Note 12 Unusable Reserves (continued)

### 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.

2017/18		2018/19
£'000		£'000
420,046	<b>Balance at 1 April</b>	<b>395,610</b>
(31,921)	Remeasurement of the net defined benefit liability	(48,587)
22,388	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	26,754
(14,903)	Employers pension contributions and direct payments to pensioners payable in year	(16,829)
<b>395,610</b>	<b>Balance at 31 March</b>	<b>356,948</b>

## Note 12 Unusable Reserves (continued)

### d) Financial Instruments Adjustment Account

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

2017/18		2018/19
£'000		£'000
926	<b>Balance at 1 April</b>	842
(84)	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	(94)
842	<b>Balance at 31 March</b>	748

## Note 12 Unusable Reserves (continued)

### e) Deferred Capital Receipts Reserve

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

2017/18		2018/19
£'000		£'000
(111)	<b>Balance at 1 April</b>	<b>(363)</b>
(252)	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	20
<b>(363)</b>	<b>Balance at 31 March</b>	<b>(343)</b>

## Note 12 Unusable Reserves (continued)

### f) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2017/18		2018/19
£'000		£'000
(365)	<b>Balance at 1 April</b>	<b>(98)</b>
267	Amount by which Council Tax and Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements	285
<b>(98)</b>	<b>Balance at 31 March</b>	<b>187</b>



## Note 12 Unusable Reserves (continued)

### g) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, i.e. annual leave entitlement carried forward at 31 March 2019. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from this Account.

2017/18		2018/19
£'000		£'000
<b>3,098</b>	<b>Balance at 1 April</b>	<b>2,890</b>
(3,098)	Settlement or cancellation of accrual at the end of the preceding year	(2,890)
2,890	Amounts accrued at the end of the current year	2,505
(208)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different from remuneration chargeable in year in accordance with statutory requirements	(385)
<b>2,890</b>	<b>Balance at 31 March</b>	<b>2,505</b>

## Note 12 Unusable Reserves (continued)

### h) Financial Instrument Revaluation Reserve

The Financial Instrument Revaluation Reserve contains the gains made by the Council arising from increases in the value of investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are :

- revalued downwards or impaired and the gains are lost, and;
- disposed of and the gains are realised.

2017/18		2018/19
£'000		£'000
-	<b>Balance at 1 April</b>	-
-	Upward revaluation of investments	89
-	Downward revaluation of investments	(61)
-	<b>Balance at 31 March</b>	<b>28</b>

## Note 13 Property, Plant and Equipment (including Heritage Assets)

### Movement on balances

2018/19	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>								
At 1 April 2018*	414,439	308,876	23,482	66,681	2,492	3,699	26,093	845,762
Additions	26,052	5,247	451	4,123	75	3	15,446	51,397
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	12,742	-	-	-	(228)	-	12,514
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(27,225)	(1,086)	-	-	-	(1,073)	-	(29,384)
Derecognition - disposals	(6,818)	(24,354)	(43)	-	-	(3,071)	-	(34,286)
Assets reclassified (to)/from held for sale	-	(77)	-	-	-	(477)	-	(554)
Other movements in cost or valuation	4,670	(2,328)	-	-	-	3,297	(5,639)	-
<b>At 31 March 2019</b>	<b>411,118</b>	<b>299,020</b>	<b>23,890</b>	<b>70,804</b>	<b>2,567</b>	<b>2,150</b>	<b>35,900</b>	<b>845,449</b>

## Note 13 Property, Plant and Equipment (continued)

### Movement on balances

2018/19	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2018	(5,851)	(15,450)	(13,833)	(38,158)	-	(1,067)	-	(74,359)
Depreciation Charge:	(6,124)	(10,488)	(3,434)	(4,001)	-	(49)	-	(24,096)
Depreciation charge written out to the Surplus/Deficit on the Provision of Services	11,975	409	-	-	-	90	-	12,474
Depreciation charge written out to the Revaluation Reserve	-	8,657	-	-	-	196	-	8,853
Derecognition - disposal	-	1,897	35	-	-	1,100	-	3,032
Other movements in depreciation and impairment	-	270	-	-	-	(270)	-	-
<b>At 31 March 2019</b>	<b>-</b>	<b>(14,705)</b>	<b>(17,232)</b>	<b>(42,159)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(74,096)</b>
<b>Net Book Value:</b>								
<b>At 31 March 2018</b>	<b>408,588</b>	<b>293,426</b>	<b>9,649</b>	<b>28,523</b>	<b>2,492</b>	<b>2,632</b>	<b>26,093</b>	<b>771,403</b>
<b>At 31 March 2019</b>	<b>411,118</b>	<b>284,315</b>	<b>6,658</b>	<b>28,645</b>	<b>2,567</b>	<b>2,150</b>	<b>35,900</b>	<b>771,353</b>

\*Figures restated to realign the opening gross book value and accumulated depreciation.

## Note 13 Property, Plant and Equipment (continued)

### Movement on balances

<b>Comparative Movements in 2017/18</b>	<b>Council dwellings</b>	<b>Other land and buildings</b>	<b>Vehicles, plant, furniture and equipment</b>	<b>Infrastructure assets</b>	<b>Community assets</b>	<b>Surplus assets</b>	<b>Assets under construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or Valuation</b>								
At 1 April 2017	425,237	395,509	23,957	62,117	2,704	16,669	15,618	941,811
Additions	11,944	2,992	2,891	4,565	50	-	16,960	39,402
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	13,752	-	-	-	117	-	13,869
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(19,479)	(1,676)	-	-	-	(417)	-	(21,572)
Derecognition - disposals	(3,281)	(100,953)	(3,637)	-	-	-	(1,500)	(109,371)
Assets reclassified (to)/from held for sale	-	(231)	-	-	-	-	-	(231)
Other movements in cost or valuation	-	4,094	271	-	-	(13,202)	(4,985)	(13,822)
<b>At 31 March 2018</b>	<b>414,421</b>	<b>313,487</b>	<b>23,482</b>	<b>66,682</b>	<b>2,754</b>	<b>3,167</b>	<b>26,093</b>	<b>850,086</b>

## Note 13 Property, Plant and Equipment (continued)

### Movement on balances

<b>Comparative Movements in 2017/18</b>	<b>Council dwellings</b>	<b>Other land and buildings</b>	<b>Vehicles, plant, furniture and equipment</b>	<b>Infrastructure assets</b>	<b>Community assets</b>	<b>Surplus assets</b>	<b>Assets under construction</b>	<b>Total Property, Plant and Equipment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2017	(7,508)	(25,769)	(12,861)	(34,432)	(262)	(486)	-	(81,318)
Depreciation Charge:	(5,833)	(12,938)	(4,062)	(3,727)	-	(49)	-	(26,609)
Depreciation charge written out to the Surplus/Deficit on the Provision of Services	-	648	-	-	-	-	-	648
Depreciation charge written out to the Revaluation Reserve	7,508	9,494	-	-	-	-	-	17,002
Derecognition - disposal	-	8,504	3,090	-	-	-	-	11,594
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-
<b>At 31 March 2018</b>	<b>(5,833)</b>	<b>(20,061)</b>	<b>(13,833)</b>	<b>(38,159)</b>	<b>(262)</b>	<b>(535)</b>	<b>-</b>	<b>(78,683)</b>
<b>Net Book Value:</b>								
<b>At 31 March 2017</b>	<b>417,729</b>	<b>369,740</b>	<b>11,096</b>	<b>27,685</b>	<b>2,442</b>	<b>16,183</b>	<b>15,618</b>	<b>860,493</b>
<b>At 31 March 2018</b>	<b>408,588</b>	<b>293,426</b>	<b>9,649</b>	<b>28,523</b>	<b>2,492</b>	<b>2,632</b>	<b>26,093</b>	<b>771,403</b>

## Note 13 Property, Plant and Equipment (continued)

### Depreciation

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

- Community Assets - by their nature they 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.
- Surplus Assets – calculated as per its previous operational classification.
- Council dwellings; other land and buildings; vehicles, plant, furniture and equipment; and infrastructure rates are detailed in Accounting Policies.

### Additions

In 2018/19 the Council invested £8.2m of capital expenditure on improvements to council dwellings, and purchased 59 dwellings at a cost of £16.6m. As at 31 March 2019, the Council has a number of major capital projects which are detailed in the Narrative Report to the Statement of Accounts.

### Capital Commitments

At 31 March 2019, the Authority has committed through its capital programme and entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years which are budgeted to cost £138.6m in total (£179.7m at 31 March 2018). The major commitments are detailed in the following table:

	Expenditure 1 April 2014 to 31 March 2019	Planned Expenditure to 31 March 2023	Estimated Total Cost
	£'000	£'000	£'000
School Expansions and new schools	118,072	18,884	136,956
Local Authority New Build Housing	27,759	27,728	55,487
Digital Programme	3,207	1,863	5,070
Beddington Park Heritage Lottery Fund	3,215	326	3,541
Whitehall Heritage Lottery Fund	1,874	208	2,082
Town Centre Masterplan	60	2,283	2,343
<b>Total</b>	<b>154,187</b>	<b>51,292</b>	<b>205,479</b>

## Note 13 Property, Plant and Equipment (continued)

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment (PP&E) required to be measured at current value is revalued. All valuations are carried out internally. The latest valuation was carried out as at 31 March 2019.

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.

Valuation 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 Institution of Chartered Surveyors (RICS) under the direction of the Council's Assistant Director, Resources Directorate (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.

The significant assumptions applied in estimating the current values are:

- No deleterious or hazardous material has been used in the construction of the properties or has since been incorporated
- There are no onerous conditions or restrictions which might affect the valuations
- Operational assets valued using Depreciated Replacement Cost (DRC) for specialist properties or Existing Use Value (EUV) for other properties
- Non operational properties are valued using fair value (FV)
- Council Dwellings are valued using the Existing Use Value for Social Housing (EUV-SH)

The valuations of the Council dwellings were carried out in accordance with the methodologies and estimation set out in the Stock valuation for resourcing Accounting Guidance for valuers 2016 published in November 2016 by the MHCLG under the direction of the Council's Assistant Director, Resources Directorate (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 reflect vacant possession value (£1.646m) adjusted to account for their status as social housing. For 2018/19 the social housing factor for London remains at 25% which results in a vacant possession value adjusted for the social housing factor of £411.118m.

Infrastructure and community assets have been included at historical cost.

The authority carried out a value movement review of assets not revalued in the year and confirms that change is immaterial.



## Note 13 Property, Plant and Equipment (continued)

	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	-	-	6,658	28,645	2,567		35,900	73,770
Valued at fair value as at:								
31 March 2019	411,118	268,672	-	-	-	2,150	-	681,940
31 March 2018	-	8,123	-	-	-	-	-	8,123
31 March 2017	-	5,264	-	-	-	-	-	5,264
31 March 2016	-	276	-	-	-	-	-	276
31 March 2015	-	1,900	-	-	-	-	-	1,900
31 March 2014	-	80	-	-	-	-	-	80
<b>Total Cost or Valuation</b>	<b>411,118</b>	<b>284,315</b>	<b>6,658</b>	<b>28,645</b>	<b>2,567</b>	<b>2,150</b>	<b>35,900</b>	<b>771,353</b>

### Valuation Techniques used to Determine Level Three Fair Value

Investment properties and Surplus assets have been valued using either the Market or Income approach to Fair Value. The valuations were carried out under the direction of the Council's Assistant Director, Resources Directorate (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.

Valuation have taken into account the following factors:

- Existing lease terms and rentals relating to each property including income produced
- Research into market evidence including market rentals and yields adjusted to reflect the nature of each tenancy or void

### Highest and Best Use of Investment Properties

In estimating the fair value of investment properties and surplus properties, the highest and best use of the properties are deemed to be their current use.

## Note 13 Property, Plant and Equipment (continued)

### Measurement of fair value of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 March 2019. Note the majority of property, plant and equipment is carried at current value in accordance with IAS 16, as adapted for the public sector context.

31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Surplus Assets	-	-	2,150	2,150
Investment Properties	-	-	96,228	96,228
Assets Held for Sale	-	-	1,009	1,009
<b>Total</b>	-	-	<b>99,387</b>	<b>99,387</b>

### Surplus Assets

Surplus assets held by the Authority at 31 March 2019 are as follows:

31 March 2018		31 March 2019
£'000		£'000
2,017	Franklin House, Shaw Way	-
93	Public convenience, The Green, Sutton	-
24	Public convenience, corner of Robertsbridge Road and Wrythe Lane	-
498	Wallington Public Hall	-
-	Grove House, Grove Park	500
-	Secombe Theatre	1,650
<b>2,632</b>	<b>Total Surplus Assets</b>	<b>2,150</b>

## Note 13 Property, Plant and Equipment (continued)

### 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 Council's portfolio of Heritage Assets is unchanged in 2018/19 as no acquisitions or disposals took place. The nature and significance of these assets are detailed below.

#### Land and Buildings

##### a) Museums

###### Honeywood £1.894m and Whitehall £2.612m

The Authority has three museums in listed buildings. Honeywood is listed Grade II and Whitehall Grade II\*. Honeywood is currently operational, predominantly delivering services relating to knowledge and culture. Honeywood, the Council'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. It is a rare survivor of a Tudor building on the domestic scale.

##### 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 not regularly opened to the public. No valuation exists for this asset.

#### Art Collection

The art collection includes some 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 collection also includes 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. 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 (many of which have been lost) of local people, national 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 insured in the standard contents cover.

## Note 14 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 proceeds of disposal. Investment property is property (land or a building) held by the owner to earn rental income or for capital appreciation or both.

In 2018/19 the Authority purchased a third tranche of land on the site of the former Sutton Hospital, for the London Cancer Hub development. The net revaluation loss on the value of the investment properties is mainly as a result of the impact of the latest planning policy on the fair value of the three parcels of land on the site of the former Sutton Hospital.

Investment properties are not depreciated but are revalued each year and are measured at fair value. Valuation techniques and inputs into calculating the fair value of investment properties can be found in Note 13.

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

2017/18		2018/19
£'000		£'000
59,267	Balance at the start of the year	104,760
14,000	Reclassifications	-
28,760	Additions	2,299
2,733	Net gains/(losses) from fair value adjustments (Revaluations and Impairments)	(10,831)
<b>104,760</b>	<b>Balance at the end of the year</b>	<b>96,228</b>

## Note 15 Assets Held for Sale

Assets Held for Sale as at 31 March 2019 are as follows:

2017/18		2018/19
£'000		£'000
-	Wallington Public Hall	500
235	Stonecourt Main Building, North Street	235
231	Festival Walk Old Rectory	274
<b>466</b>	<b>Total Assets Held for Sale</b>	<b>1,009</b>

## Note 16 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.

2017/18		2018/19
£'000		£'000
<b>326,339</b>	<b>Opening Capital Financing Requirement</b>	<b>361,125</b>
	Capital Investment	
39,402	- Property, Plant and Equipment	51,397
28,760	- Investment Properties	2,298
3,008	- Intangible Assets	1,690
16,308	- Revenue Expenditure Funded from Capital Under Statute	26,211
	<b>Sources of Finance</b>	
(12,220)	- Capital Receipts	(12,138)
(27,224)	- Government grants and other contributions	(37,517)
	- Sums set aside from revenue	
(9,961)	- Direct revenue contributions	(12,134)
(3,287)	- MRP / Loans fund principal	(3,509)
<b>361,125</b>	<b>Closing Capital Financing Requirement</b>	<b>377,423</b>
	Explanation of movements in year	
34,786	- Increase in underlying need to borrow (unsupported by government financial assistance)	(16,298)
<b>34,786</b>	<b>Increase in Capital Financing Requirement</b>	<b>(16,298)</b>

## Note 17 Financial Instruments

### a) Financial Instruments Balances

Accounting regulations require financial instruments shown on the Balance Sheet to be further analysed into various defined categories as shown in the table below.

#### Categories of financial assets and financial liabilities

31 March 2018					31 March 2019					
Non-current		Current		Total	FINANCIAL ASSETS	Non-current		Current		Total
Investments	Debtors	Investments	Debtors			Investments	Debtors	Investments	Debtors	
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
-	1,690	-	-	1,690	Fair value through profit and loss	-	2,371	-	-	2,371
	2,663	21,793	48,494	72,950	Amortised Cost	-	1,828	22,496	39,095	63,419
100	-	-	-	100	Fair value through other comprehensive income - designated equity instruments	11	-	-	-	11
<b>100</b>	<b>4,353</b>	<b>21,793</b>	<b>48,494</b>	<b>74,740</b>	<b>Total financial assets</b>	<b>11</b>	<b>4,199</b>	<b>22,496</b>	<b>39,095</b>	<b>65,801</b>

31 March 2018					31 March 2019					
Non-current		Current		Total	FINANCIAL LIABILITIES	Non-current		Current		Total
Borrowings	Creditors	Borrowings	Creditors			Borrowings	Creditors	Borrowings	Creditors	
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
(267,221)	-	(16,494)	(47,238)	(330,953)	Amortised Cost	(284,521)	-	(27,436)	(41,061)	(353,018)
<b>(267,221)</b>	<b>-</b>	<b>(16,494)</b>	<b>(47,238)</b>	<b>(330,953)</b>	<b>Total financial liabilities</b>	<b>(284,521)</b>	<b>-</b>	<b>(27,436)</b>	<b>(41,061)</b>	<b>(353,018)</b>

## Note 17 Financial Instruments - continued

### Reclassification and remeasurement of financial assets at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the remeasurements of carrying amounts then required.

	Carrying amount brought forward at 1 April	New Classifications at 1 April 2018		
		Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss
	£'000	£'000	£'000	£'000
<b>Previous classifications</b>				
Loans and receivables	74,740	72,950	100	1,690
<b>Reclassified amounts at 1 April 2018</b>	<b>74,740</b>	<b>72,950</b>	<b>100</b>	<b>1,690</b>
Remeasurements at 1 April 2018	(67)	-	(74)	7
<b>Remeasured carrying amounts at 1 April 2018</b>	<b>74,673</b>	<b>72,950</b>	<b>26</b>	<b>1,697</b>
Impact on General Fund Balance	74		74	
Impact on Financial Instruments Revaluation Reserve	(7)			(7)

## Note 17 Financial Instruments - continued

### Effect of Asset Reclassification and Remeasurement on the Balance Sheet

This note shows how the new balance as at 1 April 2018 for financial assets are incorporated into the Balance Sheet.

	New Classifications at 1 April 2018			Total Balance Sheet carrying amount
	Amortised Cost	Fair Value through Other Comprehensive Income	Fair value through profit and Loss	
	£'000	£'000	£'000	£'000
<b>Remeasured carrying amounts at 1 April 2018</b>	<b>72,950</b>	<b>26</b>	<b>1,697</b>	<b>74,673</b>
Non-current investments	-	26	-	26
Long-term debtors	2,663	-	1,697	4,360
Current investments	21,793	-	-	21,793
Current debtors	48,494	-	-	48,494

### Application of classification requirements at 1 April 2018

The following judgements were made in reclassifying financial instruments at 1 April 2018:

- All financial instruments are deemed to be at amortised cost unless there is clear evidence to support an alternative classification of Fair Value through either Other Comprehensive Income or Profit and Loss.
- The council has provided loans to 10 local organisations at market rates of interest to support service objectives. These long-term debtors are held at amortised cost.
- There is one long-term loan to a Council-owned company which is engaged in commercial activity where this loan has been classified as Fair Value through Profit and Loss.
- The shareholding in the UK Municipal Bond Agency is to support a service objective and the shares have been elected as Fair Value through Other Comprehensive Income.



## Note 17 Financial Instruments - continued

### Reclassification and remeasurement of impairment losses at 1 April 2018

	Loss allowances for new classifications at 1 April 2018		
	Impairment allowance brought forward at 1 April	Amortised Cost	Fair Value through Other Comprehensive Income
	£'000	£'000	£'000
<b>Reclassified amounts at 1 April 2018</b>	-	-	-
Remeasurement from incurred losses to expected losses basis at 1 April 2018		93	-
<b>Impairment loss allowance at 1 April 2018</b>		93	-

### Investments in equity instruments designated at fair value through other comprehensive income

Description	Nominal	Fair Value	Change in fair value during 2018/19	Dividends
	£'000	£'000	£'000	£'000
Municipal Bond Agency	100	11	(15)	-

Municipal Bond Agency: The UK Municipal Bonds Agency Plc was established in June 2014, with the primary purpose of reducing local authority financing costs by issuing bonds in the capital markets and on-lending to councils, lending between councils and sourcing funding from 3rd party sources, to on-lend to councils.

#### Reclassification

Reclassification of a financial instrument can only occur if it is allowed through the definitions of the Code, and as a consequence should be relatively rare. In the case of financial liabilities an authority cannot reclassify. No financial instruments have been reclassified.

## Note 17 Financial Instruments (continued)

### b) Comprehensive Income and Expenditure Statement disclosures

#### Items of income, expense, gains or losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2017/18			2018/19	
Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure		Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
£'000	£'000		£'000	£'000
		Net gains/losses on:		
-	-	Financial assets measured at fair value through profit or loss	(61)	-
-	-	Financial assets measured at amortised cost	93	-
-	-	Investments in equity instruments designated at fair value through other comprehensive income	-	89
-	-	<b>Total net gains/losses</b>	<b>32</b>	<b>89</b>
		Interest revenue:		
(196)	-	Financial assets measured at amortised cost	(267)	-
-	-	Other Financial assets measured at fair value through profit and loss	(125)	-
<b>(196)</b>	-	<b>Total interest revenue</b>	<b>(392)</b>	-

## Note 17 Financial Instruments (continued)

### Fair Value

2017/18			2018/19	
Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure		Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
£'000	£'000		£'000	£'000
		<b>Interest expense</b>		
8,943		Financial assets or financial liabilities that are not at fair value through profit or loss	9,302	-
<b>8,943</b>	-	<b>Total interest expense</b>	<b>9,302</b>	-
		<b>Fee expense:</b>		
4		Financial assets or financial liabilities that are not at fair value through profit or loss	11	-
<b>4</b>	-	<b>Total fee expense</b>	<b>11</b>	-

## Note 17 Financial Instruments (continued)

### Basis for recurring fair value measurements:

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

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

Level 3 Inputs – unobservable inputs for the asset or liability.

### Fair Value of Financial Assets

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2018	As at 31 March 2019
			£'000	£'000
<b>Fair Value through Profit and Loss</b>				
Other financial instruments classified as fair value through profit and loss	Level 3	Discounted cashflow	1,697	2,371
<b>Total</b>			<b>1,697</b>	<b>2,371</b>
<b>Fair Value through Other Comprehensive Income</b>				
Municipal Bond Agency shareholding	Level 3	Equity share attributable to shareholders	26	11
<b>Total</b>			<b>26</b>	<b>11</b>

### Equity Investments

The UK Municipal Bond Agency– the shares in this company are not traded in an active market and fair value of £11k has been based on valuation techniques that are not based on observable current market transactions or available market data.

The valuation has been made based on an analysis of the assets and liabilities in the company's latest audited accounts.

### Other financial instruments classified as Fair Value through Profit and Loss

The Council has one loan that is classed as this. The loan is long term and the fair value has been calculated by using discounted cash flow with a discount rate based on UK gilts of the same duration as the remaining life of the loan plus a credit risk premium of 4.2%.

## Note 17 Financial Instruments (continued)

### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels during the year.

### Changes in the Valuation Technique

There has been no change in valuation technique used during the year for financial instruments.

### The Fair Values of Financial Assets and Liabilities that are not measured at Fair Value (but are required for disclosure)

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors 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 PWLB payable, new loan rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the table sets out the alternative fair value measurement applying the premature repayment (the alternative to the above), highlighting the impact of the alternative valuation;

For non-PWLB loans payable, prevailing market rates have been applied 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;

The fair value of trade and other receivables is taken to be 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 2018 are also provided for comparison.

### Fair Value of Liabilities Carried at Amortised Cost

31 March 2018			31 March 2019	
Carrying amount	Fair Value		Carrying amount	Fair Value
£'000	£'000		£'000	£'000
228,069	268,362	PWLB debt	257,956	306,125
25,615	35,486	Market Debt	25,615	36,180
15,029	14,877	Local Authorities	17,382	17,277
15,000	15,000	Short term Borrowing	11,004	11,004
47,238	47,238	Short term creditors	41,061	41,061
<b>330,951</b>	<b>380,963</b>	<b>Total financial liabilities</b>	<b>353,018</b>	<b>411,647</b>

## Note 17 Financial Instruments (continued)

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 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £306.1m 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 £257.9m would be valued at £306.1m. However, 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 would have been paid. The exit price for the PWLB loans including the penalty charge would be £366.8m.

31 March 2018			31 March 2019	
Carrying amount	Fair Value		Carrying amount	Fair Value
£'000	£'000		£'000	£'000
21,786	21,786	Short term investments	22,496	22,496
48,494	48,494	Short term debtors	39,095	39,095
2,670	2,670	Long term debtors	1,828	1,828
<b>72,950</b>	<b>72,950</b>	<b>Total financial assets</b>	<b>63,419</b>	<b>63,419</b>

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 held at amortised cost 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.

## Note 17 Financial Instruments (continued)

### Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

31 March 2019	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs level 2)	Significant observable inputs (Level 3)	Total
Recurring fair value measurements using:	£'000	£'000	£'000	£'000
<b>Financial liabilities</b>				
Financial liabilities held at amortised cost:				
PWLB	-	306,125	-	306,125
Non-PWLB	-	36,180	-	36,180
Local Authorities	-	17,277	-	17,277
Short term borrowing	-	11,004	-	11,004
Short term creditors	-	41,061	-	41,061
<b>Total</b>	-	<b>411,647</b>	-	<b>411,647</b>
<b>Financial assets</b>				
Financial assets held at amortised cost:				
	-	63,419	-	63,419
<b>Total</b>	-	<b>63,419</b>	-	<b>63,419</b>

## Note 17 Financial Instruments (continued)

31 March 2018 comparative	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs level 2)	Significant observable inputs (Level 3)	Total
Recurring fair value measurements using:	£'000	£'000	£'000	£'000
<b>Financial liabilities</b>				
PWLB	-	268,362	-	268,362
Non-PWLB	-	35,486	-	35,486
Local Authorities	-	14,877	-	14,877
Short term borrowing	-	15,000	-	15,000
short term creditors	-	47,238	-	47,238
<b>Total</b>	-	<b>380,963</b>	-	<b>380,963</b>
<b>Financial assets</b>				
Financial assets held at amortised Cost	-	72,950	-	72,950
<b>Total</b>	-	<b>72,950</b>	-	<b>72,950</b>

The fair value for financial liabilities and financial assets that are not measured at fair value included in Level 2 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate detailed above

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the assumptions detailed above, primarily for financial liabilities the

fair value is arrived at by applying the discounted cash flow calculations based on the PWLB premium/discount calculations.



## Note 17 Financial Instruments (continued)

### c) 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 which are reviewed periodically.

The latest Annual Treasury Management Strategy which incorporates the prudential indicators was approved by the Council in March 2019 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.

### Amounts Arising from Expected Credit Losses

The Council's maximum exposure to credit risk on its money market investments has been deemed to be immaterial. This has been determined by reference to the historic default rates provided by credit rating agencies that show a risk of default of 0.05% or less for the rated financial institutions on the Council's approved counterparty list. Note that in the event of any default the Council would be entitled to a share of the assets in the financial institution so that any potential loss would be less than the default rate quoted.

The Council has made a credit loss allowance on its trade receivables in accordance with proper practices. The Council has also reviewed its long-term debtors to assess the likelihood of any loss. The Council has recognised a 100% credit loss allowance on a number of long term debtors which are over 3 years old. These amounted to £93k but the debtors are still subject to recovery action by the Council.

### 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 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)

## Note 17 Financial Instruments (continued)

31 March 2018		31 March 2019	
£'000			£'000
227,171	Public Works Loans Board		256,921
40,300	Market debt		42,600
15,000	Temporary loans		11,000
<b>282,471</b>	<b>Total</b>		<b>310,521</b>
15,250	Less than 1 year		26,000
15,000	Between 1 and 2 years		2,395
4,595	Between 2 and 5 years		4,500
4,200	Between 5 and 10 years		4,200
243,426	More than 10 years		273,426
<b>282,471</b>	<b>Total</b>		<b>310,521</b>

The figures in the table above exclude accrued interest on these loans. Any risks associated with refinancing 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.

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, for example 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, Link, 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. 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.

## Note 17 Financial Instruments (continued)

According to this assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	31 March 2018	31 March 2019
	£'000	£'000
Increase in interest payable on variable rate borrowings	153	153
Increase in interest receivable on variable rate investments	(436)	(423)
Increase in government grant receivable for financing costs	-	-
<b>Impact Surplus or Deficit on the Provision of Services</b>	<b>(283)</b>	<b>(270)</b>
Share of overall impact debited to the HRA	(142)	(134)
Decrease in fair value of fixed rate investment assets	-	(271)
Impact on Other Comprehensive Income and Expenditure	-	-
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)	(50,258)	(58,042)

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

### Price Risk

The Authority does not invest in quoted equity shares or marketable bonds but does have an equity share in the UK Municipal Bond Agency. The shares have been classified as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instrument Revaluation Reserve.

## Note 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 2018				At 31 March 2019		
Gross debtors	Provision for bad debts	Total Net debtors		Gross debtors	Provision for bad debts	Total Net debtors
£'000	£'000	£'000		£'000	£'000	£'000
<b>Public sector bodies:</b>						
9,482	-	9,482	Central government bodies	4,534	-	4,534
6,626	-	6,626	Other local authorities	5,168	-	5,168
1,757	-	1,757	NHS bodies	1,983	-	1,983
17,865	-	17,865	Sub total public sector bodies	11,685	-	11,685
<b>Sundry debtors:</b>						
2,505	(1,078)	1,427	HRA tenants	2,178	(930)	1,248
34,177	(6,825)	27,352	Other entities and individuals	29,610	(6,488)	23,122
7,547	(3,304)	4,243	Local Tax payers	8,546	(3,510)	5,036
44,229	(11,207)	33,022	Sub total sundry debtors	40,334	(10,928)	29,406
<b>62,094</b>	<b>(11,207)</b>	<b>50,887</b>	<b>Total debtors</b>	<b>52,019</b>	<b>(10,928)</b>	<b>41,091</b>

## Note 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 2018		At 31 March 2019
£'000		£'000
(6,273)	Central government bodies	(5,910)
(14,106)	Other local authorities	(4,574)
(1,200)	NHS bodies	(1,196)
(33,721)	Other entities and individuals	(36,057)
<b>(55,300)</b>	<b>Total</b>	<b>(47,737)</b>

## Note 20 Cash and cash equivalents

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

At 31 March 2018		At 31 March 2019
£'000		£'000
12	Cash held by the authority	3
(9,366)	Bank current accounts	240
<b>(9,354)</b>	<b>Total</b>	<b>243</b>

## Note 21 Provisions

Provisions have been established for the following purposes:

	Balance b/fwd 1 April 2018	Additional provisions made in 2018/19	Amounts used in 2018/19	Balance c/fwd 31 March 2019
	£'000	£'000	£'000	£'000
<b>Non-Current Provisions</b>				
a) NNDR Appeals	(1,512)	(2,053)	941	(2,624)
b) Insurance Claims	(1,898)	(651)		(2,549)
c) Potential Employee Litigation	(210)			(210)
d) Disputed Social Care Supported Living Costs	(1,281)	(241)	75	(1,447)
e) External Insurance	(790)	(71)		(861)
f) Water and Sewage Claims	(1,200)			(1,200)
g) General Adult Social Care	(30)	(65)		(95)
h) Potential legal costs - highways procurement	-	(250)		(250)
<b>Total</b>	<b>(6,921)</b>	<b>(3,331)</b>	<b>1,016</b>	<b>(9,236)</b>

- a. The provision for NNDR appeals is to cover potential appeal losses and backdated appeal costs (i.e. court costs) in respect of the Collection Fund at 31 March 2019. The total provision is £4.100m and is shared 64% London Borough of Sutton (£2.624m) and 36% Greater London Authority (£1.476m).
- b. A provision for the total outstanding internal reserve (excluding department contributions) for all incurred and reported claims.
- c. A provision of £0.210m is included in the accounts to cover general employment related matters which could involve the Council incurring costs. This provision was the same for 2016/17 and 2017/18.
- d. This provision covers potential costs of clients in supported living placements where identification of the ordinary residence is in dispute.

## Note 21 Provisions (continued)

- e. 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.

The MMI Scheme of Arrangement was triggered in late 2012 when the Directors determined that a solvent run-off without triggering the Scheme was unlikely. The Scheme Administrator instituted a 15% Levy that was physically collected from Scheme Members in early 2014; this Levy was designed to extinguish MMI's balance sheet deficit as at 30 September 2013. In April 2016, MMI instituted a second 10% Levy bringing the total from inception to 25%, and Scheme Members then became self-insured for 25% of every future claim payment.

The Council's insurance actuary, Barnett Waddingham, recommends a provision based on the ultimate levy being 35%.

A provision based on this recommendation is £0.861m, broken down into £0.289 for the extra levy on claims already paid and £0.572m for the Council's share of outstanding claims and Incurred but not reported (IBNR) claims.

- f. 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. The outcome of this is not certain, but it is felt prudent to make this provision.

- g. A general provision for Adult Social Care was established in 2016/17 for potential pay out to agencies to cover sleep in care which is now covered by minimum wage legislation regardless of whether a carer was actually sleep or awake. This has not been resolved in 2018/19 so the provision remains. It now also includes potential care costs that an agency is claiming which hasn't been resolved. The provision at year end 2018/19 stands at £95k.

- h. In 2017/18 a procurement exercise was carried out by the Council in respect of the provision of highways maintenance and street lighting.

One of the unsuccessful bidders has challenged the proposed award in proceedings in the High Court, and provision needs to be made for any potential costs liability arising from the litigation, which for 2018/19 is estimated at £0.250m. Additional provision may need to be made for 2019/20 if the litigation is likely to continue to trial.

## Note 22 Cash Flows from Operating Activities

The cash flows for operating activities include the following items:

2017/18		2018/19
£'000		£'000
450	Interest received	568
(8,182)	Interest paid	(11,094)
<b>(7,732)</b>	<b>Total</b>	<b>(10,526)</b>
	<b>Adjust net surplus or deficit on the provision of services for non-cash movements</b>	
26,609	Depreciation	24,096
10,504	Impairment and downward revaluations	16,920
3,008	Amortisation	1,689
(5,986)	(Increase) / decrease in creditors	(4,538)
(7,940)	Increase / (decrease) in debtors	7,173
147	Increase / (decrease) in inventories	-
7,485	Movement in Pension Liability	9,925
(482)	Other non cash items charged to the net surplus or deficit on the provision of services	13,235
96,878	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	31,254
130,223	Sub total of non-cash movements	99,754
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</b>	
(19,985)	Capital Grants credited to surplus or deficit on the provision of services	(34,549)
(7,864)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(6,509)
(27,849)	Sub total of adjustments included in the net surplus or deficit on the provision of services that are investing or financing activities	(41,058)
<b>102,374</b>	<b>Total cash flows from operating activities</b>	<b>58,696</b>



## Note 23 Cash Flows from Investing Activities

2017/18		2018/19
£'000		£'000
(70,569)	Purchase of property, plant and equipment, investment property and intangible assets	(58,402)
(360,170)	Purchase of short term and long term investments	(705)
7,840	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,529
363,295	Proceeds from short and long term investments	-
13,506	Other receipts from investing activities	39,926
<b>(46,098)</b>	<b>Total cash (inflow)/outflow from investing activities</b>	<b>(12,652)</b>

## Note 24 Cash Flows from Financing Activities

2017/18		2018/19
£'000		£'000
42,000	Cash receipts of short and long term borrowing	43,305
(250)	Repayment of short term and long term borrowing	(15,250)
12	Other payments for financing activities	181
<b>41,762</b>	<b>Total cash (inflow)/outflow from financing activities</b>	<b>28,236</b>

## Note 25 Officers Remuneration and Exit Packages

This 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 officers who are individually disclosed over leaf.

2017/18		Remuneration Band £	2018/19	
Schools Employees*	Non-Schools Employees		Schools Employees	Non-Schools Employees
9	32	50,000 - 54,999	10	30
6	28	55,000 - 59,999	5	24
5	8	60,000 - 64,999	6	10
2	10	65,000 - 69,999	2	6
3	4	70,000 - 74,999	2	8
1	8	75,000 - 79,999	1	5
2	4	80,000 - 84,999	1	12
-	4	85,000 - 89,999	-	2
1	1	90,000 - 94,999	1	3
-	2	95,000 - 99,999	-	2
-	5	100,000 - 104,999	-	4
-	2	105,000 - 109,999	-	-
-	-	110,000 - 114,999	-	2
-	1	115,000 - 119,999	-	-
-	-	120,000 - 124,999	-	2
-	2	130,000 - 134,999	-	-
-	-	135,000 - 139,999	-	1
-	-	140,000 - 144,999	-	1
-	-	160,000 - 164,999	-	1
-	1	170,000 - 174,999	-	-
<b>29</b>	<b>112</b>	<b>Total</b>	<b>28</b>	<b>113</b>

\* Restated to exclude Voluntary Aided and Foundation schools

## Note 25 Officers Remuneration and Exit Packages (continued)

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). Remuneration information for these employees is set out in the following two tables:

<b>2018/19</b>	<b>Note</b>	<b>Salary, fees and allowances</b>	<b>Employers pension contributions</b>	<b>Total</b>
		<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive - Helen Bailey	1	13,369	2,300	15,669
Interim Chief Executive - Mary Morrissey	1	29,062	7,204	36,266
Chief Executive - Niall Bolger	1	111,528	-	111,528
Strategic Director - Environment, Housing and Regeneration		108,650	16,482	125,132
Strategic Director - Resources	2	124,631	21,437	146,068
Interim Strategic Director - Resources	2	9,057	1,558	10,615
Strategic Director - People		124,009	21,330	145,339
Assistant Director Customers, Commissioning and Governance		102,465	17,624	120,089
Director of Public Health		100,000	17,200	117,200

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

### Notes:

Note 1: The Chief Executive, Niall Bolger, left the council in December 2018. The post was covered on an interim basis by Mary Morrissey from December 2018 until the appointment of new Chief Executive, Helen Bailey, in March 2019.

Note 2: The Strategic Director of Resources left the Council's employment in March 2019, the post is now being covered by an Interim.

## Note 25 Officers Remuneration and Exit Packages (continued)

<b>2017/18 comparative figures</b>	<b>Note</b>	<b>Salary, fees and allowances</b>	<b>Employers pension contributions</b>	<b>Total</b>
		<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive - Niall Bolger		170,721	-	170,721
Strategic Director - Environment, Housing and Regeneration		132,132	22,727	154,859
Strategic Director - Resources		130,236	22,727	152,963
Strategic Director - People	1	66,066	11,363	77,429
Acting Statutory Director of Adult Social Services (from October 2017)	1	50,228	8,639	58,867
Acting Statutory Director of Children's Services (from October 2017)	1	57,500	9,890	67,390
Executive Head of Customers, Commissioning and Governance		96,239	17,278	113,517
Director of Public Health (until end June 2017)	2	24,325	3,498	27,823
Director of Public Health (from January 2018)	2	22,849	3,930	26,779

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

## Note 25 Officers Remuneration and Exit Packages (continued)

### Exit Packages

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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£							£	£
0 - 20,000	13	24	10	13	23	37	214,369	342,719
20,001 - 40,000	4	5	7	5	11	10	301,660	265,778
40,001 - 60,000	1	1	2	1	3	2	131,468	116,812
<b>Total</b>	<b>18</b>	<b>30</b>	<b>19</b>	<b>19</b>	<b>37</b>	<b>49</b>	<b>647,497</b>	<b>725,309</b>

## Note 26 Members Allowances

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

2017/18		2018/19
£'000		£'000
926	Allowances	896
4	Expenses	2
<b>930</b>		<b>898</b>

## Note 27 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2018/19 are as follows:

	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2018/19 before Academy recoupment	-	-	195,862
Less Academy figure recouped for 2018/19	-	-	98,676
Total DSG after Academy recoupment for 2018/19	-	-	97,186
Plus: brought forward from 2017/18	-	-	(40)
Less: carry forward to 2019/20 agreed in advance	-	-	(40)
Agreed initial budgeted distribution in 2018/19	30,718	66,468	97,186
In-year adjustments	-	406	406
Final budget distribution for 2018/19	30,718	66,874	97,592
Less actual central expenditure	29,831	-	29,831
Less actual ISB deployed to schools	-	66,653	66,653
<b>Carry forward to 2018/19</b>	<b>887</b>	<b>221</b>	<b>1,068</b>

In 2018/19, the Council received net DSG funding of £97.592m, after academy recoupment and a net in-year adjustment for Early Years funding of £0.406m. There is an in-year surplus of £1.108m and a balance as at 31 March 2019 of £1.068m. The surplus DSG balance of £1.068m will be carried forward to 2019/20 and used to support the next years School's Budget.

## Note 28 Better Care Fund (Pooled Budgets with Sutton Clinical Commissioning Group)

The Council (host authority) has entered into a Pooled Budget arrangement, under Section 75 of the National Health Service Act 2006, with Sutton Clinical Commissioning Group (CCG) for the provision of Adult Social Care services within the London Borough of Sutton area.

The main purpose of the Better Care Fund is to increase the integration of health and social care through joint commissioning and aligning of resources across the whole health and social care system in order to improve health and wellbeing outcomes for local residents.

At 31 March 2019 the 2018/19 outturn position was a £0.900m underspend which relates to capital and will be carried forward as funding for 2019/20.

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£'000</b>		<b>£'000</b>
	<b>Funding:</b>	
(1,109)	Underspend brought forward from previous year	(1,029)
(6,747)	London Borough of Sutton	(7,723)
(8,410)	Sutton Clinical Commissioning Group	(8,448)
(3,660)	Joint	(4,005)
<b>(19,926)</b>	<b>Total Funding</b>	<b>(21,205)</b>
	<b>Expenditure:</b>	
6,827	London Borough of Sutton	7,852
8,410	Sutton Clinical Commissioning Group	8,448
3,660	Joint	4,005
<b>18,897</b>	<b>Total Expenditure</b>	<b>20,305</b>
<b>(1,029)</b>	<b>Total underspend to be carried forward</b>	<b>(900)</b>

## Note 29 Related Parties

This disclosure note has been prepared using a specific declaration obtained in respect of related party transactions from members and senior officers, as well as the Council's Register of Members' Declarations of Interest. The Council is required to disclose material transactions with related parties - bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

### Central Government

Government has significant influence over the general operations of the Council and is responsible for providing the statutory framework within which the Council operates. It 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. Council Tax, Housing Benefits). Grants received from Government departments are set out in Note 9.

### South London Waste Partnership

The Authority is a partner in the South London Waste Partnership, a joint committee was established in September 2007 to secure waste treatment and disposal services for the London Boroughs of Croydon, Merton and Sutton and the Royal Borough of Kingston. Kingston is the lead borough for procurement, and payments totalling £8.499m in 2018/19 are included in the Comprehensive Income and Expenditure Account as paid to Kingston. Croydon also share some of the procurement activities.

### Members

Members of the Council have direct control over the Council's financial and operating policies.

Following disclosures received from Members and a review of the register of interests, there are third party organisations that Members have declared an interest in. Details of those declarations which are material to these accounts are:

One Member received direct payments of £29k for three self contained flats leased back to the Council under the Empty Homes Scheme. One Member is an informal councillor representative to Roundshaw Community Network which received a £1k rent from the Beddington and Wallington Local Area Committee. Two members represent the Council on the Board of the Wandle Valley Regional Park Trust, which received a grant of £20k from the London Borough of Sutton in 2018/19. One Member is a Trustee and another Member is a Council appointee of Rosehill Community Association which receives a rent free lease from Sutton in return for limited maintenance responsibilities. A member represents the Council on the Executive Committee of the Arts Network which received a grant of £9k from Sutton in 2018/19. A member is on the committee for Nonsuch joint management with Epsom and Ewell Council and received a grant for £99k. One member is chair of the Clockhouse Community Association, there were payments made to the association of £1k and we received £2k in relation to rents and insurance.

### The Pension Fund

The Pension Fund had an average balance of £6.900m of surplus cash deposited with the Council during 2018/19. The Council charged the Fund £0.395m for its administering function.

### Opportunity Sutton

Nick Smales - Assistant Director Economic Development and Programme Director London Cancer Hub (appointed 05/02/2019), Mary Morrissey - Strategic Director Environment, Housing and Regeneration, and Ade Adebayo - Executive Head of Asset Planning, Management and Capital, are all company directors of Opportunity Sutton Ltd. There were no trading activities for Opportunity Sutton Ltd during 2018/19.

Opportunity Sutton has two sub companies, Sutton Living Ltd and Sutton Decentralised Energy Network Ltd which are detailed below:

**Sutton Living Ltd.** Simon Latham - Executive Head of Housing and Regeneration is the company director of Sutton Living Ltd. There were no trading activities during 2018/19.

**Sutton Decentralised Energy Network Ltd.** Amanda Cherrington - Head of Economic, Renewal and Regeneration, Lyndsey Gamble - Head of Investment, Risk and Commercial Finance, and Christopher Rhodes - Head of Asset Management are company directors of Sutton Decentralised Energy Network Ltd. There were trading activities during 2018/19. The turnover amounted to £0.105m and there were contractual activities of £0.800m.



## Note 29 Related Parties (continued)

### Sutton Housing Partnership

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 oversee the running of the services.

In 2018/19 the turnover of SHP amounted to £16.031m and net liabilities (including the pension deficit of £8.465m) were valued at £6.591m. 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 2018/19 accounts can be obtained from Stephen Leitch, Head of Finance, Sutton Housing Partnership, Sutton Gate, 1 Carshalton Road, Sutton SM1 4LE. The accounts are also available on SHP's website, [www.suttonhousingpartnership.org.uk](http://www.suttonhousingpartnership.org.uk)

### Encompass LATC Ltd

Nick Ireland - Strategic Director - People, Simon Latham - Executive Head of Housing and Regeneration and Michael Mackie - Head of Financial Operations and Resident Support are company directors of Encompass LATC Ltd. There were trading activities during 2018/19 - further details can be found on the Companies House website.

There were contractual activities of £2.680m and a payment of £1.095m was made for the Homelessness Reduction Act work.

### Cognus Ltd

This was previously called Sutton Education Services Ltd, the name changed to Cognus Ltd. There were trading activities during 2018/19 and further details can be found on the Companies House website. There were contractual activities of £5.100m (funded by General Fund £1.900m, grants £0.500m and DSG £2.700m).

### Shared Service Arrangements with Other Local Authorities

As part of the Council's response to the changing financial environment in which local authorities operate, a number of shared service arrangements with other local authorities are in operation.

- **Human Resources** – from 1 May 2016 the Council's Human Resources service entered into a shared service arrangement with the Royal Borough of Kingston. The service is hosted by the Kingston and includes recruitment, employment contracts, advice on terms and conditions, payroll, employee relations, advice, provision of learning and development as well as occupational health and health and safety.
- **Pensions Administration Service** – On 1 April 2016 the Council entered into a shared service with the Royal Borough of Kingston for its Pension Administration service. The London Borough of Sutton is the host authority.

- **ICT** – the Council entered into a joint service for ICT with the Royal Borough of Kingston on 1 May 2013. The joint service is providing greater ICT infrastructure resilience as well as shared expertise to drive out further savings and provide a better quality service.
- **Internal Audit Shared Service** – Internal Audit and Investigations work is provided via a shared service with the London Boroughs of Richmond, Wandsworth and Merton and the Royal Borough of Kingston. The employing authority for the service is Richmond. This service is providing shared expertise and a wider resilience for the member boroughs.
- **Legal** – The London Borough of Sutton is part of the South London Legal Partnership with the London Boroughs of Richmond and Merton, and the Royal Borough of Kingston.
- **Environmental Services** – In 2016 the Royal Borough of Kingston and the London Borough of Sutton set up a Shared Environment Service (SES), which includes environmental health, trading standards, sustainable transport and highways and transport.
- **Finance and Customer Contact Centre** – The London Borough of Sutton entered into two joint services with the Royal Borough of Kingston on 1 April 2017 for these two services.

## Note 30 External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Councils external auditors. Public Sector Audit Appointments has appointed Grant Thornton UK LLP as the external auditor for 2018/19.

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
94	Fees payable to the Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	73
12	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	21
<b>106</b>	<b>TOTAL</b>	<b>94</b>

## Note 31 Defined Benefit Pension Scheme

### a) Participation in Pension Schemes

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

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

The Authority contributes to the scheme at a rate of 16.48% of members' pensionable salaries. In 2018/19 the employers contribution amounted to £4.515m and the employees contribution was £2.576m (employers £5.069m and employees £2.910m in 2017/18).

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 2018/19 totalled £0.493m (£0.5m in 2017/18).

- 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 2016. 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 2019 as set out below. Pension Fund regulations require formal 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 2019 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:

## Note 31 Defined Benefit Pension Scheme (continued)

2017/18	Comprehensive Income and Expenditure Statement	2018/19
£'000		£'000
	Service cost comprising:	
18,153	- Current service cost	20,031
663	- Past service cost	889
(7,605)	- (gain)/loss from settlements	(4,362)
<b>11,211</b>		<b>16,558</b>
10,827	Net interest expense	9,847
350	Administration expenses	349
<b>22,388</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>26,754</b>
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
1,336	- Return on plan assets (excluding the amount included in the net interest expense)	28,014
-	- Actuarial (gains) and losses arising on changes in demographic assumptions	51,900
(33,257)	- Actuarial (gains) and losses arising on changes in financial assumptions	(31,327)
<b>(31,921)</b>	<b>Total Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>48,587</b>
<b>(9,533)</b>	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Account</b>	<b>75,341</b>
	Movement in Reserves Statement	
(22,388)	Reversal of net charges made to the (Surplus) or Deficit on the provision of Service for Post Employment Benefits in accordance with the Code	(26,754)
14,903	Actual amount charged against the General Fund balance for pensions in year - Employers' contributions payable to scheme	16,829

## Note 31 Defined Benefit Pension Scheme (continued)

### c) Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2017/18		2018/19
£'000		£'000
889,159	Present value of defined benefit obligation	884,645
(493,549)	Fair value of plan assets	(527,697)
<b>395,610</b>	<b>Net Liability arising from defined benefit obligation</b>	<b>356,948</b>

### 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 2016.

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

2017/18		2018/19
%		%
2.4	Rate of Inflation	2.4
3.9	Rate of Increase in Salaries	3.9
2.4	Rate of Increase in Pensions	2.4
2.6	Rate of Return on Assets	2.4
2.6	Rate for Discounting Scheme Liabilities	2.4
50.0	Take-Up of Option to Convert Annual Pension into Retirement Lump Sum	50.0
Years		Years
24.5	Longevity at 65 for Current Pensioners - Men	23.4
26.1	Longevity at 65 for Current Pensioners - Women	24.8
26.8	Longevity at 65 for Future Pensioners - Men	25.0
28.4	Longevity at 65 for Future Pensioners - Women	26.6

## Note 31 Defined Benefit Pension Scheme (continued)

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

2017/18		2018/19
%		%
2.6	Equities	2.4
2.6	Bonds	2.4
2.6	Property	2.4
2.6	Cash	2.4
<b>2.6</b>	<b>Total Fund</b>	<b>2.4</b>

2017/18		2018/19
% of Fund		% of Fund
61	Equities	64
17	Bonds	21
8	Property	9
2	Cash	2
3	Infrastructure	3
9	Other	1
<b>100</b>	<b>Total Fund</b>	<b>100</b>

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

## Note 31 Defined Benefit Pension Scheme (continued)

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

2017/18		2018/19
£'000		£'000
<b>908,702</b>	<b>Balance at 1 April</b>	<b>889,159</b>
18,153	Current Service Cost	20,031
23,915	Interest Cost	22,641
2,900	Contributions by Members	3,460
-	Actuarial (gains)/losses arising from changes in demographic assumptions	(51,900)
(33,257)	Actuarial (gains)/losses arising from changes in financial assumptions	31,327
663	Past Service Cost	889
(27,021)	Benefits Paid	(28,710)
(4,896)	Liabilities extinguished on settlements	(2,252)
<b>889,159</b>	<b>Balance at 31 March</b>	<b>884,645</b>

## Note 31 Defined Benefit Pension Scheme (continued)

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

2017/18		2018/19
£'000		£'000
488,656	<b>Balance at 1 April</b>	493,549
13,088	Interest income	12,794
	Remeasurement gain/loss:	
(1,336)	- The return on plan assets, excluding the amount included in the net interest expense	28,014
14,553	Contributions from employer	16,480
2,900	Contributions from employees into the scheme	3,460
(27,021)	Benefits Paid	(28,710)
2,709	Other	2,110
<b>493,549</b>	<b>Balance at 31 March</b>	<b>527,697</b>

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.



## Note 31 Defined Benefit Pension Scheme (continued)

### g) Local Government Scheme assets comprised:

Asset values shown in the tables below are based on estimated values and asset allocations as at 31 December 2018. These values have been used by the Council's actuaries for the purpose of IAS19 reporting, but do not represent the actual asset values as at 31 March 2019. Actual asset values at 31 March 2019 are shown in the Pension Fund Accounts.

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
9,377	Cash and Cash Equivalents	8,843
301,560	Equities	338,353
83,903	Bonds	114,472
38,496	Property	46,688
15,300	Infrastructure	15,300
44,913	Other	4,041
<b>493,549</b>		<b>527,697</b>

## Note 31 Defined Benefit Pension Scheme (continued)

Further details of the assets are shown below for 2018/19, 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.

2018/19	Quoted	Unquoted	Total	Percentage of Total Assets
	£'000	£'000	£'000	%
Cash and cash equivalents	-	-	-	0
Equities				
- UK	83,376	-	83,376	15.8
- Overseas	250,128	-	250,128	47.4
Bonds				
Fixed Interest Government Securities				
- UK	18,997	-	18,997	3.6
- Overseas	13,192	-	13,192	2.5
Index Linked Government Securities				
- UK	38,522	-	38,522	7.3
- Overseas	4,749	-	4,749	0.9
Corporate Bonds				
- UK	22,691	-	22,691	4.3
- Overseas	14,248	-	14,248	2.7
Property	2,638	43,799	46,437	8.8
Infrastructure	-	19,525	19,525	3.7
Other	15,303	528	15,831	3.0
<b>Total</b>	<b>463,844</b>	<b>63,852</b>	<b>527,696</b>	<b>100.0</b>

## Note 31 Defined Benefit Pension Scheme (continued)

### h) Scheme History

	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
	£'000	£'000	£'000	£'000	£'000
Present Value of Liabilities	796,826	749,579	908,702	889,159	884,645
Fair Value of Assets	(425,105)	(420,094)	(488,656)	(493,549)	(527,697)
<b>Deficit</b>	<b>371,721</b>	<b>329,485</b>	<b>420,046</b>	<b>395,610</b>	<b>356,948</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £356.9m (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 nineteen year recovery period, as assessed by the Council's actuary.

### i) History of Experience Gains and Losses

The related experience gains and losses for 31 March 2019 and earlier years are as follows:

	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
	%	%	%	%	%
On assets as % of Fair Value	4	(1)	12	-	-
On liabilities as % of Present Value	(2)	1	(6)	-	-

## Note 32 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.

## Note 33 Events after the Balance Sheet date

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

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## 6. Housing Revenue Account (HRA)

**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



## Housing Revenue Account (HRA) Income and Expenditure Statement

2017/18	HRA Income and Expenditure Statement	Notes	2018/19
£'000			£'000
	<b>Expenditure</b>		
14,713	Sutton Housing Partnership management fee		14,418
2,102	Other operating costs		2,214
2,331	Rents, rates, taxes and other charges		269
5,895	Depreciation of fixed assets	9	6,195
11,877	Impairment costs - revaluations and disposals	10	15,396
(21)	Increase in bad debt provision		465
<b>36,897</b>	<b>Total Expenditure</b>		<b>38,957</b>
	<b>Income</b>		
(32,428)	Gross rent from Council dwellings		(32,297)
(749)	Gross non dwellings rent		(934)
(4,727)	Charges for services and facilities		(3,092)
(247)	Contributions towards expenditure		-
<b>(38,151)</b>	<b>Total Income</b>		<b>(36,323)</b>
<b>(1,254)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>		<b>2,634</b>
63	Add HRA services share of Corporate and Democratic Core		63
<b>(1,191)</b>	<b>Net Cost of HRA Services</b>		<b>2,697</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>		
6,094	Interest payable and similar charges		6,272
(58)	Interest and investment income		(24)
(3,506)	(Profit)/Loss on disposal of non current assets		453
65	Pensions interest cost and expected return on pension assets		94
<b>1,404</b>	<b>(Surplus)/Deficit for the Year on HRA Services</b>		<b>9,492</b>

## Statement of Movement on the Housing Revenue Account Balance

2017/18	Statement of Movement on the Housing Revenue Account Balance	2018/19
£'000		£'000
(1,225)	<b>Balance on the Statutory HRA at the end of the previous year</b>	<b>(2,498)</b>
1,404	Surplus/(Deficit) on the HRA Income and Expenditure Account for the year	9,492
	<b>Adjustments between accounting basis and funding basis under statute:</b>	
	Amounts included in the HRA Income and Expenditure Account but required to be excluded when determining the HRA Surplus or Deficit for the year	
(173)	- Net Charges made for Retirement Benefits in Accordance with FRS17	(286)
3,506	- Profit/(Loss) on disposal of non current assets	(453)
(11,877)	- Impairment Costs and Disposals	(15,396)
	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	
90	- Employers Contributions Payable to the Pension Fund	161
<b>(7,050)</b>	<b>Net increase before transfers to or from reserve</b>	<b>(6,482)</b>
5,763	Transfer to the Major Repairs Reserve	6,474
-	Transfers (to)/from Heating Reserve Freeholders Contributions	-
8	Transfers (to)/from Heating Reserve	4
6	Transfer to Hostel Services Reserve	(9)
<b>(2,498)</b>	<b>Balance on the Statutory HRA Reserve Carried Forward</b>	<b>(2,511)</b>
(548)	Heating Reserve - Accumulated Surplus	(553)
(58)	Hostel Services Reserve - Accumulated Surplus	(48)
<b>(3,104)</b>	<b>Total HRA Balances and Reserves</b>	<b>(3,112)</b>

# Notes to the Housing Revenue Account

## HRA 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 repairs and maintenance, are shown in the HRA Income and Expenditure account under the heading "Sutton Housing Partnership Management Fee".

In addition the HRA carries a Heating Reserve of £552,837 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 Hillcrome Road / Harrow Road properties are held in reserve against future expenditure.

## HRA 2. Balance Carried Forward

A HRA Reserve balance of at least 5% of income is considered necessary to provide a sound level of prudence. The current balance at 31 March 2019 of £2,510,637 (£2,498,068 at 31 March 2018) equates to 6.9% of income.

## HRA 3. Housing Stock

At 31 March 2019 the Council owned and managed 5,915 tenanted dwellings plus it manages a further 1,446 leasehold properties. The Council also owned a proportion of 11 equity share/shared ownership dwellings, being the equivalent of 6 fully-owned dwellings.

Total 2017/18		Bedsits	Flats	Houses	Total 2018/19
5,886	Dwellings at 1 April	185	2,929	2,754	5,868
-	Demolitions / Transfers	-	-	-	-
(37)	Right-to Buy Sales	(1)	(10)	(16)	(27)
19	Acquisitions		57	2	59
-	Net changes through change of use or refurbishment	-	-	15	15
<b>5,868</b>	<b>Dwellings at 31 March</b>	<b>184</b>	<b>2,976</b>	<b>2,755</b>	<b>5,915</b>



## HRA 4. Stock Valuation

The latest Council Dwellings valuation is as at the 31 March 2019. The following valuations are included in the Council's balance sheet:

### Balance Sheet Valuation of HRA Assets:

At 31 March 2018		At 31 March 2019
£'000		£'000
<b>Operational Assets:</b>		
408,588	Council Dwellings	411,118
4,520	Other Land and Buildings	4,964
5	Investment Properties	5
<b>413,113</b>	<b>Total</b>	<b>416,087</b>

This valuation reflects the use of HRA dwellings as tenanted stock. The vacant possession value on the balance sheet at 31 March 2019 is £1,646m. The balance sheet valuation (£411.1m after applying the 25% social housing factor for London, i.e. a reduction of 75%) 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.

## HRA 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.

2017/18		2018/19
£'000		£'000
(697)	Balance at 1 April	(2,603)
(5,895)	Major Repairs Allowance (MRA) received	(6,195)
(61)	Depreciation on non-dwellings	(71)
3,989	MRA used on capital projects	6,568
61	Transfer to Statement of Movement on HRA balance	71
<b>(2,603)</b>	<b>Balance carried forward at 31 March</b>	<b>(2,230)</b>

## HRA 6. Capital Financing

2017/18		2018/19
£'000		£'000
<b>(22,400)</b>	<b>HRA Capital Expenditure</b>	<b>(34,566)</b>
	<b>Financed by:</b>	
(7,724)	Borrowing	(13,454)
(3,989)	Major Repairs Reserve	(6,568)
(3,792)	Revenue Contributions	(5,323)
(4,336)	Right to Buy receipts	(7,268)
(2,396)	Leaseholders Contributions	(1,600)
(21)	Capital Receipts	(65)
(142)	Other Public Bodies - London Fire Brigade	(26)
-	Private Contributions	(237)
-	Grants	(25)
<b>(22,400)</b>	<b>Total Financing</b>	<b>(34,566)</b>

## HRA 7. Capital Receipts

2017/18		2018/19
£'000		£'000
(6,716)	Right to Buy Sales	(4,913)
(74)	Other Disposals	(843)
(2)	Mortgage Repayments	(2)
<b>(6,792)</b>	<b>Total</b>	<b>(5,758)</b>

## HRA 8. Revenue Contribution to Capital Outlay (RCCO)

2017/18		2018/19
£'000		£'000
-	Balance at 1 April	(1,971)
(1,568)	RCCO Existing Stock	-
(4,195)	RCCO Property Acquisitions	(2,730)
-	RCCO New Build	(3,744)
-	RCCO used on capital projects - Existing Stock	-
3,792	RCCO used on capital projects -Property Acquisitions	2,796
-	RCCO used on capital projects - New Build	2,527
<b>(1,971)</b>	<b>Balance carried forward at 31 March</b>	<b>(3,122)</b>

## HRA 9. Depreciation

The Council's depreciation policy is to write down asset values over their estimated life, on a straight line basis. For Council dwellings, depreciation is based on componentisation of housing stock. On this basis depreciation for 2018-19 equates to £6.1m and has been posted to the HRA Income and Expenditure Statement.

2017/18	Depreciation	2018/19
£'000		£'000
	Operational Assets:	
(5,834)	Council Dwellings	(6,124)
(61)	Other Land and Buildings	(71)
<b>(5,895)</b>	<b>Total</b>	<b>(6,195)</b>

## HRA 10. Impairment

Impairment charges totalling £15.396m have been made during 2018/19. This charge is a result of the following:

- £6.153 million impairment after applying the social housing factor to the cost of capital works of £8.204m during the year.
- £9.096 million impairment resulting mainly from the EUV social housing valuation of 59 dwellings acquired and 15 new built occupied this year
- £0.147 million net loss as a result of the revaluation of Other Land and Buildings

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

## HRA 11. 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.

## HRA 12. Rent and Service Charge Arrears

Rent and service charge arrears at 31 March 2019 totalled £731,615 compared to £1,566,391 at 31 March 2018. As a proportion of gross rent and service income, this represents 2.1% (4.2% in 2017/18). These arrears include charges due from tenants for rent, heating and hot water, garages and other tenancy related charges.

Total provision for uncollectible rent and service debt totalled £969,771 at 31 March 2019 compared to £1,117,894 at 31 March 2018

At 31 March 2018	Tenant Rent and Service Charge Arrears	At 31 March 2019
£'000		£'000
1,862	Current Tenant Arrears	1,738
652	Former Tenant Arrears	440
<b>2,514</b>	<b>Total</b>	<b>2,178</b>
(948)	Accounts in credit	(1,446)
<b>1,566</b>	<b>Net Arrears</b>	<b>732</b>
<b>Provision included in the accounts for potential bad debts at 31 March:</b>		
(1,118)	Tenants rent and heating charges	(970)
<b>(1,118)</b>	<b>Total Bad Debt Provision</b>	<b>(970)</b>

## HRA 13. Provisions

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. The outcome of this is not certain, but it is felt prudent to make this provision.

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## 7. 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 2018/19

2017/18			Note	2018/19		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£'000	£'000	£'000		£'000	£'000	£'000
<b>Income</b>						
-	(111,644)	(111,644)		-	(117,070)	(117,070)
(52,480)	-	(52,480)	3	(55,199)	-	(55,199)
(1,379)	-	(1,379)		(1,435)	-	(1,435)
(470)		(470)		(280)	-	(280)
<b>(54,329)</b>	<b>(111,644)</b>	<b>(165,973)</b>		<b>(56,914)</b>	<b>(117,070)</b>	<b>(173,984)</b>
<b>Expenditure</b>						
<b>Precepts, Demands and Shares:</b>			4			
16,041	89,928	105,969		34,348	95,178	129,526
19,783	20,012	39,795		19,321	21,401	40,722
17,645	-	17,645		-	-	-
193	-	193		192	-	192
1,379	-	1,379		1,429	-	1,429
8	-	8		6	-	6
<b>Charges to Collection Fund:</b>						
612	378	990		654	290	944
186	241	427		(194)	-	(194)

## Collection Fund Income and Expenditure Account 2018/19 (continued)

2017/18			Note	2018/19		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£'000	£'000	£'000		£'000	£'000	£'000
<b>Charges to Collection Fund (continued)</b>						
3,341	-	3,341	Increase/(decrease) in allowance for appeals	(941)	-	(941)
11	-	11	Transition Payment to Central Government	418	-	418
17	-	17	Sundry Creditor - GLA owned crossrail funds	-	-	-
48	-	48	Sundry Creditor - Customer owned crossrail funds	-	-	-
<b>Contributions Prior Year (Deficit)/Surplus:</b>						
(679)	359	(320)	London Borough of Sutton	(1,557)	1,280	(277)
(452)	80	(372)	Greater London Authority	(1,788)	289	(1,499)
(1,133)	-	(1,133)	Central Government	(1,845)	-	(1,845)
<b>57,000</b>	<b>110,998</b>	<b>167,998</b>	<b>Total Expenditure</b>	<b>50,043</b>	<b>118,438</b>	<b>168,481</b>
<b>2,671</b>	<b>(646)</b>	<b>2,025</b>	<b>Total Income Less Expenditure</b>	<b>(6,871)</b>	<b>1,368</b>	<b>(5,503)</b>
<b>Movements on the Collection Fund:</b>						
3,043	(1,569)	1,474	(Surplus) / Deficit brought forward at 1 April	5,714	(2,215)	3,499
2,671	(646)	2,025	(Surplus) / Deficit for year	(6,871)	1,368	(5,503)
<b>5,714</b>	<b>(2,215)</b>	<b>3,499</b>	<b>(Surplus) / Deficit carried forward at 31 March</b>	<b>(1,157)</b>	<b>(847)</b>	<b>(2,004)</b>
<b>Distribution of Fund Balance</b>						
1,714	(1,812)	(98)	London Borough of Sutton	(918)	(691)	(1,609)
2,114	(403)	1,711	Greater London Authority	(412)	(155)	(567)
1,886	-	1,886	Central Government	174	-	174
<b>5,714</b>	<b>(2,215)</b>	<b>3,499</b>	<b>Total Allocation of Fund Balance</b>	<b>(1,156)</b>	<b>(847)</b>	<b>(2,003)</b>



# Notes to the Collection Fund

## CF 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 (NDR) 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.

## CF 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 (£1,602.75 in 2018/19, London Borough of Sutton £1,308.52 and GLA £294.23) by the ratio applicable to the property.

The Council Tax Base is affected by the Council Tax Reduction Scheme which treats council tax support as a discount to Council Tax. This together with technical changes to other discounts resulted in the Council Tax Base being set by the Strategic Director – Resources, under delegated authority, at 72,737.1 Band D equivalents, compared to 71,467.4 in 2017/18.

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:-

## CF 2. Council Tax (continued)

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	718.6	6/9	479.1	
£40,000 - £52,000	B	6,324.9	7/9	4,919.4	
£52,000 - £68,000	C	24,184.4	8/9	21,497.2	
£68,000 - £88,000	D	22,356.9	9/9	22,356.9	
£88,000 - £120,000	E	11,653.8	11/9	14,243.5	
£120,000 - £160,000	F	6,580.8	13/9	9,505.6	
£160,000 - £320,000	G	3,524.3	15/9	5,873.8	
£320,000 or more	H	246.7	18/9	493.4	
		75,590.4		79,368.9	
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.				5,897.1	
				73,471.8	
Adjustment for estimated collection rate				734.7	1.00%
<b>Council Tax Base</b>				<b>72,737.1</b>	<b>99.00%</b>
Band D council tax charge				£1,602.75	
Total Precept raised				£116,579,458	

## CF 3. Business Rates

The Council collects business rates for its area based on local rateable values (as determined by the Valuation Office Agency) and multipliers set by central government annually. There are two multipliers:

2017/18		2018/19
pence per £		pence per £
47.9	Standard non-domestic multiplier	49.3
46.6	Small business non-domestic multiplier	48.0

The total rateable value for business premises in Sutton as at 31 March 2019 was £142.188m (£143.473m at 31 March 2018).

The Council collects Non-Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform basis set nationally by Central Government. Under the business rates retention scheme, local authorities retain a proportion of the total collectable rates due with the rest distributed to preceptors. The distribution rates have changed in 2018/19 and are shown below, along with the 2017-18 rates for comparison;

2017/18		2018/19
%		%
30	London Borough of Sutton	64
37	Greater London Authority	36
33	Central Government	-

### CF 3. Business Rates (continued)

The net business rates shares payable for 2018/19 were estimated before the start of the financial year as follows:

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
15,555	London Borough of Sutton	32,983
19,331	Greater London Authority	17,533
16,512	Central Government	(1,845)
<b>51,398</b>		<b>48,671</b>

These sums have been paid in 2018/19 and charged to the Collection Fund in year.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the Valuation Office Agency and are therefore required to make provision for these amounts. Appeals are charged and provided for in proportion to the precepting shares. The total provision charged to the collection fund for 2018/19 has been calculated at a reduction of £0.941m. This leaves a total end of year provision for appeals balance of £4.100m of which the London Borough of Sutton's share is £2.624m

### CF 4. Precepts and Demands

The Greater London Authority (GLA) levies a precept on the Council's Collection Fund based on the Council's tax base for the year. In addition, the Council's own requirement is charged to the Collection Fund and credited to the General Fund. The GLA precept includes elements for the Metropolitan Police Authority, the London Fire and Emergency Planning Authority, Transport for London, the London Legacy Development Company (Queen Elizabeth Olympic Park), the Old Oak Common, Park Royal Development Corporation and the core GLA functions.

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## 8. Group Accounts

Group accounts have been prepared to give an overall picture of the activities and financial position of the Council including those activities carried out by Sutton Housing Partnership Limited ,Encompass LATC LTD and Cognus Limited on behalf of the Council.

Entities where used is referring to the grouping of the Council's subsidiaries being grouped under one heading.



## Group Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2019

Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
2017/18	2017/18	2017/18		2018/19	2018/19	2018/19
£000	£000	£000		£000	£000	£000
34,251	(13,998)	20,253	<b>Chief Executive's</b>	34,723	(8,321)	26,402
51,851	(13,331)	38,520	<b>Environment, Housing and Regeneration</b>	53,897	(17,616)	36,281
256,190	(148,065)	108,125	<b>Peoples Services</b>	264,275	(150,950)	113,325
91,671	(66,132)	25,539	<b>Resources</b>	87,912	(65,544)	22,368
			<b>Housing Revenue Account</b>			
25,377	(38,444)	(13,067)	- Main HRA Revenue Account	26,103	(38,802)	(12,699)
11,877	-	11,877	- Revaluation loss/(gain) - Dwellings	15,396	-	15,396
16,421	(16,472)	(51)	<b>- Sutton Housing Partnership</b>	17,490	(16,031)	1,459
396	(3,817)	(3,421)	<b>Non Service Revenue Accounts</b>	4,871	(4,581)	290
<b>488,034</b>	<b>(300,259)</b>	<b>187,775</b>	<b>Cost of services</b>	<b>504,667</b>	<b>(301,845)</b>	<b>202,822</b>

## Group Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2019 (continued)

Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
2017/18	2017/18	2017/18		2018/19	2018/19	2018/19
£000	£000	£000		£000	£000	£000
90,943	(1,314)	89,629	Other operating expenditure	26,212	(875)	25,337
19,371	(6,432)	12,939	Financing and investment income and expenditure	25,765	(602)	25,163
-	(181,546)	(181,546)	Taxation and non-specific grant income	-	(186,751)	(186,751)
<b>598,348</b>	<b>(489,551)</b>	<b>108,797</b>	<b>(Surplus) or deficit on the provision of services</b>	<b>556,644</b>	<b>(490,073)</b>	<b>66,571</b>
		72	Tax expenses of Subsidiaries			60
-	-	108,869	<b>Group (surplus)/deficit</b>	-	-	66,631
			<b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b>			
-	-	(23,363)	Net (surplus) / deficit arising on revaluation of Property, Plant and Equipment Assets	-	-	(21,366)
-	-	(33,929)	Remeasurement of the net defined benefit liability on the pensions reserve	-	-	(50,999)
		(57,292)	<b>Other comprehensive income and expenditure</b>			(72,365)
		51,577	<b>Total comprehensive income and expenditure (surplus)/deficit</b>			(5,734)

\*Restated 31 March 18 to include new subsidiaries

## Group Movement in Reserves Statement

	Memorandum		Usable Reserves						Non-usable Reserves	Total Authority Reserves	Authority's Share of Subsidiaries	Total Reserves
	General Fund Balance*	Earmarked General Fund Reserves	Total General Fund Balance & Earmarked Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000				
<b>2018/19</b>												
<b>Balance at 31 March 2018</b>	(12,738)	(23,989)	(36,727)	(3,104)	(22,368)	(4,574)	(17,646)	(84,419)	(116,670)	(201,089)	12,012	(189,077)
Movement during 2018/19:												
Total Comprehensive Expenditure and Income	55,191	-	55,191	9,492	-	-	-	64,683	(69,953)	(5,270)	1,947	(3,323)
Adjustments between accounting basis and funding basis under regulations	(53,337)	-	(53,337)	(15,974)	1,553	5,696	6,314	(55,748)	55,748	-	(2,425)	(2,425)
<b>Net Increase/(Decrease) before transfers to Earmarked Reserves</b>	<b>1,854</b>	<b>-</b>	<b>1,854</b>	<b>(6,482)</b>	<b>1,553</b>	<b>5,696</b>	<b>6,314</b>	<b>8,935</b>	<b>(14,205)</b>	<b>(5,270)</b>	<b>(478)</b>	<b>(5,748)</b>
Transfers to / (from) Earmarked Reserves	(2,432)	2,694	262	6,474	-	(6,474)	4	266	(266)	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>(578)</b>	<b>2,694</b>	<b>2,116</b>	<b>(8)</b>	<b>1,553</b>	<b>(778)</b>	<b>6,318</b>	<b>9,201</b>	<b>(14,471)</b>	<b>(5,270)</b>	<b>(478)</b>	<b>(5,748)</b>
<b>Balance at 31 March 2019</b>	<b>(13,316)</b>	<b>(21,295)</b>	<b>(34,611)</b>	<b>(3,112)</b>	<b>(20,815)</b>	<b>(5,352)</b>	<b>(11,328)</b>	<b>(75,218)</b>	<b>(131,141)</b>	<b>(206,359)</b>	<b>11,534</b>	<b>(194,825)</b>



## Group Movement in Reserves Statement (continued)

2017/18 Comparative	Memorandum		Usable Reserves						Non-usable Reserves	Total Authority Reserves	Authority's Share of Subsidiaries	Total Reserves
	General Fund Balance*	Earmarked General Fund Reserves	Total General Fund Balance & Earmarked Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves				
Restated*	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2017</b>	(12,461)	(30,167)	(42,628)	(1,817)	(15,268)	(697)	(23,016)	(83,426)	(170,708)	(254,134)	13,480	(240,654)
Movement during 2017/18:												
Total Comprehensive Expenditure and Income	106,925	-	106,925	1,404	-	-	-	108,329	(55,284)	53,045	540	53,585
Adjustments between accounting basis and funding basis under regulations	(102,746)	-	(102,746)	(8,454)	(7,129)	(1,906)	5,370	(114,865)	114,865	-	(2,008)	(2,008)
<b>Net Increase/(Decrease) before transfers to Earmarked Reserves</b>	<b>4,179</b>	<b>-</b>	<b>4,179</b>	<b>(7,050)</b>	<b>(7,129)</b>	<b>(1,906)</b>	<b>5,370</b>	<b>(6,536)</b>	<b>59,581</b>	<b>53,045</b>	<b>(1,468)</b>	<b>51,577</b>
Transfers to / (from) Earmarked Reserves	(4,456)	6,178	1,722	5,763	29	(1,971)	-	5,543	(5,543)	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>(277)</b>	<b>6,178</b>	<b>5,901</b>	<b>(1,287)</b>	<b>(7,100)</b>	<b>(3,877)</b>	<b>5,370</b>	<b>(993)</b>	<b>54,038</b>	<b>53,045</b>	<b>(1,468)</b>	<b>51,577</b>
<b>Balance at 31 March 2018</b>	<b>(12,738)</b>	<b>(23,989)</b>	<b>(36,727)</b>	<b>(3,104)</b>	<b>(22,368)</b>	<b>(4,574)</b>	<b>(17,646)</b>	<b>(84,419)</b>	<b>(116,670)</b>	<b>(201,089)</b>	<b>12,012</b>	<b>(189,077)</b>

\*Restated to include new subsidiaries

## Group Balance Sheet

31 March 2018		31 March 2019
£'000		£'000
	Non-Current Assets	
771,689	Property, Plant and Equipment	771,776
104,760	Investment Properties	96,228
100	Long Term Investments	11
4,360	Long Term Debtors	4,199
<b>880,909</b>	<b>Total Non-Current Assets</b>	<b>872,214</b>
	Current Assets	
21,786	Short Term Investments	22,496
466	Assets Held for Sale	1,009
60	Inventories	60
51,269	Debtors	41,955
(2,520)	Cash and Cash Equivalents	6,918
<b>71,061</b>	<b>Total Current Assets</b>	<b>72,438</b>

\*Restated to include new subsidiaries

## Group Balance Sheet (continued)

31 March 2018		31 March 2019
£'000		£'000
	Less Current Liabilities	
(16,494)	Short Term Borrowing	(27,438)
(1,833)	Capital Grants Receipt in Advance	(4,451)
(60,398)	Creditors	(52,757)
<b>(78,725)</b>	<b>Total Current Liabilities</b>	<b>(84,646)</b>
	Less Non-Current Liabilities	
(6,921)	Provisions	(9,236)
(267,221)	Long Term Borrowings	(284,527)
(410,026)	Liability Related to Defined Benefit Pension Scheme	(371,418)
<b>(684,168)</b>	<b>Total Non-Current Liabilities</b>	<b>(665,181)</b>
<b>189,077</b>	<b>Net Assets</b>	<b>194,825</b>
(102,254)	Total Non-usable Reserves	(116,671)
(86,823)	Total Usable Reserves	(78,154)
<b>(189,077)</b>	<b>Total Reserves</b>	<b>(194,825)</b>

\*Restated 31 March 18 to include new subsidiaries

## Group Cash Flow Statement

2017/18		2018/19
£000		£000
(108,602)	Net (surplus) or deficit on the provision of services	(66,405)
131,767	Adjustment to the net surplus or deficit on the provision of services for non-cash movements	101,106
(27,348)	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities	(40,573)
(4,183)	Net cash flows from operating activities	(5,872)
(46,179)	<b>Net cash flows from investing activities</b>	(12,904)
41,759	<b>Net cash flows from financing activities</b>	28,214
<b>(8,603)</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>	<b>9,438</b>
	<b>Represented by:</b>	
6,083	a Cash and cash equivalents at the beginning of the reporting period	(2,520)
(2,520)	b Cash and cash equivalents at the end of the reporting period	6,918
<b>(8,603)</b>	<b>Net (increase)/decrease in cash and cash equivalents (b-a)</b>	<b>9,438</b>

\*Restated to include new subsidiaries

# Notes to the Group Accounts

## G1. Introduction

The CIPFA Code of Practice requires that where an Authority has material financial interests and a significant level of control over one or more entities it should prepare group accounts. The aim of consolidation is to give an overall picture of the Authority's financial activities and the resources employed in carrying out those activities.

The Council has an interest in a number of entities and the most significant of these are Sutton Housing Partnership CIC (SHP), established in April 2016 to manage and improve the Council's housing stock and estates, Encompass LATC Ltd provide a wide range of services including advice on housing, Social care, and innovation. Cognus Limited which the Council owns 75%, supports schools, families and children/ young people. Group Accounts have been prepared to reflect the Council's interest the above subsidiaries of the Council.

## G2. Accounting Policies

The group has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, issued by the Chartered Institute of Public Finance and Accounting (CIPFA). The accounting policies of the subsidiaries are in line with the Council's accounting policies.

## G3. Consolidation

The Group Income and Expenditure Accounts and Balance Sheet have been prepared by consolidating the accounts of the subsidiary, on a line-by-line basis, in accordance with IAS 27. Intra group transactions have been eliminated from the Statements.

Where figures in the group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The following notes give information on the areas that have materially changed on consolidation of the group entities into the Council's accounts.

## G4. Group Defined Benefit Pension Schemes

The employees of the London Borough of Sutton, and SHP, Encompass LATC Ltd and Cognus Limited are eligible to join the Local Government Pension Scheme. As an admitted bodies within the Sutton Pension Fund, subsidiaries pension liabilities and employer contribution rates are separately assessed.

## G4. Group Defined Benefit Pension Schemes (continued)

The cost of pension benefits earned during the year were:

*Restated			2017/18			Comprehensive Income and Expenditure Statement:			2018/19		
LBS	Entities	Total				LBS	Entities	Total			
£'000	£'000	£'000				£'000	£'000	£'000			
			Service cost comprising:								
18,153	2,978	21,131	-	Current service cost		20,031	2,768	22,799			
663	370	1,033	-	Past service cost		889	704	1,593			
(7,605)	-	(7,605)	-	(gain)/loss from settlements		(4,362)	-	(4,362)			
<b>11,211</b>	<b>3,348</b>	<b>14,559</b>				<b>16,558</b>	<b>3,472</b>	<b>20,030</b>			
10,827	389	11,216		Net interest expense		9,847	363	10,210			
350	23	373		Administration expenses		349	25	374			
<b>22,388</b>	<b>3,760</b>	<b>26,148</b>		<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>		<b>26,754</b>	<b>3,860</b>	<b>30,614</b>			
			Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement								
1,336	93	1,429	-	Return on plan assets (excluding the amount included in the net interest expense)		28,014	1,979	29,993			
-	-	-	-	Actuarial (gains) and losses arising on changes in demographic assumptions		51,900	2,434	54,334			
(33,257)	(917)	(34,174)	-	Actuarial (gains) and losses arising on changes in financial assumptions		(31,327)	(2,009)	(33,336)			
-	-	-	-	Other actuarial (gains)/losses on assets		-	-	-			
-	-	-	-	Experience gain on defined benefit obligation		-	-	-			
<b>(9,533)</b>	<b>2,936</b>	<b>(6,597)</b>		<b>Total Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		<b>75,341</b>	<b>6,264</b>	<b>81,605</b>			
			<b>Movement in Reserves Statement:</b>								
(7,485)	210	(7,275)		Reversal of net charges made to the (Surplus) or Deficit on the provision of Service for Post Employment Benefits in accordance with the Code		(9,925)	1,972	(7,953)			

## G4. Group Defined Benefit Pension Schemes (continued)

Pensions assets and liabilities recognised in the Balance Sheet are as follows:

2017/18				2018/19		
LBS	Entities	Total		LBS	Entities	Total
£'000	£'000	£'000		£'000	£'000	£'000
889,159	34,390	923,549	Present value of defined benefit obligation	884,645	36,805	921,450
(493,549)	(30,352)	(523,901)	Fair value of plan assets	(527,697)	(32,790)	(560,487)
<b>395,610</b>	<b>4,038</b>	<b>399,648</b>	<b>Net Liability arising from defined benefit obligation</b>	<b>356,948</b>	<b>4,015</b>	<b>360,963</b>

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

2017/18				2018/19		
LBS	Entities	Total		LBS	Entities	Total
£'000	£'000	£'000		£'000	£'000	£'000
<b>908,702</b>	<b>47,342</b>	<b>956,044</b>	<b>Balance at 1 April</b>	<b>889,159</b>	<b>48,757</b>	<b>937,916</b>
18,153	3,195	21,348	Current Service Cost	20,031	2,768	22,799
23,915	1,316	25,231	Interest Cost	22,641	1,269	23,910
2,900	(130)	2,770	Contributions by Members	3,460	(74)	3,386
-	-	-	Actuarial (gains)/losses arising from changes in demographic assumptions	(51,900)	(2,434)	(54,334)
(33,257)	(1,829)	(35,086)	Actuarial (gains)/losses arising from changes in financial assumptions	31,327	2,001	33,328
-	-	-	Experience gain on defined benefit obligation	-	-	-
663	55	718	Past Service Cost	889	610	1,499
(27,021)	(895)	(27,916)	Benefits Paid	(28,710)	(1,092)	(29,802)
(4,896)	(298)	(5,194)	Liabilities extinguished on settlements	(2,252)	1	(2,251)
<b>889,159</b>	<b>48,756</b>	<b>937,915</b>	<b>Balance at 31 March</b>	<b>884,645</b>	<b>51,806</b>	<b>936,451</b>

## G4. Group Defined Benefit Pension Schemes (continued)

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

*Restated				2017/18			2018/19		
LBS	Entities	Total		LBS	Entities	Total			
£'000	£'000	£'000		£'000	£'000	£'000			
<b>488,656</b>	<b>32,671</b>	<b>521,327</b>	<b>Balance at 1 April</b>	<b>493,549</b>	<b>34,457</b>	<b>528,006</b>			
13,088	927	14,015	Interest income	12,794	880	13,674			
			Remeasurement gain/loss:						
(1,336)	(119)	(1,455)	- Return on plan assets, excluding the amount included in the net interest expense	28,014	1,979	29,993			
-	614	614	- Other actuarial gains/(losses)		8	8			
14,553	910	15,463	Contributions from employer	16,480	452	16,932			
2,900	373	3,273	Contributions from employees into the scheme	3,460	351	3,811			
(27,021)	(895)	(27,916)	Benefits Paid	(28,710)	(1,092)	(29,802)			
2,709	(23)	2,686	Other	2,110	(25)	2,085			
<b>493,549</b>	<b>34,458</b>	<b>528,007</b>	<b>Balance at 31 March</b>	<b>527,697</b>	<b>37,010</b>	<b>564,707</b>			

\*Restated to include new subsidiaries.



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## 9. Pension Fund Accounts 2018/19

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 Account for the year ended 31 March 2019

2017/18		2018/19
£'000	Note	£'000
	Dealings with members, employers and others directly involved in the Fund	
(30,789)	Contributions	(31,323)
(3,570)	Transfers in from other pension funds	(16,050)
(34,359)		(47,373)
25,790	Benefits	27,193
6,335	Payments to and on account of leavers:	39,334
32,125		66,527
<b>(2,234)</b>	Net (additions) / withdrawals from dealings with members	<b>19,154</b>
6,115	Management expenses	6,308
3,881	Net (additions)/withdrawals including fund management expenses	25,463
	Returns on Investments	
(9,782)	Investment income	(7,554)
(141)	Taxes on income	(52)
(17,404)	(Profit) loss on disposal of investments and changes in the market value of investments	(40,070)
<b>(27,327)</b>	Net Return on Investments	<b>(47,677)</b>
(23,446)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year	(22,214)
<b>(618,157)</b>	Opening Net Assets of the Scheme	<b>(641,603)</b>
<b>(641,603)</b>	Closing Net Assets of the Scheme	<b>(663,817)</b>

## Sutton Pension Fund Net Assets Statement for the year ended 31 March 2019

2017/18		Note	2018/19
£'000			£'000
630,550	Investment Assets	14	673,044
<b>630,550</b>	<b>Total Net Investments</b>		<b>673,044</b>
18,635	Current Assets	20	4,545
(7,582)	Current Liabilities	21	(13,772)
<b>641,603</b>	<b>Net Assets of the Fund available to fund benefits at the end of the reporting period</b>		<b>663,817</b>

# Notes to the Pension Fund

## PF Note 1 - Description of the Fund

### a) General

The London Borough of Sutton Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Sutton.

The Fund is governed by the Public Service Pensions Act 2013 and is administered under the following regulations:

- the LGPS Regulations 2014 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018

The Scheme is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Sutton and the admitted and scheduled bodies in the Pension Fund.

These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement.

### b) Pension Committee

The Council has delegated oversight of the Fund to the Pension Committee who make recommendations on the investment policy most suitable to meet the liabilities of the Fund. The Committee is made up of six Members of the Council each of whom has voting rights.

The Committee considers the views of the Strategic Director - Resources (S151 Officer) and obtains, as necessary, advice from the Fund's appointed investment advisers, fund managers and actuary. The implementation of these decisions is delegated to the Strategic Director - Resources (S151 Officer).

### c) Membership

Although Scheme employers are required to auto enrol employees into the LGPS, membership of the LGPS is voluntary and employees are free to choose whether to remain in the Scheme or to "opt out" and make their own personal arrangements outside the Scheme. Organisations participating in the London Borough of Sutton Pension Fund include:

- Scheduled bodies which are local authorities or other similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector. This includes designated admitted bodies.

## PF Note 1 - Description of the Fund (continued)

Member bodies at 31 March 2019 were as follows:

### **Scheduled Bodies**

Sutton Housing Partnership

Academy Schools (x 37)

### **Admitted Bodies**

Citizens Advice Bureaux - Sutton Borough

Indigo (formerly Vinci Park)

ThamesReach

Nviro (Wallington High School for Girls Academy)

Sports and Leisure Management Ltd

Caterlink

Community Options (Heritage Care)

Orchard Hill College

Compass Catering (Overton Grange Academy)

Orchard Childcare

Compass Catering (St Philomena's)

Encompass

Eldercare

Cognus (formerly Sutton Education Service)

Mitie (facilities and security management)

## PF Note 1 - Description of the Fund (continued)

The following table summarises the membership numbers of the scheme:

<b>2017/18</b>		<b>2018/19</b>
<b>No.</b>		<b>No.</b>
45	Number of Employers with active members	55
Active Members		
3,213	London Borough of Sutton	2,763
1,818	Scheduled bodies	2,286
525	Admitted bodies	502
5,556		5,551
Deferred Members		
4,010	London Borough of Sutton	3,875
651	Scheduled bodies	549
93	Admitted bodies	121
4,754		4,545
Pensioners (including Dependents)		
3,616	London Borough of Sutton	3,689
254	Scheduled bodies	229
56	Admitted bodies	74
3,926		3,992
<b>14,236</b>	<b>Total</b>	<b>14,088</b>

## PF Note 1 - Description of the Fund (continued)

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th.

Key details of the scheme's variants are shown in the table below. Accrued pension is uprated annually in line with the Consumer Prices Index.

	Service pre 1 April 2008	Service 1 March 2008 to 31 March 2014	Service post 31 March 2014
<b>Pension</b>	Accrual rate per annum of 1/80th of final pensionable pay	Accrual rate per annum of 1/60th of final pensionable pay	Accrual rate per annum of 1/49th of current year's pensionable pay
<b>Lump sum</b>	Automatic lump sum of 3 x pension. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot.	No automatic lump sum. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot.	

There are other benefits provided by the LGPS including early retirement, disability pensions and death benefits. Further information is available here - <https://www.sutton.gov.uk/>

### e) Funding

The Pension Fund is financed by contributions from employees, employers (including the Council, admitted and scheduled bodies) and from the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2019. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2018/19, employer contribution rates ranged from 15.0% to 26.2% of pensionable pay. Employer contribution rates payable from 1 April 2017 were set by the triennial valuation as at 31 March 2016, the results of which were published on 31 March 2017. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme

## PF Note 2 - Basis Of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Accounts have been prepared on a going concern basis.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not provide for obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits,

valued on an IAS 19 basis, is disclosed at Note 19 of these Accounts.

### **Accruals Concept**

Income and expenditure has been included in the Accounts on an accruals basis. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The adequacy of the Fund to pay future pensions and other benefits is reported upon separately in these accounts.

### **Valuation of Investments**

Investments are stated at their market values as at 31 March 2019 and are determined as follows:

- all investments priced within the Stock Exchange Electronic Trading Service

(SETS), a Recognised or Designated Investment Exchange or Over-The-Counter market, are valued at the bid-market prices at close of business on the exchange or market on which the investment trades, or at the last trading price recorded.

- Securities which are not covered by the above are valued at their estimated realisable value. Suspended securities are valued initially at the suspended price but are subject to constant review.
- Investments held in foreign currency have been valued on the relevant basis and translated into Sterling at the rate ruling at the balance sheet date.
- Transactions in foreign currency are translated into Sterling at the exchange rate ruling at the time of transaction.



## PF Note 3 - Summary of Significant Accounting Policies

### Fund account – revenue recognition

#### a) Contribution Income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. (Augmentation is the cost of additional membership awarded by an employer).

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in or out are accounted for when received or paid which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions

to purchase scheme benefits are accounted for on a receipts basis.

#### c) Investment income

##### • Interest income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination.

Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

##### • Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset

##### • Distributions from pooled funds

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

##### • Movement in the net market value of investments

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

#### d) Benefits payable

Pensions and lump sum benefits include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

#### e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Interest from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Investment income, Note 12, is shown gross of irrecoverable taxes deducted, which in 2018/19 totalled £52,334. The Fund is reimbursed VAT by HM Revenue and Customs, and the accounts are shown exclusive of VAT.

## PF Note 3 - Summary of Significant Accounting Policies - Continued

### f) Management Expenses

Pension Fund management expenses are accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

- Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension Administration Team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund

- Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management and accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

- Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included here.

### Net Assets Statement

#### g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

### h) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Note 19).

### i) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund (see Note 22). AVCs are paid to the AVC providers by employers, specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement from the AVC provider company showing the amount held in their account and the movements in year.

## PF Note 4 - Critical Judgements in Applying Accounting Policies

In applying the accounting policies as set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

### Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 18. This estimate is subject to significant variances based on changes to the underlying assumption

## PF Note 5 - Assumptions Made About The Future And Other Major Sources Of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year, as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pension Liability	<p>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.</p> <p>There is further uncertainty arising from a legal challenge to the Government's transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. The Government was refused appeal to the Supreme Court in June 2019 and now it is for the Scheme Advisory Body to determine how this matter is to be resolved.</p> <p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p>	<p>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 £16m in the Council's pension liability; a one year increase in member life expectancy would increase the liability by approximately £34m and a 0.1% increase in the salary increase rate would increase the liability by approximately £1m.</p> <p>The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council's actuaries have applied the same assumptions as used to prepare the IAS26 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.7%, or £7.0m. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report.</p>
Unquoted investments	<p>Some investments, such as pooled infrastructure, 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.</p>	<p>The total of investments which are valued on an unquoted basis is £67.1m. There is a risk that these investments may be under or over-stated in the accounts.</p>

## PF Note 6 - Events After The Reporting Period End

The Statement of Accounts was authorised for issue by the Strategic Director - Resources (S151 Officer) on 31 May 2019. At this date there was one non-adjusting event to report:

The latest value of the investments of the Fund show an increase from £673.4m to £668.3m (as valued at 30 April 2019). This is a decrease of £5.1m or 0.8%.

## PF Note 7 - Contributions Receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain solvency of the Fund. The table below shows a breakdown of the total amount of employers' and employees' contributions.

By Category

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(5,940)	Employees' contributions	(6,072)
	Employers' contributions	
(18,560)	Normal Contributions	(18,565)
(5,759)	Deficit Recovery Contributions	(5,933)
(530)	Augmentation contributions	(753)
<b>(24,849)</b>		<b>(25,251)</b>
<b>(30,789)</b>		<b>(31,323)</b>

## PF Note 7 - Contributions Receivable - Continued

By Authority

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(20,410)	London Borough of Sutton	(20,736)
(7,727)	Scheduled bodies	(7,532)
(2,652)	Admitted bodies	(3,055)
<b>(30,789)</b>		<b>(31,323)</b>

## PF Note 8 - Transfers In From Other Pension Funds

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(3,570)	Individual transfers	(4,932)
-	Group transfers	(11,118)
<b>(3,570)</b>		<b>(16,050)</b>

As at 31 March 2019, also provided for in the Accounts, were the following group transfers receivable from the Royal Borough of Kingston upon Thames:

- In respect of the transfer of the Shared Finance Service, estimated at £9.6m
- In respect of the transfer of the Customer Contact Centre, estimated at £1.5m

## PF Note 9 - Benefits Payable

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

### By Category

2017/18		2018/19
£'000		£'000
21,241	Pensions	22,023
4,115	Commutation and Lump sum retirement benefits	4,709
435	Lump sum death benefits	461
<b>25,790</b>		<b>27,193</b>

### By Authority

2017/18		2018/19
£'000		£'000
22,795	London Borough of Sutton	23,895
2,074	Scheduled bodies	2,445
921	Admitted bodies	853
<b>25,790</b>		<b>27,193</b>

## PF Note 10 - Payments To And On Account Of Leavers

2017/18		2018/19
£'000		£'000
85	Refunds to members leaving service	124
3,370	Group transfers	35,189
2,880	Individual transfers	4,021
<b>6,335</b>		<b>39,334</b>

There are four transfers payable from the London Borough of Sutton, provided for in the Accounts:

- In respect of the transfer of Human Resources to Merton, estimated at £5.4m
- In respect of the transfer of Human Resources to Kingston, estimated at £7.7m
- In respect of the transfer of Highways to Kingston, estimated at £8.9m
- In respect of the transfer of Carshalton College, estimated at £13.2m

## PF Note 11 - Management Expenses

2017/18		2018/19
£'000		£'000
500	Administration Expenses	507
5,487	Investment Management Expenses	5,661
128	Oversight and Governance	140
<b>6,115</b>		<b>6,308</b>

The above table includes audit costs within Oversight and Governance which total £16,170 in 2018/19 (£21,000 in 2017/18)

## PF Note 11a - Investment Management Expenses

Investment Management Expenses are further analysed below in line with CIPFA Guidance on Accounting for Management Costs in the LGPS.

2017/18		2018/19
£'000		£'000
3,688	Management Fees	4,197
321	Performance Fees	250
143	Custody Fees	96
1,335	Transaction Costs	1,118
<b>5,487</b>		<b>5,661</b>

## PF Note 12 - Investment Income

*2017/18		2018/19
£'000		£'000
	Pooled Investments:	
(2,752)	- Equities	(3,027)
(4,038)	- Fixed Income	(1,940)
(1,471)	- Property	(1,648)
(1,494)	- Other	(836)
(27)	Interest on Cash Deposits	(104)
<b>(9,782)</b>		<b>(7,554)</b>

\* Restated figures for 2017/18

## PF Note 13 - Taxes On Income

2017/18		2018/19
£'000		£'000
(141)	Withholding tax - pooled	(52)
<b>(141)</b>		<b>(52)</b>



## PF Note 14 - Investments

2017/18	Investment Assets	2018/19
£'000		£'000
	Pooled Investment Vehicles - UK:	
104,649	Equities	33,810
70,297	Fixed Income - Public Sector	108,501
28,245	Fixed Income - Corporate	31,792
39,642	Property	41,210
435	Credit	328
5,770	Other	5,280
	Pooled Investment Vehicles - Overseas:	
299,380	Equities	368,458
18,585	Fixed Income - Public Sector	22,438
26,793	Fixed Income - Corporate	22,596
15,285	Property	14,668
15,729	Infrastructure	22,841
	Other Investment Balances:	
150	London CIV share capital	150
5,497	Cash deposits	940
94	Accrued income and recoverable taxes	31
<b>630,550</b>	<b>Total Net Investment Assets</b>	<b>673,044</b>

Other\* includes absolute return, commodities and insurance linked assets within the Fund's holding in Baillie Gifford.

## PF Note 14a - Analysis of Pooled Investment Vehicles

2018/19	Pooled Investment Vehicles:		Other managed funds:				Total
	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	Partnership	
	£'000	£'000	£'000	£'000	£'000		£'000
- Equities	360,412	41,856					402,268
- Fixed Income	51,403	35,279	48,500		50,144		185,327
- Property	40,845			15,033			55,879
- Infrastructure				22,841			22,841
- Credit						328	328
- Other	5,280						5,280
	<b>457,941</b>	<b>77,135</b>	<b>48,500</b>	<b>37,874</b>	<b>50,144</b>	<b>328</b>	<b>671,923</b>

2017/18	Pooled Investment Vehicles:		Other managed funds:				Total
	Unit trusts	Unitised insurance policies	OEIC	SICAV	Insurance contract	Partnership	
	£'000	£'000	£'000	£'000	£'000		£'000
- Equities	331,776	72,252					404,028
- Fixed Income	48,576		49,478		45,866		143,920
- Property	40,009			14,918			54,927
- Infrastructure				15,729			15,729
- Credit						435	435
- Other	5,769						5,769
	<b>426,130</b>	<b>72,252</b>	<b>49,478</b>	<b>30,647</b>	<b>45,866</b>	<b>435</b>	<b>624,808</b>

## PF Note 14b - Reconciliation of Movements In Investments

2018/19	Value 31 March 2018	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	404,029	81,605	(114,393)	31,829	403,069
- Fixed Income	143,920	35,940	(1,292)	5,304	183,871
- Property	54,925	368	(490)	1,182	55,985
- Infrastructure	15,729	7,275	(1,932)	1,769	22,841
- Credit	435	-	(103)	(4)	328
- Other	5,922	111	(71)	16	5,978
<b>Sub-total Investments</b>	<b>624,959</b>	<b>125,299</b>	<b>(118,281)</b>	<b>40,095</b>	<b>672,073</b>
Other Investment Balances:					
Cash deposits	5,497			(10)	940
Accrued income and recoverable taxes	94			(15)	31
<b>Net Investment Assets</b>	<b>630,550</b>			<b>40,070</b>	<b>673,044</b>

## PF Note 14b - Reconciliation of Movements In Investments - continued

2017/18	Value 31 March 2017	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:					
- Equities	392,094	6,788	(7,712)	12,859	404,029
- Fixed Income	141,628	4,039	(725)	(1,023)	143,920
- Property	52,457	170	(772)	3,071	54,925
- Infrastructure	14,915	6,024	(7,537)	2,327	15,729
- Credit	1,639	-	(1,208)	5	435
- Other	5,645	90	(62)	248	5,922
<b>Sub-total Investments</b>	<b>608,377</b>	<b>17,110</b>	<b>(18,017)</b>	<b>17,487</b>	<b>624,959</b>
Other Investment Balances:					
Cash deposits	872			(73)	5,497
Accrued income and recoverable taxes	127				94
<b>Net Investment Assets</b>	<b>609,377</b>			<b>17,414</b>	<b>630,550</b>

## PF Note 14c - Investments Analysed By Fund Manager

The market value of the investment assets under the management of each fund manager as at 31 March 2019 is shown below. The Fund's major investments representing more than 5% of net investment assets are also identified in the table.

31 March 2018			31 March 2019	
Market Value	% of total	Fund Manager	Market Value	% of total
£'000	%		£'000	%
<b>Investments managed by London Collective Investment Vehicle</b>				
41,940	6.7%	Pyrford - LCIV Global Total Return Fund	43,603	6.5%
46,654	7.4%	Baillie Gifford - LCIV Diversified Growth Fund	47,165	7.0%
98,119	15.6%	Newton - LCIV Global Equity Fund	112,263	16.7%
186,713	29.7%		203,031	30.2%
<b>Investments managed outside of London Collective Investment Vehicle</b>				
95,492	15.1%	Schroder Life QEP Global Active Value Fund	101,192	15.0%
108,038	17.1%	Harding Loevner Funds Plc Global Equity Fund	116,940	17.4%
72,252	11.5%	Legal & General UK Equity Index Fund	-	0.0%
-	0.0%	Legal & General All World Equity Index Fund	41,856	6.3%
-	0.0%	Legal & General Over 5 Year Index Linked Gilts Fund	35,279	5.2%
49,478	7.8%	M&G Alpha Opportunities Fund	48,500	7.2%
45,866	7.3%	M&G PP Index Linked Fund	50,144	7.5%
680	0.1%	M&G UK Companies Financing Fund LP	445	0.1%
12,834	2.0%	LaSalle Investors UK Real Estate Fund of Funds	13,123	1.9%
23,418	3.7%	BlackRock UK Property Fund	24,144	3.6%
14,918	2.4%	Invesco Real Estate UK Residential Fund SCSp	15,033	2.2%
20,710	3.3%	Partners Group Direct & Global 2015 S.C.A., SICAV-SIF & Global 2012 S.C.A., SICAR	23,206	3.4%
443,687	70.3%		469,863	69.8%
<b>630,400</b>	<b>100.0%</b>	<b>Total</b>	<b>672,894</b>	<b>100.0%</b>

\*2017/18 restated to exclude London CIV and other

## PF Note 15 - Fair value – basis of valuation

The basis of the valuation of each class of investment asset is in accordance with the guidance contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Asset and liability valuations are classified into three levels, according to the quality and reliability of information used to determine fair values. The investment assets of the Pension Fund are classed, as set out in the table below.

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.

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data, and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments. Assurances over the valuations are gained from the independent audit of the accounts.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Recognised at market value	Not required	Not required
Market quoted investments - pooled equity and bond funds	Level 1	Published bid market price on final day of the accounting period	Not required	Not required
Pooled investments - equity and bond funds	Level 2	Closing bid price where bid price published. Closing single price where single price published	NAV based pricing set on a forward pricing basis. Evaluated price feeds	Not required
Pooled investments - UK and overseas property funds	Level 3	Closing bid price where bid price published	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between reporting date and 31/03/18
Pooled investments - infrastructure fund and loans to companies fund	Level 3	Discounted cashflow method	Projected cashflow information based on agreed investment terms and expected growth rates	Valuations could be affected by material events occurring between reporting date and 31/03/18

## PF Note 15a - Fair value hierarchy

31 March 2018					31 March 2019			
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
				Pooled Investment Vehicles:				
120,833	283,195	-	404,028	Equities	130,740	271,528	-	402,268
29,143	114,778	-	143,921	Fixed Income	29,802	155,525	-	185,327
-	4,103	50,824	54,927	Property	-	4,039	51,840	55,879
-		15,729	15,729	Infrastructure			22,841	22,841
-		435	435	Credit			328	328
	5,769	150	5,919	Other		5,280	150	5,430
<b>149,976</b>	<b>407,845</b>	<b>67,138</b>	<b>624,959</b>	<b>Financial Assets at fair value through profit and loss</b>	<b>160,542</b>	<b>436,372</b>	<b>75,159</b>	<b>672,073</b>

## PF Note 15b: Reconciliation Of Fair Value Measurements Within Level 3

2018/19	Value 31 March 2018	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2019
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	50,824	-	-	284	(439)	1,171	51,840
- Private Equity/Infrastructure	15,729	-	-	7,275	(1,932)	1,769	22,841
- Credit	434	-	-	-	(103)	(4)	327
- Other	150	-	-	-	-	-	150
<b>Total</b>	<b>67,138</b>	<b>-</b>	<b>-</b>	<b>7,559</b>	<b>(2,474)</b>	<b>2,936</b>	<b>75,159</b>

2017/18	Value 31 March 2017	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales Proceeds	Change in Market Value	Value 31 March 2018
	£'000			£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Property	48,552	-	-	106	(741)	2,907	50,824
- Private Equity/Infrastructure	14,915	-	-	6,024	(7,537)	2,327	15,729
- Credit	1,639	-	-	-	(1,209)	5	434
- Other	150	-	-	-	-	-	150
<b>Total</b>	<b>65,256</b>	<b>-</b>	<b>-</b>	<b>6,130</b>	<b>(9,487)</b>	<b>5,239</b>	<b>67,138</b>



## PF Note 16a - Classification of financial instruments

* Restated		2017/18			2018/19		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	
£'000	£'000	£'000		£'000	£'000	£'000	
<b>Financial Assets</b>							
Pooled Investment Vehicles:							
404,028	-	-	-	Equities	402,268	-	-
143,920	-	-	-	Fixed income	185,327	-	-
54,927	-	-	-	Property	55,879	-	-
15,729	-	-	-	Infrastructure	22,841	-	-
435	-	-	-	Credit	328	-	-
5,920	-	-	-	Other*	5,430	-	-
-	15,549	-	-	Cash deposits	-	4,168	-
-	8,676	-	-	Sundry debtors	-	1,347	-
<b>624,959</b>	<b>24,225</b>	-	-		<b>672,073</b>	<b>5,516</b>	-
<b>Financial Liabilities</b>							
-	-	(7,582)		Creditors			(13,772)
-	-	(7,582)			-	-	(13,772)
<b>624,959</b>	<b>24,225</b>	<b>(7,582)</b>	<b>Total</b>		<b>672,073</b>	<b>5,516</b>	<b>(13,772)</b>

\*2017/18 figures have been restated for IFRS9

## PF Note 16b - Net gains and losses on financial instruments

2017/18		2018/19
£'000		£'000
	Financial Assets	
17,487	Designated at fair value through profit and loss	40,095
(83)	Designated at amortised cost	(25)
<b>17,404</b>		<b>40,070</b>

## PF Note 17 - Nature and extent of risks arising from financial instruments

### Key risks

The Pension Fund's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.
- credit risk – the possibility that other parties might fail to pay amounts due to the Pension Fund.
- liquidity risk – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

### Overall Procedures for Managing Risk

The Pension Fund's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013 and the associated regulations. These regulations set out permissible financial instruments, require the Administering Authority to maintain and invest on behalf of the Pension Fund in accordance with its investment principles, to take professional advice, to review investment performance and to operate a separate Pension

Fund bank account. Overall these procedures require the Administering Authority to manage Pension Fund risk by maintaining and investing in accordance with a:

- Investment Strategy Statement;
- Funding Strategy Statement;
- Statement of Governance Policy;
- Governance Compliance Statement.

The Pension Fund Investment Strategy is reviewed at least triennially following actuarial valuation by the Pension Fund Panel who monitor investment performance and compliance quarterly, including the internal control arrangements of external fund managers and the custodian.

## PF Note 17 - Nature and extent of risks arising from financial instruments - continued

### a) Market risk

Market risk is the risk of loss from fluctuations in equity, bond and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market

conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters whilst optimising the return.

In general, excessive volatility in market risk is

managed through the diversification of the portfolio in terms of asset classes, geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short, is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

### Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table below.

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with

foreign exchange rate movements to be 10.0%. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's

currency exposure as at 31 March 2019 along with the impact that a 10.0% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would have on the values.

### Other Price Risk -Sensitivity Analysis

Value as at 31/03/2018	Change +/-	Value on increase	Value on decrease	Asset Type	Value as at 31/03/2019	Change +/-	Value on increase	Value on decrease
£'000	%	£'000	£'000		£'000	%	£'000	£'000
404,028	17.4	474,329	333,727	Equities	402,268	16.8	469,849	334,687
143,920	9.3	157,305	130,536	Fixed income	185,327	9.5	202,933	167,721
54,927	14.3	62,782	47,072	Property	55,879	14.3	63,869	47,888
15,729	15.8	18,214	13,243	Infrastructure	22,841	15.9	26,473	19,209
435	0.5	437	433	Credit	328	0.5	330	326
5,498	0.5	5,526	5,471	Cash	940	0.5	944	935
6,013	9.0	6,555	5,472	Other	5,461	9.1	5,958	4,964
<b>630,551</b>		<b>725,148</b>	<b>535,954</b>	<b>Total</b>	<b>673,044</b>		<b>770,356</b>	<b>575,730</b>

Value as at 31/03/2018	Value on 10% price increase	Value on 10% price decrease	Currency Exposure - Asset Type	Value as at 31/03/2019	Value on 10% price increase	Value on 10% price decrease
£'000	£'000	£'000		£'000	£'000	£'000
299,380	329,318	269,442	Overseas equities	368,458	405,304	331,612
45,378	49,916	40,840	Overseas fixed income	45,034	49,537	40,530
15,285	16,814	13,757	Overseas property	14,668	16,135	13,202
15,729	17,301	14,156	Overseas infrastructure	22,841	25,125	20,557
<b>375,772</b>	<b>413,349</b>	<b>338,195</b>	<b>Total assets available to pay benefits</b>	<b>451,001</b>	<b>496,101</b>	<b>405,901</b>

The value on increase and value on decrease for an individual currency exposure is calculated with reference to that currency's volatility, relative to GBP, over the three years to March 2019. Because currency changes are not necessarily correlated it is not appropriate to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

**b) Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Pension Fund has selected bond managers who have an investment strategy which requires investment only in high investment grade and collateralised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in a special interest bearing account with the Council's bankers.

**c) Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they

fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs; and also cash to meet investment commitments. The Pension Fund currently remains cash flow positive with contributions exceeding payable pensions, though this is regularly monitored. The Council has immediate access to a proportion of its Pension Fund cash holdings, as these are held in an instant access special interest bearing account maintained by Council officers. The remainder is invested in fixed term deposits taking into account likely future cash flows. Surplus funds are invested externally with fund managers. In the event of a funding shortfall the LGPS regulations permit the administering authority to borrow on behalf of the Pension Fund for up to 90 days. If required, funds can also be called back from investment managers to meet liabilities.

## PF Note 18 - Funding arrangements

Rates of contributions paid by the participating Employers during 2018/19 were based on the actuarial valuation carried out as at 31 March 2016 by the Fund's actuary, Barnet Waddington.

The following table shows a summary of the results of the valuation:

<b>Past Service Position</b>	<b>31/03/2016</b>
	£m
Past Service Liabilities	(632)
Market Value of Assets	503
Surplus (Deficit)	(129)
Funding Level	80%

<b>Financial Assumptions</b>	<b>31/03/2016</b>	
	<b>Nominal</b>	<b>Real</b>
Discount Rate	5.2%	2.8%
Salary Increases*	3.9%	1.5%
Pension Increases	2.4%	-

<b>Contribution Rates</b>	
Employer Future Service Rate *	17.2%
Past service adjustment (21 year spread) **	6.5%
<b>Total Employer Contribution Rate</b>	<b>23.7%</b>

The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. Their contribution rates are calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of employers using the projected unit actuarial method.

The rates of contributions payable by each participating employer over the period 1 April 2017 to 31 March 2020 are set out in a certificate dated 31 March 2017 which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contributions rates have been calculated individually and certified by the Fund's actuary

## PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2019, of the actuarial valuation of promised retirement benefits as set out in IAS26, and that the actuarial present value should be calculated on an IAS 19 basis.

IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the International Financial Reporting Standards (IFRS).

31 March 2018		31 March 2019	
£'000		£'000	
(1,066,318)	Actuarial Fair Value of Promised retirement benefits	(1,074,915)	
640,400	Net Fund Assets available to fund benefits	663,817	
<b>(425,918)</b>	<b>Net Liability</b>	<b>(411,098)</b>	

## PF Note 20 - Current assets

31 March 2018		31 March 2019	
£'000		£'000	
8,246	Contributions	1,231	
336	Other debtors	85	
10,053	Cash at Bank	3,229	
<b>18,636</b>	<b>Total Current Assets</b>	<b>4,545</b>	

## PF Note 21 - Current liabilities

31 March 2018		31 March 2019
£'000		£'000
(20)	Refund of contributions	(35)
(7,399)	Unallocated contributions	(313)
(163)	Other Creditors	(13,424)
<b>(7,582)</b>	<b>Total Current Liabilities</b>	<b>(13,772)</b>

Other creditors includes £13.1m accrual for Carshalton College bulk transfer.

## PF Note 22 - Additional voluntary contributions

A number of active Fund members have elected to pay additional voluntary contributions to increase their personal benefits. Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that these are not paid into the Pension Fund.

The total AVCs paid by members in 2018/19 were £109k (£122k in 2017/18), as below:

31 March 2018		31 March 2019
£'000		£'000
122	Clerical Medical & Equitable Life	109
<b>122</b>		<b>109</b>

These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31 March 2019, the total value of the AVC fund with Clerical Medical and Equitable Life was £762k (£819k at 31 March 2018).



## PF Note 23 - Related party transactions

The Council is a related party to the Fund and in accordance with the regulations the Council's expenses in administering the Scheme are charged to the Fund. The amount charged by the Council for 2018/19 was £395,312 (£302,700 in 2017/18)

Two of the Councillors voting on the Pension Committee are members of the Pension Fund.

The key management personnel for the Pension Fund are the same as for the Council as a whole. Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts, and are within scheme administration and investment management expenses as above. The costs of the Strategic Director - Resources (S151 Officer) cannot reasonably be apportioned in this way. Extra disclosure can be seen in the Authority's accounts under the notes related to Senior Officers remuneration and Related Party Transactions.

## PF Note 24 - Contingent liabilities and contingent assets

The Fund has a contingent liability in respect of a guarantee provided to the City of London Pension Fund for the pension liabilities of the London CIV. There are no known material contingent assets as at 31 March 2019. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

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# 10. Annual Governance Statement 2018/19

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.

The Annual Governance Statement is published alongside but does not form part of the Accounts and so is not subject to the same inspection of accounts regime.



## Annual Governance Statement

### 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 Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016) guidance has been used for the preparation of this statement.

1.3 The governance framework has been in place for 2018/19 and up to the date of approval of the Statement of Accounts. Its key elements are summarised below along with supporting evidence.

### 2. Purpose of the Key elements of the governance framework

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

2.2 Sutton Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by the work of senior managers within the

authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by external auditors and other review agencies and inspectors.

2.3 The review of the governance arrangements can conclude that they continue to be regarded as fit for purpose in accordance with the governance framework.

## Annual Governance Statement (continued)

### Principles

1. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	Evidenced by:
<p>a) In October 2018 the Council launched their new <a href="#">Corporate Plan, 'Ambitious for Sutton'</a>. This sets out the strategy and programmes to deliver the commitments made by the members to improve the lives of residents in the Borough. It is shaped around four outcomes based themes:</p> <ol style="list-style-type: none"> <li>1. Being Active</li> <li>2. Making Informed Choices</li> <li>3. Living Well Independently</li> <li>4. Keeping Individuals and Communities Safe</li> </ol> <p>There is also a fifth internal outcome area of 'Smarter Ways of Working'.</p> <p>A programme of four Outcome Based Commissioning Reviews (OBCRs) will be undertaken to determine how the council align its policies, strategies and resources to contribute towards these outcomes.</p> <p>On 9th January 2019, the scoping documents for the first two reviews, Being Active Citizens and Making Informed Choices went to CMT and were agreed. The Needs Analysis for both reviews are due to be completed by March, with implementation recommendations going to the appropriate Committees in Autumn 2019.</p> <p>This will lead to a set of new commissioning intentions that ensure we achieve the best contribution to the outcomes we can within our available financial envelope.</p> <p>Financial planning process 2019/20 - 2022/23 describes how financial planning will be aligned with the OBCR programme going forwards</p> <p>b) 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 Committee provides robust challenge. All of these committees are appointed on the basis of political proportionality. Decision-making is transparent. Decision reports and committee minutes are published on <a href="http://sutton.gov.uk">sutton.gov.uk</a> along with details of decisions made by officers under delegated authority</p>	<ul style="list-style-type: none"> <li>● The Corporate Plan</li> <li>● The Constitution</li> <li>● Monitoring officer's role set out in constitution</li> <li>● Committee terms of reference</li> <li>● Codes of conduct for members and officers and procedures for breaches</li> <li>● Declaration of interest members (annual and at each meeting)</li> <li>● Training to members on the code and ethics</li> <li>● Outcomes Based Commissioning reviews programme</li> <li>● Gifts and hospitality policy</li> <li>● Complaints, compliments and feedback on website</li> <li>● Whistleblowing policy</li> <li>● On-line fraud awareness training for officers</li> </ul>

## Annual Governance Statement (continued)

<p>c) 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.</p> <p>d) There are Codes of Conduct and protocols for members and staff (updated April 2016) to ensure responsibilities are carried out with high standards of conduct and effective governance. These include the requirement to declare any potential declaration of interests. 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.</p> <p>e) The Audit and Governance Committee helps to promote and maintain high standards of conduct and probity for all members, assisting them to observe the Code of Conduct. A Protocol on Use of Resources by Members is in place.</p> <p>f) The Audit and Governance Committee has overall responsibility for ensuring controls are adequate and working effectively.</p> <p>g) The Council has a Whistleblowing Policy, which has been reviewed and updated in April 2017, to ensure compliance with the Whistleblowing Commission Code of Practice. This is available on the intranet. A further review is planned in 2019/20.</p> <p>h) The Council is in the process of setting up an om-line declaration of interest form for officers, which will be rolled out in 2019/20. A review of the declaration of interest process is included in the Internal Audit plan for 2019/20.</p>	<ul style="list-style-type: none"> <li>● Agendas, minutes for all committees</li> <li>● Communication strategy</li> <li>● Communication Plan 2017</li> <li>● Open Data published</li> </ul>
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2. Ensuring openness and comprehensive stakeholder engagement	Evidenced by:
<p>a) The Council has an open culture. The decision making process is clear, meetings are held in public, committee dates, agenda and clear decisions are published.</p> <p>b) The Council has an Open Data page on their website. Where information to comply with the government's Open Data requirements are published. A compliance review is in progress by Internal Audit.</p>	<ul style="list-style-type: none"> <li>● Agendas, minutes for all committees</li> <li>● Communication strategy</li> <li>● Communication Plan 2017</li> </ul>

## Annual Governance Statement (continued)

- c) The Council published its annual accounts and the external audit findings and overall conclusion on the accounts.
- d) 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. An independent review of the constitution was commissioned by the Monitoring Officer in 2018/19 and the findings and any resulting amendments to ensure we are meeting best practice requirements will be reported and implemented in 2019/20.
- e) The Council has undertaken a Joint Strategic Needs Assessment (JSNA) as required by Section 116 of the Local Government and Public Involvement in Health Act (2007). The Health and Social Care Act 2012 amended that Act to introduce duties and powers for Health and Wellbeing Boards in relation to JSNAs and Joint Health and Wellbeing Strategies. Since April 2013, Local authorities and Clinical Commissioning Groups (CCGs) have an equal and joint duty to prepare JSNAs and Joint Health and Wellbeing Strategies through the Health and Wellbeing Board.
- f) Sutton Compact (also known as Sutton Voice) is a long standing partnership agreement that sets out shared principles and guidelines for effective partnership working between government and the third sector. The Compact stands for better partnership working and creating better outcomes for individuals and local communities. The Sutton Compact was last refreshed in 2013.
- g) An internal audit review of Freedom of Information (FOI) and Subject Access Requests will be undertaken in 2019/20
- h) The Health and Social Care Integration programme is the establishment of an alliance of Sutton Health and Care (SHC) areas involving; Acute Trust, the CCG, the Mental Health Trust, the General Practitioner Federation and the Council working together.

The first phase of integration started in April 2018 involved “reactive” services and the next phases will be “proactive” and children’s community health services.

The voluntary and community sector are fully involved.

- Open Data published
- Information on how to do a FOI and Subject access request
- Joint Strategic Needs Assessment
- Partnership and consultation framework
- The Health and Social Care Integration Programme
- Contract Standing Orders and Financial Regulations

## Annual Governance Statement (continued)

3. Defining outcomes in terms of sustainable economic, social, and environmental benefits	Evidenced by:
<p>a) The Sutton Plan sets out the shared vision for the borough with 23 local public, voluntary and private sector partners setting out joint plans and priorities for Sutton's future.</p> <p>b) The Local Plan (2018) was adopted on the 26th February 2018, as a development plan, setting out the planning strategy and policies of the borough until 2031.</p> <p>c) The Smarter Council programme is the planned approach the council has taken in response to financial and public reforms. This involves new delivery models and projects for the departments. Smarter Council will be reviewed in 2019/20 to ensure the approach is still fit for purpose.</p> <p>d) The annual financial planning process is being aligned with the Council's Outcomes Based Commissioning Review programme which will enable the Council to deliver the Corporate Plan and meet its savings targets as well as the outcomes members have set.</p> <p>e) 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.</p> <p>f) The aligned Treasury Management Strategy includes the Annual Investment Strategy that specifies the criteria (credit ratings and other risk thresholds) for selecting counterparties.</p>	<ul style="list-style-type: none"> <li>● The Sutton Plan</li> <li>● The Local Plan</li> <li>● Smarter Council Programme</li> <li>● Medium Term Financial Strategy</li> <li>● Capital Programme</li> <li>● Treasury Management Strategy</li> <li>● Outcomes Based Commissioning reviews programme</li> <li>● Adult Transformation programme</li> <li>● Childrens transformation programme</li> <li>● Health and Social Care integration programme</li> <li>● Opportunity Sutton</li> </ul>

4. Determining the interventions necessary to optimise the achievement of the intended outcomes	Evidenced by:
<p>a) The Sutton Shareholdings Board (sub committee of the Strategy and Resources Committee, established a Task and Finish Group to examine the governance issues and options for council interests in companies. This group reported back to the board in September 2018 recommending:-</p> <ul style="list-style-type: none"> <li>● Member development training - role of the shareholder</li> <li>● A Code of Good Practice be established covering controls and freedoms, relationships, integrity and accountability and understanding of roles.</li> <li>● The operation of this code and the authority's performance to be included in future AGS.</li> </ul>	<ul style="list-style-type: none"> <li>● SSB report on company governance</li> </ul>

## Annual Governance Statement (continued)

<p>b) The Outcomes Based 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. Change management risks are managed through programme and project risk management and reported to CMT for oversight.</p> <p>c) The Strategy and Resources Committee (S&amp;R) receives regular reports that review performance against the priorities and deliverables in the Outcomes Based Commissioning Plan and financial plans. These plans are an integral part of the performance management framework. Other standing committees also review performance within the areas of their responsibility.</p> <p>d) 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 <a href="http://sutton.gov.uk">sutton.gov.uk</a>. Complaints, as well as indicators of corporate health, are reported as part of this process.</p> <p>e) Operational risk management is an integral part of performance management. Corporate and Directorate Performance Review Boards address underperformance and budget variations. CMT and Departmental Management Teams (DMT's) review risks on a quarterly basis. Strategic risks are also reported quarterly to Audit and Governance Committee as well as an annual Risk Management Report.</p>	<ul style="list-style-type: none"> <li>● Outcome Based Commissioning Plan 2019-22</li> <li>● Strategy and Resources Committee</li> <li>● Sutton Shareholders Board</li> <li>● Performance Review Boards</li> <li>● Risk Management Report</li> <li>● Community Engagement framework</li> <li>● Decision making reports include all relevant information e.g. resource implications, impact assessments</li> <li>● Commissioning Strategy</li> <li>● Performance monitoring reports to CMT</li> </ul>
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5. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Evidenced by:
<p>a) Elected Members are responsible for the governance of the Council. The governance arrangements are enshrined in the Constitution, which sets out the delegated roles and responsibilities of members and senior employees. The constitution is reviewed by S&amp;R periodically who make recommendations to Full Council. Full Council have ultimate responsibility to approve the Constitution.</p> <p>b) The role of CMT, 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.</p> <p>c) The Council's financial management arrangements conform to the governance requirement of CIPFA statement on the Role of the Chief Financial Officer in Local Government (2015) (Section 151 Officer).</p>	<ul style="list-style-type: none"> <li>● Constitution Members</li> <li>● Member Development Programme</li> <li>● Officers Annual Appraisals</li> <li>● Organisational development strategy</li> <li>● Officer/Member protocol</li> <li>● Member Induction programme</li> </ul>



## Annual Governance Statement (continued)

<p>d) A member development programme is in place, including induction training. Specific training in 2018/19 was provided on being an effective councillor/influencing &amp; resilience skills.</p> <p>A comprehensive induction programme has been developed for members following the 2018 local elections. A Skills and Knowledge Questionnaire was sent to members of the Audit and Governance Committee to identify training needs. This will be fed into the member development session at the start of the Committee.</p> <p>e) Officer training is provided on areas identified at their annual appraisals. Training is also available to staff on reporting to Committees.</p> <p>f) In February 2017, members of the Strategy &amp; Resources Committee agreed the Smaller Bigger Different organisational development strategy for Sutton Council.</p> <p>The organisational development strategy focuses on organisational change and development actions in four key areas: Great place, Great partnerships, Great people, Great performance. It also updated the Council's corporate values and provided a new Statement of Organisational Purpose to provide clarity for staff. Values are now assessed as part of the council's annual appraisals system.</p>	<ul style="list-style-type: none"> <li>● Staff induction programme</li> <li>● Staff training and development</li> </ul>
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6. Managing risks and performance through robust internal controls and strong public financial management	Evidenced by:
<p>a) The Council has a Strategic Risk Register and Departmental Risk Registers. The Strategic Risk Register is regularly reviewed by CMT and by Audit and Governance Committee. This has identified the following risks:-</p> <ul style="list-style-type: none"> <li>● overseeing and managing the <b>various delivery models (shared, outsourced, spun out)</b> This risk has been managed, for example revised governance for our LATCs through Sutton Shareholdings Board, and new Strategic and Operational Shared Service Boards for the services shared with RB Kingston.</li> <li>● delivery of <b>Health and Social Care integration</b> has been acknowledged by both the Council and CCG as vitally important as mitigation for both sectors' financial and service risks. Integration is integral to the NHS's Sustainability and Transformation Plan and a key priority for the delivery of the Sutton Plan. Sutton are making good progress with this work, but risks remain.</li> <li>● The Council continues to face unprecedented <b>financial pressures</b>. Given the level of savings required in the medium term it is acknowledged that it will not possible to mitigate the impact sufficiently so as not to have an impact on service delivery.</li> <li>● The Council's preparedness to respond to a <b>catastrophic incident</b> has been tested and is believed to be robust. This mitigation will continue to be monitored closely. The Council and our wider partners in resilience will continue to train, test and exercise our response.</li> <li>● Brexit - working group set up to monitor potential impact on recruitment, suppliers and NRTPF.</li> </ul>	<ul style="list-style-type: none"> <li>● Risk Strategy</li> <li>● Risk registers</li> <li>● Contract Standing Orders</li> <li>● Financial Regulations</li> <li>● Whistleblowing Policy</li> <li>● Anti-fraud policies</li> <li>● Key performance indicators</li> <li>● Scrutiny reports published</li> <li>● Contract procurement rules and financial regulations</li> </ul>

## Annual Governance Statement (continued)

<p>b) 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, and the Council’s new Commissioning Unit is ensuring a coherent approach to quality assurance is taken across internal and externally commissioned services.</p> <p>c) LB Sutton is part of 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.</p> <p>d) Anti-bribery, Anti-Money Laundering and Whistleblowing policies are in place across the Council. A counter fraud and investigation service is provided by the South West London Fraud Partnership. Regular reports are presented at the Audit and Governance Committee on the results of their investigations and on-going areas of work..</p>	<ul style="list-style-type: none"> <li>● Effective internal audit service - prepares and delivers a risk based audit plan</li> <li>● Annual internal audit report</li> <li>● External audit inspection</li> <li>● Frameworks in place for child and adult safeguarding</li> </ul>
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7. Implementing good practice in transparency, reporting and audit to deliver effective accountability	Evidenced by:
<p>a) 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 arrangement</p> <p>b) The Council has put in place arrangements for complying with the transparency agenda. An internal review of this will take place in 2019/20.</p> <p>c) The Council has in place mandatory Information Security training for all staff and shared service partners. This training was updated and rolled out to staff in 2018/19.</p> <p>d) Staff are required to report any breaches of data security and these are investigated and reviewed at the Information Security and Governance Board. The Board are responsible for the maintenance and review of the framework for managing information. The Board reviews assurance reports and initiates resolution and learning for security breaches.</p> <p>e) Caldicott Guardians are responsible for protecting the confidentiality of patient and service-user information and enabling appropriate information-sharing.</p>	<ul style="list-style-type: none"> <li>● Open Data</li> <li>● Annual accounts</li> <li>● AGS</li> <li>● PI’s audit recommendations</li> <li>● Information and Security Governance Framework</li> <li>● Committee agenda and minutes are published</li> <li>● Councils scrutiny arrangements</li> </ul>

## Annual Governance Statement (continued)

### 3. Council owned companies

3.1 A review was carried out by the Committee on Standards in Public Life on Local Government Ethical Standards in January 2019 which recommended areas of best practice.

Best practice 14: Councils should report on separate bodies they have set up or which they

own as part of their Annual Governance Statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principles of openness, and publish their board agendas and minutes and annual reports in an accessible place.

3.2 From 2013 the Council created a number of wholly or majority owned private limited companies. six businesses had been registered with Companies House, as follows:

Company Name/number and purpose	Inc. Date	Annual accounts filed
<b>Opportunity Sutton Ltd</b> 08529735 Non trading company	15/05/2013	Accounts for a dormant company 31st March 2018
<b>Sutton Living Ltd</b> 09897512 Development of Building projects	01/12/2015	Accounts for a small company 31st March 2018
<b>Sutton Decentralised Energy Network Ltd</b> 10022446 Business Support services	23/02/2016	Accounts for a small company 31st March 2018
<b>Encompass LATC Ltd</b> 10184775 Accommodation, IT consultancy and services and other social work activities	17/05/2016	Accounts for a small company 31st March 2018
<b>Cognus Ltd</b> 10276456 Educational Support Services	13/07/2016	Full accounts 31st March 2018
<b>London Cancer Hub (LCH) Co Ltd</b> 10635978 non trading company	23/02/2017	Accounts for a dormant company file 28th February 2018

## Annual Governance Statement (continued)

- 3.3 All six listed above remained active; the second and third being wholly owned subsidiaries of the first; the fifth being majority owned by the Council (school governing bodies and academy trusts invited also); the first and sixth being registered as non-trading concerns;
- 3.4 The Sutton Shareholdings Board (formerly 'Opportunity Sutton Ltd Sub Committee') is a sub-committee of the Strategy and Resources Committee and comprises five elected members. They meet four times a year, the agenda and minutes are published on the Council website.
- 3.5 In February 2018, the Sutton Shareholdings Board established a Task and Finish Group to examine governance issues and options for Council interests in companies. The group met on two occasions, with Council officers and company directors invited to contribute, and the discussions at those meetings informed a report to the Sutton Shareholdings Board on 12 September 2018, where the recommendations were adopted, including a commitment to report on a new Code of practice and other matters as part of the AGS in future years.

### **4. Internal Audit Outcomes**

- 4.1 The Head of Audit is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In the Annual Report on the work of Internal Audit during 2018/19 the Head of Internal Audit is satisfied that sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment.
- 4.2 This year there is reasonable assurance that the Council has an adequate and effective control process to manage the achievement of its objectives. This is caveated by the limited assurance audit reviews and Priority 1's (high risk) recommendations. Although the audit work this year has found that there is an increased awareness in the council in relation to risk and improved coordination of teams to achieve common goals, this requires further improvement. The limited assurance work in 2018/19 found a lack of inconsistencies in practice in areas reviewed. A process on implementation of actions is in place. The Internal Audit review of GDPR, is included in the improvement plan for the AGS

### **5. Review of effectiveness of the governance framework**

- 5.1 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.

## Annual Governance Statement (continued)

### Governance reviews undertaken in 2018/19

Internal Audit reviews	External reviews	Other
Online fraud awareness training	External Audit Reports, incl. Grant Claims and Statement of Accounts	Members development training
Annual Internal Audit Report and Fraud Referral Reports	<b>Scrutiny reviews</b>	Corporate and Departmental Risk Registers
Internal audit review – Business Continuity (Substantial assurance)	South West London Joint Health Overview and scrutiny committee	Reports to the Information and Security Governance Board
Internal Audit review- Monitoring of contracts with the 3 <sup>rd</sup> Sector (Substantial assurance)	Scrutiny report of the Task and Finish group on the Waste Contract (October 2017- updated review Feb 2019). Highway Shared Service performance	Mandatory Information security training for staff
Internal Audit review of GDPR (limited assurance)	Sutton Shareholders Board - Task and Finish Group reviewed governance arrangements. Agreed a Code of Practice	The Annual Review of the Audit and Governance Committee

5.2 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 2018/19. The Head of

Internal 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.

5.3 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.

## Annual Governance Statement (continued)

### 6. Governance Issues

6.1 An update on the governance issues identified in the 2017/18 review and progress during the 2018/19 review are shown below:

Issues for 2018/19	Actions
Partnership Governance	The Sutton Shareholders Board reviewed the findings of the Task and Finish Group which examined the governance arrangements for companies which the LBS has a shareholder interest. This board agreed a code of practice and performance against this code to be included in future AGS review.
Embedding GDPR arrangements	A limited assurance Internal Audit review in 2018/19. Implementation of audit actions to ensure that the council is GDPR complaint. Officers have undertaken the annual mandatory Information Governance Training. Policies and processes have been updated Training and awareness together with all staff updates and communication continues throughout the year.

6.2 The governance issues identified in the review of effectiveness for 2019/20 are summarised below:

Issues for 2019/20	Actions
Embedding GDPR arrangements	Continuing the work of ensuring that the Council is GDPR complaint. Ensuring privacy notices have been updated. Consent where required has been obtained etc. Implementation of internal Audit actions.
Review of company governance	Review of arrangements in place for Council owned companies against the Code of Practice agreed by the Sutton Shareholding board in September 2018. A review of the need for further director appointments (in particular non-executive roles) across all Council companies commenced in May 2019. The purpose of this review is to ensure from the shareholder perspective that all companies have sufficient skills, expertise and experience on their company boards. A report is due to be presented to the Shareholdings Board in October 2019.
Brexit	CMT is closely monitoring progress with Brexit and a working group has been set up to identify, track and mitigate risks where appropriate
Financial pressures	The Comprehensive Spending Review and Fair Funding Review is due in 2019 and will determine how much funding the council will receive. It is anticipated that there will be a significant budget gap in 2020/21. The Medium Term Financial Strategy and saving plans including the Outcomes Based Commissioning Reviews will be kept under close review by CMT

## Annual Governance Statement (continued)

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

**Chief Executive:**



**Date:** 31 July 2019

**On Behalf of the Council**

**Leader:**



**Date:** 31 July 2019

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# 11. Glossary of Terms

An explanation of financial terms and abbreviations used in the Statement of Accounts





# Glossary of Terms

## **Accounting Policies**

The rules and practices adopted by the Council that determine how the transactions and events are reflected in the 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.

## **Active Member**

A member of an occupational pension scheme who is building up pensions benefits, in either a defined benefit or a defined contribution scheme, from their current job.

## **Actuarial Valuation**

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

## **Actuary**

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

## **Admitted Body**

A body which can be admitted to the LGPS with the agreement of the Administering Authority, it must be non-profit-making and will normally be in receipt of a grant from either central or local government.

## **Amortisation**

A measure of the cost of economic benefits derived from intangible fixed assets that are consumed during the period.

## **Appropriations**

The transfer of resources to and from various revenue reserves.

## **Capital Expenditure**

Expenditure on the acquisition of a non-current asset or expenditure that adds value to an existing non-current asset. Expenditure can only be treated as 'capital' if it meets statutory definitions and is in accordance with accounting practice and regulations.

## **Capital Receipts**

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

## **Carrying Amount**

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

## **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 received.

## **Depreciation**

A measure of the cost of the economic benefits of a non-current asset consumed during the period.

## **Earmarked Reserves**

Amount 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.

## **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.

## Glossary of Terms (continued)

### **Impairment**

A reduction in the value of a non-current asset below its carrying value (but not through economic consumption).

### **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.

### **Non-Domestic Rates (NDR)**

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.

### **Precept**

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

### **Property, plant and equipment**

Tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

### **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.

### **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.

## Glossary of Terms (continued)

### Abbreviations used in the accounts

<b>ALMO</b>	Arms Length Management Organisation	<b>MHCLG</b>	Ministry of Housing, Communities and Local Government
<b>AVC</b>	Additional Voluntary Contribution	<b>MIRS</b>	Movement in Reserves statement
<b>CCG</b>	Clinical Commissioning Group	<b>MRA</b>	Major Repairs Allowance
<b>CF</b>	Collection Fund	<b>MRP</b>	Minimum Revenue Provision
<b>CIES</b>	Consolidated Income and Expenditure Statement	<b>NNDR</b>	National Non Domestic Rates (Business Rates)
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy	<b>PWLB</b>	Public Works Loan Board
<b>CT</b>	Council Tax	<b>REFCUS</b>	Revenue Expenditure Funded From Capital Under Statute
<b>DfE</b>	Department for Education	<b>RICS</b>	Royal Institution of Chartered Surveyors
<b>DSG</b>	Dedicated Schools Grant	<b>RCCO</b>	Revenue Contribution to Capital Outlay
<b>FTE</b>	Full Time Equivalent	<b>SHP</b>	Sutton Housing Partnership
<b>HRA</b>	Housing Revenue Account	<b>TFL</b>	Transport for London
<b>IAS</b>	International Accounting Standard	<b>TPA</b>	Teachers' Pension Agency
<b>I&amp;E</b>	Income and Expenditure	<b>UCR</b>	Usable Capital Receipts
<b>IFRS</b>	International Financial Reporting Standard		
<b>IT</b>	Information Technology		
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee		
<b>LATC</b>	Local Authority Trading Company		
<b>LOBO</b>	"Lenders Option Borrowers Option" Loan		