LONDON BOROUGH OF SUTTON

STATEMENT OF ACCOUNTS

2011/12

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Section 1

Explanatory Foreword

2011/12

These accounts were authorised for issue by the Strategic Director - Resources on 27 September 2012 and post balance sheet events have been considered up to this date

1. Introduction

The accounts on the following pages set out the Council's financial performance for the year to the 31 March 2012, and its financial position at that date. This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position.

2. Revenue Expenditure

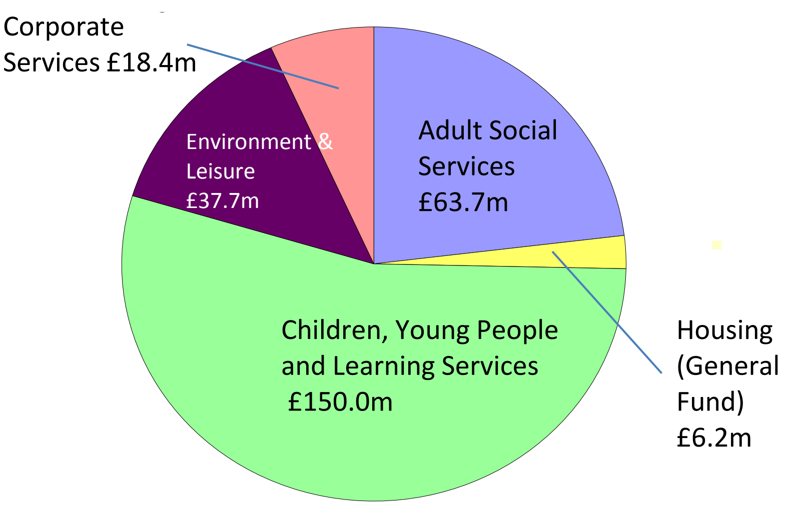
In March 2011 the Council set a net general fund expenditure budget for 2011/12 of £140.403 million. The Band D Council Tax for Sutton purposes was frozen at £1,140.89 and a total Band D Council Tax including the Greater London Authority precept of £1,450.71.
After taking into account approved carry forwards significant spending variations for the year were experienced in the Childrens, Young People and Learning (£0.8 million underspend), in Adult Social Services (£2.2 million underspend) and Environment and Leisure (£0.6 million overspend) resulting in an overall net underspend of £2.135 million (1.5%) against original estimates. This has been transferred to the General Pool Reserve.

The Strategy and Resources Committee, at its meeting of 2 July 2012, will be recommended to approve the setting aside of £0.5 million to address issues arising from the Ofsted inspection, and £1.635 million to pay off the ongoing early retirement costs as a one-off lump sum payment, therefore releasing an annual saving of £450k. These amounts will be funded from the General Pooled Reserve in 2012/13.

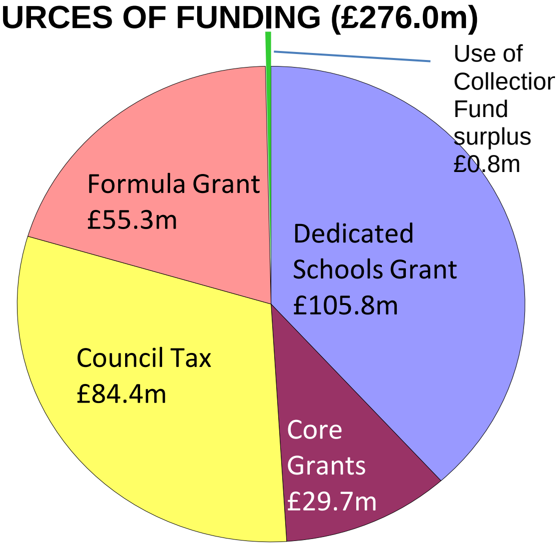
During 2011/12 £1.5 million of early savings were approved to be transferred to General Fund balances. As a result of this in-year transfer of £1.5 million the General Fund balances have increased to £9.049 million. Appropriate allowances for provisions and reserves were also made as at 31 March 2012.

The diagrams below show General Fund Outturn expenditure analysed by service group and sources of funding.

SERVICE COSTS (£276.0m) *



SOURCES OF FUNDING (£276.0m)



* Service costs include direct schools expenditure of £105.8m financed from Dedicated Schools Grant.

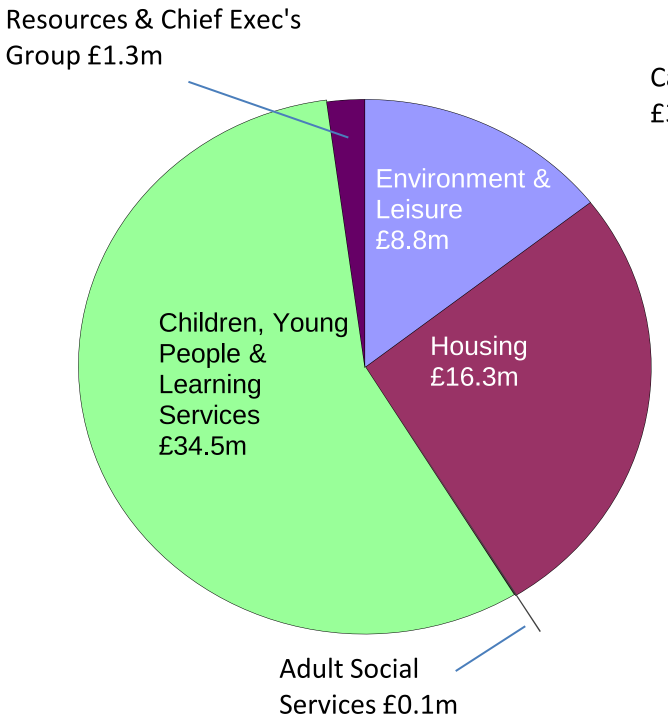
Expenditure and Income in respect of Council Housing has to be separately accounted for through the Housing Revenue Account. The outturn position showed an overall underspending of £0.931 million against final estimates as approved by the Council, increasing the working balance to £1.182million at year end.

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

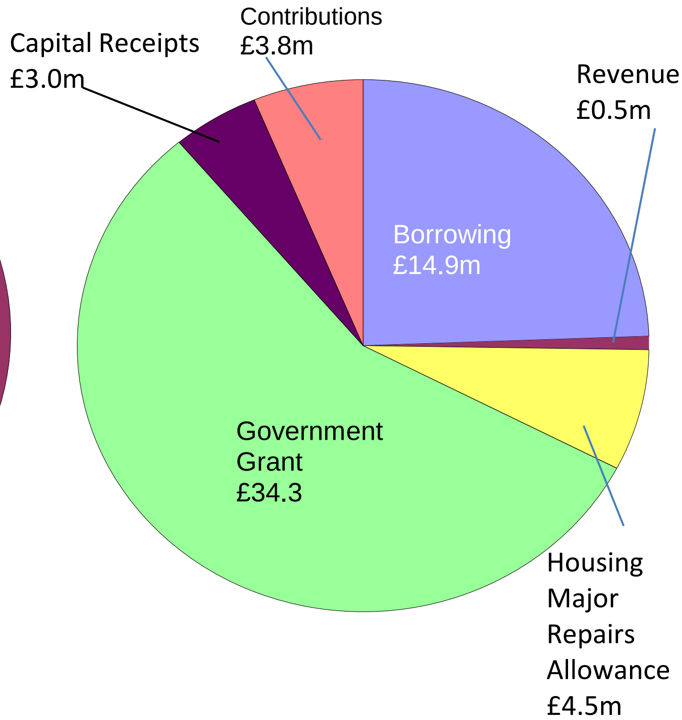
3. Capital Expenditure 2011/12

In March 2011 the Council approved a capital budget, adjusted for slippage, of £73.1 million. This was amended to £65.9 million at revised estimates, and compares with a final outturn of £61.0 million. The Service Groups' profile of the capital outturn is shown below.

EXPENDITURE (£61.0m)



SOURCES OF FUNDING (£61.0m)



The Council is working on a number of key 'signature' projects. The largest of these was the Stanley Park High School project which completed in January 2012 at a cost of £49 million.

In 2011/12 the Council started the redevelopment of Westcroft Leisure Centre at an estimated cost of £11 million and is due for completion and open to the public in January 2013.

4. External Audit and Inspection Letter

The Council's independent external auditor the Audit Commission prepares an Annual Governance Report which will be reported to the Audit Committee on the 27 September and reports their findings from the annual audit of these accounts. The Audit Commission also prepares an Annual Audit and value for money letter, which summarises their findings and recommendations on audit work undertaken during the year. The 2011/12 letter will be considered by the Strategy and Resources Committee during the winter cycle of meetings. When available, a copy can be obtained from the Strategic Director – Resources or viewed on the Council's website.

5. The main statements in this document are:

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

Comprehensive Income and Expenditure Statement – this statement shows the accounting cost in the year of providing services in accordance with the requirements of IFRS as applied by the Code of Practice on Local Authority Accounting in 2010, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet – this shows the value as at the year end date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

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

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. The increase or decrease in the year, on the basis of which rents are raised, is shown in the **Movement on the HRA statement**.

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.

Pension Fund Accounts – this shows the income and expenditure of the pension fund in relation to current employees and pensioners, investment transactions and the position of the Fund at year end including future liabilities. To comply with International Accounting Standard 19: Retirement Benefits, the actuarially calculated Pension Fund deficit is disclosed in the Council's balance sheet as a net liability and reserve.

Statement of Responsibilities for the Statement of Accounts – sets out the different responsibilities of the Council and the Strategic Director – Resources in terms of financial administration and accounting.

Annual Governance Statement - 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.

Section 2

Core Financial Statements

2011/12

Movement in Reserves Statement

2011/12

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

Movement in Reserves Statement

2010/11	General Fund Balance *	Earmarked General Fund Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Non-usable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2010	14,801	15,414	1,237	5,421	229	0	37,102	382,029	419,131
Surplus or (Deficit) on provision of services (accounting basis)	82,177	0	(129,871)	0	0	0	(47,694)	0	(47,694)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	86,631	86,631
Total Comprehensive Expenditure and Income	**82,177**	**0**	**(129,871)**	**0**	**0**	**0**	**(47,694)**	**86,631**	**38,937**
Adjustments between accounting basis and funding basis under regulations	(76,470)	0	129,429	(1,000)	(177)	0	51,782	(51,782)	0
Net (Increase)/Decrease before transfers to Earmarked Reserves	**5,707**	**0**	**(442)**	**(1,000)**	**(177)**	**0**	**4,088**	**34,849**	**38,937**
Transfers to / from Earmarked Reserves	(3,554)	3,554	52	0	(52)	0	0	0	0
(Increase) / Decrease in Year	**2,153**	**3,554**	**(390)**	**(1,000)**	**(229)**	**0**	**4,088**	**34,849**	**38,937**
Balance at 31 March 2011	**16,954**	**18,968**	**847**	**4,421**	**0**	**0**	**41,190**	**416,878**	**458,068**

* (General Fund Balance at 31 March 2011 = General Fund £7,549k, schools £9,405k

2011/12	General Fund Balance *	Earmarked General Fund Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Non-usable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2011	16,954	18,968	847	4,421	0	0	41,190	416,878	458,068
Surplus or (Deficit) on provision of services (accounting basis)	(28,401)	0	(157,920)	0	0	0	(186,321)	0	(186,321)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(14,425)	(14,425)
Total Comprehensive Expenditure and Income	**(28,401)**	**0**	**(157,920)**	**0**	**0**	**0**	**(186,321)**	**(14,425)**	**(200,746)**
Adjustments between accounting basis and funding basis under regulations (Note 5)	36,617	0	158,851	12,241	298	1,008	209,015	(209,015)	0
Net (Increase)/Decrease before transfers to Earmarked Reserves	**8,216**	**0**	**931**	**12,241**	**298**	**1,008**	**22,694**	**(223,440)**	**(200,746)**
Transfers to / from Earmarked Reserves	(5,666)	5,712	0	(5)	0		41	(41)	0
(Increase) / Decrease in Year	**2,550**	**5,712**	**931**	**12,236**	**298**	**1,008**	**22,735**	**(223,481)**	**(200,746)**
Balance at 31 March 2012	**19,504**	**24,680**	**1,778**	**16,657**	**298**	**1,008**	**63,925**	**193,397**	**257,322**

* (General Fund Balance at 31 March 2012 = General Fund £9,049k, schools £10,455k

Comprehensive Income & Expenditure Statement

2011/12

This details income and expenditure for each of the Council's services and consolidates the income and expenditure for the General Fund and the Housing Revenue Account.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2012

2010/11					2011/12		
Expenditure	Income	Net Expenditure		Notes	Expenditure	Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
21,091	16,418	4,673	**Central Services to the Public**		21,914	17,214	4,700
16,511	2,496	14,015	**Cultural & Related Services**		16,311	1,820	14,491
21,148	3,390	17,758	**Environmental & Regulatory Services**		20,277	3,719	16,558
4,581	1,557	3,024	**Planning Services**		3,970	1,464	2,506
			Children's & Education				
189,305	176,472	12,833	- Schools		130,531	119,777	10,754
13,850	6,892	6,958	- Non-School Funding		14,646	919	13,727
24,395	3,555	20,840	- Children's Services		23,452	1,747	21,705
19,904	5,155	14,749	**Highways & Transport**		21,298	5,407	15,891
			Housing Services				
79,538	71,234	8,304	- General Fund Housing		84,024	76,201	7,823
			- Housing Revenue Account				
32,850	32,382	468	- Main HRA Revenue Account	*	32,662	33,906	(1,244)
0	0	0	- HRA Self Financing		141,126	0	141,126
1,442	0	1,442	- Impairment – Demolitions		1,935	0	1,935
127,717	0	127,717	- Revaluation loss – Dwellings		15,730	0	15,730
83,122	33,728	49,394	**Adult Social Care**		72,148	13,718	58,430
5,976	119	5,857	**Corporate and Democratic Core**		5,585	0	5,585
1,051	7	1,044	**Non Distributed Costs**		2,680	30	2,650
0	61,699	(61,699)	- Past service cost	**37**	0	0	0
507	0	507	- Settlements and curtailments	**37**	0	11,698	(11,698)
642,988	**415,104**	**227,884**	**Cost of services**		**608,289**	**287,620**	**320,669**
6,341	2,749	3,592	**Other Operating Expenditure**	**7**	92,119	2,271	89,848
14,647	3,544	11,103	**Financing and Investment Income and Expenditure**	**8**	11,354	14,484	(3,130)
0	194,885	(194,885)	**Taxation & Non-Specific Grant Income**	**9**	0	221,066	(221,066)
		47,694	**(Surplus)/deficit on provision of services**				**186,321**
		(27,493)	Net (surplus) arising on revaluation of Property, Plant and Equipment Assets	**20a**			(13,309)
		(62,542)	Actuarial (gains)/losses on pension fund assets and liabilities	**20d**			27,734
			Other (gains)/losses:				
		3,404	- Early receipt of Major Repairs Allowance				0
		(86,631)	**Other comprehensive income and expenditure**				**14,425**
		(38,937)	**Total comprehensive income and expenditure**				**200,746**

***** Includes £13.557 million management fee paid to Sutton Housing Partnership, a wholly owned subsidiary of the London Borough of Sutton

Balance Sheet

2011/12

This sets out the financial position of the Council as at 31 March 2012 and consolidates the individual balance sheets for the General Fund, Housing Revenue Account and Collection Fund.

Balance Sheet as at 31 March 2012

31 March 2011 £'000		Notes	31 March 2012 £'000	31 March 2012 £'000
	Non-Current Assets			
	Property, Plant and Equipment	10		
257,622	- Council Dwellings			250,335
371,083	- Other Land and Buildings			294,043
5,201	- Vehicles, Plant, Furniture and Equipment			4,376
16,958	- Infrastructure Assets			19,005
1,267	- Community Assets			1,353
46,915	- Assets Under Construction			68,803
10,204	- Surplus Assets Held for Disposal			10,086
709,250	Sub Total			648,001
28,356	Investment Properties	11		39,110
698	Long Term Investments	14		301
1,584	Long Term Debtors	14		1,731
739,888	**Total Non-Current Assets**			**689,143**
	Current Assets			
35,421	Short term investments	14	39,587	
7,441	Assets Held for Sale	12	3,022	
401	Inventories		291	
30,266	Debtors	15	27,834	
1,610	Cash and cash equivalents	16	0	
75,139	**Total Current Assets**			**70,734**
	Less Current Liabilities			
1,028	Short term borrowing	14	1,236	
26,071	Capital Grants Receipt in Advance	33	3,204	
46,587	Creditors	17	39,054	
5,462	Provisions	18	3,772	
0	Bank Overdraft	16	1,887	
79,148	**Total Current Liabilities**			**49,153**
	Less Non-Current Liabilities			
1,866	Provisions	18	3,245	
64,715	Long term borrowings	14	220,797	
211,230	Liability Related to Defined Benefit Pension Scheme	37	229,360	
277,811	**Total non-current liabilities**			**453,402**
458,068	**Net Assets**			**257,322**
	Non-usable reserves			
94,432	Revaluation Reserve	20a	85,526	
538,986	Capital Adjustment Account	20b	340,764	
249	Deferred Capital Receipts/Income	20e	208	
(211,230)	Pensions Reserve	20d	(229,360)	
(1,352)	Financial Instruments Adjustment Account	20c	(1,267)	
(5,463)	Accumulated Absences Account	20g	(3,772)	
1,256	Collection Fund Adjustment Account	20f	1,298	
416,878				**193,397**
	Usable Reserves			
4,421	Capital Grants & Contributions Unapplied	6	16,657	
0	Capital Receipts Reserve	6	1,008	
0	Major Repairs Reserve	6	298	
847	Housing Revenue Account	6	1,778	
16,954	General Reserves – General Fund	6	19,504	
18,968	Earmarked Reserve	6	24,680	
41,190				**63,925**
458,068	**Total Reserves**			**257,322**

Cash Flow Statement

2011/12

This summarises the inflows and outflows of cash relating to the General Fund, Housing Revenue Account and Collection Fund

Cash Flow Statement

2010/11 £'000		Notes	2011/12 £'000
(47,694)	**Net (Surplus) or Deficit on the Provision of services**		**(186,321)**
671,303	Adjust net surplus or deficit on the provision of services for non cash movements	21	569,395
(614,118)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	21	(521,271)
9,491	**Net Cash Inflow/(Outflow) from operating activities**		**(138,197)**
(7,162)	**Investing Activities**	23	(25,305)
126	**Financing Activities**	24	160,005
2,455	**Net (increase) or decrease in cash and cash equivalents**		**(3,497)**
(845)	Cash and cash equivalents at the beginning of the reporting period	16	1,610
1,610	Cash and cash equivalents at the end of the reporting period	16	(1,887)

Section 3

Notes to the core financial statements

2011/12

1. Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 Act.
The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b Accruals of Income and Expenditure

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

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, and;
- revenue from the provision of services is recognised when the Authority provide the service rather than when payment is received.

Where income and expenditure have been recognised but cash has not been received or paid a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors are either actual amounts due at the end of the year or estimated amounts. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the estimated amount of income that might not be collected.

c Cash and Cash Equivalents

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

d Exceptional Items

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

e Changes in Accounting Policies

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

f Charges to Revenue for Non-Current Assets

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

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

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

g Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates estimated as applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

h Post Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

- the liabilities of the London Borough of Sutton pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- liabilities are discounted to their value at current prices, using a discount rate of 4.8%, which is based on the yield available on basket of AA-rated bonds with long term returns to maturity (the iBoxx Sterling Corporates AA over 15 Years Index);
- the assets of London Borough of Sutton pension fund attributable to the Authority are included in the Balance Sheet at bid value as required under IAS 19;
- the change in the net pensions liability is analysed into seven components:
  - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the London Borough of Sutton pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

i Events After the Balance Sheet Date

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

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

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

j Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

Contingent Liabilities

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

k Reserves

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

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

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

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

l Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify how or when the grants will be used.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors because until conditions are met we may be required to return the grant. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

m Value Added Tax (VAT)

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

n Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The full cost of overheads and support services are shared between users in proportion to the benefits received, the main bases for allocation are floor area for administrative buildings and estimated staff time for central services. The exception to this are:

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

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

o Intangible Fixed Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. The Council's policy on capital expenditure which does not involve the creation of a fixed asset is to write the expenditure down to nil in the year it is incurred. This expenditure is charged to the relevant service revenue account.

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

p Interests in Companies and other Entities

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

q Investment Properties

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

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

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

r Heritage Assets

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

Further details of Heritage Assets is disclosed in note 10.

s Property Plant and Equipment

Property, Plant and Equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price, and;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains), and;
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired i.e. reduced in value. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying (book value) amount of the asset, an impairment loss is recognised for the shortfall.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains), and;
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land

and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- council dwellings – depreciation equates to the Major Repairs Allowance as recommended by central government;
- 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%

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

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

t Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

u Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. The Authority does not hold any finance leases.

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

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

The Authority as Lessee

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

The Authority as Lessor

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

v Financial Instruments

i. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

ii. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

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

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

w Inventories and Long Term Contracts

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

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

2. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts are that although there is a degree of uncertainty about future levels of funding for local government, it has been determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Authority might be affected by the need to reduce levels of service provision, or that the assets of the authority might be impaired as a result of the need to close facilities following a reduction in service provision.

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

The items in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependant on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £100k for every year that useful lives had to be reduced.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £51m.
Arrears	At 31 March 2012, the Authority had a balance of sundry debtors for £18,631k. A review of significant balances suggested that an impairment of doubtful debts of 32% (£6,006k) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 1% of the amount of impairment of doubtful debts would require an additional £186k to set aside as an allowance.

4. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Strategic Director - Resources on 29 June 2012. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

5. Adjustment Between Accounting Basis and Funding Basis under Regulations

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

	Usable Reserves					
2011/12	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	11,895	6,825				(18,720)
Revaluation losses on Property Plant and Equipment	4,026	15,730				(19,756)
Movements in the market value of Investment Properties	(10,844)					10,844
Amortisation of intangible assets	1,822					(1,822)
Revenue expenditure funded from capital under statute	6,773					(6,773)
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	93,079	0				(93,079)
HRA Self-financing settlement	0	141,126				(141,126)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(3,778)					3,778
Capital expenditure charged against the General Fund and HRA balances	(539)					539
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(50,394)		50,394			0

	Usable Reserves					
2011/12	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Application of grants to capital financing transferred to the Capital Adjustment Account	65		(38,153)			38,088
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,376)	0			4,376	0
Use of the Capital Receipts Reserve to finance new capital expenditure					(3,052)	3,052
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	316				(316)	0
Adjustments primarily involving the Deferred Capital Receipts Reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement						0
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(4,836)		4,836		0
Use of the Major Repairs Reserve to finance new capital expenditure				(4,538)		4,538
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(85)					85

	Usable Reserves					
2011/12	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	9,101	116				(9,217)
Employer's pensions contributions and direct payments to pensioners payable in the year	(18,711)	(110)				18,821
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(42)					42
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,691)					1,691
Total Adjustments	**36,617**	**158,851**	**12,241**	**298**	**1,008**	**(209,015)**

	Usable Reserves					
2010/11 Comparative Figures	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	7,840	6,164				(14,004)
Revaluation losses on Property Plant and Equipment	8,533	127,986				(136,519)
Movements in the market value of Investment Properties	204	0				(204)
Amortisation of intangible assets	2,661	0				(2,661)
Revenue expenditure funded from capital under statute	7,172	0				(7,172)
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	1,789	839				(2,628)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(3,980)	0				3,980
Capital expenditure charged against the General Fund and HRA balances	(1,025)	0				1,025
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(44,201)	0	44,201			0

	Usable Reserves					
2010/11 Comparative Figures	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Application of grants to capital financing transferred to the Capital Adjustment Account			(45,201)			45,201
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,092)	(883)			1,975	0
Use of the Capital Receipts Reserve to finance new capital expenditure					(1,523)	1,523
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	452				(452)	0
Adjustments primarily involving the Deferred Capital Receipts Reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0					0
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(4,722)		4,722		0
Use of the Major Repairs Reserve to finance new capital expenditure				(4,899)		4,899
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(83)					83

	Usable Reserves					
2010/11 Comparative Figures	General Fund Balance £'000	Housing Revenue Account £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Non-usable Reserves £'000
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	(34,430)	169				34,261
Employer's pensions contributions and direct payments to pensioners payable in the year	(19,607)	(124)				19,731
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(182)					182
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(521)					521
Total Adjustments	**(76,470)**	**129,429**	**(1,000)**	**(177)**	**0**	**(51,782)**

6. Transfers to/from Earmarked 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 2011/12:

	Balance at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Balance at 31 March 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund:							
General Fund Balances	9,156	(1,613)	6	7,549	0	1,500	9,049
DSG Balances	(1,240)	0	2,850	1,610	0	1,217	2,827
Balances held by schools under a scheme of delegation	6,885	0	910	7,795	(2,038)	1,871	7,628
Sub-Total	**14,801**	**(1,613)**	**3,766**	**16,954**	**(2,038)**	**4,588**	**19,504**
Earmarked Reserves:-							
- Insurance Fund	4,163	(100)	143	4,206	(48)	0	4,158
- Revenue Reserve for financing capital expenditure	1,702	(167)	390	1,925	(51)	233	2,107
- General Pooled Reserve	152	0	1,663	1,815	(318)	6,229	7,726
- Renewals and Repairs Fund	4	0	114	118	(114)	0	4
- Catering Reserves	275	0	163	438	0	180	618
- Invest to Save Reserve	1,629	(855)	415	1,189	(566)	215	838
- Sustainable Investment Fund	325	0	4	329	0	8	337
- Revenue Grants Unapplied	3,259	(3,064)	3,323	3,518	(1,190)	455	2,783
- Redundancy Costs	250	0	1,500	1,750	0	1,000	2,750
- Transforming Social Care	1,000	0	0	1,000	(250)	195	945
- Strategic Priorities Investment Reserve	1,440	(247)	0	1,193	(294)	0	899
- Extreme Weather Reserve	250	(122)	176	304	(176)	0	128
- Freedom Pass Equalisation	400	(400)	400	400	0	0	400
- Olympic Forum Reserve	38	(15)	0	23	(10)	0	13
- Treasury Management & Capital Programme	527	0	133	660	0	214	874
- Innovation Fund	0	0	100	100	0	0	100
Sub-Total	**15,414**	**(4,970)**	**8,524**	**18,968**	**(3,017)**	**8,729**	**24,680**
HRA:							
Housing Revenue Account	823	(497)	0	326	0	856	1,182
Heating Reserve	414	0	107	521	0	75	596
Sub-Total	**1,237**	**(497)**	**107**	**847**	**0**	**931**	**1,778**
Capital Grants & Contributions Unapplied	5,421	(45,201)	44,201	4,421	(38,158)	50,394	16,657
Capital Receipts Reserve	0	(1,975)	1,975	0	(3,368)	4,376	1,008
Major Repairs Reserve	229	(1,554)	1,325	0	(4,538)	4,836	298
Total	**37,102**	**(55,810)**	**59,898**	**41,190**	**(51,119)**	**73,854**	**63,925**

Additional information on reserves

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

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

The current balance of £9.049m equates to 6.6% of net General Fund expenditure (excluding the schools budget).

Earmarked Reserves

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

  The Fund also provides for risk management initiatives across the Council. The reserve would also need to cover claims against policies taken out with Municipal Mutual Insurance (MMI) prior to 1 April 1993. MMI went into “run-off” in September 1992 and subsequently established a scheme of arrangement whereby claims paid since January 1994 will be subject to total or partial clawback in the event of insolvency. An amount of £323,000 has been set aside as a solvent "run-off" is becoming unlikely.

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

- The General Pooled Reserve is in place to act as a way of holding carried forward budgets plus specific risk contingency.

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

- The Catering Reserves comprise two separate accounts:
  - Catering Reserve Account (£243,337) representing the accumulated surplus from the Schools and Welfare Trading Account, and;
  - School Meals Delegated Funds (£374,633) representing the surplus made by schools within the Catering DSO and which is ringfenced for future use by schools.

- The Invest to Save Reserve was originally established to provide upfront investment to schemes and projects where the funding can be demonstrated to lead to improved outcomes/efficiencies for Council services and is now funding for the management of the Smarter Services Sutton programme.

- Sustainable Investment Fund has been established to finance energy and carbon reduction measures where financial payback will be within 3 to 5 years.

- The Revenue Grants Unapplied reserve is in place to record grants received in year for revenue purposes but for which the expenditure will occur in future years.
- The Redundancy Costs Reserve has been established for future redundancy costs anticipated from the continuing drive to secure cost reductions in light of reductions in national public spending.
- The Transforming Social Care Reserve was established to provide investment to develop processes and infrastructure to support the delivery of social care.
- The Strategic Priorities Investment Reserve will be allocated in accordance with members future strategic priorities.
- Extreme Weather Reserve has been created to deal with additional expenditure arising from extreme weather conditions.
- Freedom Pass Equalisation Reserve will be used to smooth costs arising from changes in the way concessionary fares costs are allocated across boroughs.
- The Olympic Forum Reserve will be used to deliver a series of events and activities in the run up to the 2012 London Olympics.
- The Treasury Management and Capital Programme Reserve was established to provide cover against any potential loss on the frozen Heritable Bank deposits and to support the capital programme in the future.
- The Innovation Fund is a sum set aside to be used to support innovative ideas for service improvements and efficiency in the Council.

Housing Revenue Account

- The HRA Reserve balance carried forward at 31 March 2011 was recognised as having fallen to a lower than satisfactory level. The budgets for 2011/12 were set with a view of increasing this working balance to £900,000 by 31 March 2012, and this has been exceeded with actual balances of £1.182 million at 31 March 2012. There are further plans in place to raise the balance to a more prudent level over the next two years.
- The Heating Reserve of £596k holds the net balance of tenants' charges and recoveries for heating and hot water. It will be used to help smooth future volatility.

7. Other Operating Expenditure

2010/11 £'000		2011/12 £'000
1,290	Levies paid to Other Local Public Authorities	964
452	Payment to the Government Housing Capital Receipts Pool	316
641	Losses on the disposal of non-current assets	88,704
1,209	Deficit/(Surplus) on Trading Undertakings not included in Net Cost of Services	(136)
3,592	**TOTAL**	**89,848**

Included in losses on the disposal of non-current assets is £87.215 million following the conversion of 14 schools to academies.

8. Financing and Investment Income and Expenditure

2010/11 £'000		2011/12 £'000
3,387	Interest payable and similar charges	3,809
10,472	Pension interest costs and expected return on pension assets	6,993
(989)	Interest receivable and similar income	(1,291)
(1,767)	Income and expenditure in relation to investment properties and changes in their fair value	(12,641)
11,103	**TOTAL**	**(3,130)**

9. Taxation and Non Specific Grant Incomes

2010/11 £'000		2011/12 £'000
(85,265)	Council Tax income	(85,190)
(47,606)	Share of National Non domestic rates	(42,209)
(17,813)	Non-ringfenced government grants	(43,342)
(44,201)	Capital grants and contributions	(50,325)
(194,885)	**TOTAL**	**(221,066)**

Non-ringfenced government grants in 2011/12 includes £30.227 million core grant that would have previously been included in government grants credited to services.

10. Property, Plant and Equipment

Movement on balances

Movements in 2011/12	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2011	**257,622**	**381,343**	**11,085**	**34,756**	**1,528**	**46,915**	**10,315**	**743,564**
Additions	15,177	2,069	593	4,132	85	30,433	0	52,489
Revaluation decreases recognised in the Revaluation Reserve	0	(47)	0	0	0	0	0	(47)
Revaluation increases recognised in the Revaluation Reserve	0	14,047	0	0	0	0	0	14,047
Revaluation decreases recognised in the surplus/deficit on the provision of services	(15,730)	(3,781)	0	0	0	0	0	(19,511)
Revaluation increases recognised in the surplus/deficit on the provision of services	0	352	0	0	0	0	0	352
Derecognition - disposal	(78)	(90,930)	0	0	0	(970)	0	(91,978)
Derecognition – other	113	7,461	0	0	0	(7,575)	0	(1)
Assets reclassified (to)/from Held for Sale	0	(789)	0	0	0	0	0	(789)
At 31 March 2012	**257,104**	**309,725**	**11,678**	**38,888**	**1,613**	**68,803**	**10,315**	**698,126**
Accumulated Depreciation and Impairment								
At 1 April 2011	**0**	**(10,260)**	**(5,884)**	**(17,798)**	**(260)**	**0**	**(111)**	**(34,313)**
Depreciation Charge:								
Depreciation written out to the surplus/deficit on the provision of services	(4,834)	(8,330)	(1,418)	(2,085)	0	0	(118)	(16,785)
Derecognition - disposal	0	2,885	0	0	0	0	0	2,885
Derecognition - other	(1,935)	23	0	0	0	0	0	(1,912)
At 31 March 2012	**(6,769)**	**(15,682)**	**(7,302)**	**(19,883)**	**(260)**	**0**	**(229)**	**(50,125)**
Net Book Value								
At 31 March 2011	**257,622**	**371,083**	**5,201**	**16,958**	**1,268**	**46,915**	**10,204**	**709,251**
At 31 March 2012	**250,335**	**294,043**	**4,376**	**19,005**	**1,353**	**68,803**	**10,086**	**648,001**

The Authority implemented a new fixed asset register system during 2011/12. A detailed review of data transferred to the new system identified two differences that required adjustments to the opening balances at 1 April 2011,

1. Closing gross book value at 31 March 2011 of Other Land and Buildings was increased by £12k to £388,538k
2. Accumulated depreciation of Vehicle, Plants, Furniture and Equipment reduced by £11k to (£5,884k)

The review also identified that no adjustment between depreciation and gross book value took place on the revaluation of assets. This has no affect on the net book value but the table above has been updated to show the correct balances bought forward at 1 April 2011.

Comparative Movements in 2010/11	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At April 2010	**406,232**	**352,623**	**10,163**	**25,742**	**1,415**	**35,317**	**12,422**	**843,914**
Additions	9,603	0	1,040	9,014	182	30,653	0	50,492
Revaluation decreases recognised in the Revaluation Reserve	(5,204)	(621)	0	0	0	0	0	(5,825)
Revaluation increases recognised in the Revaluation Reserve	0	31,914	0	0	0	0	1,404	33,318
Revaluation decreases recognised in the surplus/deficit on the provision of services	(127,717)	(8,364)	0	0	0	0	(3,058)	(139,139)
Revaluation increases recognised in the surplus/deficit on the provision of services	0	2,621	0	0	0	0	0	2,621
Derecognition - disposal	(681)	0	0	0	0	0	(228)	(909)
Derecognition - other	(211)	14,148	0	0	(69)	(19,055)	5,116	(71)
Assets reclassified (to)/from Held for Sale	(157)	(3,795)	(118)	0	0	0	(5,341)	(9,411)
Other movements in cost or valuation	0	0	0	0	0	0	0	0
At 31 March 2011	**281,865**	**388,526**	**11,085**	**34,756**	**1,528**	**46,915**	**10,315**	**774,990**
Accumulated Depreciation and impairment								
At 1 April 2010	**(18,134)**	**(13,364)**	**(4,500)**	**(16,253)**	**(261)**	**0**	**0**	**(52,512)**
Depreciation Charge	0	0	0	0	0	0	0	0
Depreciation written out to the surplus/deficit on the provision of services	(4,667)	(4,707)	(1,504)	(1,545)	0	0	(138)	(12,561)
Derecognition - disposal	(1,442)	0	0	0	0	0	0	(1,442)
Derecognition - other	0	616	109	0	0	0	27	752
At 31 March 2011	**(24,243)**	**(17,455)**	**(5,895)**	**(17,798)**	**(261)**	**0**	**(111)**	**(65,763)**
Net Book Value								
At 31 March 2010	**388,098**	**339,259**	**5,663**	**9,489**	**1,154**	**35,317**	**12,422**	**791,402**
At 31 March 2011	**257,622**	**371,071**	**5,190**	**16,958**	**1,267**	**46,915**	**10,204**	**709,227**

Depreciation

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

- Council dwellings - the depreciation is deemed to be equal to the Major Repairs Allowance (MRA), £4.834 million;
- Other Land and Buildings – 50 years;
- Vehicles, plant, furniture and equipment - 4 to 16 years;

- Infrastructure – gross book value is depreciated at 6%;
- Community Assets - any expenditure which is not considered to enhance the asset is depreciated in full in the year it is incurred, and;
- Surplus Assets – is calculated as per its previous operational classification.

Capital Commitments

At 31 March 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years which are budgeted to cost £91.7 million. Similar commitments at 31 March 2011 were £69.6 million. The major commitments are:-

	Expenditure to 31 March 2012	Estimated Total Cost
	£'000	£'000
Stanley Park High School (BSF Grant)	45,629	49,349
Primary Places	9,360	50,857
Durand Close Housing Project*	9,049	15,767
Sutton Life Centre	8,470	8,649
Sutton Inclusion Centre	4,282	4,333
Town Centre Regeneration	3,656	3,788
Tweeddale Co-location	2,656	2,712
Westcroft Leisure Centre Development Project	2,522	11,365
Wallington Integrated Transport Package	1,945	1,961
Sutton Grammar Accommodation	840	1,006

* Council element of larger regeneration scheme

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured as fair value is revalued at least every 5 years. All valuations were carried out internally. The latest valuation was carried out as at 1 April 2011.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors under the direction of the Council's Executive Head of Property and Procurement.

Council dwellings have been included on the basis of the lower of net current replacement cost and net realisable value. Council dwellings reflect vacant possession value adjusted to account for their status as social housing. For 2011/12 the social housing factor for London remains at 25%.

Infrastructure and community assets have been included at historical cost.

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

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Carried at historical cost	0	0	4,376	19,006	1,353	68,803	0	93,538
Valued at fair value as at:								
31-Mar-12	250,336	93,521	0	0	0	0	0	343,857
31-Mar-11	0	62,458	0	0	0	0	0	62,458
31-Mar-10	0	68,098	0	0	0	0	5,814	73,912
31-Mar-09	0	35,876	0	0	0	0	0	35,876
31-Mar-08	0	28,638	0	0	0	0	4,171	32,809
31-Mar-07	0	5,452	0	0	0	0	101	5,553
Total Cost or Valuation	**250,336**	**294,043**	**4,376**	**19,006**	**1,353**	**68,803**	**10,086**	**648,003**

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

Disposals

During the year 14 schools converted to academy status and of these 6 schools, Carshalton Boys Sports College, Carshalton Girls, Greenshaw High, Overton Grange, Wandle Valley and Westbourne Primary were held on our balance sheet with a net book value of £87.215m. For accounting purposes the transfer of these schools is considered as a disposal for no consideration (i.e. no payment is received on transfer). This is included within the £90.930m 'Derecognition –disposal' amount shown on page 42.

Heritage Assets

General

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

Nature and Significance of Assets Owned

The value of Heritage Assets not reported as a distinct class is immaterial when measured against the values being disclosed on the face of the financial statements. The nature and significance of these assets are detailed below.

Land and Buildings

a) Museums

Honeywood £1.537 million and Whitehall £1.266 million.

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

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

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

The value of both museums are included in Land and Buildings (note 11) and account for less than 0.5% of the value of Land and Buildings shown on the face of the financial statements.

Little Holland House - Value £327,000

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

b) Monuments

Upper Mill

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

The Dovecote, Carew Manor

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

Art Collection

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

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

The collection has not been formally valued. A few items have an approximate value only. However the whole collection is not considered to be significant for 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 is identified as being potentially at risk. The collection consists of 11,000 original plates still in their studio wrappers. The plates are all the work of Knights-Whittome, a local photographer active from c1900-1918. Knights-Whittome was a society photographer who also photographed the royal family, aristocracy and toured Europe recording palaces and major buildings. The collection includes images of local people, national figures, buildings - many of which have been lost, and European figures and buildings. No formal valuation has been carried out for the collection but it is not considered material and the collection is covered in the standard contents cover.

11. Investment Properties

The following items of income and expense have been accounted for in the Comprehensive Income and Expenditure Statement:-

2010/11		2011/12
£'000		£'000
1,871	Rental income from investment	1,788
(70)	Direct operating expenses arising from investment property	(97)
1,801		**1,691**

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

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

2010/11		2011/12
£'000		£'000
28,490	Balance at the start of the year	28,356
0	Additions	0
0	Disposals	(91)
(204)	Net gains/(losses) from fair value adjustments (Revaluations and Impairments)	10,845
70	Transfers (Reclassifications)	0
28,356	**Balance at the end of the year**	**39,110**

12. Assets Held for Sale

Movement on balances

2010/11		2011/12
£'000		£'000
500	**Balance outstanding at 1 April 2011**	**7,441**
	Assets newly classified as Assets Held for Sale	
157	• Council Dwellings	0
3,179	• Other Land and Buildings	766
10	• Vehicles, Plant and Equipment	0
5,314	• Surplus Assets	0
0	Revaluation changes	(1,290)
(1,719)	Assets sold	(3,895)
7,441	**Balance outstanding at 31 March 2012**	**3,022**

Assets Held for Sale as at 31 March 2012 are as follows:

	2011/12
	£'000
Land at Middleton Road	1,056
Glastonbury Centre	1,313
The Grove Lodge	211
Farm Cottage	192
Henderson Hospital (jointly owned with NHS)	250
Total	**3,022**

13. Intangible Assets

This shows the capital expenditure on intangible assets. It is the Council's policy to write off such expenditure in the year in which it is incurred.

2011/12	Balance at At 1 April 2011	Expenditure	Written Out	Balance at 31 March 2012
	£'000	£'000	£'000	£'000
Intangible Assets				
Computer Software Licences				
& Installation costs	0	682	(682)	0
Health & Safety Works	0	283	(283)	0
Project Feasibility Works	0	857	(857)	0
Total	**0**	**1,822**	**(1,822)**	**0**

2010/11	Balance at 1 April 2010	Expenditure	Written Out	Balance at 31 March 2011
	£'000	£'000	£'000	£'000
Intangible Assets				
Computer Software Licences & Installation costs	0	925	(925)	0
Health & Safety Works	0	619	(619)	0
Project Feasibility Works	0	1,117	(1,117)	0
Total	**0**	**2,661**	**(2,661)**	**0**

14. Financial Instruments

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

a) Financial Instruments Balances

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

	Long Term		Current	
	31 March 2011	31 March 2012	31 March 2011	31 March 2012
	£'000	£'000	£'000	£'000
Investments				
Loans and receivable at amortised cost				
Loans & receivables principal amount	0	0	33,800	38,500
Heritable Deposit	698	301	1,147	770
Landfill Allowances Trading Scheme	0	0	258	4
Accrued Interest	0	0	216	313
Total Investments	**698**	**301**	**35,421**	**39,587**
Debtors				
Loans and Receivables	1,584	1,731	0	0
Financial assets carried at contract amounts	0		30,266	26,366
Total Debtors	**1,584**	**1,731**	**30,266**	**26,366**
Borrowings				
Financial liabilities carried at amortised cost				
Financial liabilities principal amount	64,715	220,797	80	1,931
Accrued Interest	0	0	948	1,192
Total Borrowings	**64,715**	**220,797**	**1,028**	**3,123**
Creditors				
Financial liabilities carried at contract amount	0	0	46,587	29,394
Total Creditors	**0**	**0**	**46,587**	**29,394**

Notes:

1. £1.192 million of the Council's debt to the Public Works Loan Board is scheduled for redemption before 31 March 2013 and has therefore been classified as current liabilities.

2. The Councils long term borrowing total of £220.841million includes a new PWLB loan of £141.126 million to fund the HRA Settlement payment to central government. The annual cost of servicing the loans is funded by the ceasing of the previous annual subsidy payments to central government.

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

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

5. Investments include two deposits with Heritable Bank, which have been subject to an impairment charge in 2008/09. The amounts in the table above reflect the adjusted amortised cost for these assets as at 31 March 2012. Due to a change in accounting guidance any amounts that are due to be recovered in the period beyond one year are now included within long term investments. Additional information on this item is provided in the credit risk section of this disclosure note.

6. The Council had no material soft loans as at 31 March 2012.

b) Financial Instruments Adjustment Account

No debt restructuring was carried out in 2011/12 so there are no debt restructuring adjustments to this account to report. The Council has chosen not to apply the central government statutory override to deal with any of the impairment charge from the investments made with Heritable Bank (see note 39).

c) Gains and Losses on Financial Instruments

The table below shows interest paid on existing borrowing in year (interest expense) and interest received on investments (interest income). The increase in the estimated recovery of funds from Heritable Bank is also shown (see note 39 for more information).

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair value through I&E
	£'000	**£'000**	**£'000**	**£'000**
Interest Expense	(3,487)	0	0	0
Interest Income	0	468	0	0
Amounts recycled to the surplus or deficit on the provision of Services after impairment	135	0	0	0
Net gain / (loss) for the year	**(3,352)**	**468**	**0**	**0**

Fair Value and Reporting on Risks Arising From Financial Instruments

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

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

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

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

The calculated fair value of each class of financial asset and liability which are carried in the balance sheet are shown in the tables below. The prior year fair values as at 31 March 2011 are also provided for comparison.

Fair Value of Liabilities Carried at Amortised Cost

	31 March 2011		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB - maturity	50,075	48,586	196,289	180,616
PWLB - annuity	200	199	121	123
PWLB – EIP	0	0	0	0
LOBOs	15,467	16,082	25,623	23,340
Financial liabilities	**65,742**	**64,867**	**222,033**	**204,079**

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

Fair Value of Assets Carried at Amortised Cost

	31 March 2011		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Deposits with banks and building societies	35,861	35,861	39,884	39,884
Financial assets	**35,861**	**35,861**	**39,884**	**39,884**
Long Term Debtors	**1,584**	**1,584**	**1,731**	**1,731**

The fair value is the same as the carrying value at March 2012 because the investments held are short term and their interest rates are equal to the rates available for similar loans at the balance sheet date.

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

15. 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 2011		At 31 March 2012
£'000		£'000
5,817	Central Government bodies	3,958
5,408	Other Local Authorities	4,502
734	NHS bodies	743
1,788	HRA Tenants	1,574
17,681	Other entities and individuals	18,594
4,138	Council Tax payers	4,569
35,566	**Total**	**33,940**

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

At 31 March 2011		At 31 March 2012
£'000		£'000
(799)	HRA Tenants	(755)
(2,027)	Other entities and individuals	(2,693)
(2,474)	Council Tax payers	(2,658)
(5,300)	**Total**	**(6,106)**

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

At 31 March 2011		At 31 March 2012
£'000		£'000
5,817	Central Government bodies	3,958
5,408	Other Local Authorities	4,502
734	NHS bodies	743
989	HRA Tenants	819
15,654	Other entities and individuals	15,901
1,664	Council Tax payers	1,911
30,266	**Total**	**27,834**

Other enitities and individuals includes £108k due from Sutton Housing Partnership (£252k in 2010/11).

16. Cash and cash equivalents

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

At 31 March 2011		At 31 March 2012
£'000		£'000
123	Cash held by the authority	110
1,487	Bank current accounts	(1,997)
1,610	**Total**	**(1,887)**

17. 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 2011		At 31 March 2012
£'000		£'000
9,182	Central Government bodies	7,983
6,534	Other Local authorities	7,388
2,243	NHS Bodies	467
28,628	Other entities and individuals	23,216
46,587	**Total**	**39,054**

Other entiries and individuals includes £1.613 million due to Sutton Housing Partnership (£113k in 2010/11)

18. Provisions

Provisions have been established for the following purposes:

	Balance b/fwd 1 April 2011	Additional provisions made in 2011/12	Amounts used in 2011/12	Unused amounts reversed in 2011/12	Balance c/fwd 31 March 2012
	£'000	£'000	£'000	£'000	£'000
Current Provisions					
a) Employee Accumulated Absences	**5,462**	**3,772**	**(5,462)**	**0**	**3,772**
Non-Current Provisions					
b) Insurance Claims	1,386	0	0	(45)	1,341
c) S117 Reimbursement	19	0	(1)	(18)	0
d) Potential Employee Litigation	120	240	0	0	360
e) Hexagon Provision	191	101	0	0	292
f) Reablement Refund Provision	150	0	0	0	150
g) Fairer charging	0	608	0	0	608
h) Independence Homes	0	338	0	0	338
i) Supported Living	0	156	0	0	156
	1,866	**1,443**	**(1)**	**(63)**	**3,245**
	7,328	**5,215**	**(5,463)**	**(63)**	**7,017**

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

b) The Council maintains an insurance provision for claims which are likely or certain to be settled but the timing and amount of which cannot be determined accurately but can be reliably estimated. This has been established to meet claims not covered by our external insurer, including the first £150,000 of 3rd party and employee claims and the first £100,000 of property losses. The year end provision was evaluated at £1.341 million.

c) A provision of £19,000 was included in the 2010/11 accounts to refund any incorrectly levied charges for aftercare services provided under S117 of the Mental Health Act 1983, following advice from the Ombudsman. Settlements in 2011/12 totalled £1,069. The outstanding provision is no longer required and has been posted back to the Comprehensive Income and Expenditure Statement.

d) A provision of £120,000 was included in the 2010/11 accounts to cover several employment related matters which could involve the Council in a financial penalty. An assessment of the number of outstanding cases has been carried out and the provision at 31 March 2012 has been estimated at £360,000.

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

f) A provision of £150,000 has been established to cover repayment of charges for adult social care reablement.

g) A provision of £608,000 has been established to cover potential additional payments to providers where lower payments made under 'fairer charging' are in dispute.

h) A provision of £338,000 has been established to cover costs of clients in Independence Homes where identification of the ordinary residence is in dispute.

i) A provision of £156,000 has been established to cover costs of clients in Supported Living Homes where identification of the ordinary residence is in dispute.

19. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Notes 5 and 6.

20. Non-usable Reserves

31 March 2011	Reserve / Balance	31 March 2012
£'000		**£'000**
94,432	Revaluation Reserve	85,526
0	Available for sale Financial Instruments Reserve	
538,963	Capital Adjustment Account	340,764
(1,352)	Financial Instruments Adjustment Account	(1,267)
249	Deferred Capital Receipts	208
(211,230)	Pensions Reserve	(229,360)
1,256	Collection Fund Adjustment Account	1,298
(5,463)	Accumulated Absences Account	(3,772)
416,855	**Total**	**193,397**

a) Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost

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

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

2010/11 £'000		2011/12 £'000	
69,117	**Balance as at 1 April**		**94,432**
33,318	Upward revaluation of assets	14,174	
(5,825)	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(865)	
27,493	Surplus or deficit on revaluation of non current assets not posted to the surplus or deficit on the provision of services	13,309	
(513)	Difference between fair value depreciation and historical cost depreciation	(958)	
(1,665)	Accumulated gains on assets sold or scrapped	(21,257)	
(2,178)	Amount written off to the Capital Adjustment Account	(22,215)	
94,432	**Balance at 31 March**		**85,526**

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

The most significant changes relate to the amount of £87.215 million loss on disposal when 14 schools converted to academies during the year, and £141.126 million being our share of the HRA self-financing payment.

2010/11	Capital Adjustment Account		2011/12
£'000			**£'000**
646,768	**Balance at 1 April**		**538,986**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(14,004)	- Charge for depreciation and impairment of non-current assets	(18,720)	
(136,519)	- Revaluation losses on Property, Plant and Equipment	(19,757)	
(2,661)	- Amortisation of intangible assets	(1,822)	
(7,172)	- Revenue expenditure funded from capital under statute	(6,773)	
(2,628)	- 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	(93,079)	
0	- HRA self-financing payment	(141,126)	
(162,984)			(281,277)
513	Difference between fair value depreciation and historical cost depreciation		958
1,665	Accumulated gains on assets sold or scrapped		21,257
(160,806)	Net written out amount of the cost of non-current assets consumed in the year		(259,062)
	Capital financing applied in the year:		
1,523	- Use of the Capital Receipts Reserve to finance new capital expenditure	3,052	
1,499	- Use of the Major Repairs Reserve to finance new capital expenditure	4,539	
41,940	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	30,134	
3,261	- Application of grants to capital financing from the Capital Grants Unapplied Account	7,954	
3,980	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	3,778	
1,025	- Capital expenditure charged against the General Fund and HRA balances	539	
53,228			49,996
(204)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		10,844
538,986	**Balance at 31 March**		**340,764**

c) Financial Instruments Adjustments Account

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

The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2012 will be charged to the General Fund over the next 30 years.

2010/11		2011/12	
£'000		£'000	£'000
(1,436)	**Balance as at 1 April**		**(1,352)**
0	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	
84	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	85	
84	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		85
(1,352)	**Balance at 31 March**		**(1,267)**

d) Pension Reserve

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

2010/11 £'000		2011/12 £'000
(327,764)	**Balance at 1 April**	**(211,230)**
62,542	Actuarial gains or (losses) on pension assets and liabilities	(27,734)
34,261	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	(9,217)
19,731	Employers pension contributions and direct payments to pensioners payable in the year.	18,821
(211,230)	**Balance at 31 March**	**(229,360)**

e) Deferred Capital Receipts Reserve

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

2010/11 £'000		2011/12 £'000
254	**Balance at 1 April**	**249**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
(5)	Transfer to the Capital Receipts Reserve upon receipt of cash	(41)
249	**Balance at 31 March**	**208**

f) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax 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.

2010/11 £'000		2011/12 £'000
1,074	**Balance at 1 April**	**1,256**
182	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	42
1,256	**Balance at 31 March**	**1,298**

g) Accumulated Absences Account

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

2010/11 £'000		2011/12 £'000	
(5,984)	**Balance as at 1 April**		**(5,463)**
5,984	Settlement or cancellation of accrual at the end of the preceding year	5,463	
(5,463)	Amounts accrued at the end of the current year	(3,772)	
521	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1,691
(5,463)	**Balance at 31 March**		**(3,772)**

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

2010/11 £'000		2011/12 £'000
(47,694)	Net surplus / (deficit) on the Provision of Services	**(186,321)**
	Adjust net surplus or deficit for the provision of services for non-cash movements	
150,727	Depreciation and impairment	38,476
2,661	Amortisation	1,822
2,046	Increase / (Decrease) in creditors	(8,767)
3,087	(Increase) / Decrease in debtors	(1,049)
(13)	(Increase) / Decrease in inventories	110
(53,992)	Pension Liability	(9,604)
(372)	Contributions to / from provisions	(311)
2,628	Carrying amount of non-current assets sold	93,080
567,931	Carrying amount of short term and long term investments sold	466,482
(3,400)	Other movements	(10,844)
671,303		**569,395**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(44,200)	Capital Grants credited to surplus or deficit on the provision of services	(50,329)
(567,931)	Proceeds from the sale of short and long term investments	(466,482)
(1,987)	Proceeds from the sale of property plant and equipment, investments property and intangible assets	(4,376)
0	Premiums of Discounts on the repayment of financial liabilities	(84)
(614,118)		**(521,271)**
9,491	**Total**	**(138,197)**

22. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2010/11 £'000		2011/12 £'000
1,252	Interest received	1,744
(3,379)	Interest Paid	(4,052)
0	Dividends Received	0
(2,127)	**Total**	**(2,308)**

23. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

2010/11 £'000		2011/12 £'000
(51,240)	Purchase of property, plant and equipment, investment property and intangible assets	(53,931)
(564,582)	Purchase of short term and long term investments	(470,704)
0	Other payments and investing activities	0
1,956	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,419
567,931	Proceeds from short term and long term investments	466,482
38,773	Other receipts from investing activities	28,429
(7,162)	**Net cash flows from investing activities**	**(25,305)**

24. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

2010/11 £'000		2011/12 £'000
0	Cash receipts of short term and long term borrowing	156,062
337	Other receipts from financing activities	4,022
(211)	Repayment of short term and long term borrowing	(79)
0	Other payments for financing activities	0
126	**Net cash flows from financing activities**	**160,005**

25. Amounts Reported for Resources Allocation Decisions

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

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

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

Group Information 2011/12	Children, Young People & Learning Services	Adult Social Services and Housing	Chief Executive's and Resources Groups	Environment and Leisure	TOTAL
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(6,093)	(14,520)	(5,346)	(12,475)	(38,434)
Government grants	(116,073)	(45)	(89,756)	(597)	(206,471)
Total Income	**(122,166)**	**(14,565)**	**(95,102)**	**(13,072)**	**(244,905)**
Employee Expenses	89,325	16,930	7,268	23,318	136,841
Other operating expenses	73,090	63,611	92,503	23,776	252,980
Support service recharges	3,928	3,910	1,304	3,718	12,860
Total Operating Expenses	**166,343**	**84,451**	**101,075**	**50,812**	**402,681**
Cost of Services	**44,177**	**69,886**	**5,973**	**37,740**	**157,776**

Group Information 2010/11 Comparative Figures	Children, Young People & Learning Services	Adult Social Services and Housing	Chief Executive's and Resources Groups	Environment and Leisure	TOTAL
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(6,984)	(32,801)	(4,660)	(12,063)	(56,508)
Government grants	(182,149)	(8,458)	(86,309)	(1,287)	(278,203)
Total Income	**(189,133)**	**(41,259)**	**(90,969)**	**(13,350)**	**(334,711)**
Employee Expenses	92,698	20,709	7,237	25,757	146,401
Other operating expenses	128,108	67,900	87,215	21,171	304,394
Support service recharges	3,994	4,132	2,054	3,958	14,138
Total Operating Expenses	**224,800**	**92,741**	**96,506**	**50,886**	**464,933**
Cost of Services	**35,667**	**51,482**	**5,537**	**37,536**	**130,222**

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

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

2010/11 £'000		2011/12 £'000
130,222	Net expenditure in the Group Analysis	157,776
5,647	Add services not included in main analysis	6,030
93,853	Add amounts not reported to management	155,329
(2,591)	Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	1,536
227,131	**Net Cost of Services in Comprehensive Income and Expenditure Statement**	**320,671**

Reconciliation of Subjective Analysis

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

2011/12	Service Analysis	Services not in main analysis	Not Reported to Management	Not Included in the Income & Expenditure Statement	Net Cost of Services	Corporate Amounts	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(38,434)	0	(46,081)	3,496	(81,019)	(12,641)	(93,660)
Surplus or deficit on trading undertakings not in NCS	0	0	0	0	0	(138)	(138)
Interest and Investment Income	0	0	0	0	0	(1,291)	(1,291)
Income from Council Tax	0	0	0	0	0	(85,190)	(85,190)
Government grants and contributions	(206,471)	0	(130)	0	(206,601)	(135,876)	(342,477)
Total Income	**(244,905)**	**0**	**(46,211)**	**3,496**	**(287,620)**	**(235,136)**	**(522,756)**
Employee Expenses	136,841	169	(4,065)	(2,648)	130,297	6,993	137,290
Other operating expenses	252,980	3,794	172,758	688	430,218	0	430,218
Support service recharges	12,860	1,949	0	0	14,809	0	14,809
Depreciation, amortisation and impairment	0	118	32,847	0	32,965	0	32,965
Interest Payments	0	0	0	0	0	3,809	3,809
Precepts and Levies	0	0	0	0	0	964	964
Payments to Housing Capital Receipts Pool	0	0	0	0	0	316	316
Gain or loss on Disposal of Fixed Assets	0	0	0	0	0	88,704	88,704
Total Expenditure	**402,681**	**6,030**	**201,540**	**(1,960)**	**608,289**	**100,786**	**709,075**
Surplus or deficit on the provision of services	157,776	6,030	155,329	1,536	320,669	(134,350)	186,319

2010/11 **Comparative Figures**	Service Analysis	Services not in main analysis	Not Reported to Management	Not Included in the Income & Expenditure Statement	Net Cost of Services	Corporate Amounts	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(56,508)	0	(93,886)	2,613	(147,781)	(1,766)	(149,547)
Surplus or deficit on trading undertakings not in NCS	0	0	0	0	0	1,209	1,209
Interest and Investment Income	0	0	0	0	0	(989)	(989)
Income from Council Tax	0	0	0	0	0	(85,265)	(85,265)
Government grants and contributions	(278,203)	0	10,880	0	(267,323)	(109,620)	(376,943)
Total Income	**(334,711)**	**0**	**(83,006)**	**2,613**	**(415,104)**	**(196,431)**	**(611,535)**
Employee Expenses	146,401	152	(2,593)	0	143,960	10,472	154,432
Other operating expenses	304,394	3,995	31,494	(4,451)	335,432	0	335,432
Support service recharges	14,138	1,355	0	0	15,493	0	15,493
Depreciation, amortisation and impairment	0	145	147,958	0	148,103	0	148,103
Interest Payments	0	0	0	0	0	3,386	3,386
Precepts and Levies	0	0	0	0	0	1,290	1,290
Payments to Housing Capital Receipts Pool	0	0	0	0	0	452	452
Gain or loss on Disposal of Fixed Assets	0	0	0	0	0	(39)	(39)
Total Expenditure	**464,933**	**5,647**	**176,859**	**(4,451)**	**642,988**	**15,561**	**658,549**
Surplus or deficit on the provision of services	130,222	5,647	93,853	(1,838)	227,884	(180,870)	47,014

26. Surplus on Trading Undertakings not Included in Net Cost of Services

The Authority has established 3 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations. Details on the trading performance of these Revenue Trading Accounts are shown below:

		2009/10	**2010/11**	**2011/12**
		£'000	**£'000**	**£'000**
Fleet Service	Turnover	(4,255)	(4,095)	(4,042)
	Expenditure	4,255	3,987	4,042
	(Surplus)/Deficit	0	(108)	0
Schools Catering	Turnover	(2,687)	(2,883)	(2,858)
	Expenditure	2,691	2,717	2,848
	(Surplus)/Deficit	4	(166)	(10)
Internal Audit	Turnover	(662)	(631)	(397)
	Expenditure	588	631	397
	(Surplus)/Deficit	(74)	0	0
	Net (Surplus)/Deficit on Trading Operations	**(70)**	**(274)**	**(10)**

In addition the Council incurred a surplus of £126k (£1,483k deficit in 2010/11) from other trading activities accounted for in Other Operating Expenditure. These principally comprise of expenditure and income from construction and property services.

2010/11 £'000		2011/12 £'000
(274)	Net (surplus) on trading operations	(10)
1,483	Net (surplus)/deficit on other trading operations included in Other Operating Expenditure	(126)
1,209	**Net (surplus) credited to Other Operating Expenditure**	**(136)**

27. Pooled Budgets with NHS Bodies

Joint working arrangements between NHS bodies and local authorities operate under Section 75 of the NHS Act 2006. An integrated Community Equipment Service has been established between the Council and Sutton and Merton Primary Care Trust (PCT) to provide community based equipment for people with disabilities.

2010/11 £'000		2011/12 £'000
	Income	
(352)	London Borough of Sutton	(454)
(387)	Sutton and Merton PCT	(434)
(739)		**(888)**
	Expenditure	
377	Equipment and Adaptations	500
362	Other Costs	307
739		**807**
0	**Net Deficit/(Surplus) for the Year**	**(81)**
0	Deficit/ (Surplus) brought forward 1 April	0
0	Funded by London Borough of Sutton	0
0	**Deficit/(Surplus) Carried Forward 31 March**	**(81)**

28. Members Allowances

The Authority paid the following amounts to members of the Council during the year:

2010/11 £'000		2011/12 £'000
903	Allowances	919
1	Expenses	0
904	**Total**	**919**

29. Remuneration of Senior Staff

The following table gives the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £5,000. These figures include those senior staff who are individually disclosed below. In 2011/12, 14 schools became academies, and so are excluded from 2011/12 staff figures.

2010/11 Schools	2010/11 Non-Schools	Remuneration Band £	2011/12 Schools	2011/12 Non-Schools
Number of Employees			Number of Employees	
64	28	50,000 - 54,999	35	31
50	23	55,000 - 59,999	18	17
31	17	60,000 - 64,999	14	15
23	14	65,000 - 69,999	12	15
11	13	70,000 - 74,999	11	16
4	6	75,000 - 79,999	1	0
6	3	80,000 - 84,999	3	2
2	3	85,000 - 89,999	0	4
3	10	90,000 - 94,999	1	7
3	5	95,000 - 99,999	1	5
1	2	100,000 - 104,999	0	3
1	0	105,000 - 109,999	0	1
1	0	110,000 - 114,999	0	0
0	1	115,000 - 119,999	0	1
0	1	120,000 - 124,999	0	0
1	1	125,000 - 129,999	0	3
0	1	130,000 - 134,999	0	1
0	2	135,000 - 139,999	1	0
1	0	140,000 - 144,999	0	0
0	0	145,000 - 149,999	0	0
1	0	150,000 - 154,999	0	0
0	0	155,000 - 159,999	0	1
0	0	160,000 - 164,999	0	0
0	0	165,000 - 169,999	0	0
203	**130**	**Total**	**97**	**122**

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

2010/11					2011/12		
Salary, fees and allowances	Employers pension contributions	Total	Chief Officers	Note	Salary, fees and allowances	Employers pension contributions	Total
£	£	£			£	£	£
92,303	19,732	112,035	Chief Executive – Paul Martin	1&2	0	0	0
137,909	29,416	167,325	Interim Chief Executive – Ian Birnbaum	1	0	0	0
4,619	993	5,612	Chief Executive – Niall Bolger (current)	1	156,195	33,582	189,777

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

2010/11					2011/12		
Salary, fees and allowances	Employers pension contributions	Total	Chief Officers	Note	Salary, fees and allowances	Employers pension contributions	Total
£	£	£			£	£	£
18,882	4,025	22,907	Strategic Director – Resources (to May 2010)	3	0	0	0
121,260	26,071	147,331	Strategic Director – Resources (from April 2010)	3	129,528	27,849	157,377
130,374	27,849	158,223	Strategic Director – Adult Social Services and Housing		130,374	27,849	158,223
97,828	20,714	118,542	Strategic Director – Children, Young People and Learning Services (shared position)	4	89,317	18,947	108,264
90,107	19,373	109,480	Strategic Director – Children, Young People and Learning Services (shared position)	4	86,345	18,564	104,909
n/a	n/a	n/a	Strategic Director - Children, Young People & Learning Services (from February 2012)	4	14,516	3,121	17,637
129,773	27,849	157,622	Strategic Director – Environment and Leisure		129,841	27,849	157,690
94,131	17,466	111,597	Executive Head of Policy and Communications		94,131	23,010	117,141
115,746	24,885	140,631	Executive Head of Human Resources	5	115,746	24,885	140,631
94,396	20,224	114,620	Executive Head of Community Safety		94,131	20,238	114,369
79,489	17,088	96,577	Executive Head of Legal and Democratic Services		83,674	17,988	101,662

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

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

Note 1. The Chief Executive post was held by three different officers in 2010/11. Paul Martin left the Authority at the end of June 2010. Ian Birnbaum held the position of interim Chief Executive for the period July 2010 until March 2011 when the current Chief Executive, Niall Bolger was appointed.

Note 2: The Chief Executive, Strategic Director - Resources, and the Executive Head of Legal and Democratic Services each received £1,620.75 for officiating at the Alternative Vote Referendum in May 2011.

Note 3. The Strategic Director – Resources was in post from April 2010. There was a one month overlap between the current and previous Strategic Director – Resources.

Note 4. The Strategic Director – CYPLS was a shared interim position in 2010/11 and 2011/12 up to 20 February 2012 when the new Strategic Director was appointed, the amounts shown are the amounts paid to each individual.

Note 5. The Executive Head of Human Resources is a shared post with the London Borough of Merton.

30. Exit Packages

The following table gives details of exit packages paid to employees being made redundant in bands of £20k up to £100k, and thereafter in bands of £50k.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
£	**2010/11**	**2011/12**	**2010/11**	**2011/12**	**2010/11**	**2011/12**	**2010/11**	**2011/12**
0 - 20,000	18	139	7	21	25	160	236,848	1,332,603
20,001 - 40,000	7	21	7	12	14	33	409,953	890,785
40,001 - 60,000	3	0	3	2	6	2	278,304	97,779
60,001 - 80,000	0	0	0	3	0	3	0	215,721
80,001 - 100,000	0	0	1	0	1	0	86,890	0
100,001 - 150,000	0	0	0	0	0	0	0	0
Total	**28**	**160**	**18**	**38**	**46**	**198**	**1,011,995**	**2,536,888**

31. External Audit Costs

2010/11 £'000		2011/12 £'000
228	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	205
85	Fees payable to the Audit Commission for the certification of grant claims and returns	70
313	**TOTAL**	**275**

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

The Council's expenditure on schools is funded primarily by grant monies provided by the Department Education (DfE), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. 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 2011/12 are as follows:-

	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
Final DSG for 2011/12			105,845
Brought forward from 2010/11			1,610
Carry forward to 2012/13 agreed in advance			0
Agreed budgeted distribution in 2011/12	21,755	85,700	107,455
Actual central expenditure	18,928		
Actual ISB deployed to schools		85,700	
Local authority contribution for 2011/12	0	0	0
Carry forward to 2012/13	2,827	0	2,827

In 2011/12, the Council received DSG funding of £105.845 million which included £368,000 for Exceptional Circumstances Grant and this has been credited against the Education service revenue account.

There were in year adjustments due to the fact that 14 schools transferred to Academy status during the year. This resulted in a reduction of £370,000 on the central expenditure due to the Local Authority Central Spend Equivalent Grant (LACSEG) deduction and on the Individual Schools Budget (ISB) of £46.684 million.

DfE regulations require the underspending of £2.827 million against the central expenditure element of the grant to be carried forward to 2012/13 to support the Schools Budget in future years.

33. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12

2010/11 £'000		2011/12 £'000	2011/12 £'000
	Credited to Taxation and Non Specific Grant Income		
6,913	- Revenue Support Grant	13,047	
10,900	- Area Based Grant	0	
47,606	- Redistributed National Non-Domestic Rate	42,209	
0	- Learning Disabilites Grant	17,586	
0	- Early Intervention Grant	7,923	
0	- Council Tax Freeze Grant	2,109	
0	- Housing Benefit and Council Tax Admin Grant	1,549	
0	- Preventing Homelessness Grant	500	
0	- New Homes Bonus	428	
0	- Flood Prevention Grant	125	
0	- Extended Free Travel Grant	7	
65,419			**85,483**
	Capital Grants and Contributions		
26,150	- Standards Fund	44,243	
2,096	- My Place Lottery	0	
1,433	- Children's Centre Grant	0	
6,465	- Mayors Grant	1,889	
326	- Contaminated Land & Air Quality	0	
550	- Disabled Facilities	612	
707	- Coldbusters and Empty Properites	305	
863	- Housing Associations	820	
590	- Leaseholder Contributions	214	
2,785	- PCT grants	0	
593	- Playbuilder Grants	0	
0	- Section 106 Contributions	630	
0	- Insurance Contribution	150	
0	- Heritage Lottery	282	
0	- Regional Heritage Pot	221	
0	- Adult Personal Social Services	377	
0	- Short Breaks for Disabled Children	321	
1,642	- Other Capital Grants and Contributions	261	
44,200			**50,325**
109,619			**135,808**
	Revenue Grants Credited to Services		
132,744	- Dedicated Schools Grant	105,845	
22,280	- Learning and Skills Council	0	
0	- YPLA funding	7,046	
0	- Skills Funding Agency	1,122	
18,461	- Standards Fund and Schools Standards Grant	136	
5,487	- Surestart	0	
102	- Asylum Seekers	109	
16,414	- Rent Rebate Subsidy	17,942	

2010/11		2011/12	
£'000		£'000	£'000
53,483	- Rent Allowances	57,270	
14,105	- Council Tax Rebates	13,932	
1,683	- Housing Benefit Administration	0	
260	- Parenting Support Grant	0	
136	- Think Family Reform	0	
245	- Children's Workforce Dvelopment Council	289	
249	- Highways Repair Grant	0	
777	- Campus Closure Grant	0	
87	- Stroke Care Grant	0	
745	- Social Care Reform Grant	0	
146	- Drug Intervention Programme	133	
256	- Homelessness Grant	45	
0	- Capacity Building Grant	130	
216	- NNDR cost of collection allowance	211	
0	- Safer Stronger Communities Funding	189	
0	- Pupil Premium	1,572	
0	- Warm Homes Healthy People Grant	79	
0	- Music Grant	211	
0	- Other	659	
267,876			**206,920**
377,495			**342,728**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned. The balances at the year-end are as follows:

2010/11		2011/12
£'000	**Capital Grants Receipts in Advance**	£'000
25,500	Standards Fund	1,639
571	S106 Contributions	1,565
26,071	**TOTAL**	**3,204**

34. Related Parties

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

Central Government
Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties, (e.g. housing benefit). Details of transactions with government departments are set out in note 33 to the Core Financial Statements.

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

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

Other Local Authorities
The Authority is a partner in the South London Waste Partnership, a Joint Committee established in September 2007 to secure waste treatment and disposal services for the London Boroughs of Croydon, Merton, Royal Borough of Kingston upon Thames and Sutton. The Royal Borough of Kingston upon Thames is the lead Borough for procurement and payments totalling £6.9 million, included in the comprehensive income and expenditure account were paid to the Royal Borough of Kingston Upon Thames as lead authority.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is £919,000.

The Pension Fund had an average balance of £6.2 million of surplus cash deposited with the Council during 2011/12. The Council charged the Fund £557,000 for expenses incurred in administering the Fund.

Sutton Housing Partnership (SHP), is a wholly owned subsidiary of the London Borough of Sutton. It was created to manage and improve the Council's housing stock and estates. It has the responsibility for managing approximately 6,500 homes for the Council.

It is managed by a board of 12 members made up of 4 Council nominees, 3 tenants, 1 leaseholder and 4 independent community representatives with professional skills and experience to help run the services.

In 2011/12 the turnover of SHP amounted to £14.295 million and net liabilities (including the pension deficit) were valued at £2.4 million. The Council is liable to contribute to the debts and liabilities of the organisation if it is wound up, to the value of £1.

An audited copy of SHP's 2011/12 accounts can be obtained from Brendan Crossan, Executive Director of Resources, Sutton Housing Partnership, Sutton Gate, 1 Carshalton Road, Sutton SM1 4LE. The accounts are also available on SHP's website, www.suttonhousingpartnership.org.uk

35. 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:-

2010/11 £'000		2011/12 £'000
104,530	Opening Capital financing requirement	111,628
	Capital Investment	
50,493	- Property, Plant and Equipment	52,489
2,661	- Intangible Assets	1,822
7,172	- Revenue Expenditure Funded from Capital Under Statute	147,900
	Sources of Finance	
(1,521)	- Capital Receipts	(3,052)
(45,405)	- Government grants and other contributions	(38,088)
	- Sums set aside from revenue	
(2,322)	- Direct revenue contributions	(5,028)
(3,980)	- MRP / Loans fund principal	(3,778)
111,628	**Closing Capital Financing Requirement**	**263,893**
	Explanation of movements in year	
3,259	- Increase in underlying need to borrowing (supported by government financial assistance)	151,126
3,839	- Increase in underlying need to borrowing (unsupported by government financial assistance)	1,139
7,098	**Increase in Capital Financing Requirement**	**152,265**

36. Authority as Lessee - Operating Leases

During 2011/12 no vehicles, plant or equipment were acquired under operating lease arrangements (acquisitions were funded through contract hire). The following payments were made, and obligations remain outstanding, in respect of operating leases that the Council has previously entered into:

2010/11 £'000		2011/12 £'000
99	Total rentals paid under operating leases	25
25	Estimated outstanding obligations undischarged at 31 March	0
124	**Total**	**25**
	Expiration of Undischarged Obligations	
	The value of annual lease rentals that expire in the following periods:	
25	Not later than one year	0
0	Later than one year and not later than five years	0
0	Later than five years	0
25	**Total**	**0**

37. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

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

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

  The Authority contributes to the scheme at a rate of 14.1% of members' pensionable salaries and in 2011/12 the contribution amounted to £12.082 million (£10.3 million in 2010/11). 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 2011/12 totalled £0.5 million (£0.5m in 2010/11).

- The London Borough of Sutton participates in the Local Government Pension Scheme, a defined benefit scheme based on final pensionable salary. The scheme is a funded scheme meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The valuation of the fund and assessment of employer contribution rates is carried out by an independent actuary. The most recent formal valuation was carried out as at 31 March 2010, and has been updated, on an interim basis, by the Council's actuary, Hymans Robertson, to take account of the requirements of IAS19 in assessing the liabilities of the Fund as at 31 March 2012 as set out below. Pension Fund regulations require full actuarial valuations to be prepared every three years and the next valuation will be based on the financial position of the fund as at 31 March 2013.

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:-

2010/11	Comprehensive Income and	**2011/12**	
£'000	Expenditure Statement	**£'000**	**£'000**
	Cost of Services:		
16,459	- Current Service Costs	13,922	
(61,699)	- Past Service Costs / (Gain)	0	
507	- Impact of Settlements and Curtailments	(11,698)	
(44,733)			**2,224**
	Financing and Investment Income and Expenditure:		
33,212	- Interest Cost	29,049	
(22,740)	- Expected Return on Assets	(22,056)	
10,472			**6,993**
(34,261)	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**		**9,217**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
(62,542)	Actuarial gains and losses		27,734
(96,803)	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**		**36,951**

	Movement in Reserves Statement:	
34,261	- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(9,217)
	Actual amount charged against the General Fund balance for pensions in the year:	
19,731	- Employers' Contributions Payable to Scheme	18,821

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £182.0 million.

c) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries, with estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2010.

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

As at 31 March 2011		As at 31 March 2012
%		**%**
2.8	Rate of Inflation	2.5
5.1	Rate of Increase in Salaries	4.8
2.8	Rate of Increase in Pensions	2.5
6.7	Rate of Return on Assets	5.5
5.5	Rate for Discounting Scheme Liabilities	4.8
25	Take-Up of Option to Convert Annual Pension into Retirement Lump Sum	25
Years		**Years**
21.0	Longevity at 65 for Current Pensioners - Men	21.0
23.8	Longevity at 65 for Current Pensioners - Women	23.8
22.9	Longevity at 65 for Future Pensioners - Men	22.9
25.7	Longevity at 65 for Future Pensioners - Women	25.7

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

As at 31 March 2011		As at 31 March 2012
%		%
7.5	Equities	6.2
4.9	Bonds	4.0
5.5	Property	4.4
4.6	Cash	3.5
5.6	**Total Fund**	**4.5**

As at 31 March 2011		As at 31 March 2012
% of Fund		% of Fund
68	Equities	68
21	Bonds	23
6	Property	6
5	Cash	3
100	**Total Fund**	**100**

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

The application of these factors produced an expected return on assets of £22.0 million for 2011/12. However, the Council's actual return was positively affected by the upturn in the financial market during the year and the result for 2011/12 was a gain of £15.9 million.

d) Reconciliation of the Present Value of the Scheme Liabilities

2010/11		2011/12
£'000		£'000
650,117	**Balance at 1 April**	**544,805**
	Movements in period	
16,459	- Current Service Cost	13,922
33,212	- Interest Cost	29,049
5,279	- Contributions by Members	4,723
(79,608)	- Actuarial Gains and Losses	21,550
(19,462)	- Benefits Paid	(21,331)
(61,699)	- Past Service Costs	0
507	- Settlements and Curtailments	(18,357)
544,805	**Balance at 31 March**	**574,361**

e) Reconciliation of the Fair Value of the Scheme Assets

2010/11		2011/12
£'000		£'000
322,353	**Balance at 1 April**	**333,575**
	Movements in period	
19,731	- Contributions by Employers	18,821
5,279	- Contributions by Members	4,723
22,740	- Expected Return on Assets	22,056
(17,066)	- Actuarial Gains and Losses	(6,184)
0	- Assets Distributed on Settlements	(6,659)
(19,462)	- Benefits Paid	(21,331)
333,575	**Balance at 31 March**	**345,001**

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 Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £12.724 million (£21.781 million in 2010/11).

f) Scheme History

	31 March 2008	31 March 2009	31 March 2010	31 March 2011	31 March 2012
	£'000	£'000	£'000	£'000	£'000
Present Value of Liabilities	414,364	408,076	650,117	544,805	574,361
Fair Value of Assets	(286,568)	(232,676)	(322,353)	(333,575)	(345,001)
Deficit	127,796	175,400	327,764	211,230	229,360

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £229.4 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet.

However, it is intended that the deficit will be made good over a twenty two year recovery period, as assessed by the Council's actuary in accordance with government guidelines.

Total employer's contributions for the year to 31 March 2013 are expected to be approximately £15.7 million.

g) Exceptional reduction in liability

The Pension Fund's net liability decreased during the year by 8.58%, due to falling real bond yields and poor asset returns.

h) History of Experience Gains and Losses

The related experience gains and losses for 31 March 2012 and earlier years are as follows:-

	31 March 2008	31 March 2009	31 March 2010	31 March 2011	31 March 2012
	%	%	%	%	%
On assets as % of Fair Value	(10)	(35)	21	(5)	(2)
On liabilities as % of Present Value	(1)	0	0	3	1

38. Contingent Liabilities

The Council is aware of a potential liability arising from its previous arrangement with the Municipal Mutual Insurance Company (MMI). MMI stopped writing insurance business on 30 September 1992 and a scheme of arrangements to achieve an orderly run-off become effective in 1994. MMI continues to pay all creditors in full unless at any time in the future a solvent-run off cannot be foreseen. If at any time in the future the Directors of MMI can no longer foresee a solvent run-off the contingent scheme of arrangement will be activated and responsibility of MMI's management would pass to the scheme administrators. In this case the administrator can levy amounts from the scheme creditors and the based on the current deficit of 8.3% gives a potential levy for Sutton of £323,000 based on the September 2011 MMI financials. This amount has been set aside in the earmarked insurance reserve.

39. 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 - TMP's) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMP's are a requirement of the Code of Practice and are reviewed periodically.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council in March 2012 and is available on the Council's website. Actual performance is reported on a quarterly basis to the Audit Committee.

Credit Risk

Credit risk arises from the lending of surplus cash funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council is currently only using UK banks and high security money market funds. The Council has a policy of limiting deposits with individual institutions to a maximum of £15 million.

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

- Historical experience of default
- Historical experience adjusted for market conditions as at 31 March 2012.

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

The maximum credit limit for individual institutions was not exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties except for two deposits made to Heritable Bank outlined below.

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

31 March 2011		31 March 2012
£'000		£'000
34,016	Less than three months	38,813
0	Three to six months	0
0	Six months to one year	0
0	More than one year	0
34,016	**Total**	**38,813**

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

31 March 2011		31 March 2012
£'000		£'000
30,266	Less than three months	27,834
0	Three to six months	0
0	Six months to one year	0
1,584	More than one year	1,731
31,850	**Total**	**29,565**

Heritable Bank

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

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

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

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The initial estimate from the administrators Ernst and Young of the recoverable amount was 80 pence in the pound and this was used to estimate the impairment included in the 2008/09 accounts. In the latest creditor progress report this estimate has been improved to 88 pence in the pound and as such the impairment shown in the 2011/12 accounts has been reduced. There is some indication that the recovery amount may still increase.

In calculating the revised impairment the following assumptions on timing of recoveries have been made and this Council has used these estimates to calculate the impairment based on recovering 88p in the £:

April 2012 - 3.79%, July 2012 - 3.55%, Oct 2012 - 3.5%, Jan 2013 - 3.5%, April 2013 - 5.81%,

Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 6 October 2008. As the available information is not certain in terms of amounts and timings of payments to be made by the administrators, further adjustments are likely to be made to the accounts in future years.

Under accounting requirements for calculating these impairments the Council will continue to accrue interest on these impaired investments at each investment's original interest rate until it is derecognised in the balance sheet. This will be the point at which the final payment in from the administrators is received. The revised impairment charge is calculated by discounting the expected repayments by the original interest rate of each investment and comparing this against the carrying amount for each investment. This results in a reduction of £325k in the initial charge of £1.754 million included in the 2009/10 accounts and an overall charge of £0.791 million over the anticipated period that repayments will be made. The impact of the revision to the impairment charge and interest credits on the accounts between 2008/09 and 2012/13 is shown in the table below.

	08/09	09/10	10/11	11/12	12/13	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Recognition of Impairment	1,754	0	0	0	0	1,754
Revision to Impairment	0	(329)	4	(135)	0	(460)
Interest credited	(200)	(213)	(137)	(79)	(41)	(670)
	1,554	**(542)**	**(133)**	**(214)**	**(41)**	**624**

The overall net projected impairment on the accounts of £0.624 million represents the £0.660 million (12%) of the deposits that the administrators are currently advising may not be recovered, reduced by £0.036 million to allow for the recovery of 88% of the interest accrued on the deposits up to 6 October 2008.

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

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

Liquidity Risk

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

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

Analysis of Liquidity Risk

On 31 March 2011	Loans Outstanding	On 31 March 2012
£'000		£'000
49,494	Public Work Loans Board	195,541
15,300	Market debt	25,300
64,794	**Total**	**220,841**
79	Less than 1 year	44
44	Between 1 and 2 years	27
7,042	Between 2 and 5 years	12,018
607	Between 5 and 10 years	607
57,022	More than 10 years	208,145
64,794	**Total**	**220,841**

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

In the category of more than 10 years there are £25.3 million of LOBOs and a PWLB loan of £141.126 million to fund the HRA Settlement payment to central government. Three out of four LOBOs are now in their secondary period, which provides an option for them to be called before maturity date. Any risks associated with re-financing these loans will be managed as part of out Treasury Management Statement.

Market Risk

Interest rate risk

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

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

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

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

According to this assessment strategy, at 31 March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

Analysis of Risk

	£'000
Increase in interest payable on variable rate borrowings	153
Increase in interest receivable on variable rate investments	(564)
Increase in government grant receivable for financing costs	0
Impact Surplus or Deficit on the Provision of Services	**(411)**

Share of overall impact debited to the HRA	**(45)**
Decrease in fair value of fixed rate investment assets	0
Impact on Other Comprehensive Income and Expenditure	0
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(28,861)

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

Price Risk

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

Foreign Exchange Risk

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

Section 4

Other Financial Statements

2011/12

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Housing Revenue Account

2011/12

This shows the income from, and costs of providing, Council housing and related ancillary services to Council tenants.

HRA Income and Expenditure Account
For The Year Ended 31 March 2012

2010/11		Notes	2011/12
£'000			£'000
	Expenditure		
13,758	Sutton Housing Partnership Management Fee		13,557
1,853	Other Operating Costs		1,972
2,216	Rents, Rates, Taxes and Other Charges		2,096
9,869	HRA Subsidy Payable to central government	10	9,882
0	HRA Self-Financing Settlement	11	141,126
4,722	Depreciation of Fixed Assets	8	4,890
	Impairment Costs:	9	
1,442	- Demolitions		1,935
127,985	- Revaluations		15,730
184	Increase in Bad Debt Provision		173
162,029	**Total Expenditure**		**191,361**
	Income		
27,019	Gross Rent from Council Dwellings		28,612
653	Gross Non Dwellings Rent		696
4,070	Charges for Services and Facilities		4,072
165	Contributions Towards Expenditure		187
475	Other Government Grants		421
32,382	**Total Income**		**33,988**
129,647	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**		157,373
78	HRA Services Share of Corporate and Democratic Core		65
129,725	**Net Cost of HRA Services**		**157,438**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement.		
(46)	Gain on disposal of non-current assets		0
162	Interest Payable and similar charges		467
(36)	Interest and Investment Income		(18)
66	Pensions Interest Cost and Expected Return on Pension Assets		35
129,871	**Deficit for the Year on HRA Services**		**157,922**

Statement of Movement on the Housing Revenue Account Balance

2010/11 £'000		2011/12 £'000
823	**Balance on the Statutory HRA at the end of the previous year**	**326**
(129,871)	Surplus/ (Deficit) on the HRA Income and Expenditure Account for the year	(157,922)
	Adjustments between accounting basis and funding basis under statute	
	Amounts included in the HRA Income and Expenditure Account but required to be excluded when determining the HRA Surplus or Deficit for the year	
169	- Net Charges made for Retirement Benefits in Accordance with FRS17	116
129,427	– Impairment Costs	17,665
(46)	– Gain on disposal of non-current assets	0
0	- HRA Self-Financing Settlement	141,126
	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	
(124)	- Employers Contributions Payable to the Pension Fund	(110)
(445)	**Net (decrease)/increase before transfers to or from reserves**	**875**
55	Transfer from the Major Repairs Reserve	56
(107)	Transfer to Heating Reserve	(75)
326	**Balance on the Statutory HRA Reserve Carried Forward**	**1,182**
521	Heating Reserve – Accumulated Surplus	596
847	**Total Balance**	**1,778**

Notes to the Housing Revenue Account

1. Sutton Housing Partnership

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

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

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

2. Balance Carried Forward

The HRA Reserve balance carried forward at 31 March 2012 of £1,182,196 (£325,663 at 31 March 2011) reflects the decision taken last year to raise the balance to a more prudent level over 3 years and exceeds the target of £900,000 set in the budget. In addition the HRA carries a Heating Reserve of £595,640 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.

3. Housing Stock

At 31 March 2012 the Council managed 6,313 tenanted and leasehold dwellings. The Council also owned a proportion of 14 equity share/shared ownership dwellings, being the equivalent of 8 fully-owned dwellings.

Analysis of HRA Dwellings at 31 March 2012

Total 2010/11		Bedsits	Flats	Houses	Total 2011/12
6,463	**Dwellings at 1 April**	**229**	**3,217**	**2,954**	**6,400**
(55)	Demolitions	0	(58)	0	(58)
0	Stock Transfers	0	(32)	0	(32)
(4)	Right to Buy Sales	0	0	(2)	(2)
0	Other Disposals	0	0	0	0
(4)	Net Changes through Change of Use or Refurbishment	1	4	0	5
6,400	**Dwellings at 31 March**	**230**	**3,131**	**2,952**	**6,313**

58 properties were demolished during 2011/12, and carried a book value of £1.9 million prior to demolition. This has been treated as an impairment charge and written out through the HRA. The impairment charges do not impact on the HRA balance, and have been written back in the Statement of Movement on the HRA balance.

4. Stock Valuation

An interim revaluation of the Council's housing stock was completed as at 1 April 2011, price changes to 31 March 2012 were reviewed but are not reflected in the following figures as the impact was immaterial. Disposals to 31 March 2012 have been accounted for in the valuation.

Balance Sheet Valuation of HRA Assets

As at 31 March 2011		As at 31 March 2012
£'000	Operational Assets:	**£'000**
257,622	- Dwellings	250,335
3,819	- Other Land and Buildings	3,666
3,864	Non Operational Assets	4,099
265,305	**Total**	**258,100**

This valuation reflects the use of HRA dwellings as tenanted stock. The vacant possession valuation at 31 March 2012 is £1.001 million (£1.037 million at 31 March 2011). The balance sheet valuation is considerably lower because dwellings are tenanted and the rents charged reflect the position of social housing, and discounts are available to tenants who purchase their dwellings under the statutory Right-to-Buy scheme.

5. Major Repairs Reserve

The reserve is credited with the depreciation charged to the HRA each year with an adjustment to ensure the net credit in the year equals the Major Repairs Allowance (MRA) which forms part of the overall housing subsidy arrangements. 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.

2010/11		2011/12
£'000		**£'000**
229	Balance at 1 April	0
1,267	Major Repairs Allowance received	4,833
55	Depreciation on non-dwellings	56
(1,499)	MRA used on capital projects	(4,538)
(55)	Transfer to Statement of Movement on HRA balance	(56)
3	Capital Receipts Allowance on Improvements Relating to Right-to-Buy Properties	3
0	**Balance Carried Forward at 31 March**	**298**

6. HRA Capital Financing

2010/11		2011/12
£'000		**£'000**
9,462	HRA Capital Expenditure	**15,121**
	Financed by :	
6,244	Loan	10,000
1,499	Major Repairs Reserve	4,538
234	Capital Receipts	2
1,485	Other	581
9,462	**Total**	**15,121**

7. HRA Capital Receipts

2010/11		2011/12
£'000		**£'000**
273	Roundshaw Stock Transfer	20
610	Right to Buy Sales	426
5	Mortgage Repayments	4
888	**Total**	**450**

8. Depreciation

The Council's depreciation policy is to write down asset values over their estimated life, on a straight line basis. For Council dwellings the policy has been to provide for depreciation at an amount equal to the Major Repairs Allowance (MRA) as recommended by Department of Communities and Local Government (DCLG). Depreciation based on MRA equates to £4.8 million. Assuming an average life of 50 years for Council dwellings, depreciation, excluding land values, would amount to some £3.4 million. This difference is not considered material to the overall valuation of the Council's housing stock.

2010/11		2011/12
£'000		**£'000**
	Operational Assets:	
4,667	Dwellings	4,834
54	Other Land and Buildings	56
4,721	**Total**	**4,890**

9 Impairment

Impairment charges totalling £17.665 million have been made during 2011/12. This charge is a result of the following:

- £15.7 million impairment due to a 1.7% reduction in the House Price Index (HPI) used in the revaluation of Council Dwellings, and;
- £1.9m impairment due to a number of housing properties being demolished in year.

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

10 Housing Revenue Account Subsidy

The HRA subsidy system redistributes rent income across all local authorities with housing functions. Sutton is a net contributor to the system. 2011/12 is the final year of the government's subsidy system. In future years the surplus will be needed to pay for the loan financing costs resulting from the £141.126 million HRA self-financing settlement payment.

This is made up of the following elements:

2010/11		2011/12
£'000		**£'000**
12,324	Allowance for Management & Maintenance	12,582
4,667	Allowance for Major Repairs	4,834
682	Charges for Capital	812
(27,263)	Guideline Rent Income	(28,689)
(1)	Interest on Receipts	(1)
(278)	Other	580
(9,869)	**Negative subsidy payable to the Central Government**	**(9,882)**

11. Material item on the HRA Income and Expenditure Account

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

12. Contributions to and from the Pension Reserve

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

13. Rent and Service Charge Arrears

Rent and service charge arrears at 31 March 2012 totalled £909,951 compared to £1,000,618 at 31 March 2011. As a proportion of gross rent and service income, this represents 3.69% compared to 3.58% in 2010/11.

Total provision for uncollectable rent and service debt totalled £754,621 at 31 March 2012 compared to £799,200 at 31 March 2011.

As at 31 March 2011		As at 31 March 2012
£'000		**£'000**
902	Current Tenant Arrears	960
599	Former Tenant Arrears	696
1,501	**Total**	**1,656**
(500)	Accounts in credit	(518)
1,001	**Net Arrears**	**1,138**

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

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

As at 31 March 2011 £'000		As at 31 March 2012 £'000
(799)	Tenants rent	(755)
(799)	**Total**	**(755)**

Collection Fund

2011/12

This summarises income from the Council Tax and business rates (NNDR), precepts and demands upon the Fund.

Collection Fund Income and Expenditure Account 2011/12

2010/11 £'000		2011/12 £'000
	Income	
94,306	Council Tax collectable	94,870
13,938	Transfers from General Fund re Council Tax Benefits	13,656
46,385	Income Collectable from Business Ratepayers (Note 3)	48,874
1,467	Income Collectable in respect of Business Rate Supplement	1,428
156,096	**Total Income**	**158,828**
	Expenditure	
	Council Tax Precepts & Demands (Note 4)	
84,083	- London Borough of Sutton	84,361
21,360	- Greater London Authority - General	21,430
1,474	- Olympics	1,479
	National Non-domestic Rates (Business rates):	
46,169	- Payment to National Pool	48,663
216	- Costs of Collection	211
	Cross Rail (NNDR/Business rates additional precept):	
1,457	- Payment to GLA	1,419
10	- Costs of Collection	9
	Bad and Doubtful Debts (Council Tax):	
(110)	- Write-offs/(Write-back)	93
(65)	- Increase/(Decrease) in Provision	109
	Contributions:	
1,271	- Towards Distribution of Estimated Surplus	1,000
155,865	**Total Expenditure**	**158,774**
1,365	Fund Balance 1 April	1,596
231	Surplus/ (Deficit) for the Year	54
1,596	**Surplus Carried Forward 31 March**	**1,650**
	Distribution of Fund Balance:	
1,256	- London Borough of Sutton	1,298
340	- Greater London Authority	352
1,596	**Total Distribution of Fund Balance**	**1,650**

1. General

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

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 (£1,450.71 in 2011/12) by the ratio applicable to the property.

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

Valuation Office estimated market value as at April 1991	Band	Estimated Number of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings	
Less Than £40,000	A	603	6/9	402	
£40,000 - £52,000	B	5,628	7/9	4,377	
£52,000 - £68,000	C	22,581	8/9	20,072	
£68,000 - £88,000	D	21,378	9/9	21,378	
£88,000 - £120,000	E	11,258	11/9	13,760	
£120,000 - £160,000	F	6,329	13/9	9,142	
£160,000 - £320,000	G	3,409	15/9	5,682	
£320,000 or more	H	226	18/9	453	
		71,412		75,266	
Deduct :-					
Adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation banding, new properties, demolitions, disabled persons relief, reduced second homes discount and exempt properties.				1,323	1.76%
		Council Tax Base		73,943	98.24%
		Band D council tax charge		£1,450.71	
		Total Precept raised (Note 4)		£107,269,850	

3. Income From Business Ratepayers

Under the arrangements for uniform national non-domestic rates (business rates), the Council collects non domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn, is paid back to authorities as part of Formula Grant their share of the pool being based on a standard amount per head of resident population. In 2011/12 the Council received £42.2 million from the pool, and contributed £48.8 million.

The total non domestic rateable value at 31 March 2012 in Sutton was £131.647 million (£132.136 million at 31 March 2011). The Government advises local authorities of the two business rate multipliers annually. For 2011/12 these were:

- Small business non-domestic rating multiplier - 42.6p per £ (40.7p per £ in 2010/11)
- Non-domestic rating multiplier - 43.3p per £ (41.4p per £ in 2010/11)

4. Precepts and Demands

2010/11 £'000		2011/12 £'000
84,083	London Borough of Sutton	84,361
22,834	Greater London Authority	22,909
106,917	**Total**	**107,270**

In addition to the £107.270 million above, the estimated surplus on the Collection Fund at 31 March 2011 of £1.000 million was shared between the Council and the GLA in 2011/12, £0.786 million and £0.214 million respectively.

Section 5

Pension Fund Accounts

2011/12

These show the operation of the Sutton Local Government Pension Fund and do not form part of the Income and Expenditure Account or Balance Sheet.

London Borough of Sutton Pension Fund Accounts for the Year Ended 31 March 2012

2010/11 £'000		Notes	2011/12 £'000
	Contributions and Benefits		
	Contributions Receivable:		
19,472	From Employers	2	20,393
5,873	From Employees or Scheme Members	2	5,658
4,438	Transfers In	4	3,298
29,783	**Sub-Total Income**		**29,349**
	Benefits Payable:		
14,106	Pensions	3	15,474
4,368	Lump Sum Retirement Grants	3	6,070
474	Lump Sum Death Benefits	3	300
	Payments to and on account of Leavers:		0
56	Refund of Contributions		63
4,240	Transfers Out		2,034
572	Administrative and Other Expenses		557
23,816	**Sub-Total Expenses**		**24,498**
5,967	**Net Addition from Dealings with Scheme Members**		**4,851**
	Return on Investments		
10,508	Investment Income	6d	8,813
(318)	Taxes on Income	6e	(306)
11,591	Increase/(Decrease) in Market Value of Investments		4,217
(1,433)	Investment Management Expenses		(906)
20,348	**Net Return on Investments**		**11,818**
26,315	**Net Increase/(Decrease) in Fund During Year**		**16,669**
329,040	Opening Net Assets of the Scheme		355,355
355,355	**Total Net Assets at 31 March**		**372,024**
	Net Assets Statement		
	Investment Assets:		
241,521	Equities		244,179
20,346	Fixed Interest Securities - Public Sector		24,964
49,155	- Other		51,169
5,123	Index Linked Securities - Public Sector		8,840
20,628	Property Fund		26,645
336,773	**Sub-Total Securities**	6b	**355,797**
2,675	Loans to businesses		5,544
4,869	Cash		3,430
1,288	Debtors		1,011
345,605	**Total Investment Assets**	6a	**365,782**
	Current Assets		
9,941	Cash in Hand		6,127
410	Debtors (Contributions from Employers)		359
(601)	Current Liabilities		(244)
355,355	**Total Net Assets at 31 March**		**372,024**

1. Membership

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

Scheduled Bodies:
- Carshalton College
- Sutton Housing Partnership

Admitted Bodies:
- Bandon Hill Joint Cemetery Committee
- Citizens Advice Bureaux
  - Beddington & Wallington
  - Sutton
  - St Helier (office now closed)
- Housing21 (admitted in 2008/09)
- H21 (Dementia Voice) (admitted in 2008/09)
- ThamesReach (admitted in 2008/09)
- The former Sutton and District Water Company (no current contributors)
- Sports and Leisure Management (admitted 01/04/2011)

As at 31 March, membership of the fund comprised

31 March 2011 No.		31 March 2012 No.
4,164	Employees & Council Members	3,962
2,868	Pensioners and dependants	3,030
3,052	Former Employees - deferred benefits	3,356
10,084	**Total**	**10,348**

2. Contributions to the Fund

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

For Scheduled Bodies the employers’ rates of contribution were:
- Carshalton College – 16.9% (17.2% since 2008/09) plus £214k
- Sutton Housing Partnership – 18.0% plus £88k (15.5% since 2008/09) and a capital payment for the deficit contribution

For Admitted Bodies the employers’ rates of contribution were:
- Bandon Hill Joint Cemetery Committee – 33.7% (28.3% since 2008/09)

- Citizens Advice Bureaux – 31.1% (23.8% in 2010/11,26.5% in 2009/10 and 24.0% in 2008/09)
- Housing21 – 22.4% (21.8% since 2008/09)
- H21 (Dementia Voice) – 19.0% (20.4% since 2008/09)
- ThamesReach – 16.7% (21.6% since 2008/09)

Contributions to the Pension Fund were as follows:-

2010/11		2011/12
£'000		**£'000**
	Employers Contributions	
12,244	London Borough of Sutton - Future Service	12,639
6,108	London Borough of Sutton - Deficit Funding	6,266
	Scheduled Bodies	
477	- Carshalton College	653
542	- Sutton Housing Partnership	703
101	Admitted Bodies	132
19,472		**20,393**
	Active Members Contributions	
5,429	London Borough of Sutton	5,224
	Scheduled Bodies	
186	- Carshalton College	174
232	- Sutton Housing Partnership	228
26	Admitted Bodies	32
5,873		**5,658**

3. Analysis of Benefits Payable

2010/11		2011/12
£'000		**£'000**
18,389	London Borough of Sutton	21,168
	Scheduled Bodies	
200	- Carshalton College	298
268	- Sutton Housing Partnership	294
91	Admitted Bodies	84
18,948	**Total Benefits Payable**	**21,844**

4. Transfers In

This includes £563,000 in respect of the bulk transfer of pension liabilities from the Learning Skills Council.

5. Accounting Policies

The accounts summarise the transactions and net assets of the fund. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2012. This liability is included within the individual employer's balance sheet.

The financial statements have been prepared on a going concern basis. The accounts have also been prepared on an accruals basis and in accordance with the Statement of Recommended Practice (SORP) as applicable to Local Authorities, and the provisions of Chapter 2 Recommended Accounting Practice of the Pension SORP 2007. In particular:

a) Valuation of Investments

Investments have been recognised at market value, so far as these have been ascertainable, with any surplus or deficit on valuations being credited directly to the fund balance. Market values for all securities (current bid price) are determined by prices quoted on stock exchanges at 31 March 2012.

Where market values have not been available, the investments have been recognised on an appropriate fair value basis. This applies where the Pension Fund holds investments which are classified as pooled vehicles. Included within this are unitised insurance policy based investments, which are managed by Legal and General (L&G) and these are valued by the manager at bid price, reflecting the bid value of the underlying assets. These prices are not quoted on recognised investment exchanges.

The pooled vehicles held with Aberdeen, RREEF, Newton and AVIVA are not determined by valuation of listed exchanges. They are valued based on the "bid" or closing price on underlying net assets. The valuation of AVIVA is based on the bid price at 10 April 2012.

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

b) Investment income is taken into account where dividends are declared but not paid at the balance sheet date.

c) A proportion of relevant officers' salaries, including related oncosts, has been charged to the Fund. Investment manager and custodian fees have been accounted for according to their respective agreements.

d) Transfer values are accounted for on a cash basis as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

e) Under the Code the Council has adopted the amendment to IAS 19 Retirement Benefits, under which quoted investments held as assets in the Pension Fund are valued at bid price rather than mid-market value.

f) Fund manager assets denominated in non-sterling currencies are translated to sterling by the asset custodian using its foreign exchange rates for the balance sheet dates.

6. Fund Management

a) Allocation of Assets

The Sutton Fund is mandated to five different fund managers at 31 March 2012. The asset allocation benchmark is 67.8% in global equities (split 50/50 between UK and Overseas), managed in separate, equal sized portfolios by L&G and Newton. 23.2% of the fund is targeted in Bonds by Aberdeen and 7.5% in Property with 6.2% with RREEF and 1.3% with AVIVA. The Fund is also invested with M&G, a UK companies financing fund as an off benchmark allocation. Fees negotiated with fund managers for their services are on a sliding scale related to the overall value of funds managed, and include a performance element for equity based funds. Alliance Bernstein ceased to hold assets in the fund on 23 March 2011.

The market value of assets held by the fund managers at 31 March 2012 totalled £365.8 million split as follows:

	£m	% of Investment Assets
Legal & General (equities)	110.134	30.1
Newton (equities)	137.834	37.7
Aberdeen (bonds)	85.020	23.2
RREEF (property)	22.380	6.2
M & G Loans to businesses	5.544	1.5
AVIVA (property)	4.831	1.3
Total	**365.743**	**100.0**

£232.934 million of the Fund’s assets are held in unitised form, comprising the bond and property assets and some equity unit trusts. The two largest unitised holdings are Aberdeen’s Long Dated Sterling Credit Fund, representing 11.7% of net assets, and RREEF’s UK Core Property Fund 5.9%. There is no other individual holding of more than 5%.

b) Analysis of Investments

The analysis of investments has revealed that the classification of investments was mis-stated in last years accounts. Specifically, quoted equity, fixed interest and indexed-linked investments were incorrectly shown as unquoted investments. The opening balances shown below have been re-stated accordingly.

31/03/2011 Re-stated £'000		31/03/2012 £'000
	Equities:	
	- UK	
113,829	Quoted	111,259
	- Overseas	
127,691	Quoted	132,919
	Fixed Interest Securities:	
	- UK	
0	Public sector quoted	13,019
37,139	Corporate quoted	13,403
	- Overseas	
5,253	Public sector quoted	11,945
27,109	Corporate quoted	37,766
	Indexed linked securities:	
	- UK	
5,025	Public sector quoted	8,840
	- Overseas	
97	Public sector unquoted	0
	Property:	
	- UK	
20,628	Property fund quoted:	21,814
	- Overseas	
0	Property Unit Trust unquoted:	4,831
	Loans to business:	
2,675	Unit Trust unquoted	5,544
339,446		**361,340**
	Pooled funds - additional analysis:	
	- UK	
	Equities:	
58,386	Unit Trusts	59,328
	Fixed Interest Securities:	
69,501	Fixed income bond	76,132
	Indexed Linked Securities:	
5,123	Indexed linked bond	8,840
	Property:	
20,628	Unit Trust	21,814
	Loans to business:	
2,675	Unit Trust	5,544
	Equities:	
53,779	Unit Trusts	61,988
	Property:	
0	Unit Trust	4,831
210,092		**238,477**

c) Investment Movement Summary for 2011/12

Investment Movement Summary	Value at 31/03/2011	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2012
	£m	£m	£m	£m	£m
Equities	241.5	51.6	(45.5)	(3.4)	244.2
Bonds	74.6	56.3	(53.3)	7.4	85.0
Property	20.6	5.6		0.4	26.6
Total	336.7	113.5	(98.8)	4.4	355.8
Loans to Businesses	2.7	3.0		(0.2)	5.5
Other investment balances:					
Cash	4.9				3.4
Debtors	1.3				1.0
Total Investment Assets	**345.6**				**365.7**

Transactions costs included in the cost of purchases and in sale proceeds total £122,000.

d) Investment Income (Gross)

31/03/2011 £'000		31/03/2012 £'000
6,309	Equities	4,594
2,973	Bonds	2,987
1,089	Property	752
10,371		8,333
36	Loans to Business	219
101	Other	261
10,508		8,813

e) Taxes on Income

31/03/2011 £'000		31/03/2012 £'000
-318	Tax Withheld - Equities	-212
0	Tax Withheld - Bonds	0
0	Tax Withheld - Property	-92
0	UK Income Tax - Property	-2
-318		-306

7. Non-adjusting Post Balance Sheet Event

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

Given the current economic situation, it is possible that fluctuations in the value of assets may have occurred since the balance sheet date. In view of recent market trends, the Council has reviewed the latest valuation data available from its four main fund managers. This revealed that overall there has been no material change in value. However, Property investments suffered a decline in value of approximately 13% (£2.9m) which has been offset by increases in other classes. This change is deemed to be a non-adjusting post balance sheet event.

There have been no events since the 31 March 2012, and up to the date when these accounts were authorised, that require any adjustment to these accounts. The accounts were authorised by the Strategic Director - Resources, Gerald Almeroth, on 29 June 2012.

8. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. The last triennial valuation as at 31 March 2010 was prepared by Hymans Robertson, the Council's actuary. The valuation showed Fund assets , which at 31 March 2010 were valued at £337 million were sufficient to meet 69% of the liabilities (i.e. the present value of promised retirement benefits accrued up to that date). Following a stabilising exercise the overall employer contribution rate for LB Sutton will remain at 21.5% subject to a minimum cash sum being paid to meet the past service deficit (i.e. 17.4% of employees' earnings to fund future service deficit and the greater of 4.1% or £3,170,000 in 2011/12, £3,202,000 in 2012/13 and £3,371,000 in 2013/14 to fund past service liabilities.) This rate is intended to make good the deficit over a 22 year period, as assessed by the Council's actuary, following a separate stabilisation modelling exercise.

<u>Funding Method</u>

The funding method used identifies separately the estimated cost of members' benefits in respect of scheme membership completed before 31 March 2010 ('past service') and in respect of scheme membership expected to be completed after 31 March 2010 ('future service').

<u>Actuarial Assumptions</u>

In the actuarial valuation, the Actuary has used assumptions about the factors affecting the Fund's finances in the future. Broadly, these assumptions fall into two categories - financial and demographic. Demographic assumptions typically forecast when exactly benefits will come into payment and what form these will take. Financial assumptions typically try to anticipate the size of these benefits.

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

<u>Financial Assumptions</u>

A summary of the main financial assumptions adopted for the 2010 valuation of members benefits is shown below.

Financial assumptions	31 March 2010 % p.a. Nominal	 % p.a. Real
Funding basis discount rate	6.1%	2.8%
Pay increases*	5.3%	2.0%
Price inflation (CPI)/Pension increases	3.3%	-

* 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases

Longevity

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

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

* based on members aged 45 at the valuation date

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

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

The Actuary has calculated the actuarial present value of promised retirement benefits to be £605 million as at 31 March 2012 (£546 million as at 31 March 2011). The Council is required to provide a description of the significant actuarial assumptions made and the methods used in the calculation. This is detailed below.

a) Method

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. The Actuary estimates this liability at 31 March 2012 comprises £293 million in respect of employee members, £105 million in respect of deferred pensioners and £207 million in respect of pensioners.   The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable.   However, the Actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefits promised.   The Actuary has not made any allowance for unfunded benefits.

b) Assumptions

Financial assumptions	31 March 2012 % p.a.	31 March 2011 % p.a.
Inflation/Pension Increase Rate	2.5%	2.8%
Salary Increase Rate*	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

*salary increases are 1% p.a. nominal for the 3 years to 31 March 2015, reverting to the longer term rate thereafter
**salary increases were 1% p.a. nominal for the period to 31 March 2012, reverting to the longer term rate thereafter

Mortality

The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

* Future pensioners are assumed to be currently aged 45

Historic Mortality

Life expectancies for the below year end are based on the PFA92 and PMA92 tables, subject to the following allowance for future improvements on longevity.

	Males	Females
31 March 2010	Year of birth, medium cohort and 1% p.a. minimum improvements from 2007	Year of birth, medium cohort and 1% p.a. minimum improvements from 2007

Age ratings and loadings are applied to the above tables based on membership profile.

Commutation

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

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from the London Borough of Sutton, administering authority to the Fund.

The next formal actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

10. Additional Voluntary Contributions

In accordance with regulation 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), additional voluntary contributions are not included in the Pension Fund Accounts. AVC's are managed independently by a specialist AVC fund provider, and are invested separately from the fund in the form of personal accounts securing additional benefits on a money purchase basis, for those members electing to pay additional voluntary contributions. Members participating in this arrangement each received an annual statement made up to 31 May 2011 confirming the amounts held to their account and the movements in the year. In the year to May 2011 AVC's paid by members amounted to £365,000 (£369,000 in 2010) and £461,000 was paid out by the scheme (£82,500 in 2010). At 31 May 2011 the total value of these AVC's was £1,097,000 (£1,074,000 at 31 May 2010). Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May.

11. Contingent Assets (IAS37)

In July 2012 the London Borough of Merton TUPE transferred their Human Resources function to Sutton under a shared services arrangement. Merton Council's pension fund, in due course, will pay Sutton's pension fund approximately £4.4m in respect of the transfer of pensions liabilities. The transfers are contingent upon the precise date and terms of the transfers being agreed.

12. Disclosure of Related Party Transactions

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

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

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

The Pension Fund had an average balance of £6.2 million of surplus cash deposited with the Council during 2011/12. The Council charged the Fund £557,000 for expenses incurred in administering the Fund.

Key Management Personnel

The following employees of the London Borough of Sutton hold key positions in the management of the Council's pension fund:

Gerald Almeroth - Strategic Director - Resources
Andy Banham - Head of Pension & Payroll
Lyndsey Gamble - Head of Financial Strategy & Planning

The pension fund and the Council share the same key management personnel. Their costs and benefits cannot be apportioned on a reasonable basis and are disclosed in full in the main financial statements.

13. Financial Instruments

a) Classification of Financial Instruments

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

	Designated at fair value through profit and loss		Loans and receivables		Financial liabilities at amortised cost	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Financial Assets						
Fixed Interest Securities	69,501	76,133				
Index Linked Securities	5,123	8,840				
Equities	241,521	244,179				
Pooled investments						
Pooled property investments		4,831				
Property	20,628	21,814				
Derivative contracts						
Cash			4,869	3,430		
Other investment balances			2,675	5,544		
Debtors			1,288	1,011		
	336,773	**355,797**	**8,832**	**9,985**	**0**	**0**
Financial Liabilities						
Derivative contracts						
Other investment balances						
Creditors					(601)	(244)
Borrowings						
	0	**0**	**0**	**0**	**(601)**	**(244)**
	336,773	**355,797**	**8,832**	**9,985**	**(601)**	**(244)**

b) Net Gains and Losses on Financial Instruments

	2010/11 £'000	2011/12 £'000
Financial Assets		
Fair value through profit and loss	12,378	7,896
Loans and receivables	40	58
Financial liabilities measured at amortised cost		
Financial liabilities		
Fair value through profit and loss		
Loans and receivables		
Financial liabilities measured at amortised cost		
Total	**12,418**	**7,954**

c) Fair Value of Financial Instruments and Liabilities

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

	Carrying Value		Fair Value	
	2010/11	2011/12	2010/11	2011/12
	£'000	£'000	£'000	£'000
Financial Assets				
Fair value through profit and loss	305,225	323,505	336,773	355,797
Loans and receivables	8,832	9,985	8,832	9,985
Total financial assets	**314,057**	**333,490**	**345,605**	**365,782**
Financial Liabilities				
Fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(674)	(1,918)	(674)	(1,918)
Total financial liabilities	**(674)**	**(1,918)**	**(674)**	**(1,918)**

d) Valuation of Financial Instruments Carried at Fair Value

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

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

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

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

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31/03/12	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Financial assets at fair value through profit and loss	326,230	27,618	1,948	355,796
Loans and receivables	4,441	0	5,544	9,985
Total Financial Assets	330,671	27,618	7,492	365,781
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(244)	0	0	(244)
Total Financial Liabilities	**(244)**	**0**	**0**	**(244)**
Net Financial Assets	**330,427**	**27,618**	**7,492**	**365,537**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31/03/11	**Level 1**	**Level 2**	**Level 3**	
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets				
Financial assets at fair value through profit and loss	271,832	20,628	44,313	336,773
Loans and receivables	6,157	0	2,675	8,832
Total Financial Assets	277,989	20,628	46,988	345,605
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(601)	0	0	(601)
Total Financial Liabilities	**(601)**	**0**	**0**	**(601)**
Net Financial Assets	**277,388**	**20,628**	**46,988**	**345,004**

14. Nature and Extent of Risks Arising from Financial Instruments

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

a) Market Risk

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

Price Risk

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

Potential price changes have been determined based on the observed historical volatility of asset class returns. More risky assets, such as equities display greater potential volatility than bonds. Potential volatilties are consistent with a one standard deviation movement in the change in value of the assets over the last three years. This has been applied to the year end asset mix for 2011/12 and 2010/11 as shown in the tables below.

Asset Type	Value as at 31/03/2012	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	3,430	0.0	3,431	3,429
Investment portfolio assets:				
UK bonds	26,422	7.5	28,398	24,445
Overseas bonds	49,711	8.4	53,896	45,525
UK equities	111,259	14.6	127,480	95,037
Overseas equities	132,919	14.9	152,751	113,088
Index linked gilts	8,840	9.2	9,657	8,024
Property	26,645	5.1	28,009	25,281
Loans to businesses	5,544	0.0	5,544	5,544
Other	1,011	0.0	1,011	1,011
Total assets available to pay benefits	**365,781**		**410,177**	**321,384**

Asset Type	Value as at 31/03/2011	% Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	4,869	0.0	4,869	4,869
Investment portfolio assets:				
UK bonds	37,139	7.5	39,917	34,361
Overseas bonds	32,362	8.4	35,087	29,637
UK equities	113,829	14.6	130,426	97,233
Overseas equities	127,692	14.9	146,743	108,640
Index linked gilts	5,123	9.2	5,596	4,649
Property	20,628	5.1	21,685	19,572
Loans to businesses	2,675	0.0	2,675	2,675
Other	1,288	0.0	1,288	1,288
Total assets available to pay benefits	**345,605**		**388,286**	**302,924**

Currency Risk

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

The following tables assess the likely volatility associated with foreign exchange rate movements for 2011/12 and 2010/11. Varying percentages are applied to represent the strengthening/ weakening of the pound against the currencies in which the Fund holds investments at year end.

Currency Risk (by currency) as at 31/03/2012	Value (£)	% Change	Value on Increase	Value on Decrease
Australian Dollar	2,373,996	10.5%	2,623,266	2,124,726
Brazilian Real	508,466	12.8%	573,550	443,382
Canadian Dollar	2,876,054	9.6%	3,152,155	2,599,953
Danish Krone	659,751	8.3%	714,510	604,992
EURO	10,224,489	8.4%	11,083,346	9,365,632
Hong Kong Dollar	4,309,265	9.6%	4,722,954	3,895,576
Japanese Yen	5,051,609	13.3%	5,723,473	4,379,745
Norwegian Krone	836,380	10.5%	924,200	748,560
Singapore Dollar	1,228,427	7.5%	1,320,559	1,136,295
South African Rand	880,813	13.6%	1,000,604	761,022
Swedish Krona	1,301,979	10.2%	1,434,781	1,169,177
Swiss Franc	9,562,568	10.2%	10,537,950	8,587,186
Thai Baht	972,396	8.9%	1,058,939	885,853
US Dollar	37,584,714	9.8%	41,268,016	33,901,412
Total	**78,370,907**	**9.9%**	**86,138,303**	**70,603,511**

Currency Risk (by currency) as at 31/03/2011	Value (£)	% Change	Value on Increase	Value on Decrease
Australian Dollar	3,171,228	10.5%	3,504,207	2,838,249
Brazilian Real	1,989,262	12.8%	2,243,888	1,734,636
Canadian Dollar	1,460,917	9.6%	1,601,165	1,320,669
Danish Krone	737,822	8.3%	799,061	676,583
EURO	9,355,371	8.4%	10,141,222	8,569,520
Hong Kong Dollar	3,308,754	9.6%	3,626,394	2,991,114
Japanese Yen	6,722,435	13.3%	7,616,519	5,828,351
Malaysian Ringet	461	8.3%	499	423
Norwegian Krone	1,812,654	10.5%	2,002,983	1,622,325
Singapore Dollar	2,063,362	7.5%	2,218,114	1,908,610
South African Rand	950,363	13.6%	1,079,612	821,114
South Korean Won	842,765	10.3%	929,570	755,960
Swedish Krona	784,099	10.2%	864,077	704,121
Swiss Franc	8,914,215	10.2%	9,823,465	8,004,965
Thai Baht	2,087,269	8.9%	2,273,036	1,901,502
US Dollar	31,186,315	9.8%	34,242,574	28,130,056
Total	**75,387,292**	**10.1%**	**82,966,386**	**67,808,198**

Interest Rate Risk

The Pension Fund is exposed to significant risk in terms of exposure to interest rate movements on its investments. To mitigate this risk, the Fund invests in at least one investment fund which seeks to attain a fixed rate of return.

b) Credit Risk

This is the risk that other parties may fail to pay amounts due to the Pension Fund. This can arise from deposits with financial institutions, for example a stock collapse or a due

dividend failing to pay out. It can also arise through credit exposures to the Pension Fund's members and employers.

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

The Council holds some cash on behalf of the Pension Fund through its treasury management arrangements. As such these funds are only invested with institutions on the Council's approved counterparty list, which is carefully monitored to manage exposure to credit risk. The Fund's cash holding under its treasury management arrangements at 31/03/12 was £5.470m (£9.380m at 31/03/11)

c) Liquidity Risk

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

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

15. Audit Costs

An audit fee of £35,000 is payable to the Audit Commission for external audit services used by the Pension Fund for the financial year 2011/12.

16. Pension Fund Annual Report

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

Section 6

Statutory Statements

2011/12

Statement of Responsibilities

2011/12

This sets out the responsibilities of the Council and the Chief Finance Officer in relation to the Statement of Accounts.

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Statement of Responsibilites for The Statement of Accounts

The Responsibility of the Council

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

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

The Responsibilities of the Chief Finance Officer

The Strategic Director - Resources is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012. The Strategic Director - Resources is also responsible for preparing the Pension Fund accounts administered by the Council in accordance with the current Code of Practice.

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

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

The Strategic Director - Resources has also:

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

My signature below certifies that the accounts were prepared in accordance with the requirements of the Accounts and Audit Regulations 2011 and, except where specifically stated, in accordance with all recognised statutory requirements and codes of practice applicable to local authorities. I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2012 and its income and expenditure for the year.

Strategic Director - Resources
27 September 2012

I certify that the Statement of Accounts was approved by the Audit Committee on 27 September 2012

Chair, Audit Committee
27 September 2012

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Annual Governance Statement

2011/12

This explains the responsibilities of the Council for ensuring that sound and effective governance arrangements are in place.

Scope and Responsibility

1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. There is also a responsibility under the Local Government Act 1999 to make arrangements to secure continuous improvement.

2. In discharging these responsibilities, the Council is required to put in place proper governance arrangements. This statement explains how the arrangements are embedded and developed, and meet the requirements of the Accounts and Audit Regulations (2011).

Purpose of the Governance Framework

3. The governance framework comprises the systems, cultures and values by which the organisation is directed and controlled, the activities through which it accounts to, engages with and leads the community. The framework enables the Council to monitor the achievement of its priorities and the delivery of cost-effective services.

4. The system of internal control is part of the governance framework and identifies the risks to the achievement of priorities, evaluates the likelihood of the risks being realised and potential impacts, and manages the risks proportionately. The system of internal control cannot eliminate all risk.

5. The governance framework has been in place for the year under review and up to the date of approval of the Statement of Accounts. Its key elements are evidenced below.

The Governance Framework

<u>Element 1: Vision, policy and decision-making</u>

6. The Corporate Plan sets out the policy priorities and outcomes for 2011-12 to 2014-15 that relate to the vision of creating a borough that is safer, fairer, greener and smarter. There are a number of themed strategies and plans that support the Corporate Plan. Directorate Budget and Delivery Plans contain annual targets towards achieving the outcomes in the plan and they are underpinned by our equality and environmental policies.

7. The Constitution details the rules of procedure that ensure that decision-making is legal, transparent and accountable. The Monitoring Officer provides advice on the interpretation and application of the Constitution, which was recently updated to reflect changes in the governance arrangements under the Localism Act 2011.

8. The Council dissolved the Executive, five Advisory Groups and four Scrutiny Committees and introduced a committee system of governance comprising five main Committees, four Regulatory Committees and a reconfigured Standards Committee. Opposition membership of the main Committees provides integrated scrutiny. There is a separate Scrutiny Committee focusing on statutory scrutiny responsibilities. The system of requisitioning (calling in a decision for further consideration before it can take effect) is retained subject to the period of notice required being extended by one day. Overall

business and financial planning is now agreed by the Strategy and Resources Committee, subject to those matters that are reserved to full Council. The existing Local Committees and the Regulatory Committees (Audit, Pension Fund, Licencing and Development Control) remain.

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

Element 2: Service Quality

10. The outward looking and self aware elements of the organisational culture enable us to assess service quality and identify baselines for improvement planning. The elements include the experiences of people who use services, quality standards and VFM profiles to benchmark peformance. During 2011-12, we updated the Customer Services Charter that sets out our service standards along with targets and aligned with our Customer Access Strategy so that contacting the organisation is easier and less costly. The assessment of service quality is an integral part of our programme of Smarter Services Sutton reviews, which proactively looks for improvement examples from the public, private and voluntary sectors.

11. Corporate complaints procedures and service specific statutory complaints procedures are in place based on best practice standards and regulations. The information is used to drive continuous improvement. There is appropriate use of performance improvement frameworks such as the performance standards recommended by the Department for Work and Pensions, to deliver high quality Housing Benefit and Council Tax benefit services.

Element 3: Roles, Responsibilities and Behaviour

12. The updated Constitution defines the roles and responsibilities of committees and it details the updated scheme of delegation and reservation of powers. The Delegated Decision Notices Scheme is replaced. Former Category 1 and Category 2 Notices are absorbed within the officer scheme of delegations with arrangements for reporting to Committees on a regular basis. Former Category 3 and Category 4 Notices are reported to the appropriate Committee for a decision. The Council's new governance arrangements, which are being implemented in response to the Localism Act 2011, will be reviewed during 2012-13.

13. The Constitution also defines the personal conduct requirements of Members and staff – they each have a code of conduct and registers of interest and hospitality. Reflecting the Localism Act 2011, Standards Committee has revised duties and powers for dealing with elected or co-opted Members, and there is a new Code of Conduct for Members. Members' disclosure requirements and Member - officer protocols are in the Constitution. The Management and Leadership Charter sets out standards for how managers should behave and perform.

Element 4: Control framework, risk management and audit committee

14. Policies and procedures are updated regularly. The principal documents include the Financial Regulations and Contract Standing Orders. Others include Anti-Fraud & Corruption, including Whistle-blowing, Budget and Delivery Planning, Carbon Management, Freedom of Information, Performance Management and Workplace Health & Safety. Safeguarding is a priority - there are multi-agency policies and procedures for safeguarding children and young people and vulnerable adults.

15. There are strengthened risk management arrangements. Executive Heads are responsible for managing information security risks within their services and complying with corporate and service specific partner/agency handling guidelines – Directorate based assurance reporting commenced in Q1 of 2012-13. The Corporate Risk Register is part of the performance and financial management framework. During commissioning and financial planning, Directorates assess the risks to achieving key deliverables and other significant financial, hazard and operational risks, and depending on the potential impacts they are included in the register, which is updated each quarter. Considered alongside performance measures and budget management information, the register contributes to a balanced assessment of performance.

16. Strategic risks are identified in policy decision reports – they include an assessment of the risk potential of the subject matter and issues along with mitigation action. There are strengthened arrangements for business continuity management, change control and managing major capital programmes and projects. In place of the Corporate Projects Board there is a Programmes and Projects Steering Group led by Members and supported by a Programmes and Projects Board to help ensure that key risks and issues are mitigated at an early stage.

17. The Treasury Management strategy includes the Investment Strategy that specifies the criteria (credit ratings and other risk thresholds) for selecting counterparties and reflects the changing preception of risk due to the Eurozone banking crisis. There is oversight by the Audit Committee whose terms of reference were developed to meet CIPFA[1] best practice standards. The committee's membership is politically proportionate and the Chair is an opposition member.

Element 5: Compliance

18. Compliance assessments are undertaken by management, auditors, and through the work of statutory inspectors, including the Care Quality Commission and the Office for Standards in Education. Scrutiny committees review a wide range of reports and ensure that recommendations are implemented. The One Planet Living Action Plan along with the Eco Management and Audit Scheme helps to reduce the Council’s impact on the environment and independent assessors review performance.

19. The Monitoring Officer is required to report on any proposal, decision or omission by the Council, committee or officer likely to contravene any enactment or rule of law, or any

[1] Chartered Institute of Public Finance and Accountancy

maladministration or injustice. No such report has been necessary in 2011-12. The Chief Finance Officer has not reported any case of unlawful expenditure, or deficiency or unlawful item of account. Fraud against the organisation and its delivery partners is reported in the Annual Internal Audit Report. Internal Audit undertakes risk based compliance reviews of the key financial systems that generate material transaction streams in the Statement of Accounts. It reviews other systems based upon a risk assessment that includes an anti-fraud component. An Annual Internal Audit Plan is prepared in consultation with senior managers and the Audit Committee.

Element 6: Economic, effective and efficient use of resources

20. Sound arrangements are in place to deliver value for money. The overarching priority of the Corporate Plan is to transform services, reduce costs and maintain resident satisfaction. The Smarter Services Sutton programme identifies options and interfaces with the commissioning and financial planning process. Expenditure reduction targets are included in Directorate Budget and Delivery Plans. Moving forward, the Smarter Council Programme will deliver a Council-wide commissioning framework, neighbourhood management – place-shaping and devolution of budgets where it provides value, and a more mixed economy of service provision. Specific workstreams have been identified to deliver the programme. The Council commissioned one of the new style Local Government Association Peer Reviews to contribute to the assessment underpinning the programme.

21. The new Procurement Strategy 2012-2015 supports the new commissioning framework, ensuring that processes are cost effective with a commercial focus to ensure best value and allow for appropriate challenge. The strategy includes a Competition Policy to enable open and innovative approaches for the provision of supplies and services, and a policy for promoting opportunities for small/medium size business and third sector organisations.

22. It is important that the workforce has the required skills to deliver the Smarter Council. The People Plan 2012 -15 is the strategic plan that supports the transition to a commissioning Council. It does this through three main components: Workforce Skills Development, Behaviour Change and Productivity, and Pay and Rewards. E-learning is used to quickly deliver training to underpin priorities and change.

Element 7: Financial management and reporting

23. The Council recognises the importance of good financial management, particularly in the current economic climate. The purpose of the Business and Financial Plan 2012-13 and the Medium Term Financial Strategy to 2014-15 is to ensure that policy priorities are adequately funded taking account of the large reduction in government grants.

24. Responsibility for financial management is set out in the updated Financial Regulations. All staff have some responsibility for financial management and achieving value for money. Financial management is integrated with service management throughout the planning, monitoring and reporting cycles. Budget managers are responsible for the expenditure and income in their budgets. The approval of estimates authorises revenue spend - capital spending requires further authorisation. There are increased virement

limits for revenue and capital. The Treasury Management Strategy 2012-13 includes the Annual Investment Strategy for surplus cash and borrowing, including the minimum revenue provision required to be set aside to repay debt.

25. Sutton Housing Partnership (an ALMO) manages the Council's housing stock and is paid a management fee. Ownership and responsibility for the Housing Revenue Account remains with the Council. Sutton Housing Partnership has its own External Auditors and its own Internal Audit Plan. The updated Housing Revenue Account Business Plan sets out the arrangements for managing the housing stock in the medium to long term, taking account of the reform of Council housing finance and the introduction of 'self-financing'. The plan provides for a further increase in balances in the medium term to a more prudent level.

Element 8: Performance management and reporting

26. Performance management is part of the fabric of the organisation. The strong appetite for improvement evidenced by both the political and managerial leadership plays a pivotal role in ensuring that there is a clear link from the Council's priorities to individual staff objectives and that the behaviours and attitudes displayed by managers and staff underpin a high performance culture.

27. Members receive quarterly reports that bring together business and financial performance, highlighting where improvement needs to take place. The approach to performance management also includes feedback from residents as well as indicators of corporate health and risk. National performance indicators are reported alongside locally agreed standards. Corporate and Directorate Performance Review Boards address underperformance.

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

Element 9: Partnerships and communication

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

30. The shadow year of the NHS reform programme began on 1st April 2012. PCTs will be abolished on 1st April 2013 when the Sutton Health and Wellbeing Board becomes a legal entity with full decision making powers to commission services to meet the health needs of local people and to ensure the health and wellbeing of Sutton residents. A Memorandum of Understanding has been drafted to establish a framework for co-operation between the Council and NHS South West London. The Sutton Clinical Commissioning Group took on delegated budget responsibilities from NHS South West London on 1st April 2012.

31. Where services are delivered through joint or integrated working with partners there is regular reporting of delegated decision-making, performance and budget outcomes within the context of agreed business plans that are aligned to priorities. This ensures that partnership working adds appropriate value.

32. The Community Empowerment Framework sets out our commitment to and standards for involving local people. It describes how empowerment is central to our work on behaviour change and Smarter Services Sutton. It also prioritises increasing the impact of involvement and ensuring we provide feedback on how things have changed as a result. To support our commitment to transparency, involvement and innovation we are working towards making public data that is not sensitive or personal freely available via our website.

Review of Effectiveness

33. The Council has responsibility for conducting a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of Members and managers who have responsibility for the maintenance and development of the framework, and by assessments undertaken by government inspectorates, the Chief Internal Auditor, external auditors and other review agencies. In particular, the Audit Committee considers the Annual Review of Corporate Governance in which the framework of arrangements is assessed against the CIPFA/SOLACE framework [2] and CIPFA's statements on the roles of the Chief Finance Officer and Head of Internal Audit. The sources of assurance are summarised below.

- Integrated business and financial performance reports and the work of Performance Review Boards
- Smarter Services Sutton reviews that include internal and external challenge, the Smarter Council Review and related Local Government Association Peer Review
- The work of the Safeguarding Boards, Programmes and Projects Steering Group, Programmes and Projects Board, Information Security Board, One Planet Sutton Programme Board and Shadow Sutton Health and Wellbeing Board
- The work of statutory inspectors, including the Office for Standards in Education and Care Quality Commission
- The work and opinions of Internal Audit, including the annual review of the effectiveness of the system of internal audit and reviews of key financial systems
- External Audit work and opinions on the Statement of Accounts, Value for Money and Certification of Grant Claims.
- Review of the Constitution, including the delegation and reservation of powers
- The work of the full Council and committees, including the Audit Committee and Standards Committee, and scrutiny reviews
- Integrated risk assessments within policy decision reports, budget and delivery plans, business continuity plans, information asset registers and anti fraud plans
- Section 106 Annual Monitoring Report

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

- Annual Insurance Review, including losses and self insurance fund balances
- The work and opinions of the external assessor for the Eco Management and Audit Scheme.

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

Significant Governance Issues

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

- The need to improve the adequacy of safeguarding services for children and young people following the inspection of safeguarding and looked after children services by the Office for Standards in Education and Care Quality Commission. The Strategic Director of Children, Young People and Learning Services has drawn up an immediate action plan to address the areas of weaknesses identified by the inspectors

- Not providing sufficient Primary School places. Projections indicate the continuing demand for additional places for September 2012 and September 2013 onwards. Further funding has been provided by the Council to enable the delivery of additional Primary School places, including further bulge classes, in addition to the decision to use the former Stanley Park School site for primary provision. Despite recent announcements by the Government on capital funding for school places there is a risk that funding may not be sufficient to meet all the identified needs in the medium term. This could create further pressure on the Council’s capital resources

- Adult social care - recent experience of underspends on adult social care may not continue in the light of demographic pressures and challenging savings targets. The new responsibilities for public health from 2013-14 may also require additional resources over and above what is being provided through expected government funding, and the timetable is very challenging

- The national situation continues to be challenging with the economy performing poorly due to the Eurozone crisis and the reduction in government grants, resulting in continuing financial and service delivery risks. Delivery of planned savings is a priority and experience to date of the Smarter Services Sutton reviews is encouraging and taking forward the related Smarter Council programme of work, which will provide more efficient and locally responsive services. The budget for 2012-13 is balanced and provides a prudent general reserve of at least 5% of net General Fund expenditure (excluding the schools budget) to meet the financial and delivery risks without immediate impact to key frontline services. The risk assumption built into the funding arrangements for the capital programme may be insufficient due to market volatility and reduce the resources available for investment. Capital programme expenditure will need to be reviewed regularly

- The Local Government Finance Bill, which is still progressing through Parliament, provides for the localisation of support for Council Tax and also contains plans for Business Rates retention. The timetable for introduction from April 2013 is very challenging. Government proposals aim to reduce the funding to Councils for Council Tax support by 10% and to allow Councils to obtain some benefit from some growth in the Business Rate tax base. In both cases there will also be new funding risks for the Council
- The Health and Social Care Act abolishes PCTs and transfers responsibility for significant aspects of public health to Council's. The Act gives Council's responsibilities for co-ordinating the commissioning of services to meet the needs of local people – these new responsibilities will transfer on 1st April 2013. A draft Transition Plan has been developed, which sets out the supporting arrangements and tasks required to ensure a smooth transition
- Waste disposal continues to be a considerable financial risk due to the annual increases in landfill taxes. Provision for increased costs of waste disposal by landfill will be insufficient unless the plans to divert waste away from landfill are successfully realised. The procurement of a residual waste treatment contract on behalf of South London Waste Partnership should provide a more economic solution.

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

Chief Executive: **Leader:**

Date: 28 June 2012 **Date**: 28 June 2012

On Behalf of the Council

Auditors Opinion

2011/12

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

Opinion on the Authority's financial statements

I have audited the financial statements of London Borough of Sutton for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Sutton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2011.

Respective responsibilities of the Strategic Director - Resources and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Sutton as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Sutton in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2011.

Respective responsibilities of the Strategic Director - Resources and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

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

Respective responsibilities of the Council and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

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

Report by exception

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such a matter has come to my attention relating to a significant weakness in the Council's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

Ofsted's inspection of the Council's safeguarding children and young people services and services for looked after children in April 2012 raised significant concerns about operational practice and aspects of the Council's proper arrangements.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, London Borough of Sutton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of the London Borough of Sutton in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

District Auditor, Audit Commission

1st floor, Millbank Tower,

Millbank,

London,

SW1P 4HQ

Date: 28 September 2012

Section 7

Glossary

2011/12

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

National Non-Domestic Rates (NNDR)
This is a national tax on businesses based on a flat rate in the pound, set by Central Government. The tax collected by Sutton is paid into a central pool, controlled by Central Government. The central pool is redistributed to local authorities on the basis of adult population.

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

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

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

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

Abbreviations used in the accounts

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