Guildford Borough Council Statement of Accounts 2016-17 (unaudited)

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUILDFORD BOROUGH COUNCIL

To follow

STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently

- made judgements and estimates that were reasonable and prudent

- complied with the local authority Code.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position of Guildford Borough Council at 31 March 2017 and of its income and expenditure for the year ended 31 March 2017.

Sue Sturgeon, CPFA
Chief Finance Officer
31 May 2017

CHIEF FINANCE OFFICER'S NARRATIVE REPORT

Financial Performance during the year – General Fund Revenue
I have pleasure in presenting the Council's Statement of Accounts for the financial year 2016-17.

The overall financial climate continues to be difficult and is likely to remain so for a number of years. Local Government will continue to play its part in helping to address the national funding deficit, and each Council will be required to contribute accordingly by continuing to deliver services with fewer resources. Guildford Borough Council has continued to maintain its focus on robust planning and monitoring of the budget and identification of efficiency savings for the future.

The reduction in the Council's settlement funding assessment for 2016-17 from Central Government was 20.3% (£960,000). This followed grant reductions of 15.2% in 2011-12, 12.6% in 2012-13, 6.6% in 2013-14, 13% in 2014-15 and 15% in 2016-17.

The budget for 2016-17 included investment in services of £1.748 million to support the delivery of the Corporate Plan, of which £90,000 was funded from reserves.

Given the cuts in central government funding, we identified £445,000 savings through our business planning process in order to finance the service improvements and £22,000 savings arising as a result of capital investment.

The net budget requirement for the year 2016-17 was set in February 2016 at £41,532,915, a decrease of £1.9 million from the Council's 2015-16 net budget requirement of £43,493,789. The net budget requirement is the amount the Council expects to spend after allowing for income from sources such as direct grants, fees, charges and rents but excludes income from revenue support grant, business rates and adjustments relating to the collection fund balance.

The net budget figure above excludes the precept requirements of the Parish Councils, which was £1,469,802 (2015-16 precept requirements were £1,406,405 an increase of 5%).

The Borough Council's band D council tax was set at £156.82, an increase of £5 (3.29%) from 2015-16. The report to Council on 10 February 2016, (Insert hyperlink) available on the Council's website provides further details about the Council's budget for 2016-17.

We monitored performance against the budget closely through the year with particular attention paid to our key services (Development Control, Planning Policy, Industrial Estates, Investment Property, Leisure Management, Off Street Parking, Parks and Countryside and Refuse and Recycling), control of salaries and achievement of the efficiency savings included in the budget. Because of this strong financial management net expenditure at service unit level was £2.649 million lower than originally budgeted, after allowing for accounting adjustments and other items that do not impact on the level of council tax. This is around 2.3% of the total relevant gross expenditure budgets.

The Final Accounts report to the Executive on 27 June 2017 (Insert hyperlink) available on the Council's website, gives a detailed analysis of the variances in service expenditure.

The Council receives investment income from our cash backed reserves. As at 31 March 2017, we had around £127 million invested. Overall, net interest returns in the year were approximately £547,000 more than anticipated at £1,504,746. The Treasury Management Annual Report reported to Executive on 27 June 2017 (insert hyperlink), available on the Council's website provides further information about the Council's investment and borrowing activity during the year and our performance against our prudential indicators.

In setting the 2016-17 budget, a minimum revenue provision of £615,250 was assumed, based on the expected General Fund Capital Financing Requirement (CFR) at 31 March 2016 of £52.9 million. The actual General Fund CFR at March 2016 was £39.7 million, generating a minimum revenue provision of £335,723, which is approximately £279,000 less than budgeted.

Overall the net expenditure on the General Fund was lower than the original estimate to the value of £3.810 million. This has been utilised by the following contributions to reserve:

Item	Description	£000
1.	**IT renewals reserve**. As part of the transformation of our services, it will be necessary to invest heavily in new technology. The contribution to the IT renewals reserve of £750,000 has been made to finance the replacement of iGels across the Council.	750
2.	**Invest to save reserve**. This reserve has proved invaluable in allowing the council to transform and change its services. The reserve is used to provide initial up front funding required for projects that will generate savings and additional income. In future budgets, this will become even more important. The contribution of £200,000 will take the uncommitted balance on the reserve to approximately £1.1 million	200
3.	**Capital programme reserve**. The council has an ambitions capital programme and a significant borrowing requirement in future years. We have therefore transferred £1 million to the reserve to reduce the need for external borrowing and delay the point at which we will need to take on borrowing. This is turn will reduce the minimum revenue provision payment from the general fund revenue account	1,000
4.	**Budget pressure reserve**. This was a new reserve set up as part of closing the 2014-15 account and it has proved invaluable in managing the budget through the year. A contribution of £1,602,000 has been made to take the uncommitted balance to just over £500,000.	1,690
5.	**Legal actions reserve**. This reserve is available to fund for judicial reviews and other legal actions taken against the Council. Officers have transferred £150,000 to the reserve.	150
6.	**Donation to the Mayor's Distress Fund**. The fund is a charitable trust, which helps support people in financial distress within the borough.	20
		3,810

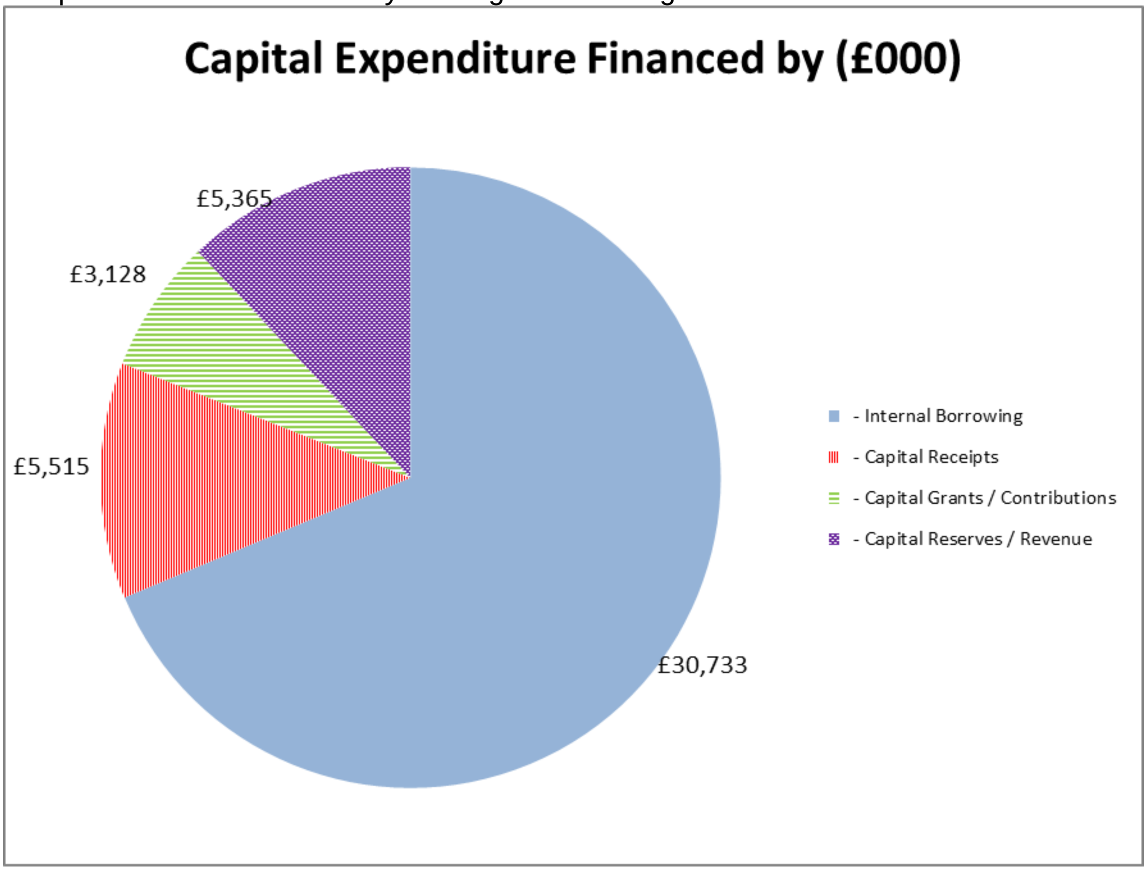
During the year we closed two reserves, the Council Governance Reserve (which related to the mayoral referendum in October 2016) and the Land Charges Search fees reserve due to the conclusion, through the Local Government Association, of legal claims against local government by private search company's in respect of search fees.

Financial Performance during the year - Capital Expenditure
Capital expenditure in the year totalled £38.245 million. The major areas of capital spend are shown in the table below:

	Updated estimate (£m)	Actual (£m)	Variance (£m)
Non-housing approved programme	44.124	33.835	(10.289)
Non-housing provisional programme	3.342	0.02	(3.322)
Schemes financed from reserves	3.265	3.199	(0.066)
Projects financed from s106 receipts	0.697	0.447	(0.25)
Private sector and affordable housing grants	3.627	0.744	(2.883)
Total	**55.055**	**38.245**	**(16.810)**

During the year we spent £23.8 million on acquiring the freehold of an investment property and bought back the long leases on another property for £0.5 million. The acquisitions were part of our Asset Investment Programme and to enable the redevelopment of Midleton industrial. In addition, as part of the Council's corporate plan priorities for local economic growth we acquired a property for £1 million which will be used as business incubation office space. The Council also invested £2.4 million in its new subsidiary company North Downs Housing Ltd and spent £2.78 million on its vehicle plant and equipment replacement programme.

The capital expenditure was financed by utilising the following resources:



We only financed £7.5 million of our capital expenditure from existing resources, resulting in an increase to our Capital Financing Requirement, funded by internal borrowing, of £30.7 million.

Internal sources of funds available at 31 March 2017 to meet future capital expenditure are:

- General Fund capital schemes reserve £1.4 million

- HRA usable capital receipts £27.4 million
- HRA future capital programme reserve £28.3 million
- HRA new build reserve £37.4 million
- HRA Major Repairs Reserve £6.4 million

Financial Performance during the year - Treasury Management
Our treasury management annual report was presented to Executive on 27 June 2017, (item xx) and is available on our website. The principle value of Investments at 31 March 2017 totalled £127 million made up as follows:

Investment details	Book cost of Investments at 31-03-17 £m
Internally Managed Investments	
Fixed Investments < 1 year to cover cash flow	34.00
Corporate bonds	4.06
Certificates of deposit	2.00
Notice Accounts	13.00
Revolving Credit Facility	2.50
Call Accounts	0.47
Money Market Funds	1.32
Long term investments > 1 year	47.00
Externally Managed Funds	
Payden & Rygel	5.03
Funding circle	0.87
CCLA	6.35
Aberdeen	1.85
M&G	2.67
Schroders	0.91
UBS	2.41
City Financials	2.47
TOTAL	**126.91**

The book cost of investments is the amount of cash receivable if the investments were to be sold on 31 March 2017. The book cost is different to the amounts shown in note 28 of the financial statements where the investments are shown in accordance with IFRS 13 Fair Value Measurement. Gross interest received in the year from investments was £1.792 million against a budget of £1.235 million.

During the year we repaid £4.5 million of temporary borrowing for cash-flow purposes. The principal balance outstanding on our external loans at 31 March 2017 was £233.355 million.

The investment markets remained extremely challenging; the Bank of England reduced base rate to 0.25% and the Council continued its focus on preserving capital whilst optimising interest earnings.

Explanation of Key Information contained in the Financial Statements
Local Authorities are required to prepare their accounts in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). International Financial Reporting Standards (IFRS) form the basis for the Code, which has been developed by the Local Authority Accounting Code Board comprising members from the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority of Scotland Accounts Advisory Committee (LASAAC), under the oversight of the Financial Reporting Advisory Board (FRAB). The Code constitutes a proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

The complete set of financial statements is set out on the following pages. The Code prescribes the order of presentation of the financial statements and the Statement of Accounting Policies supports the accounts by explaining the policies used in their preparation. In summary, the financial statements comprise the:

- Expenditure and Funding Analysis (EFA): showing how the Council's annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) in comparison with those resources the Council consumes or earns in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates.
- Comprehensive Income and Expenditure Statement (CIES): showing the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This statement provides the detail behind the surplus or deficit on provision of services figure included in the Movement in Reserves statement. The statement shows the total expenditure and income in the year for all services.
- Movement in Reserves statement (MIRS): showing the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that we can use to finance expenditure or reduce local taxation) and other reserves. This statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax or rents for the year.
- Balance Sheet: showing the value of the Council's assets and liabilities at 31 March 2017. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council
- Cash Flow Statement: showing the changes in the amount of cash and cash equivalents during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities
- notes to the above statements: giving a summary of significant accounting policies and other explanatory information. We have split these notes into normal and accounting technical notes to aid the readability of the financial statements for users.
- Housing Revenue Account Income and Expenditure statement: covering income and expenditure relating to the provision of council housing in accordance with Part 6 of the Local Government and Housing Act 1989. The Housing Revenue Account is ring-fenced from the rest of the General Fund. Its primary purpose is to ensure that the expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants so that rents cannot be subsidised from council tax, or vice versa
- notes to the Housing Revenue Account: giving explanatory information to the HRA Income and Expenditure statement
- Collection Fund revenue account: showing the transactions of the Council as a billing authority in relation to non-domestic rates and council tax. The Fund shows the way in which these have been distributed to local authorities and the Government on whose behalf Guildford Borough Council collects the amounts due
- notes to the Collection Fund: giving explanatory information to the Collection Fund revenue account

Expenditure and Funding Analysis (EFA)
The net expenditure chargeable to the General Fund and HRA balances was a surplus of £14.7 million. £5 million adjustments between funding and accounting bases resulted in a surplus reported in the CIES of £9.7 million.

Income and Expenditure Statement (CIES)
The surplus on provision of services was £9.7 million. This was the net total of a surplus on the HRA of £8.5 million, and a surplus on the General Fund of £1.2 million.

Total comprehensive income and expenditure was £58 million, compared to £67 million in 2015-16. The reduction was primarily due to a loss from the re-measurement of the pension liability replacing a gain in 2015-16, mostly offset by larger gains from the increase in the value of the Council's property portfolio.

Movement in Reserves Statement
The MIRS shows that the surpluses of £1.2 million and £8.5 million are added to the General Fund and HRA balances respectively, and that £3 million is added to the General Fund and £2 million to the HRA as a result of adjustments made under statutory regulations.

£35.8 million of the GF balance of £39.5 million as at 31 March 2017 is held in reserves earmarked for specific purposes. The remaining £3.7 million is held as unallocated funds. In the case of the HRA, £65.7 million of the balance of £68.2 million is held in earmarked reserves, leaving an unallocated balance of £2.5 million.

Balance Sheet
The Balance Sheet shows that our long term assets have increased in value during the year by 12.6% from £815 million to £918 million. This is due to a £45 million increase in value of the Council's property portfolio (primarily council dwellings) on revaluation during the year, £11 million additions to the Council's operational property, £2 million additions to assets under construction, £24 million acquisitions and £4 million revaluation of investment property, and an increase in long-term investments of £21 million.

Current assets have reduced by 29% from £128 million to £91 million, mainly due to a reduction in short-term investments (including those classified as cash equivalents) from £121 million to £83 million. After our liabilities are taken into account, our net assets have increased by 9.7% from £597 million to £655 million. This is matched by an increase in our unusable reserves of £40 million, and an increase in our usable earmarked reserves of £18 million.

Pension liability
As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. The Council participates in the Local Government Pension Scheme administered by Surrey County Council – this is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

During 2016-17 the pension fund actuaries, Hymans Robertson LLP, completed a triennial review of the fund at 31 March 2016 which sets the employer contribution rates for 2017-18 to 2019-20. However, 2016-17 was the final year of implementation from the previous 2013 valuation. The 2013 valuation results maintained the use of a stabilisation model which enabled the Council to maintain its employer's contribution rate at 14.6% over the three year period 2014-15 to 2016-17. The results of the actuarial valuation as at 31 March 2016, were reported to the Corporate Governance and Standards Committee in March 2017 and the report is available as part of the committee papers on the Council's website (insert hyperlink).

The Council accounts for pension costs, in its financial statements, based on International Accounting Standard (IAS) 19; Employee Benefits. This standard requires that the cost of retirement benefits are reported when they are earned by employees rather than when the benefits are paid as pension.

Legislation prevents this cost affecting council tax and housing rent levels, which are based on the cash payable in the year. The accounts include an adjustment for the difference in the form of a transfer to or from a statutory pensions reserve.

The accounts, based on IAS 19, show a total pension fund liability of £93.4 million (£76.4 million in 2015-16) which has a substantial impact on the net worth of the authority as recorded in the balance sheet. The position, as valued by IAS 19 differs to that reported as part of the triennial valuation principally because the accounting standard requires that the discount rate is set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As such the IAS 19 valuation of the Fund is unlikely to reflect the eventual cost of providing the benefits and does not affect the level of contributions to the fund from either the employees or the Council. Statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy; the deficit will be made good by contributions over the remaining working life of employees as assessed by the scheme actuary. It is important to remember that pensions are long-term assets and liabilities and the IAS 19 figures disclose the position at a point in time based on the actuaries' financial assumptions.

Reserves, Balances and Provisions
We are not required to include a full list of reserves and balances in the Statement of Accounts, however we included one the Final Accounts report to the Executive on 27 June 2017 (Insert hyperlink). Transfers to and from the reserves have been made during the year as appropriate and can be seen at Note 12 to the accounts. We have set up a small number of new reserves in the year for accounting purposes in relation to specific grants.

We reduced the provision in respect of the Council's share of the estimated reduction in business rates collectable due to rating appeals by £1 million, and £1 million of appeals were charged to the provision in year (see below).

We maintain a bad debt provision at a suitable level including sufficient provision to meet all likely non-collectable local taxation.

Collection Fund
We maintained a high level of collection performance for both Council Tax and Business Rates in the year. The council tax collectable debit for 2016-17 was approximately £xx million and 99.27% had been collected by 31 March 2017. At the same time, 99.29% of the collectable debit for non domestic rates (£xx million) had been collected. These are the highest collection rates in the Council's history.

We had anticipated a reduction in collection rates following the introduction of the Local Council Tax Support Scheme (LCTSS) however, this has not happened and collection rates have remained high.

Business Rates Retention Scheme
The Business Rates Retention Scheme (BRRS) allows the Council to benefit financially from any above inflation growth achieved in the level of business rates in our area, but the Government also transferred the risk of a fall in business rates to us and the rate in the pound levied is still controlled by the Government.

The BRRS starts with the Government's assumption of the level of Business Rates nationally and sets an amount known as the NDR Baseline. For Guildford the NDR Baseline was set at £30.9million. The Government assessed our baseline funding level at £2.7 million, the difference (£28.2 million) was paid to the Government as a tariff. If Guildford's actual business rate income is higher than the NDR Baseline then normally the Council would be required to pay a levy of 50% of the additional income to central Government. However, for 2016-17 we have joined the Surrey-Croydon business rates pool, which means that we keep approximately 75% of the additional income and pay the remaining 25% to the pool. The system is far more volatile than the old one (where the amount of grant was fixed and known in advance of the budget being set) and carries more risk for the Council.

When setting the budget we expected our business rate income to be higher than the baseline funding level and therefore budgeted to pay a levy to the pool of 25% of the additional income (£573,021). We also decided that we would put our original 50% share of the additional income (£1,146,042) in the Business Rates Equalisation reserve and the 25% additional retained levy from pooling (£573,021) in the invest to save reserve. This is in line with our medium term financial strategy, to help mitigate the volatility in funding caused by the new scheme and the Council's redevelopment plans for the town centre.

When we set our 2016-17 budget, we projected the business rate income we would receive and provided this estimate to the government in our NNDR 1 return. At the end of the year, we update the data based on actual income and inform the government in our NNDR 3 return.

The amount we recognise in the Income and Expenditure Statement for business rate income for 2016-17 is the amount we projected on the NNDR1 return, ie, our budgeted amount; however, the amount we actually received (and reported on our NNDR3 return) is recognised in the Collection Fund. The government, has legislated that local authorities reverse the impact on the general fund of any difference in business rate income through the surplus/deficit on the Collection Fund and an adjustment to the Collection Fund Adjustment Account on the Movement in Reserves Statement. The difference between what we estimated and received therefore forms part of the surplus or deficit on the Collection Fund and will be taken into account in setting the budget for 2018-19.

The table below shows the difference between the actual and estimated income from business rates and the resulting impact on the levy payment:

Business Rates Retention Final Summary	**2016-17 Budget, £000**	**2016-17 Actual, £000**	**Variance, £000**
BRRS - tariff	28,294	28,294	0
BRRS - levy	0	0	0
BRRS - payment to pool re levy	573	962	389
BRRS - equalisation reserve	1,146	882	(264)
BRRS - equalisation reserve	(959)	(959)	0
Cont to Invest to Save	573	573	0
	29,627	**29,752**	**125**
BRRS - s31 grant	(446)	(571)	(125)
BRRS - retained income	(33,120)	(33,120)	0
BRRS - net position	**(3,939)**	**(3,939)**	**0**

We have accrued for the levy payment in our Income and Expenditure Statement for 2016-17. The Council's current policy is to transfer its share of the levy to the business rates equalisation reserve to help smooth the volatility in income from business rates under the BRRS and to help us manage the fluctuations in our business rate income that will occur as we carry out our development plans for the town centre. The increase in the levy payment for 2016-17 comes about because of a reduction in the provision for appeals made against business rates. This results in a reduced deficit on the Collection Fund. If the appeals are successful, they will fall as a cost to the General Fund revenue account in future years. We will use the business rates reserve to mitigate any costs that fall in future years.

The provision for appeals is an allowance for reductions in business rates payable because of appeals made by the rate payer to the Valuation Office (VO) in 2016-17. We have no control over these appeals or the timescale within which they are heard. The Council has calculated a total provision of £8.2 million for appeals is required as at 31 March 2017, of which the Council's share is £3.3 million (40%). This is a total decrease of £5.5 million (Council's 40% share, £2.2 million) from the amount recognised at 31 March 2016. The decrease is due to appeals made in previous years being resolved and a significant change in the value of the virgin media appeal due to information being received that the likelihood of the success of the appeal was lower. The inclusion of the appeals provision in our Collection Fund has resulted in a deficit on the Collection Fund in relation to Business Rates of £2.779 million.

Housing Revenue Account (HRA)
The Statement of Accounts contains details of the HRA income and expenditure, which is ring-fenced from the General Fund. We reported the HRA outturn to the Executive on 27 June 2017 and the report is available on the Council's web site, www.guildford.gov.uk at (insert hyperlink)

The table below shows the main variances between the budgeted and actual operating surplus for 2016-17 under the key headings.

Housing Revenue Account	**2016-17 Budget**	**2016-17 Actual**	**Variance**
	£000	**£000**	**£000**
Rental Income	(30,732)	(30,937)	(205)
Other Income	(1,599)	(1,687)	(88)
Total income	**(32,331)**	**(32,624)**	**(293)**

Expenditure on Housing Services	10,208	10,284	76
Depreciation	5,000	6,703	1,703
Revaluation	0	2,662	2,662
Other expenditure	903	562	(341)
Interest payable and receivable	4,650	4,514	(136)
Surplus for the year	**(11,570)**	**(7,899)**	**3,671**
HRA balance brought forward	(2,500)	(2,500)	0
Surplus for the year	(11,570)	(7,899)	3,671
Transfers to other reserves	11,570	7,899	**(3,671)**
HRA balance carried forward	**(2,500)**	**(2,500)**	**0**

At year end we transferred £2.5 million to the reserve for future capital programmes and £7.96 million to the new build reserve. The surplus on revaluation was transferred to the capital adjustment account in line with the CIPFA code of practice. The HRA working balance at year-end remains at £2.5 million.

The income budget was prepared using the Government's stated policy of on reducing social housing rents by 1% per annum for the next 4 years. This resulted in an average actual rent of £112.11 per week.

Rental income from dwellings was £246,000 (0.8%) higher than estimated. This is the result of a combination of factors, which include the profiling of new build units coming on stream, reductions in void periods and Right to Buy (RTB) assumptions. In total 25 properties were sold in 2016-17 as a result of RTB applications, with a further interest in 3.8 equity share properties sold.

Employee related expenditure was £189,000 lower than estimated. Utility charges were £115,000 lower than anticipated following reductions in utility prices and a milder winter period. In addition, a lower than anticipated interest rate on the variable rate element of the loan portfolio financing the HRA has resulted in a saving of £108,000.

The Council has clearly stated its ambition to increase the number of affordable homes in the borough and work is underway to bring forward a number of development opportunities. A combination of useable one-for-one receipts and HCA grant have been used to finance capital expenditure on the new build programme at both the Corporation Club site and the site of the former Appletree Pub, Park Barn in 2016-17.

Other Performance during the year

Performance management is a key part of delivering successful services and performance indicators help the Council define and measure progress towards our strategic priorities. Individual service and project managers collect and monitor key performance information. In addition, 17 key corporate performance indicators are collected by the authority each year and benchmarked across the Surrey District Council's. The benchmarking reports are presented to the Surrey Chief Executives group each year. Guildford's performance against the 17 key performance indicators is as follows:-

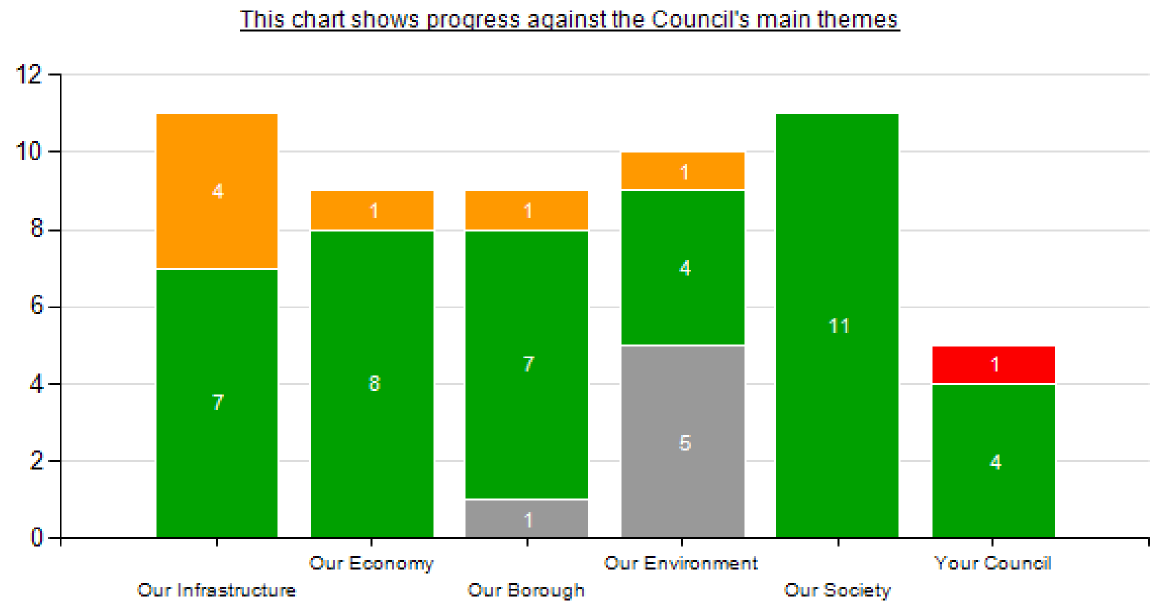
Indicator	**2016-17**	**2015-16**
1. Council Tax Collected	99.27%	99.32%
2. NNDR Collected	99.29%	99.48%
3. Invoices paid on time	91.75%	97.90%
4. Benefit Overpayments recovered		£1,991.08
5. Processing of 'major' planning applications within 13 weeks	100%	86.67%
6. Processing of 'minor' planning applications within 8 weeks	96%	69.44%
7. Processing of 'other' applications within 8 weeks		74.48%
8. Appeals dismissed against the Council's refusal of planning permission		69.29%
9. Number of Households living in temporary accommodation	61	46
10. Housing Advice – homelessness prevented (cases resolved)		407
11. Days taken to process Housing Benefit / Council Tax support claims		24.89 for new claims

		7.68 for changes
12. Number of affordable homes completed		125
13. Food businesses with ‘scores on the door’ of 3 or over		95%
14. % Household waste recycled and composted	59.7%	58%
15. Staff sickness absence Office Manual	 6.9 days 12.6 days	10.17days
16. Staff turnover	12.8%	9.24%
17. Calls answered by customer services within 20 seconds	91.3%	84.6%

The Council approved a Corporate Plan for the period 2015-2020 and has published it on our website, http://www.guildford.gov.uk/corporateplan. The Corporate Plan informs the more detailed service and project plans. The priorities set out in the plan are the basis and drivers for our performance indicators.

The five themes provide a focus for Council activities and there is a clear link between service delivery and the Council’s corporate objectives. We monitor progress against the objectives in the service plans through regular performance monitoring meetings and reports.

The progress made against the 2015-2016 Corporate Plan is reported monthly to CMT. The chart below shows the status of the progress so far, against the main themes, after 1 year of the corporate plan.



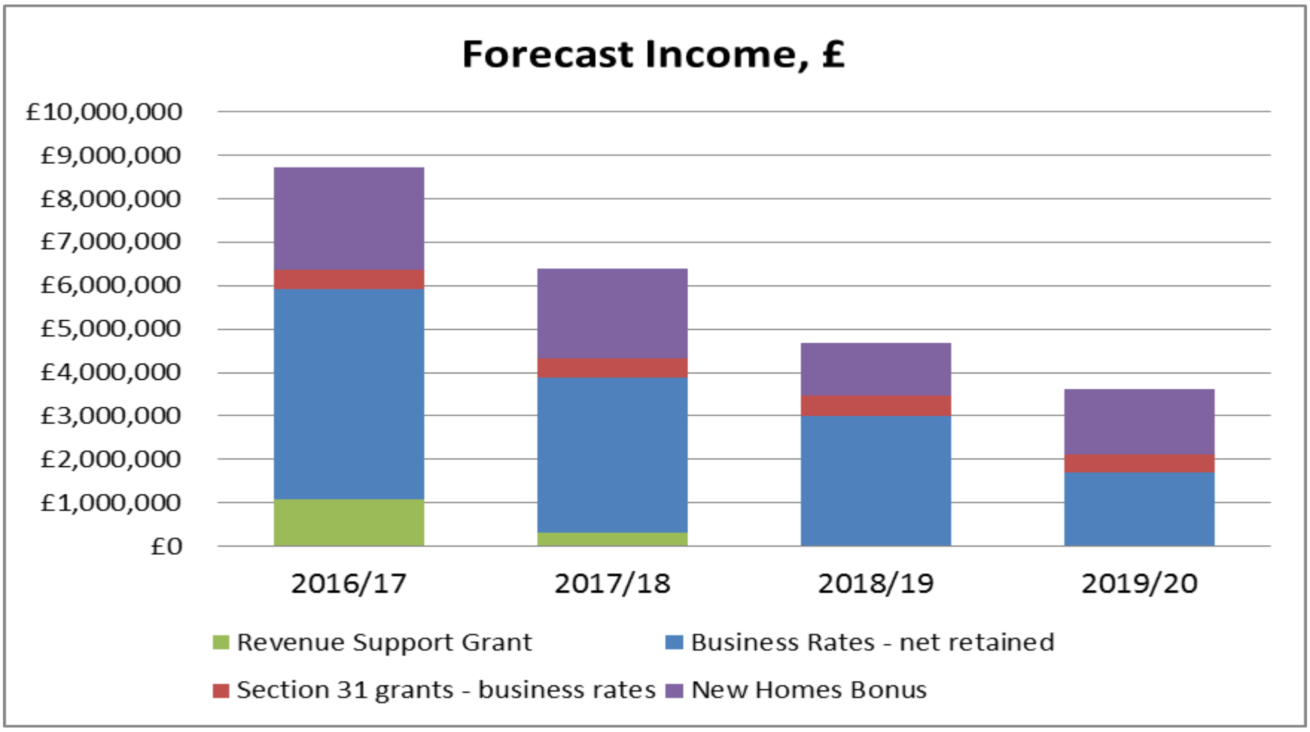
The graph shows xxxxxx

Over recent years, the Council has undertaken a programme of service challenges and senior management restructures. This has reduced our staffing levels as shown in the table below.

	Full time equivalent (FTE) number of staff				
	2012	**2013**	**2014**	**2015**	**2016**
Office Based Staff	502.7	516.14	513.68	524.58	535.9
Manual Staff	232.2	222.0	189.81	188.81	186.34
Total	**735.0**	**738.14**	**703.49**	**713.39**	**722.24**

Issues affecting the Council's Future

My Chief Finance Officer's report on the 2017-18 Budget, presented to Council on 8 February 2017, is on our website (www.guildford.gov.uk), (Insert hyperlink). This report contains an overview of local government funding, the economic outlook and their impact on Guildford Borough Council.
The economic situation continues to pose a significant risk. The level of Central Government support to Guildford Borough Council has been reducing as the Government addresses the national deficit. The chart below shows the change in Central Government funding since 2013-14 projected through to 2019-20.



During 2016-17, the Council accepted the central government's offer of a multi-year finance settlement for the 4 year period 2016-17 to 2019-20. The multi-year settlement requires local authorities to make efficiency savings but in return offers some stability for financial planning purposes. In addition the draft local government finance bill, introduced in early 2017 introduces the legislation required to enable local government to retain 100% of business rate revenues from 2020. However, under the new legislation, the system of top-up and tariffs, which re-distributes revenues between local authorities nationally, will be retained. As part of the reforms, the government will phase out Revenue Support Grant (RSG) and devolve additional responsibilities to local government such as responsibility for funding public health and housing benefit to pensioners.

The multi-year settlement for the 4 years 2016-17 to 2019-20 shows that the Council's core spending power is expected to reduce by 7.9% over the period. However, within this government have assumed a level of council tax base increase and new homes bonus award for 2018-19 and 2019-20 which is in excess of the Council's own estimates. As a result, our own estimate of the reduction in spending power over the period to 2019-20 is 8.4%. The cumulative reduction to Settlement Funding Assessment (SFA) to 2019-20 is 53% (£2.5 million in cash terms). The majority of the reduction falls on the Revenue Support Grant (RSG) which will be nil for the Council by 2018-19. To enable the government to still have a mechanism for controlling/reducing our ability to raise funding locally, it has introduced an adjustment to the tariff the Council pays to central government under the business rates retention scheme, which has the impact of, further reducing resources in 2019-20. Taken together the reduction in RSG and adjustment to the tariff payment over the period represents a reduction in grant of 13.7% or £2.75 million in cash terms.
Many of the priorities within the corporate plan involve significant investment in services, infrastructure and housing to deliver the outcomes.

A 10-year capital strategy or 'vision' has been developed with the aims of realising the Council's Corporate Plan, raising the quality of life for residents and improving the long term financial planning process. The first five years of the capital strategy are the capital programme. The capital programme is significant and includes potential investment in key projects to support our corporate plan such as:-

- Redevelopment of North Street
- Investment in affordable houses
- Investment in new social housing (HRA)
- A new link road at Clay Lane, Slyfield
- Redevelopment of the Slyfield area for housing
- Investment in the Council's subsidiary company, North Downs Housing Ltd
- Redevelopment of areas within the town centre owned by the Council
- Investment in transport infrastructure within Guildford Town Centre
- Pedestrian and cycling routes around the town
- Replacement of the roof at the Spectrum
- Upgrading of Woodbridge road sports ground
- Acquisition of new burial ground
- Guildford West (Park Barn Station)
- Redevelopment of Middleton Industrial Estate
- Increasing the car parking provision in the town
- Rebuilding the crematorium
- Renewal of the Council's vehicle fleet (eg, bin lorries etc)
- Redevelopment of Guildford Park car park for housing and a multi-storey car park
- Redevelopment of the Council's offices at Stoke Park nursery
- Repair of Chilworth Gunpowder mills
- Creation of camping facilities at Chantry Wood campsite

To finance the capital strategy, a variety of funding sources, such as capital receipts, capital reserves, revenue contributions, S106 contributions and borrowing will be required. Unless the Council is able to generate capital receipts it will need to borrow from its own internal resources, or the market. Any borrowing will have a direct impact on the revenue budget, as there is a requirement to charge a minimum revenue provision (MRP) for the use of borrowing as well as interest payments. Whilst the 5-year capital programme is ambitious, the 10-year capital strategy assumes that there will be some capital receipts or revenue income arising, particularly from the redevelopment schemes that will offset some of the expenditure in the long-term.

Growth included within the revenue budget for 2017-18 supports the delivery of the Corporate Plan. The growth arising from investment in services to meet the Corporate Plan for 2018-19 to 2020-21 has been included in the medium term financial plan. The main areas of investment to support our corporate plan include:

- Design and feasibility work to implement the sustainable movement corridor
- Feasibility study to investigate a bridge on A323 Guildford Road, Ash over the railway line at Ash Railway Station
- Progression of design and feasibility work for a redevelopment at Bedford Road in line with the vision set out in the Allies and Morrison town centre masterplan
- Progression of further feasibility work to redesign the Guildford gyratory system

- A platform capacity study to inform improvements and a development brief for Guildford Railway Station
- Increase in costs relating to waste and recycling gate fees
- Increase in playground repairs and maintenance
- Provision for the loss of various grant funding from Surrey County Council
- Additional procurement officer resources
- The cost of new legislative requirements for data protection and the apprenticeship levy

Our financial projections show that there is a significant gap between projected income and expenditure over the period 2017-18 to 2020-21 of £7.1 million.

The medium term budget gap already assumes that £2.3 million savings and additional income proposals (put forward as part of the 2017-18 business planning process) identified for 2018-19 to 2020-21 can be achieved. There is a risk that if the savings and income proposals are not achieved then the budget gap will be higher.

In order to address the gap, the Council is continuing to pursue a programme of transformation to address the budget gap and ensure a financially sustainable future. The transformation programme has three strands:

- Commercial / traded services
- Asset investment
- Fundamental service reviews.

Financial Risks

The Council faces many financial risks, which are identified in the financial risk register published as part of the council's budget book for 2017-18 on our website (insert hyperlink), the major ones are explained below.

1. **The economic situation**. The Council faces the following risks as a result of national economic cycles:
   - Loss of rental income on investment properties
   - Loss of interest from investments arising from bank base rates remaining at a low level for longer than expected
   - Increase in housing benefit claimants and bad debts
   - Potential increase in homelessness
   - Loss of income from Fees and Charges

2. **Delivery of savings and income**. The Council has embarked on transformation programme to deliver savings and income generation required to balance the budget over the medium term. If the programme is not be delivered on target it will affect the Council's ability to contain expenditure within budget in year, thus potentially reducing reserves and will increase the budget gap in future years of the medium term financial plan.

3. **Welfare Reform**. At its meeting on 6 December 2016 the Council approved the Local Council Tax Support Scheme (LCTSS) for 2017-18. There were no changes to the revised scheme, which was first introduced in 2016-17. The revised scheme has made savings for the council but we are aware of the possibility that some residents may find themselves in financial difficulty as a reaction to the savings in the national welfare budget and have maintained a £40,000 hardship fund for these cases. In addition, there will be further welfare reforms in the future, which are likely to influence the support we are able to offer council taxpayers. Although the number of claims is currently stable, any increase in take-up of the scheme is a direct cost to the General Fund, as we no longer receive a direct grant linked to expenditure levels.

4. **Universal credit**, which will replace housing benefit, was implemented from May 2016. The government expects the full roll-out to be complete by mid-2018, for all new benefit claims, with the final stage (converting the stock of existing claims to Housing benefit onto Universal Credit) to be complete by early 2022. The pace of roll-out will be dictated by the number of new claims, which will either be brand new claims or those coming back on to benefit having previously been a recipient. We will be closely monitoring the pace of change, as it will significantly influence our use of human and financial resources during this time. Some staff may choose to leave in advance of the final transfer of work to the Department for Work and Pensions (DWP), which could affect the speed of our processing and the level of customer service we can provide.

   The government has also commenced a review of local council tax support, which it promised, following a three year settling down period. There are some suggestions that LCTS could end up packaged with Universal Credit for the long term, which will also have an effect on our resources. Officers will report on the outcomes of the government review once it has been completed and local authorities advised of the findings.

   The welfare changes may also affect the Council through vulnerable people placing an increase in demand for services such as homelessness and housing advice.

5. **Corporate Plan**. The Council has an ambitious corporate plan, but it will present risks, which will need to be identified on an item-by-item basis and the Council's appetite for taking on risk agreed.

6. **Regeneration**. The Council is likely to promote regeneration of parts of the town centre where we are a landowner, in order to promote better use of our assets and better transportation links. All will necessitate the identification and acceptance of an appropriate level of risk. There are three major capital regeneration schemes during the medium term budget period; North Street, Slyfield and parts of the town centre along the river corridor. These schemes are schemes that only happen once in a generation and we would not normally expect the Council's on-going capital programme to include schemes of this size under normal operating cycles. Taking these schemes forward will have significant financial risks for the Council. Officers are currently looking at alternative legal structures to help us manage those risks. In particular, Slyfield Area Regeneration Scheme will carry significant financial risk to the Council. The scheme is likely to require the Council to undertake significant upfront investment and the time lag between the investment and the eventual sale of properties will be a number of years. The Council will seek to understand the level of risk and mitigate wherever possible

7. **Capital Programme**. As a consequence of the corporate plan, the Council has an ambitious capital programme, in order to invest in the Borough, and Council services, to deliver the targets within the corporate plan. The decision on how each individual scheme is funded will be taken as part of a further, more detailed, business case for each scheme, than that submitted as part of the bids included within the capital programme report.

   The capital programme for 2017-18 to 2021-22 shows the Council has an underlying need to borrow of £392 million. The revenue impact of borrowing includes:

   - borrowing costs
   - interest
   - on-going operating costs and
   - where known, income associated with each scheme.

   The revenue implications of the capital programme are included within the Council's general fund revenue budget and contribute towards its medium term financial plan budget gap.
   To meet its medium to long-term financial commitments, the Council will need to generate further capital receipts, service and transformation efficiencies, additional revenue income and capital grant income and contributions.

8. **Business rates retention scheme**. There continues to be volatility in our business rate income due to voids, appeals, revaluations and bad debts.

In 2016, the Government issued a consultation on business rates reform (100% rates retention) and a fair funding review. The results of the consultation are not known however, Government issued a further technical consultation on the implementation of 100% business rates retention in early 2017. I expect that the Council's relative need to spend will be reduced by government as part of the fair funding review, as government will look to re-allocate resources into high demand services such as social care and will continue to expect local authorities to contribute towards meeting national austerity targets. This is likely to mean that the tariff payable by the Council under the business rates retention scheme could increase from 2020 onwards, as indicated by the 2019-20 tariff adjustment included in the multi-year settlement.

9. **Surrey County Council**. The Council is aware of the significant financial pressure faced by our partner, Surrey County Council because of demand and cost pressures within the social care system. The financial sustainability of the social care system is a nationally recognised problem however, the impact it is having at a local level within Surrey is severe. When SCC agreed its 2017-18 budget, it received advice from its Chief Financial Officer that 'the budget for 2017/18 is only sustainable and robust if the council uses substantial reserves and capital receipts from the sale of assets, and crucially, receives significant transitional relief while an unprecedented scale of service transformation is developed and delivered going forwards'. Guildford Borough Council currently receives approximately £2.1 million of funding from SCC for various services, there is a significant risk that this funding will cease in future.

10. **'Brexit'**. In June 2016, following a referendum, the United Kingdom (UK) voted to leave the European Union (EU). The government triggered Article 50, the formal process to allow the UK to leave the EU, in March 2017. The financial consequences of leaving the EU and the terms on which the UK leaves pose a significant risk to the UK economy, in particular the need for, and length of, any further government spending reductions pose a significant risk to the medium term financial plan of the Council.

Auditors remuneration

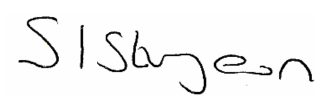
Details relating to the remuneration of Auditors of the Council are shown in note 10 to the Statement of Accounts. During the year, the auditors provided additional advice to the Council on the implementation of IR 35.

Conclusion

The Council has been able to maintain a high level of performance in the delivery of its services during 2016-17, and at the same time maintain its reserves and provisions to a level adequate to meet all known liabilities and invest in transformational change.

There are significant challenges for us in the future. The Government continues to reduce local authority funding as part of its austerity programme and we are starting to prepare for the implementation of 100% business rates retention and devolution. The broader welfare reform agenda is also likely to put pressure on Council services, particularly in the area of housing and homelessness. At the same time the Council has exciting but challenging plans for the regeneration of the town and borough.

The Council is well placed to meet these challenges and has a programme of transformational changes and fundamental service reviews in place to deliver savings for future years.



Sue Sturgeon, CPFA
Chief Financial Officer
31 May 2017

EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how the Council's annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) in comparison with those resources the Council consumes or earns in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision-making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015-16 Net Expenditure Chargeable to the General Fund and HRA Balances £000	2015-16 Adjustments between Funding and Accounting Basis £000	2015-16 Net Expenditure in the Comprehensive Income and Expenditure Statement £000		2016-17 Net Expenditure Chargeable to the General Fund and HRA Balances £000	2016-17 Adjustments between Funding and Accounting Basis £000	2016-17 Net Expenditure in the Comprehensive Income and Expenditure Statement £000
4,562	1,725	6,287	Community Services	5,030	1,363	6,393
3,373	403	3,776	Corporate Services	3,698	572	4,270
4,637	1,394	6,031	Development	4,922	2,540	7,462
1,803	6,394	8,197	Environment	1,428	7,251	8,679
(20)	36	16	Managing Director	(33)	18	(15)
2,974	(997)	1,977	Resources	2,731	(787)	1,944
(22,246)	5,305	(16,941)	Housing Revenue Account	(21,797)	9,384	(12,413)
(4,917)	**14,260**	**9,343**	**Cost of Services**	**(4,021)**	**20,341**	**16,320**
(10,497)	(8,839)	(19,336)	Other income and expenditure	(10,680)	(15,386)	(26,066)
(15,414)	5,421	(9,993)	Surplus	(14,701)	4,955	(9,746)
(77,575)			Opening General Fund and HRA Balance at 31 March	(92,989)		
(15,414)			Add Surplus on General Fund and HRA Balance in Year	(14,701)		
(92,989)			Closing General Fund and HRA Balance at 31 March	(107,690)		

The General Fund and HRA Balance includes earmarked reserves, which are analysed in Note 12 to the accounts. For a split of the balance between the General Fund and the HRA – see the Movement in Reserves Statement.

Net Expenditure Chargeable to the GF and HRA balances is as reported to Management throughout the year except that:

- It excludes depreciation, which is included as an adjustment between funding and accounting basis
- Net income relating to investment property £7,392k, which is reported to Development Directorate, is included in Other income and expenditure in accordance with generally accepted accounting practices

The other adjustments between accounting and funding basis are not reported to Management during the year, but are included in the final year-end outturn report to Corporate Management Team and the Executive.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Authorities raise taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

		2015-16					2016-17
Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
13,044	6,757	6,287	Community Services		13,739	7,346	6,393
6,095	2,319	3,776	Corporate Services		7,007	2,737	4,270
8,992	2,961	6,031	Development		10,775	3,313	7,462
35,478	27,281	8,197	Environment		36,211	27,532	8,679
514	498	16	Managing Director		380	395	(15)
46,848	44,871	1,977	Resources		45,408	43,464	1,944
15,652	32,593	(16,941)	Housing Revenue Account		20,211	32,624	(12,413)
(21,004)	(21,004)	-	Less internal recharges		(24,067)	(24,067)	-
105,619	**96,276**	**9,343**	**Cost of Services**		**109,664**	**93,344**	**16,320**
		108	Other operating expenditure	4			2,114
		(600)	Financing and investment income and expenditure	5			(5,457)
		(18,844)	Taxation and non-specific grant income	6			(22,723)
		(9,993)	**Surplus on Provision of Services**				**(9,746)**
		(34,949)	Surplus on revaluation of Property, Plant and Equipment assets	23			(61,735)
		(22,536)	Remeasurements of the net defined benefit liability	23			14,623
		298	Surplus on revaluation of available for sale financial assets	23			(809)
		(57,187)	**Other Comprehensive Income and Expenditure**				**(47,921)**
		(67,180)	**Total Comprehensive Income and Expenditure**				**(57,667)**

MOVEMENT IN RESERVES STATEMENT (MIRS)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is those that can be applied to finance expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable council tax or rents for the year. The net increase / (decrease) line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

2016 - 17

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016	**35,271**	**57,718**	**27,234**	**3,536**	**410**	**124,169**	**473,086**	**597,255**
Movement in Reserves during 2016-17								
Total Comprehensive Income and Expenditure	1,235	8,511	-	-	-	9,746	47,921	57,667
Adjustments between accounting basis & funding basis under regulations (Note 22)	2,999	1,956	204	2,860	(110)	7,909	(7,909)	-
Increase/(decrease) in 2016-17	**4,234**	**10,467**	**204**	**2,860**	**(110)**	**17,655**	**40,012**	**57,667**
Balance at 31 March 2017 carried forward	**39,505**	**68,185**	**27,438**	**6,396**	**300**	**141,824**	**513,098**	**654,922**

2015 - 16

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Contributions Unapplied £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2015	**30,793**	**46,782**	**29,999**	**2,070**	**63**	**109,707**	**420,368**	**530,075**
Movement in Reserves during 2015-16								
Total Comprehensive Income and Expenditure	(4,844)	14,837	-	-	-	9,993	57,187	67,180
Adjustments between accounting basis & funding basis under regulations (Note 22)	9,322	(3,901)	(2,765)	1,466	347	4,469	(4,469)	-
Increase/(decrease) in 2015-16	**4,478**	**10,936**	**(2,765)**	**1,466**	**347**	**14,462**	**52,718**	**67,180**
Balance at 31 March 2016 carried forward	**35,271**	**57,718**	**27,234**	**3,536**	**410**	**124,169**	**473,086**	**597,255**

BALANCE SHEET

The Balance Sheet shows the value as at 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) match the reserves held by the Council. Reserves are reported in two categories:

- usable reserves - which the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt), and
- unusable reserves - which the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line '*Adjustments between accounting basis and funding basis under regulations'*.

31 March 2016 £000		Notes	31 March 2017 £000
667,504	Property, Plant & Equipment	13	720,121
3,456	Heritage Assets	14	3,506
117,284	Investment Property	15	145,899
921	Intangible Assets	16	1,010
25,050	Long-term Investments	28	45,749
955	Long-term Debtors	28	1,802
815,170	**Long Term Assets**		**918,087**
107,758	Short-term Investments	28	81,706
362	Inventories		354
7,834	Short Term Debtors	17	7,310
12,223	Cash and Cash Equivalents	18	1,188
128,177	**Current Assets**		**90,558**
(34,991)	Short Term Borrowing	28	(35,461)
(25,486)	Short Term Creditors	19	(22,912)
(5,910)	Provisions	20	(3,776)
(66,387)	**Current Liabilities**		**(62,149)**
(203,355)	Long Term Borrowing	28	(198,125)
(76,350)	Other Long Term Liabilities	26	(93,449)
(279,705)	**Long Term Liabilities**		**(291,574)**
597,255	**Net Assets**		**654,922**
124,169	Usable Reserves	MIRS	141,824
473,086	Unusable Reserves	23	513,098
597,255	**Total Reserves**		**654,922**

S I Sturgeon

Sue Sturgeon, CPFA, Chief Financial Officer, 31 May 2017

CASH FLOW STATEMENT

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

2015-16 £000		2016-17 £000
	OPERATING ACTIVITIES	
9,993	Net surplus on the provision of services	9,746
20,171	Adjustments for non-cash movements (Note 21)	21,490
(6,748)	Adjustments for items included in the net surplus that are investing and financing activities (Note 21)	(9,435)
23,416	**Net cash flows from Operating Activities**	**21,801**
	INVESTING ACTIVITIES	
(23,465)	Payments for additions to long term assets	(37,511)
(221,996)	Payments for purchase of investments	(96,378)
(38)	Other payments for investing activities	(961)
4,522	Proceeds from the disposal of long term assets	6,417
194,211	Proceeds from disposal of investments	102,399
2,862	Other receipts from investing activities	1,687
(43,904)	**Net cash flows from Investing Activities**	**(24,347)**
	FINANCING ACTIVITIES	
110,500	Cash receipts of short and long-term borrowing	65,300
(595)	Other receipts from financing activities	(3,747)
(86,230)	Repayments of short and long-term borrowing	(70,042)
23,675	**Net cash flows from financing activities**	**(8,489)**
3,187	**Net decrease in cash and cash equivalents**	**(11,035)**
9,036	Cash and cash equivalents at the beginning of the reporting period	12,223
12,223	**Cash and cash equivalents at the end of the reporting period (Note 18)**	**1,188**

The other receipts from financing activities relate to council tax and business rates adjustments for billing authorities.

NOTES TO THE ACCOUNTS

1. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 30 June 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

2A). NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

				Adjustments between Funding and Accounting Basis 2016-17
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note 1)**	**Net change for the Pensions Adjustments (Note 2)**	**Other differences (Note 3)**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Community Services	126	475	762	**1,363**
Corporate Services	21	228	323	**572**
Development	(71)	352	2,259	**2,540**
Environment	5,149	761	1,341	**7,251**
Managing Director	-	18	-	**18**
Resources	835	(1,903)	281	**(787)**
Housing Revenue Account	9,466	(121)	39	**9,384**
Cost of Services	**15,526**	**(190)**	**5,005**	**20,341**
Other income and expenditure from the Expenditure and Funding Analysis	**(9,117)**	**2,667**	**(8,936)**	**(15,386)**
Difference between General Fund surplus and Comprehensive Income and Expenditure Statement surplus on the Provision of Services	**6,409**	**2,477**	**(3,931)**	**4,955**

				Adjustments between Funding and Accounting Basis 2015-16
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note 1)**	**Net change for the Pensions Adjustments (Note 2)**	**Other differences (Note 3)**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Community Services	123	603	999	**1,725**
Corporate Services	16	275	112	**403**
Development	150	443	801	**1,394**
Environment	5,032	1,023	339	**6,394**
Managing Director	-	36	-	**36**
Resources	416	(1,658)	245	**(997)**
Housing Revenue Account	5,327	(31)	9	**5,305**
Cost of Services	**11,064**	**691**	**2,505**	**14,260**
Other income and expenditure from the Expenditure and Funding Analysis	**(8,759)**	**3,056**	**(3,136)**	**(8,839)**
Difference between General Fund surplus and Comprehensive Income and Expenditure Statement surplus on the Provision of Services	**2,305**	**3,747**	**(631)**	**5,421**

Note 1 - Adjustments for Capital Purposes

This column adds in depreciation and revaluation gains and losses in the services line, and for:

- **Other operating expenditure –** adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure –** the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure –** capital grants and contributions are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants and contributions are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants and contributions receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2 – Net change for the Pensions adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure –** the net interest on the defined benefit liability is charged to the CIES.

Note 3 – Other differences

This column adds in the amortisation of intangible software assets and revenue expenditure funded from capital under statute in the services line, and for:

- **Other operating expenditure –** adds in the payment to the government Housing Capital Receipts Pool
- **Financing and investment income and expenditure –** the statutory transfer of the amount equal to the total depreciation charge for all HRA assets to the Major Repairs Reserve is deducted from other income and expenditure as this is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure –** the charge represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2B). SEGMENTAL INCOME

Revenues received from external customers on a segmental basis is analysed below:

2015-16 £000	Services	2016-17 £000
1,344	Community Services	1,411
115	Corporate Services	175
9,164	Development	10,769
20,735	Environment	20,621
934	Resources	832
31,182	Housing Revenue Account	31,242
63,474	**Total Income from service**	**65,050**

3. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

2015-16 £000	Expenditure/Income	2016-17 £000
	Expenditure	
32,706	Employee benefits expenses	33,361
73,627	Other services expenses	76,000
10,024	Support service recharges	9,732
10,009	Depreciation, amortisation, revaluation gains and losses	11,599
8,529	Interest payments	7,977
1,406	Precepts and levies	1,470
704	Payments to Housing Capital Receipts Pool	698
(2,002)	Gain on the disposal of assets	(54)
135,003	**Total Expenditure**	**140,783**
	Income	
117,278	Fees, charges and other service income	117,411
8,874	Interest and investment income	10,395
12,051	Income from council tax and non-domestic rates	15,581
6,793	Government grants and contributions	7,142
144,996	**Total Income**	**150,529**
(9,993)	**Surplus on the Provision of Services**	**(9,746)**

4. OTHER OPERATING EXPENDITURE

2015-16 £000		2016-17 £000
1,406	Parish council precepts	1,470
704	Payments to the government Housing Capital Receipts Pool	698
(2,002)	Gains on the disposal of non-current assets	(54)
108		**2,114**

5. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015-16 £000		2016-17 £000
5,473	Interest payable and similar charges	5,310
3,056	Net interest on the net defined benefit liability (Note 26)	2,667
(1,737)	Interest receivable and similar income	(1,792)
(7,392)	Income and expenditure in relation to investment properties and changes in their fair value	(11,642)
(600)		**(5,457)**

More detail in relation to investment property is provided in note 15.

6. TAXATION AND NON SPECIFIC GRANT INCOME

2015-16 £000		2016-17 £000
(9,824)	Council tax income	(10,263)
(2,227)	Non domestic rates income and expenditure	(5,318)
(4,567)	Non-ringfenced government grants	(4,124)
(2,226)	Capital grants and contributions	(3,018)
(18,844)		**(22,723)**

The non-domestic rates income and expenditure line above includes the following:

2015-16 £000		2016-17 £000
28,060	Tariff	28,293
112	Levy	962
(30,399)	Retained income	(34,573)
(2,227)		**(5,318)**

7. 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 secured the ability to limit another party's ability to bargain freely with the Council.

UK Central Government
UK Central Government has significant influence 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 (for example council tax bills, housing benefits). Grants received from Government departments are set out in note 11.

Councillors and Officers
Councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2016-17 is shown in Note 8. The Council paid grants totalling £60,310 (£71,249 in 2015-16) to voluntary organisations in which a number of elected councillors had an interest. In addition, the Council paid grants totalling £531,515 (£510,095 in 2015-16) to voluntary organisations in which a number of councillors were acting as a Borough Council nominee. The Council gave support totalling £283,922 (£284,012 in 2015-16) to the Citizens Advice Bureaux in which two councillors had an interest and four councillors were acting as Borough Council nominees. In all instances, the grants were made with proper consideration of declarations of interest and the relevant councillors, although able to take part in any discussion relating to these grants, were excluded from voting. The Council paid a grant of 22,840 (£22,840 in 2015-16) to a voluntary organisation in which one senior officer disclosed an interest, and had no part in the decision to award the grant.

8. COUNCILLORS' ALLOWANCES

2015-16		**2016-17**
£		**£**
230,192	Basic Allowance	315,302
67,132	Special Responsibility Allowance	104,216
5,307	Mileage and Subsistance	6,642
302,631		**426,160**

The amount paid to each councillor is published annually on the Council's website, at
https://www.guildford.gov.uk/article/18872/Councillors-allowances

9. OFFICERS' REMUNERATION

The following table sets out the Senior Officers' emoluments for 2016-17, where the salary is between £50,000 and £150,000 per year.

Postholder	Note		Salaries, fees and Allowances	Other non salary payments	Lump sum in respect of car mileage, telephone etc.	Termination Payments	Pension Contribution	Car lease/ other benefits	Total
Managing Director	1	**2016-17**	**136,839**	**6,608**	**1,717**	-	**20,034**	**8,023**	**173,221**
		2015-16	127,951	-	1,701	-	18,213	6,077	153,942
Director of Corporate Services	1	**2016-17**	**114,892**	**6,131**	**11,925**	-	**95,520**	**621**	**229,089**
		2015-16	100,142	10,780	3,690	-	16,125	551	131,288
Director of Environment		**2016-17**	**96,851**	-	**1,717**	-	**13,998**	**8,443**	**121,009**
		2015-16	88,255	-	1,362	-	12,781	6,522	108,920
Director of Community Services		**2016-17**	**92,652**	-	**2,475**	-	**13,434**	**4,928**	**113,489**
		2015-16	86,700	-	1,298	-	12,658	5,894	106,550
Director of Resources		**2016-17**	**92,370**	-	**1,717**	-	**13,434**	**3,907**	**111,428**
		2015-16	87,069	-	1,298	-	12,635	3,095	104,097
Director of Planning and Regeneration	2	**2016-17**	**32,653**	-	**3,814**	-	**4,767**	-	**41,234**
		2015-16	-	-	-	-	-	-	-
Audit and Performance Manager		**2016-17**	**59,782**	-	**291**	-	**8,651**	**8,951**	**77,675**
		2015-16	57,302	-	-	-	8,290	8,257	73,849
Executive Head of Organisational Development	3	**2016-17**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		2015-16	52,460	-	287	95,626	99,568	5,794	253,735
Director of Development	3	**2016-17**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
		2015-16	36,629	-	205	-	5,222	2,637	44,693

1. The other non-salary payment in 2016-17 relates to payments made in respect of the Police and Crime Commissioner election, European Referendum and Mayoral Referendum. The amounts in respect of the Police and Crime Commissioner (PCC) election and European Referendum were reimbursed by the PCC and Treasury. The other non-salary payment in 2015-16 relates to a payment made in respect of the Borough and General Elections held in May 2015. The amount in respect of the General Election was reimbursed by the Treasury.

2. The Director of Planning and Regeneration started in November 2016 on an annualised salary of £90,424

3. These posts were deleted at the end of October 2015, as part of a senior management restructure.

The Council's other employees receiving more than £50,000 remuneration for the year, which includes termination payments but excludes employer's pension contributions, were paid the following amounts:

Remuneration Band	**2016-17 Number of Employees**	**2015-16 Number of Employees**
£50,000 - £54,999	19	17
£55,000 - £59,999	16	6
£60,000 - £64,999	7	4
£65,000 - £69,999	4	3
£70,000 - £74,999	2	2
£75,000 - £79,999	1	-
£80,000 - £84,999	1	1

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table:

Exit Package cost band (inc. special payments)	**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**	
	2016-17	**2015-16**	**2016-17**	**2015-16**	**2016-17**	**2015-16**	**2016-17**	**2015-16**
							£	£
£0 - £20,000	5	3	3	0	8	3	66,440	41,380
£20,001 - £40,000	1	2	0	2	1	4	20,800	127,934
£40,001 - £60,000	1	0	0	0	1	0	41,743	-
£60,001 - £80,000	0	0	1	0	1	0	77,939	-
£180,001 - £200,000	0	1	0	0	0	1	-	187,726
	7	**6**	**4**	**2**	**11**	**8**	**206,922**	**357,040**
Less: amounts included above provided for in previous year								**(61,281)**
Add: Amounts provided for in CIES not included in bandings							**169,101**	
Total cost included in CIES							**376,023**	**295,759**

Payments shown in respect of redundancies include both redundancy payments and additional amounts paid to the Pension Fund, where applicable.

Payments made in respect of other departures agreed include voluntary redundancies, contractual obligations and discretionary payments, relating to people who have left the Council's employment in the interests of efficiency of the service.

10. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

2015-16 £'000		2016-17 £'000
58	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year	58
30	Fees payable to Grant Thornton UK LLP in respect of certification of grant claims and returns	25
2	Fees payable to Grant Thornton UK LLP for other services	2
90	**Total**	**85**

11. GRANT INCOME

The Council credited the following grants, contributions and donations to the CIES.

2015-16 £'000		2016-17 £'000
	Credited to Taxation and Non Specific Grant Income	
2,227	Non domestic rates	4,355
	Non-ringfenced government grants	
2,079	Revenue Support Grant	1,097
1,780	New Homes Bonus	2,362
708	s31 grant - Business Rates Retention Scheme & Council Tax	665
2,226	Capital grants and contributions	3,826
9,020	**Total**	**12,305**
	Credited to Services	
20,437	Housing Benefit Rent Allowance subsidy	20,114
14,592	Housing Benefit Rent Rebate subsidy	14,198
582	Housing Benefit Administration	565
528	Supporting People Grant	510
544	Day care and other social services	492
235	Business Rate Collection	235
112	Contributions to grants to voluntary organsiations	112
180	Social Care prevention partnership fund	113
141	Recycling	136
403	Other	474
37,754	**Total**	**36,949**

12. 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.

	Balance at 31 March 2015 £000	Transfers In 2015-16 £000	Transfers Out 2015-16 £000	Balance at 31 March 2016 £000	Transfers In 2016-17 £000	Transfers Out 2016-17 £000	Balance at 31 March 2017 £000
General fund:							
Budget Pressures	1,220	500	272	1,448	1,740	416	2,772
Business Rates Equalisation	2,008	2,732	67	4,673	859	2,471	3,061
Capital Schemes	1,932	622	1,915	639	1,400	639	1,400
Car Parks Maintenance	3,297	591	58	3,830	600	63	4,367
Invest to Save	1,337	550	514	1,373	1,249	388	2,234
IT Renewals	802	953	749	1,006	1,448	401	2,053
New Homes Bonus	2,128	779	-	2,907	1,364	325	3,946
Park and Ride	1,650	-	-	1,650	-	-	1,650
Special Protection Area (SPA) Sites	2,662	1,045	38	3,669	835	94	4,410
Spectrum	1,391	172	-	1,563	174	48	1,689
Other earmarked reserves	8,618	2,734	2,587	8,765	1,742	2,332	8,175
Total	**27,045**	**10,678**	**6,200**	**31,523**	**11,411**	**7,177**	**35,757**
HRA:							
Capital Programme	23,329	2,500	-	25,829	2,500	-	28,329
New Build	20,953	8,436	-	29,389	7,967	-	37,356
Total	**44,282**	**10,936**	**-**	**55,218**	**10,467**	**-**	**65,685**

Budget Pressures: set up to allow us to manage the budget reduction required over the next five years

Business Rates Equalisation: To be used as appropriate to smooth out the effects of the Business Rates Retention Scheme, including those related to regeneration projects

Capital Programme (HRA): available to fund HRA capital expenditure in future years

Capital Schemes: available to fund General Fund capital expenditure in future years

Car Parks Maintenance: used to fund repairs, maintenance and improvements in the Council's off street car parks

Invest to Save: this reserve funds investment opportunities that will allow us to achieve ongoing savings, and short term increases in revenue costs during periods of transition

IT Renewals: receives repayments from services to fund expenditure as set out in the Council's Information and Communication Technology (ICT) strategy

New Build (HRA): to fund the building and acquisition of new Council homes

New Homes Bonus: New Homes Bonus is a general grant that we receive from the UK government. It is not ring-fenced for any specific purpose

Park and Ride: this reserve will be used to fund future park and ride sites

Special Protection Area (SPA) Sites: set up to hold s106 income received in relation to various SPA sites

Spectrum: this reserve is available to finance structural repairs and improvements to Spectrum Leisure Centre

Other: consists of 38 reserves with balances of less than £1 million, which have been earmarked for a range of different purposes e.g. insurance, pensions, protection from interest rate movements, legal actions, and energy management schemes.

13. PROPERTY, PLANT AND EQUIPMENT

Movement in 2016-17:

	Council dwellings £000	Other land and buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus assets £000	Assets under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2016	474,814	185,659	23,488	6,190	4,518	1,350	43	696,062
Additions	4,170	2,053	3,530	586	10	-	2,447	12,796
Disposals	(5,495)	(600)	(1,559)	-	-	-	-	(7,654)
Accumulated depreciation written off to cost or valuation	(6,833)	(7,367)	-	-	-	(184)	-	(14,384)
Revaluations recognised in the revaluation reserve	38,161	23,307	-	-	-	267	-	61,735
Revaluations recognised in the surplus on provision of services	(2,786)	236	-	-	-	392	-	(2,158)
Transfers	-	(1,435)	-	35	(35)	1,335	100	-
At 31 March 2017	**502,031**	**201,853**	**25,459**	**6,811**	**4,493**	**3,160**	**2,590**	**746,397**
Accumulated Depreciation								
At 1 April 2016	1,081	8,834	14,438	4,205	-	-	-	28,558
Charge for 2016-17	6,634	4,634	1,847	202	-	52	-	13,369
Disposals	-	(26)	(1,241)	-	-	-	-	(1,267)
Revaluations	(6,833)	(7,367)	-	-	-	(184)	-	(14,384)
Transfers	-	(152)	-	-	-	132	20	-
At 31 March 2017	**882**	**5,923**	**15,044**	**4,407**	**-**	**-**	**20**	**26,276**
Net book Value								
As at 31 March 2017	**501,149**	**195,930**	**10,415**	**2,404**	**4,493**	**3,160**	**2,570**	**720,121**
as at 31 March 2016	473,733	176,825	9,050	1,985	4,518	1,350	43	667,504

Comparative Movement in 2015-16:

	Council dwellings £000	Other land and buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus assets £000	Assets under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2015	435,577	180,675	22,195	5,720	4,428	550	6,814	655,959
Additions	5,258	3,805	1,770	470	90	-	2,351	13,744
Disposals	(2,449)	-	(477)	-	-	-	-	(2,926)
Accumulated depreciation written off to cost or valuation	(6,425)	(465)	-	-	-	-	-	(6,890)
Revaluations recognised in the revaluation reserve	32,626	1,523	-	-	-	800	-	34,949
Revaluations recognised in the surplus on provision of services	1,105	121	-	-	-	-	-	1,226
Transfers	9,122	-	-	-	-	-	(9,122)	-
At 31 March 2016	**474,814**	**185,659**	**23,488**	**6,190**	**4,518**	**1,350**	**43**	**696,062**
Accumulated Depreciation								
At 1 April 2015	1,136	4,992	13,344	4,041	-	-	-	23,513
Charge for 2015-16	6,376	4,307	1,443	164	-	-	-	12,290
Disposals	(6)	-	(349)	-	-	-	-	(355)
Revaluations	(6,425)	(465)	-	-	-	-	-	(6,890)
At 31 March 2016	**1,081**	**8,834**	**14,438**	**4,205**	**-**	**-**	**-**	**28,558**
Net book Value								
As at 31 March 2016	**473,733**	**176,825**	**9,050**	**1,985**	**4,518**	**1,350**	**43**	**667,504**
as at 31 March 2015	434,441	175,683	8,851	1,679	4,428	550	6,814	632,446

The transfer of £9.1 million from assets under construction to council dwellings represents housing schemes at Lakeside Close, Ash and New Road, Gomshall, that were completed in 2015-16.

Depreciation

Depreciation is charged on a straight-line basis over the useful life of the asset. The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – 60 years
- Other Land and Buildings – 5 to 60 years
- Vehicles, Plant, Furniture and Equipment – 3 to 30 years
- Infrastructure – 10 years

Capital Commitments

At 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017-18 and future years budgeted to cost £2.43 million. Similar commitments at 31 March 2016 were £3.388 million.

The major commitments are:
Woodbridge road sportsground £1.25 million; Former Corporation Club, Slyfield £390,000; and enabling works for new access road at Slyfield £220,000.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. All of our council dwellings and a proportion of our other operational properties were revalued by the Valuation Office Agency and Bruton Knowles, chartered surveyors, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Council dwellings were revalued as at January 2017 and other property as at November 2016. The assets were inspected between April 2016 and March 2017 and the valuer assumed, where relevant, that the properties valued will continue to be in the occupation of the Council for the foreseeable future having regard to the prospect and viability of the continuance of that occupation.

Properties regarded by the Council as operational were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

The property, regarded by the Council as surplus and therefore non-operational, was valued at fair value, based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the property being categorised at Level 2 in the fair value hierarchy.

All assets of the same type, e.g. car parks, are generally revalued together in one year. We check that there are no material trends in the revaluations that should be applied to any of our other assets.

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report, which also provides assurance that the valuer has reviewed the balance sheet values of the remainder of the Council's property portfolio to give assurance that no class of assets is materially misstated.

The valuation figures incorporated in the accounts are the aggregate of separate valuations of parts of the portfolio, not an apportioned valuation of the portfolio valued as a whole.

The following statement shows the progress of the Council's rolling programme for the revaluation of PPE assets:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets	Total
	£000	£000	£000	£000	£000
Carried at historical cost	-	-	25,459	-	25,459
Valued at current value as at:					
31-Mar-17	502,031	156,385	-	3,160	661,576
31-Mar-16	-	3,925	-	-	3,925
31-Mar-15	-	22,526	-	-	22,526
31-Mar-14	-	10,526	-	-	10,526
31-Mar-13	-	8,491	-	-	8,491
Total Cost or Valuation	**502,031**	**201,853**	**25,459**	**3,160**	**732,503**

14. HERITAGE ASSETS

Reconciliation of the carrying value of Heritage Assets held by the Council

	Monuments £000	Civic Regalia etc £000	Art Collection £000	Total Assets £000
Cost or Valuation				
At 1 April 2015	938	1,759	723	3,420
Additions	6	-	30	36
At 31 March 2016	**944**	**1,759**	**753**	**3,456**
Cost or Valuation				
At 1 April 2016	944	1,759	753	3,456
Additions	5	-	45	50
At 31 March 2017	**949**	**1,759**	**798**	**3,506**

Civic Regalia

The Council's collection of civic regalia is held at the Guildhall, and includes such items as the mayor's badge, small and large mace and the civic plate.

Art Collection

The collection comprises more than 550 pieces and small collections. Many objects consist of multiple parts so the number of works comes close to 800. They span more than 250 years and include a plethora of media - oil paintings, watercolours, pastels, etchings, engravings, prints, textiles, ceramics, sculpture and glass.

The Heritage Services Collections Development Policy is available from the Council's Heritage Manager.

The civic regalia and art collection were valued as at March 2012 by Bonhams 1793 Limited, international auctioneers and valuers. The basis of the valuation was for insurance purposes and was based on estimated price of the items if purchased on retail premises.

Museum Collections

Guildford Museum works with local people and other partners to collect, record and care for the Borough's heritage and to promote understanding, enjoyment, and engagement with that heritage through access and learning for all. Its collections contain material of local, regional, national and international importance and form a unique cultural asset and resource for Guildford Borough, its people and its visitors.

The Council does not consider that reliable cost or valuation information can be obtained for the museum collection because of the diverse nature of the assets held and lack of comparable market values.

The heritage asset acquisitions and disposals policies are set out in the published Heritage Service's collections development policy, which the Council reviews every five years. This is a requirement of the national standards scheme for museums, which is managed by Arts Council England. A copy is lodged with other appropriate museums and regional organisations in Surrey and the South East. It is also available on the Council's website.

15. INVESTMENT PROPERTY

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the CIES:

2015-16 £000		2016-17 £000
7,021	Rental income from investment property	8,421
(905)	Direct operating expenses arising from investment property	(899)
6,116	**Net gain**	**7,522**

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

The fair value of the majority of Council's investment property has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

<u>Level 3 disclosure</u>:
Two of the Council's investment properties have been revalued at Level 3 in fair value hierarchy (unobservable inputs), having changed from level 2 in 2015-16.

- Bellfields Service Station:
  This has been valued at level 3 due to a lack of specific comparable evidence available for service stations and specific information regarding operator income on the asset. There are no similar assets of this class in the portfolio therefore the impact of the level of input does

not impact on any other asset. There is a rent review due 01/04/2017 and going forwards the outcome of this rent review will remove the uncertainty in the levels of input. Currently, the valuation is sensitive to the level of rent adopted, although the valuers do not consider an increase at review date likely as at their valuation dates. In the absence of comparable information the valuers consulted market participants for their views of the market and investment yields.

Valuation methodology
The property has been valued based on the existing rent passing until the end of the lese, upward only reviews, i.e. £45,200 per annum.

The property was last revalued in 2012, where there was little market evidence to support an increase based on falling petrol sales and accordingly the rent review was documented at "nil" increase. During this revaluation there has been little change in circumstances given the ever increasing pressure on petrol sales margins from supermarket and other competing operators. In this regard, the valuers assumed the Council would struggle to find market evidence to support a rent increase upon review.

In terms of estimating the rack rental value for the current valuation, it is clear that without the ability to expand the retail sales by expanding the current shop, without compromising the current number of petrol pumps on the forecourt (and therefore petrol sales), any increase in rent will be difficult to support. The site is just under one fifth of a hectre (just under 0.5 acre) and the valuers assumed that expansion of the current shop to increase retail sales without compromising petrol sales would not be possible. In order to increase retail revenues, the shop might be better serves with a Tesco or other supermarket "one stop" operator, however it is probably likely that a supermarket chain would require a larger store to make the investment viable.

Given these factors, therefore, in arriving at the estimate of rental value (in the absence of trading figures from the current tenant), the valuers have assumed that the current rent passing represents the current Estimated Rental Value (ERV) for the property.

Whilst such an investment of this type (being in a good location and let to a strong covenant on an upward only review basis) would normally attract an investment yield of 6.5% in the current market, given the uncertainties of rental growth and the fact that the review has not been triggered by the Council they valued the current income at 6.75%.

In terms of reversionary income, they assumed that the full ERV of the property (i.e. £226,000 per annum) can be regarded as "very risky". This is on the basis that there is currently a long-term downward trend of petrol sale margins as a result of increased competition. In this regard the reversionary income is valued based on an 8% yield when the lease reverts to the Council in 2054.

- Shalford Water Works

This has been valued at level 3 due to a lack of specific comparable evidence and information regarding operator income/profits on the subject. There are no similar assets of this class in the portfolio therefore the impact of the level of input does not affect any other asset. The sensitivity of the inputs is somewhat lessened by the current income being certain until rent review 2034.

The income is in place until the next rent review in 2034, assumed currently to be market rent. However, there is no direct comparable evidence as the last review settled pre arbitration and not in accordance with lease rent review but rather with reference to profits as agreed between the parties.

Valuation methodology
The property has been valued on the basis of the existing rent passing despite the fact that the rent was agreed without direct reference to the lease. The valuers assumed that the current tenant will renew their lease at the end of the term because of their statutory duty, however, any new lease would be based on more modern terms and it is possible that the rent may be reduced. They valued the reversionary rent at a slightly higher yield to reflect this risk. However, the valuation is also minded to look at an alternative valuation, given that the reversion of the lease is not until 2066, where the current rent is valued into perpetuity. Both figures are similar.

The total value included in level 3 for 2016-17 is £2.725 million, the value in 2015-16 included in level 2 was £2.72 million

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

2015-16		**2016-17**
£000		**£000**
106,181	Balance at start of the year	117,284
9,794	Additions	24,405
1,309	Net gains/(losses) from fair value adjustments	4,210
117,284	**Balance at end of the year**	**145,899**

In 2016-17 we repurchased the long leasehold interest of a unit at Midleton Industrial Estate, from the Council's tenants. The Council is the freeholder of these properties. We also purchased a new investment property, Wey House, which was part of the Council's Asset Investment Strategy to increase rental income.

16. INTANGIBLE ASSETS

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets only include purchased licences as the Council does not have any significant internally generated software.

All software is given a finite useful life of 5 years based on an assessment of the period that the software is expected to be of use to the Council. The carrying amount of intangible assets is amortised on a straight-line basis. £268,000 of the amortisation of £282,000 charged to revenue in 2016-17 was charged to the IT renewals revenue account where it offsets the income to the account which is based on repayment of the expenditure incurred on the software. The remainder of the amortisation was charged to the Housing Revenue Account.

The movement on the Intangible Asset balance during the year is as follows:

2015-16 £000		2016-17 £000
	Balance at start of the year:	
3,635	Gross carrying amount	3,939
(2,765)	Accumulated amortisation	(3,018)
870	Net carrying amount at start of year	921
304	Purchases	371
(253)	Amortisation for the period	(282)
921	**Net carrying amount at end of year**	**1,010**
	Comprising:	
3,939	Gross carrying amount	4,310
(3,018)	Accumulated amortisation	(3,300)

17. SHORT TERM DEBTORS

31 March 2016 £000		31 March 2017 £000
940	Central government bodies	453
2,496	Other local authorities	1,484
4,398	Other entities and individuals	5,373
7,834	**Total**	**7,310**

18. CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and demand deposits. Cash will also include bank overdrafts that are repayable on demand and that are integral to the Council's cash management.

Balances classified as 'Cash Equivalents' fit the definition of being short term, highly liquid (that is callable) investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents consists of the following elements:

31 March 2016 £000		31 March 2017 £000
7	Cash held by the Council	6
(581)	Bank current accounts	(615)
12,797	Callable deposits	1,797
12,223	**Total Cash and Cash Equivalents**	**1,188**

19. SHORT TERM CREDITORS

31 March 2016 £000		31 March 2017 £000
4,996	Central government bodies	5,502
8,608	Other local authorities	7,439
11,882	Other entities and individuals	9,971
25,486	**Total**	**22,912**

20. PROVISIONS

	Outstanding Legal Cases	NDR Appeals	Other Provisions	Total
	£000	£000	£000	£000
Balance at 31 March 2015	188	3,291	342	3,821
Additional provisions made	-	2,528	70	2,598
Amounts used	(111)	(337)	(61)	(509)
Balance at 31 March 2016	**77**	**5,482**	**351**	**5,910**
Additional provisions made	-	-	169	169
Amounts used	(25)	(1,088)	(70)	(1,183)
Unused amounts reversed	-	(1,120)	-	(1,120)
Balance at 31 March 2017	**52**	**3,274**	**450**	**3,776**

The Council's provisions consist of six items totalling £3,776,467 (£5,909,849 in 2015-16).

Outstanding Legal Cases

This relates to search fees, which, subject to legal action, may have to be repaid.

NDR Appeals

The NDR appeals provision was set up to cover the Council's share of the estimated reduction in business rates collectable due to rating appeals. It was calculated using information provided by the Valuation Office Agency about outstanding appeals, and our historical knowledge of the likely success rate of these appeals. £2.8 million was transferred back to the Collection Fund, and £2.7 million of revaluation list amendments were charged against the provision, but only the Council's 40% share is shown here. The remainder is shared between central government (50%) and Surrey County Council (10%) and is reflected in the balance sheet in the Council's net creditors with them.

Other provisions

All other provisions are individually insignificant.

21. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2015-16 £000		2016-17 £000
1,570	Interest received	1,939
(5,316)	Interest paid	(5,325)

The surplus on the provision of services has been adjusted for the following non-cash movements:

2015-16 £000		2016-17 £000
12,290	Depreciation	13,369
(1,226)	Revaluation gains on Property, Plant & Equipment	2,158
253	Amortisation of intangible assets	282
4,503	Increase / (decrease) in creditors	1,624
(2,261)	(Increase) / decrease in debtors	1,151
(7)	(Increase) / decrease in inventories	8
3,747	Movement in pension liability	2,476
2,571	Carrying amount of non-current assets sold	6,386
301	Other adjustments	(5,964)
20,171		**21,490**

The surplus on the provision of services has been adjusted for the following items that are investing and financing activities:

2015-16 £000		2016-17 £000
(2,226)	Capital grants and contributions credited to surplus on the provision of services	(3,018)
(4,522)	Proceeds from the sale of non-current assets	(6,417)
(6,748)		**(9,435)**

TECHNICAL NOTES TO THE ACCOUNTS

The following notes are more technical in nature and provide additional accounting detail supporting the primary statements and notes.

22. ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASIS UNDER REGULATIONS

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

2016-17	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts reserve £000	Major Repairs Reserve £000	Capital Contributions Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement (CIES) are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to / (from) the Pensions Reserve)	2,597	(121)	-	-	-	(2,476)
Council tax and Business Rates (transfer to the Collection Fund Adjustment Account)	(2,930)		-	-	-	2,930
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	11,917	15,001	-	-	-	(26,918)
Movements in the market value of Investment Properties (transferred from the Capital Adjustment Account)	(4,095)	(115)	-	-	-	4,210
Capital grants and contributions unapplied credited to the CIES	(3,018)	-	-	-	3,018	-
Total Adjustments to Revenue Resources	**4,471**	**14,765**	**-**	**-**	**3,018**	**(22,254)**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(311)	(6,106)	6,417	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	698	-	(698)	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(6,703)	-	6,703	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(336)	-	-	-	-	336
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1,523)	-	-	-	-	1,523
Total Adjustments between Revenue and Capital Resources	**(1,472)**	**(12,809)**	**5,719**	**6,703**	**-**	**1,859**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(5,515)	-	-	5,515
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(3,843)	-	3,843
Application of capital grants and contributions to finance capital expenditure	-	-	-	-	(3,128)	3,128
Total Adjustments to Capital Resources	**0**	**0**	**(5,515)**	**(3,843)**	**(3,128)**	**12,486**
Total adjustments	**2,999**	**1,956**	**204**	**2,860**	**(110)**	**(7,909)**

2015-16 Comparative figures	**Usable Reserves**					
	General Fund Balance £000	**Housing Revenue Account £000**	**Capital Receipts reserve £000**	**Major Repairs Reserve £000**	**Capital Contributions Unapplied £000**	**Movement in Unusable Reserves £000**
Adjustments to the Revenue Resources:						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement (CIES) are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to / (from) the Pensions Reserve)	3,778	(31)	-	-	-	(3,747)
Council tax and Business Rates (transfer to the Collection Fund Adjustment Account)	2,598		-	-	-	(2,598)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	8,361	7,780	-	-	-	(16,141)
Movements in the market value of Investment Properties (transferred from the Capital Adjustment Account)	(1,254)	(55)	-	-	-	1,309
Capital grants and contributions unapplied credited to the CIES	(1,417)	(809)	-	-	2,226	-
Total Adjustments to Revenue Resources	**12,066**	**6,885**	**-**	**-**	**2,226**	**(21,177)**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(174)	(4,348)	4,522	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	704		(704)	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(6,438)	-	6,438	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(295)	-	-	-	-	295
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(2,979)	-	-	-	-	2,979
Total Adjustments between Revenue and Capital Resources	**(2,744)**	**(10,786)**	**3,818**	**6,438**	**-**	**3,274**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(6,584)	-	-	6,584
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(4,972)	-	4,972
Application of capital grants and contributions to finance capital expenditure	-	-	-	-	(1,879)	1,879
Total Adjustments to Capital Resources	**-**	**-**	**(6,584)**	**(4,972)**	**(1,879)**	**13,435**
Total adjustments	**9,322**	**(3,901)**	**(2,765)**	**1,466**	**347**	**(4,469)**

23. UNUSABLE RESERVES

31 March 2016 £000		31 March 2017 £000
159,839	Revaluation Reserve	216,896
861	Available for Sale Financial Instruments Reserve	1,668
392,936	Capital Adjustment Account	389,251
(76,350)	Pensions Reserve	(93,449)
(3,959)	Collection Fund Adjustment Account	(1,029)
(239)	Accumulated Absences Account	(239)
473,088		**513,098**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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.

2015-16 £000			2016-17 £000
127,905	**Balance at 1 April**		159,839
36,803	Upward revaluation of assets	63,952	
(1,854)	Downward revaluation of assets not charged to the Surplus on Provision of Services	(2,217)	
34,949	Surplus on revaluation of non-current assets not posted to the Surplus on Provision of Services		61,735
(2,354)	Difference between fair value depreciation and historical cost depreciation	(2,837)	
(661)	Accumulated gains on assets sold or scrapped	(1,841)	
(3,015)	Amounts written off to the Capital Adjustment Account		(4,678)
159,839	**Balance at 31 March**		**216,896**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise to not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

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

2015-16 £000		2016-17 £000
1,157	**Balance at 1 April**	859
(296)	Upward/(downward) revaluation of investments	809
861	**Balance at 31 March**	**1,668**

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 CIES (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 Council 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 Council.

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.

2015-16 £000			2016-17 £000
388,045	**Balance at 1 April**		392,936
	Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:		
(12,290)	Charge for depreciation of non-current assets	(13,369)	
1,226	Revaluation gains on Property Plant and Equipment	(2,158)	
(253)	Amortisation of intangible assets	(282)	
(2,254)	Revenue expenditure funded from capital under statute	(4,723)	
(2,571)	Amounts of non-current assets written off on disposal or sale as part of the gain on disposal to the CIES	(6,386)	
(16,142)			(26,918)
3,015	Adjusting amounts written out of the Revaluation Reserve		4,678
(13,127)	Net written out amount of the cost of non-current assets consumed in the year		(22,240)
	Capital financing applied in the year:		
6,584	Use of the Capital Receipts Reserve to finance new capital expenditure	5,515	
4,972	Use of the Major Repairs Reserve to finance new capital expenditure	3,843	
1,879	Use of capital grants and contributions to finance new capital expenditure	3,128	
295	Provision for the financing of capital investment charged against the General Fund and HRA balances	336	
2,979	Capital expenditure charged against the General Fund and HRA balances	1,523	
16,709			14,345
1,309	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		4,210
392,936	**Balance at 31 March**		**389,251**

Pensions 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 Council accounts for post-employment benefits in the CIES 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 Council 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 Council 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.

2015-16 £000		2016-17 £000
(95,139)	**Balance at 1 April**	(76,350)
22,536	Remeasurements of the net defined benefit liability	(14,623)
(9,206)	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	(8,024)
5,459	Employer's pensions contributions and direct payments to pensioners payable in the year	5,548
(76,350)	**Balance at 31 March**	**(93,449)**

Collection Fund Adjustment Account

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

2014-15 £000		2016-17 £000
(1,361)	**Balance at 1 April**	(3,959)
(2,598)	Amount by which council tax and non-domestic rates income credited to the CIES is different from income calculated for the year in accordance with statutory requirements	2,930
(3,959)	**Balance at 31 March**	**(1,029)**

24. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The table below shows the total amount of capital expenditure incurred in the year 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2015-16 £'000		2016-17 £'000
226,976	*Opening Capital Financing Requirement*	236,449
	Capital Investment	
13,780	Operational assets	12,846
9,794	Non-operational assets	24,405
304	Intangible assets	371
50	Long Term Investments	1,440
0	Long term debtors	960
2,254	Revenue Expenditure Funded from Capital under Statute	4,723
	Sources of finance	
(808)	Specific Capital Grants	(2,165)
(6,584)	Capital Receipts	(5,515)
(1,071)	Contributions	(963)
(3,274)	Direct Revenue Financing and MRP / VRP	(1,859)
(4,972)	HRA Major Repairs Reserve	(3,843)
236,449	***Closing Capital Financing Requirement***	**266,849**
9,473	*Movement during the year* Increase in underlying need to borrow (unsupported by government financial assistance)	30,400

25. LEASES

Council as Lessee

Finance leases

The Council has acquired a number of assets under finance leases. They are included on the Balance Sheet at the following net amounts:

2015-16 £'000		2016-17 £'000
2,491	Council Dwellings	2,955
10,049	Other Land & Buildings	10,919
12,540		**13,874**

The Council paid premiums at the start of the property leases and there are no more payments due.

Council as Lessor

Finance leases
The Council has leased out a number of investment properties on finance leases with remaining lease terms of 60 years or more. In each case a premium was paid to the Council by the lessee in order to enter into the lease and there are no future minimum lease payments due.

Operating leases
The Council leases out operational property under operating leases primarily for the provision of social housing and community services such as sports facilities. It also leases out investment property under operating leases.

The future lease payments receivable under non-cancellable leases in future years are:

2015-16 £'000		2016-17 £'000
7,402	Not later than one year	7,522
26,940	Later than one year and not later than five years	26,741
290,239	Later than five years	314,696
324,581		**348,959**

The lease payments receivable in 2016-17 were £9,343,111 (£7,850,369 in 2015-16).

26. DEFINED BENEFIT PENSION SCHEME

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme administered by Surrey County Council – this is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets in the long term.

The scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Board of Surrey County Council. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the Fund are appointed by the Board and consist of eleven investment fund managers plus private equity fund managers.

The principal risks to the Council of the scheme are the longevity of members, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

The scheme is a multi-employer plan. Employers are required by regulation to meet the minimum contributions as set out in the Rate and Adjustments Certificate for the relevant actuarial valuation. For 2016-17 this would be the valuation carried out as at March 2016.

If another entity was to be unable to meet required funding commitments to the Fund and no suitable guarantee was available, either in the form of a bond or a charge on assets or a parent organisation, then any deficit would be spread across existing fund employers.

If the Council were to withdraw from the scheme, the fund actuary would carry out a cessation valuation to calculate its plan liabilities and assets. Any deficit on this valuation would need to be recovered through a final contribution to the fund. Any surplus would not be recoverable.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2015-16 £000		2016-17 £000
	Comprehensive Income & Expenditure Statement	
	Service Cost	
5,994	Current service cost	5,329
156	Past service cost (including curtailments)	28
6,150	**Total Service Cost**	**5,357**
	Financing and Investment Income and Expenditure:	
(4,812)	Interest income on plan assets	(5,332)
7,868	Interest cost on defined benefit obligation	7,999
3,056	**Total Net Interest**	**2,667**
9,206	**Total Post Employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**8,024**
	Remeasurement of the Net Defined Liability comprising	
3,216	Return on plan assets excluding amounts included in net interest	(22,306)
-	Actuarial losses arising from changes in demographic assumptions	(3,149)
(22,735)	Actuarial (gains)/losses arising from changes in financial assumptions	42,153
(3,017)	Other experience	(2,075)
(22,536)	**Total remeasurements recognised in Other Comprehensive Income (OCI)**	**14,623**
(13,330)	**Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement**	**22,647**
	Movement in Reserves Statement	
(9,206)	Reversal of net charges made to the Surplus or Deficit on the provision of services for post employment benefits in accordance with the code	**(8,024)**
	Actual amount charged against the General Fund Balance for pensions in the year:	
5,459	**Employers' contributions payable to scheme**	**5,548**

Pension Assets and Liabilities Recognised in the Balance Sheet

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

2015-16 £000		2016-17 £000
152,372	Fair value of plan assets	180,159
(225,305)	Present value of funded liabilities	(270,115)
(3,417)	Present value of unfunded liabilities	(3,493)
(76,350)	**Net Liability arising from Defined Benefit Obligation**	**(93,449)**

Reconciliation of the Movements in the Fair Value of the Scheme Assets:

2015-16 £000		2016-17 £000
149,992	Opening fair value of the scheme assets	152,372
4,812	Interest income	5,332
	Remeasurement gain	
(3,216)	Return on plan assets excluding amounts included in net interest	22,306
5,459	Contributions from employer	5,548
1,371	Contributions from employees into the scheme	1,464
(6,046)	Benefits paid	(6,863)
152,372	**Closing Fair Value of Scheme Assets**	**180,159**

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

2015-16 £000		2016-17 £000
245,131	Opening fair value of the scheme liabilities	228,722
5,994	Current service cost	5,329
7,868	Interest cost	7,999
1,371	Contributions from scheme participants	1,464
	Remeasurement gain	
-	Actuarial losses arising from changes in demographic assumptions	(3,149)
(22,735)	Actuarial (gains)/losses arising from changes in financial assumptions	42,153
(3,017)	Other	(2,075)
156	Past Service Cost	28
(6,046)	Benefits paid	(6,863)
228,722	**Closing Fair Value of Scheme Liabilities**	**273,608**

.**Pension Scheme Assets Comprised**:

Asset Category	31-Mar-17				31-Mar-16			
	Quoted Prices in Active Markets £(000s)	Prices not quoted in Active markets £(000s)	Totals £(000s)	%	Quoted Prices in Active Markets £(000s)	Prices not quoted in Active markets £(000s)	Totals £(000s)	%
Equity Securities:								
Consumer	14,616	-	14,616	8%	12,240	-	12,240	8%
Manufacturing	13,249	-	13,249	7%	9,315	-	9,315	6%
Energy and utilities	7,263	-	7,263	4%	4,281	-	4,281	3%
Financial Institutions	12,745	-	12,745	7%	10,890	-	10,890	7%
Health and Care	4,814	-	4,814	3%	5,370	-	5,370	4%
Information Technology	10,147	-	10,147	6%	8,252	-	8,252	6%
Other	367	-	367	0%	224	-	224	0%
Debt Securities								
Corporate Bonds (investment grade)	6,254	-	6,254	4%	6,518	-	6,518	4%
Corporate Bonds (non-investment grade)	395	-	395	0%	405	-	405	0%
UK Government	367	-	367	0%	-	-	-	0%
Other	826	-	826	0%	203	-	203	0%
Private Equity								
All	-	7,561	7,561	4%	-	6,061	6,061	4%
Real Estate								
UK Property	2,871	7,373	10,244	6%	3,990	5,205	9,195	6%
Overseas Property		67	67	0%	-	1,195	1,195	1%
Investment Funds and Unit Trusts								
Equities	49,959	-	49,959	28%	39,664	-	39,664	26%
Bonds	19,693	-	19,693	11%	16,350	-	16,350	11%
Hedge funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	-	-	-	0%	18,873	-	18,873	12%
Derivatives								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	(5)	-	(5)	0%	1	-	1	0%
Foreign Exchange	255	-	255	0%	(919)	-	(919)	(1%)
Other	-	-	-	0%	-	-	-	0%
Cash and Cash Equivalents								
All	21,342	-	21,342	12%	4,254	-	4,254	3%
Totals	165,158	15,001	180,159	100%	139,911	12,461	152,372	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumption about mortality rates, salary levels etc. The County Council fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries. The Actuary has prepared the figures by applying a ‘roll-forward’ approach to the last formal valuation, which was as at 31 March 2016.

The main financial assumptions used in their calculation have been:

2015-16		2016-17
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.5 years	Men	22.5 years
24.6 years	Women	24.6 years
	Longevity at 65 for future pensioners:	
24.5 years	Men	24.1 years
26.9 years	Women	26.4 years
2.2%	**Rate of Inflation (CPI)**	2.4%
3.7%	**Rate of increase in salaries***	2.7%
2.2%	**Rate of increase in pensions**	2.4%
3.5%	**Rate for discounting scheme liabilities**	2.6%

*** Salary increases are assumed to be 1.5% until March 2017, reverting to the long term assumption shown thereafter.**

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analyses changes while all the other assumptions remain constant. The assumptions in longevity for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2015-16.

Change in Assumptions at 31 March 2017	Approximate % increase to Employer	Approximate monetary amount (£000)
0.5% decrease in Real Discount rate	10%	26,608
0.5% increase in the Salary Increase Rate	1%	3,748
0.5% increase in the Pension Increase Rate	8%	22,507

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the Actuary has estimated that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3% to 5%. In practise the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages)

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service pension schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

The Council anticipates paying £5,405,000 contributions to the scheme in 2017-18.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £93.4 million has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy; the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

27. CONTINGENT LIABILITIES

Municipal Mutual Insurance Limited may claim an amount of up to £517,000 in relation to the company's liability for asbestos induced mesothelioma claims arising on the Council's liability account. During 2012-13 the directors of Municipal Mutual Insurance Limited triggered the scheme of arrangement, with an initial levy rate of 15%. A further levy of 10% was raised in 2015-16. The Council has paid both of them. There may be further levies at some time in the future, but there is no indication of when or how much.

A firm of commercial property agents has made an application for 80% mandatory charitable relief from business rates on behalf of two local NHS trusts. The application demands a discount for the 2016-17 financial year and also a rebate covering the previous six years which, if approved would amount to a cost of approximately £6.3 million, of which the Council's share is 40%. In the past NHS trusts have been considered as public sector-funded organisations rather than charities, partly because they have boards of directors rather than trustees and on these grounds the application has been rejected. Over 100 Councils have received similar letters and the Local Government Association has taken legal advice over the issue and believes the Councils have grounds to reject the applications. It may be that a test case through the courts may be required before this issue is fully resolved.

28. FINANCIAL INSTRUMENTS

A financial instrument (asset or liability) is a contract that gives rise to a financial asset of one entity and a financial liability or equity investment of another entity. They are held in the balance sheet date at their carrying value.

For each class of financial assets and financial liabilities, the Council is required to disclose the fair value of that class of assets and liabilities compared with the carrying amount (amortised cost).

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair value of a financial asset is the price that would be received if it were sold.

The fair value of a financial liability is the price that would be paid to transfer it to another participant of equal credit standing.

Fair values are detailed below, split by their level in the fair value hierarchy:

- level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, for example, bond prices. Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.
- level 2 – where market prices are not available, for example where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, the fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, for example, interest rates or yields for similar instruments
- level 3 – fair value is determined using unobservable inputs, for example, non-market data such as cash flow forecasts or estimated creditworthiness

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be represented by a contractual obligation to deliver cash, financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

Financial liabilities held at the balance sheet date consist of long-term loans with the Public Works Loan Board (PWLB), loans from other local authorities, bank overdraft and trade payables for goods and services received.

The financial liabilities disclosed in the balance sheet are analysed across the following categories:

FINANCIAL LIABILITIES	Long-term		Short-term	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
<u>Borrowing</u>				
<u>Loans at amortised cost</u>				
- Principal sum borrowed	198,125	203,355	35,230	34,730
- Accrued interest	-	-	217	234
- Internal charities	-	-	14	27
Total Borrowing	**198,125**	**203,355**	**35,461**	**34,991**
<u>Loans at amortised cost</u>				
- Bank overdraft	**-**	**-**	615	581
Total Cash Overdrawn	**-**	**-**	**615**	**581**
Trade payables (Creditors)	**-**	**-**	3,035	2,974
TOTAL FINANCIAL LIABILITIES	**198,125**	**203,355**	**39,111**	**38,546**

The total short-term borrowing includes £230,000 (£230,000 in 2015-16) representing the short-term portion of long-term borrowing (repayable within 1 year).

The short-term creditors line on the balance sheet include £19.877 million (£22.512 million in

2015-16) short-term creditors that do not meet the definition of a financial liability.

All non-derivative financial liabilities are carried in the balance sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans
- the fair values of other long-term loans have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2017
- no early repayment or impairment is recognised for any financial instrument
- the fair value of short-term instruments, including trade payables, is assumed to approximate to the carrying amount.

Financial Liabilitites	**Fair value level**	**Balance sheet 31 March 2016 £'000**	**Fair value 31 March 2016 £'000**	**Balance sheet 31 March 2017 £'000**	**Fair value 31 March 2017 £'000**
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	193,355	204,825	193,125	219,403
Other long-term loans	2	10,000	9,838	5,000	5,149
Lease payables	3	-	-	-	-
Guarantees issued	3	-	-	-	-
TOTAL		**203,355**	**214,663**	**198,125**	**224,553**
Liabilities for which fair value is not disclosed		114,315		131,945	
TOTAL FINANCIAL LIABILITIES		**317,670**		**330,070**	
Recorded on balance sheet as:					
Long-term creditors		0		0	
Long-term borrowing		203,355		198,125	
Other long-term liabilities		76,350		93,449	
Short-term creditors		2,974		3,035	
Short-term borrowing		34,991		35,461	
TOTAL FINANCIAL LIABILITIES		**317,670**		**330,070**	

The liabilities for which fair value is not disclosed comprise of short-term financial liabilities that are assumed to be approximate to the carrying amount, including both short-term borrowing and trade payables. Other long-term liabilities relates to the pension scheme liability.

We have judged that it is appropriate to calculate the fair value of PWLB loans by reference to rates from the local authority bonds market as adjusted for interest rate swap rates available from Bloomberg.

The fair value of long-term PWLB loans held at amortised cost is higher than their balance sheet carrying amount because the Council’s portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans at the balance sheet date. The reverse is true of other long-terms loans payable.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

There are four classifications for financial assets under the Code of Practice

- loans and receivables
- available for sale
- fair value through profit and loss
- unquoted equity investments held at cost because it is impracticable to determine fair value.

<u>Loans and Receivables (fixed or determinable payments and are not quoted in an active market)</u>

These comprise:

- cash in hand
- bank current and deposit accounts with HSBC Bank PLC
- fixed term deposits with banks and building societies
- loans to other local authorities
- trade receivables for goods and services delivered.

The Council's portfolio of investments, at the balance sheet date, consist of fixed term deposits, call accounts and notice accounts and are measured at amortised cost. This form of measurement does not change the amount of cash received under the terms of the investment.

<u>Available for sale financial assets (those that are quoted in an active market)</u>

These comprise:

- money market funds and other collective investment schemes
- certificates of deposit and covered bonds issued by banks and building societies
- treasury bills and gilts issued by the UK Government
- bonds issued by multilateral development banks and UK companies
- pooled funds

The Council's investments, at the balance sheet date, consisted of money market funds, corporate bonds, covered bonds, certificates of deposit, and pooled funds, including:

- Payden & Rygel Global Limited Sterling Reserve Fund
- CCLA Investment Management Limited Property Fund
- M&G international Investments Limited
- Aberdeen Asset Investments Limited (formerly Scottish Widows Investment Partnership Limited)
- Schroders PLC
- City Financials Limited
- UBS Limited
- Funding Circle Limited.

Balances in money market funds and call accounts at the end of the year are shown under 'cash and cash equivalents' in the balance sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of a change in value.

The Council did not have any investments required to be measured at 'fair value through profit or loss', or any unquoted equity investments.

The financial assets disclosed in the balance sheet are analysed across the following categories:

FINANCIAL ASSETS	Long-term 31 March 2017 £000	31 March 2016 £000	Short-term 31 March 2017 £000	31 March 2016 £000
Investments				
Loans and Receivables				
- Principal sum at amortised cost	17,990	9,500	50,186	69,670
- Accrued interest	-	-	393	311
Available-for-sale investments				
- Principal sum	27,707	15,512	30,799	37,645
- Accrued interest	52	38	328	132
- Fair value adjustments	-	-	-	-
Total Investments	**45,749**	**25,050**	**81,706**	**107,758**
Cash and Cash Equivalents				
Loans and Receivables				
- Cash	-	-	6	7
- Cash equivalents at amortised cost	-	-	475	3,052
- Accrued interest	-	-	-	-
Available-for-sale investments				
- Cash equivalents at fair value	-	-	1,319	9,741
- Accrued interest	-	-	3	4
Total Cash and Cash Equivalents	**-**	**-**	**1,803**	**12,804**
Trade receivables (Debtors)	0	955	7,439	5,116
TOTAL FINANCIAL ASSETS	**45,749**	**26,005**	**90,948**	**125,678**

The short-term debtors line in the balance sheet includes £4.541 million (£2.096 million in 2015-16) short-term debtors that do not meet the definition of a financial asset.

Financial assets classified as available for sale are carried in the balance sheet at Fair Value. For most assets, including bonds, treasury bills, and shares in money market funds and other pooled funds, the fair value is taken from the market price (level 2 in the table below). The fair values of other instruments have been estimated using the net present value of the remaining contractual cash flows as at 31 March 2017, using the following methods and assumptions:

- certificates of deposit and forward loan contracts have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity
- shares in Surrey Save credit union have been valued from the company’s balance sheet net assets and adding expected future profits, discounted at a suitable market rate for similar equity investments (level 3 in the table below)

Financial assets classified as loans and receivables are carried in the balance sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- the fair values of other long-term investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2017
- no early repayment or impairment is recognised for any financial instrument
- the fair value of short-term instruments, including trade receivables, is assumed to approximate to the carrying amount.

Financial assets	Fair value level	Balance sheet 31 March 2016 £'000	Fair value 31 March 2016 £'000	Balance sheet 31 March 2017 £'000	Fair value 31 March 2017 £'000
Financial assets held at fair value:					
Money market funds	1	9,745	9,745	1,322	1,322
Bond, equity and property funds	1	19,167	18,908	19,917	21,550
Corporate, covered and government bonds	2	23,331	23,237	35,116	34,971
Shares in unlisted companies	3	50	50	50	50
Forward contracts in the Council's favour	2	-	-	-	-
Financial assets held at amortised cost:					
Long-term bank deposits	2	-	-	-	-
Long-term loans to local authorities	2	9,500	8,985	17,990	17,214
Long-term loans to companies	3	-	-	1,447	1,447
Lease receivables	3	-	-	-	-
TOTAL		**61,793**	**60,925**	**75,842**	**76,554**
Assets for which fair value is not disclosed		89,309		62,042	
TOTAL FINANCIAL ASSETS		**151,102**		**137,884**	
Recorded on balance sheet as:					
Long-term debtors		955		1,802	
Long-term investments		25,050		45,749	
Short-term debtors		5,116		7,439	
Short-term investments		107,758		81,706	
Cash and Cash Equivalents		12,223		1,188	
TOTAL FINANCIAL ASSETS		**151,102**		**137,884**	

The fair value of short-term financial assets including trade receivables (debtors), and short-term investments as loans and receivables, is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised costs is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

The £1.447 million in the table relates to a loan to our newly formed wholly owned company, North Downs Housing Ltd. The company started trading during March 2017, so the fair value has been calculated using the value of the loans made to the company plus accrued interest on the loan.

Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to sell off and it intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. The only item offset on the balance sheet is the bank overdraft, which is shown within cash and cash equivalents. The Council had no other financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments consist of the following items:

Financial Liabilities (at amortised cost) £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Total £000		Financial Liabilities (at amortised cost) £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Total £000
5,473	-	-	5,473	Interest expense	5,310	-	-	5,310
5,473	-	-	**5,473**	**Total expense in Surplus on the Provision of Services**	**5,310**	-	-	**5,310**
-	(633)	(1,106)	(1,739)	Interest income	-	(626)	(1,166)	(1,792)
-	**(633)**	**(1,106)**	**(1,739)**	**Total income in Surplus on the Provision of Services**	-	**(626)**	**(1,166)**	**(1,792)**
-	-	296	296	(Gains)/losses on revaluation	-	-	(809)	(809)
-	-	**296**	**296**	**(Surplus)/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure**	-	-	**(809)**	**(809)**
5,473	**(633)**	**(810)**	**4,030**	**Net (gain)/loss for the year**	**5,310**	**(626)**	**(1,975)**	**2,709**

Transaction Costs

Measurement at amortised cost permits transaction costs relating to financial instruments to be attached to the loan or investment and charged to the CIES over the life of the instrument. Where these costs are considered to be immaterial, they can be charged in full to the CIES in the financial year in which they are incurred. The Council adopted this latter approach in 2016-17.

29. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with the Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the council approves a treasury management strategy (TMSS) before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces treasury management practices specifying the practical arrangements to follow to manage these risks.

The TMSS includes an Annual Investment Strategy in compliance with the CLG Guidance on Local Government Investments. This Guidance emphasises that priority is given to security and liquidity, rather than yield. The council's TMSS, together with its treasury management practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

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

- credit risk – the possibility that other parties might fail to pay amounts due to the council
- liquidity risk – the possibility that the council might not have cash available to contracted payments on time
- market risk – the possibility that an unplanned financial loss might arise as a result of changes in market variables such as interest rates or equity prices.

Credit risk: Investments

The Council manages credit risk by ensuring that investments are placed with organisations of high credit quality and in line with the approved TMSS (the definition of high credit quality is set in the TMSS). These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings, or with a credit rating of below A-, where the Council has received independent investment advice. We have set our high credit quality criteria as A-, however we do have allowance in our TMSS to invest in counterparties below this.

Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swaps and equity prices when selecting commercial entities for investment.

The TMSS also imposes a maximum sum the Council can invest with a financial institution or group other than the UK government. This is £10 million maximum, of which only £6 million may be on unsecured investments. The Council sets limits on investments in certain sectors. A maximum sum for long-term investments (greater than 364 days) is also set.

All investments in 2016-17 were in line with the Council's approved TMSS.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits, but there was no evidence at the balance sheet date that this was likely to materialise.

The credit quality of £27.7 million of the council's investments is enhanced by collateral held. This is entirely in the form of covered bonds collateralised by residential mortgages. This collateral significantly reduces the likelihood of the council suffering a loss on these investments.

The table below summarises the credit risk exposures of the council's investment portfolio by credit rating:

Investment type	Credit rating	Long term		Short term	
		31 Mar 17 £000	31 Mar 16 £000	31 Mar 17 £000	31 Mar 16 £000
Investments	AAA	27,575	15,500	-	1,617
	AA+	16,727	9,660	22,365	3,006
	AA	-	-	-	2,009
	AA-	-	-	-	27,109
	A+	-	-	7,531	5,009
	A	-	-	23,626	35,084
	A-	-	-	3,001	5,791
	BBB+	-	-	1,597	2,322
Housing Company	n/a	1,447	-	-	-
Unrated building societies	n/a	-	-	1,024	4,013
Money Market Funds	AAA	-	-	1,321	9,745
Call Accounts	AA-	-	-	475	3,053
Investment Funds	n/a	-	-	22,563	21,635
Total Investments		**45,749**	**25,160**	**83,503**	**120,393**

Trade Receivables

The Council does not generally allow credit for customers. Of the total debt outstanding, £2.5 million relating to services that the Council has invoiced for is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than six months	1,665
Six months to one year	113
More than one year	751
	2,529

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has access to borrowing facilities via the Public Works Loans Board (PWLB) and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments.

The Council is exposed to the risk that it will need to refinance a significant proportion of its borrowing at the time of unfavourable interest rates. The Council's strategy is to plan carefully when new loans are taken out and making early repayments where financially advantageous. The risk is also managed by maintaining a spread of fixed rate loans ensuring loans mature at different times.

The Council would only borrow in advance of need where there is a clear business case for doing so.

The maturity analysis of the principal sums borrowed is as follows:

31 March 2016 £'000		31 March 2017 £'000
	Short Term Borrowing	
34,730	Less than one year	30,230
	Long Term Borrowing	
5,230	Over 1 but not over 2 years	10,230
5,690	Over 2 but not over 5 years	45,460
75,000	Over 5 but not over 10 years	40,000
35,000	Over 10 but not over 15 years	50,000
25,000	Over 15 but not over 20 years	25,000
57,435	Over 20 but not over 30 years	32,435
238,085	**Total Borrowings**	**233,355**

All trade and other payables are due to be paid in less than one year.

Market risk: Interest rate risk

The Council is exposed to risks arising from movements in interest rates on its borrowing and investments. Movement in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the investments will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the CIES.

Changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in fair value of fixed rate investments classed as “available for sale” are reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits for fixed and variable interest rate exposures.

If interest rates had been 1% higher (all other variables being constant) the financial effect across the whole portfolio would be an increase in interest received of approximately £1.48 million, and an increase in interest payable on loans of approximately £2.35 million.

Market Risks: Price Risk

The market prices of the Council’s fixed bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council’s investment in a pooled property fund is subject to the risk of falling commercial property prices. We limit our exposure to pooled property funds to help mitigate this risk. If commercial property prices fall, it would not impact on the General Fund until the investment was sold.

The Council’s investment in a pooled equity fund is subject to the risk of falling share prices. If share prices fall, there would be no impact on the General Fund until the investment was sold.

30. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

Although there is a degree of uncertainty about future levels of funding for local government the Council has determined that this uncertainty does not indicate that the assets of the Council might be impaired. The factors taken into account in concluding that the Council continues to be a going concern include our level or reserves, level of committed funding, budget and cash for the coming years, and the lack of proposed local government reorganisation.

The value of property, plant and equipment (PPE) on the balance sheet includes the value of certain land and buildings that were not formally revalued during the year under the Council's rolling programme of revaluations. The Council uses critical judgement to determine by how much the value of other land and buildings (OLB) within PPE on the balance sheet would have to be understated or overstated to mislead a user of the accounts and therefore to require these assets to be formally revalued.

Critical judgement has been used in identifying how assets are classified on the balance sheet. In particular, some assets that we hold to earn rental income are also held for economic development and regeneration purposes. However, as they are not used in the direct delivery of services they have been classified as investment property.

Also, some assets that are held for their historical interest are classified as property, plant and equipment rather than heritage assets because they are also used to provide a particular service.

Critical judgement is also used in classifying our leases as either operating or finance leases.

The Council has determined that a materiality level of £1 million is appropriate for inclusion of accounting policies and disclosure notes in the Statement of Accounts.

31. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Business Rates	Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses in 2016-17 and earlier years, in their proportionate share. A provision of £8.1 million, of which the Council's share is £3.3 million, has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2017. The provision has been calculated using the Valuation Office ratings list of appeals and the analysis of successful appeals to date.	If the level of successful appeals varies by 1%, it would increase or decrease the appeals provision by £192,000, which in turn would increase or decrease the deficit on the Collection Fund by £192,000. The Council's share of the increase or decrease would be £76,800, which would increase or decrease the surplus on provision of services in the CIES.
Property, Plant and Equipment (PPE) and Investment property	PPE and investment property are included in the balance sheet at fair value of £720 million and £146 million respectively. Chartered surveyors are engaged to provide expert advice in the assumptions to be applied when carrying out the valuations. Individual items of PPE are depreciated over estimated useful lives that are partly dependent upon assumptions about the level of repairs and maintenance that will take place. If the Council were not able to sustain its level of spending on the repair and maintenance of its assets in the long term the estimated useful life assigned to individual assets would need to be reduced.	If the valuations were changed by 1%, it would increase or decrease the value of net assets on the balance sheet by £8.4 million. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. Depreciation costs do not affect the Council's overall financial position as they form part of the adjustment between accounting basis and funding basis under regulations.
Pensions Liability	Estimation of the net liability to pay pensions of £93 million depends on a number of complex judgements relating to the	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	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 Council with expert advice about the assumptions to be applied.	the discount rate assumption would result in an increase in the pension liability of £26.608 million. A 0.5% increase in the salary increase rate would result in an increase in the pension liability of £3.748 million and a 0.5% increase in the Pensions increase rate would result in an increase in the pension liability of £22.507 million. During 2016-17, the Council's Actuary advised that the net pension's liability had increased by £17.099 million. This is as a result of a significant decrease in the net discount rate (much lower discount rate, net of slightly higher inflation) over this period. The effect of this will typically have been at least partially offset by much greater than expected asset returns.
Debtors	At 31 March 2017, the Council was owed approximately £12 million. A review of significant balances suggested that an allowance for doubtful debts of £4.7 million 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, a doubling of the amount of doubtful debts would require an additional £1.2 million to set aside as an allowance.

32. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The additional disclosures that are required in respect of the accounting changes that are introduced in the 2017-18 Code are those relating to the amendment to the reporting of pension fund scheme transaction costs, and the amendment to the reporting of investment concentration. None of these changes are expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016-17 Statement of Accounts.

ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016-17 financial year and its position at the year-end of 31 March 2017. The Accounts and Audit (England) Regulations 2015 require the Council to prepare its annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure (debtors and creditors)

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

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- revenue from rents on HRA properties, and GF operational and investment property, is recognised as it becomes due under the rental agreement with the tenant
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- 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
- interest payable on borrowings and receivable on investments is accounted for respectively as expenditure and income to the CIES on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- where revenue 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. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Accounting practice for Council Tax and Business Rates

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rate income included in the CIES is the accrued income for the year, which consists of :

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rate surplus or deficit on the Collection Fund at the end of the current year, adjusted for the Council's share of the surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS on the General Fund balance.

The Council as billing authority recognises a creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors in advance of receiving the cash from council tax payers and business rate payers.

4. Cash and Cash Equivalents

Cash represents cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours; for example call accounts. Cash equivalents are highly liquid investments that are convertible to known amounts of cash within 24 hours and with insignificant risk of change in value, and include money market funds.

The Cash Flow Statement shows cash and cash equivalents net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5. Material 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 (CIES) or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are charged with the following amounts to record the cost of holding non-current 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
- amortisation of intangible assets attributable to the service.

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

7. 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 (for example cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates 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 Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the CIES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post-employment Benefits

Most of the Council’s employees are members of the Local Government Pension Scheme administered by Surrey County Council. The scheme provides defined benefits earned as Council employees (retirement lump sums and pensions) to members and is accounted for as a defined benefits scheme where:

- the liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is 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 projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bond over a range of periods)
- the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value using the following bases:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - current service cost - the increase in liabilities as result of years of service earned this year – allocated in the CIES to the services for which the employees worked
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the CIES, within the Resources Directorate.
    - net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments

- Re-measurements comprising:
    - the return on plan assets (excluding amounts included in the net interest on the net defined benefit liability) – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Other Comprehensive Income and Expenditure
    - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Surrey County Council 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 Council 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.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise because of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Reporting Period

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
- 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 events and their estimated financial effect.

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

9. Financial Instruments

A Financial Instrument (assets or liabilities) is a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

Financial Liabilities
A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be a contractual obligation to deliver cash or financial assets to another entity and are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions.

They are initially measured at fair value and are subsequently measured and carried on the Balance Sheet at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure (FIIE) line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate 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 the Council's loans, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial Assets
A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

The Council uses two types of financial asset:

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

The valuation applied to fixed term cash deposits is their carrying value, as these assets cannot be sold and hence there is no market valuation.

<u>Loans and Receivables</u>
Loans and receivables are recognised on the Balance Sheet when the Council enters a contractual provision of a financial instrument. They are initially measured at fair value, and subsequently measured at their amortised cost.

Annual credits to the FIIE line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

The Council's investments are presented in the Balance Sheet as the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the investment agreement.

Where assets are identified as impaired, because of a likelihood 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 FIIE line in the CIES. 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 taken to the FIIE line in the CIES.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council enters a contractual provision of a financial instrument and are initially measured and carried on the Balance Sheet at fair value.

Where the asset has fixed or determinable payments, annual credits to the FIIE line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (for example dividends) is credited to the CIES when it becomes receivable by the Council.

Assets are shown on the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Financial Assets. The exception is where we have incurred impairment losses – these are charged to the FIIE line in the CIES, along with any net gain or loss accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood that payments due under the contract will not be made (fixed or determinable payments), the asset is written down and a charge made to the FIIE line of the CIES.

If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the FIIE line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

10. 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 Council when it is reasonable to conclude that:

- the Council 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 CIES until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, attributable revenue grants and contributions are credited to the relevant service line and non-ring-fenced revenue grants and all capital grants are credited to Taxation and Non-Specific Grant Income in the CIES.

Where capital grants or contributions are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where a contribution has yet to be used to finance capital expenditure, it is posted to the Capital Contributions Unapplied reserve. Where a grant or contribution has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Contributions Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where it is uncertain whether a grant or contribution will be used for capital or revenue purposes, the grant will be credited to an earmarked reserve.

11. Heritage Assets

The Council holds various heritage assets, which are held and maintained principally for their contribution to knowledge and culture. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets. The Council's heritage assets are accounted for as follows:

- Monuments, including Guildford Castle and Chilworth Gunpowder Mills

These assets are ruins for which it is not possible to obtain a current valuation. They are held on the balance sheet at historical cost, i.e. the cost of capitalised works carried out to preserve the buildings, and are not subject to depreciation as they have indefinite lives.

- the art collection held at Guildford House Gallery, and civic regalia held at the Guildhall

Insurance values have been used as a proxy for fair value. The assets are not depreciated because they have indeterminable lives.

- various sculptures and pieces of artwork around the Borough

These assets are held on the balance sheet at historical cost and are not subject to depreciation as they have indeterminable lives.

- the museum collection held at Guildford Museum

The Council does not consider that reliable cost or valuation information can be obtained for the museum collection because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, for example when an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 16 in this summary of significant accounting policies.

12. Investment Property

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.

The value of an investment property is initially measured at cost. Thereafter, it is measured at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Investment 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 CIES as are any gains or 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. Accordingly, any gains or losses are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account (revaluations and value of assets disposed of) and the Capital Receipts Reserve (proceeds of disposals greater than £10,000).

13. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

14. 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 from the lessor to the lessee. All other leases are classified as operating 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.

<u>The Council as Lessee</u>

Finance Leases
Property, Plant and Equipment (PPE) held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. There are no further liabilities on any of the leased assets because premia were paid at the inception of the leases.

PPE recognised under a finance lease is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the CIES as an expense to 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; even if this does not match the pattern of payments (for example there is a rent-free period at the commencement of the lease).

<u>The Council as Lessor</u>

Finance Leases
Where the Council grants a finance lease for an item of PPE, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is written off to the CIES, and any premium received is credited to the CIES, as part of the gain or loss on disposal.

The accounting treatment is the same as for PPE disposals described in policy 16: Property, Plant and Equipment: Disposals and Non-current Assets Held for Sale.

Operating Leases
Where the Council grants an operating lease for an item of PPE or an investment property, the asset is retained in the Balance Sheet. Rental income is credited to the CIES on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (for example, there is a premium paid at the commencement of the lease).

15. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

16. Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

Recognition

Expenditure (including any amounts owed to third parties) on the acquisition, creation or enhancement of PPE is capitalised if it is probable that the item of PPE will generate future economic benefits and/or service potential and the cost of the item can be measured reliably. Expenditure that does not enhance an asset such as repairs and maintenance expenditure is not capitalised and is charged to the CIES as an expense when it is incurred.

Measurement

PPE assets are initially measured at cost, comprising:

- the purchase price
- 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
- the initial estimate of any future decommissioning costs that will be necessary such as dismantling an item or restoring a site upon which the asset it is located.

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

- infrastructure, community assets and assets under construction - historical cost (depreciated as appropriate)
- dwellings - current value, determined using the basis of existing use value for social housing
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are credited to the Revaluation Reserve unless there has been a previous reduction in valuation that has been charged to the CIES in which case it is credited to the CIES.

Where decreases in value are identified, they are accounted for by:

- 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)
- 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 CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains and losses that arose prior to 1 April 2007 have been transferred to 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. 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 amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- 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)
- 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 CIES.

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

Disposals and Non-current Assets Held for Sale
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, and is no longer subject to depreciation. Gains in fair value are recognised only up to the amount of any previously recognised losses. 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.

When an asset is disposed of (or decommissioned), the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the CIES also as part of the gain or loss on disposal (that is 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.

Disposal proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals, 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 Council'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 non-current 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.

Depreciation

Depreciation is provided for on PPE assets that are available for use by the systematic allocation of their depreciable amounts over their useful lives. However, assets that do not have a determinable finite useful life such as freehold land are not depreciated. In addition, assets that are in the course of construction and therefore not yet available for use are also not depreciated.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property, as estimated by the valuer
- vehicles, plant and equipment – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 10 years.

Where an item of PPE has major components where the cost is significant in relation to the total cost of the item, and where it is necessary to ensure materially correct depreciation charges, the components are depreciated separately. The Council's policy is to consider for componentisation all assets (excluding land) with a value greater than £1 million and where the component(s) comprise more than 20 % of the value of the asset.

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.

17. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are created when the Council has an obligation such as a legal claim against it that has arisen from a past event and it is probable that the Council will need to settle that obligation. In addition, it is necessary that the obligation can be reliably estimated.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation. They are estimated at the balance sheet date, taking into account relevant risks and uncertainties. When payments are made to clear the obligation, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where necessary revised. If there is a need to increase the provision, the additional amount is charged to the relevant service in the CIES. If, however, the obligation is estimated or ultimately proves to be less than the value of the provision, the excess amount is credited to the relevant service in the CIES.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. 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 as a note to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed as a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

18. Reserves

The Council 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 in the CIES. 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 Council – these reserves are explained in the relevant policies.

19. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the Council 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.

20. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

21. Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

When measuring the value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

2015-16 £000		NOTE	2016-17 £000
	Income		
	Gross Rent Income	1	
30,142	Dwellings		30,065
856	Non-dwellings		872
1,295	Charges for Services and Facilities		1,341
300	Supporting People Grant		346
32,593	**Total Income**		**32,624**
	Expenditure		
4,753	Repairs and Maintenance		5,089
5,140	Supervision and Management		5,195
150	Increased Provision for Bad or Doubtful Debts		150
6,438	Depreciation	8	6,704
(1,165)	Revaluation (gain)/loss		2,648
85	Debt Management Expenses		147
9	Other Expenditure		18
15,410	**Total Expenditure**		**19,951**
(17,183)	**Net Income of HRA Services per Comprehensive Income & Expenditure Statement**		**(12,673)**
242	HRA Share of Corporate & Democratic Core		260
(16,941)	**Net Income of HRA Services**		**(12,413)**
(1,928)	Gain on sale of HRA fixed assets		(612)
(333)	HRA Investment Income		(508)
5,173	Interest payable		5,022
(808)	Capital grants and contributions		-
(14,837)	**Surplus for year on HRA services**		**(8,511)**

The HRA income and Expenditure Statement 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. The Council charges rent to cover expenditure in accordance with the legislative framework; this is different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the HRA Statement.

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2015-16 £000			2016-17 £000
2,500	Balance on the HRA at the end of the previous year		2,500
14,837	Surplus for the year on the HRA Income and Expenditure Account	8,511	
(3,901)	Adjustments between accounting basis and funding basis under statute (see note 22 to the Accounts)	1,956	
	Net increase before transfers to reserves	10,467	
(10,936)	Transfers to reserves (see note 12 to the Accounts)	(10,467)	
-	Increase in year on the HRA		-
2,500	**Balance on the HRA at the end of the current year**		**2,500**

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income due for the year after allowance is made for voids etc. During the year, voids amounted to £539,497 or 1.81% of gross rent income from dwellings (£602,374 or 2.01% for 2015-16). Average rents were £112.11 per week in 2016-17, a decrease of £0.40 over the previous year.

2. Rent Arrears

At 31 March 2017, rent arrears were £1,224,816 (including £480,644 former tenant arrears) or 4.09% of gross rent income. The comparable figures for 2015-16 were £1,189,776 (including £419,520 former tenant arrears) or 3.98% of gross rent income.

The provision for bad debts at 31 March 2017 was £781,572. The comparable figure for 2015-16 was £693,114.

Amounts written off in the year amounted to £61,541 (£27,051 in 2015-16).

3. Housing Stock

The Council was responsible for managing on average 5,230 dwellings in 2016-17, analysed below:

2015-16	Average	2016-17
2,623	Houses	2,635
2,281	Flats	2,276
318	Bungalows	319
5,222		**5,230**

2015-16		2016-17
5,199	Stock at 1 April	5,245
(23)	Less Sales	(30)
69	Other Adjustments	(1)
5,245	**Stock at 31 March**	**5,214**

4. Stock Valuation – Balance Sheet Basis

The basis for the balance sheet valuation of the Council's housing stock is Existing Use Value – Social Housing (EUV – SH) as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual. The EUV – SH is broadly based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant. The valuation was carried out by Bruton Knowles, Chartered Surveyors. The date of the valuation was January 2017.

The balance sheet value increases where new dwellings and properties are built or acquired and when capital works that improve or significantly enhance the value of the assets are carried out. The balance sheet value reduces when assets are sold and are written out of the accounts. Depreciation is charged on assets and this also reduced the balance sheet valuation.

Valuations for HRA assets are:

31 March 2016 £000		31 March 2017 £000
473,733	Dwellings (valued at EUV - SH)	501,149
3,352	Other Operational Land and Buildings (valued at MV - EU)	4,135
5	Vehicles, plant, furniture and equipment	20
76	Infrastructure	69
148	Community Assets (historic cost)	148
43	Assets under construction	2,357
477,357	**Total HRA Assets**	**507,878**

Other operational land and buildings are valued at open market value in existing use.

5. Stock Valuation – Vacant Possession Value

Valuation of dwelling stock at Vacant Possession Value within the HRA at January 2017 was £1.408 million. The vacant possession value and the balance sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than open market rent.

6. Major Repairs Reserve (MRR)

The MRR is a reserve established by the Government as part of the resources accounting system in the HRA. Movements in the MRR during the year were:

2015-16 £000		**2016-17 £000**
2,070	**Opening Balance at 1 April**	3,536
6,438	Depreciation transferred from the HRA	6,703
(4,972)	Capital Expenditure on HRA assets financed from the Major Repairs Reserve	(3,843)
3,536	**Closing Balance at 31 March**	6,396

7. Capital Expenditure and Financing

The table below shows the total amount of capital expenditure incurred in the year together with the resources that have been used to finance it. Where capital expenditure has not been financed in the year, it results in an increase in the Capital Financing Requirement.

2015-16 £'000		**2016-17 £'000**
196,664	*Opening Capital Financing Requirement*	196,664
	Capital Investment	
5,258	Council dwellings	6,405
2,351	Assets under construction	-
26	Intangible assets	67
-	Revenue Expenditure Funded from Capital under Statute	25
	Sources of finance	
(808)	Specific Capital Grants	-
(1,855)	Capital Receipts	(2,654)
(4,972)	Major Repairs Reserve	(3,843)
196,664	***Closing Capital Financing Requirement***	**196,664**

Total capital receipts from disposals of land, houses and other property within the HRA during the financial year amounted to £5.408 million.

8. Depreciation

The charges for depreciation for the houses and other property within the HRA for the year are as follows:

2015-16 £000		2016-17 £000
6,376	Dwellings	6,634
54	Other Operational Land and Buildings	58
1	Vehicles, plant, furniture and equipment	3
7	Infrastructure	7
6,438	**Total HRA Assets**	**6,702**

The depreciation amount has been calculated by the straight-line method and has not been charged on investment properties or on non-operational housing assets.

9. Contributions to/from the Pensions Reserve

The HRA share of the contributions to the Pensions reserve is as follows:

2015-16 £000		2016-17 £000
600	Reversal of items relating to retirement benefits debited to the HRA	227
(631)	Employer's pensions contributions and direct payments to pensioners payable in the year	(348)
(31)	**Contribution to the Pensions Reserve**	**(121)**

COLLECTION FUND

2015-16 £000 Council Tax	2015-16 £000 Business Rates		2016-17 £000 Council Tax	2016-17 £000 Business Rates
		Income		
	82,685	Income from Business Ratepayers - Note 2		84,418
89,790		Council Taxes	94,104	
		Distribution of prior year estimated deficit:		
		Central Government		1,891
		Surrey County Council		378
		Guildford Borough Council		1,513
89,790	**82,685**	**Total Income**	**94,104**	**88,200**
		Expenditure		
		Precepts		
66,870		Surrey County Council	70,429	
11,836		Surrey Police and Crime Commissioner	12,227	
9,730		Guildford Borough Council	10,178	
		Payment of Business Rates shares:		
	40,084	Central Government		41,400
	8,017	Surrey County Council		8,280
	32,067	Guildford Borough Council		33,120
	(17)	Transitional Protection payments		375
	235	Charge to General Fund for collecting NDR		233
500		Provision for council tax bad debts	500	
	150	Provision for business rates bad debts		176
	6,320	Provision for business rates appeals		(2,800)
		Distribution of prior year estimated surplus:		
	959	Central Government		
1,773	192	Surrey County Council	829	
314		Surrey Police and Crime Commissioner	147	
257	767	Guildford Borough Council	121	
91,280	**88,774**	**Total Expenditure**	**94,431**	**80,784**
		Collection Fund Balance		
2,567	(4,106)	Balance at the beginning of the year	1,077	(10,195)
(1,490)	(6,089)	Surplus/(deficit) for the year	(327)	7,416
1,077	**(10,195)**	Balance at the end of the year	**750**	**(2,779)**

NOTES TO THE COLLECTION FUND

1. General

These accounts represent the transactions of the Collection Fund, which is a statutory fund separate from the main accounts of the Council. The accounts are prepared on an accruals basis, and they are consolidated with the other accounts of the Council on an agency basis.

The overall balance on Fund as at 31 March 2017 was a deficit of £2.029 million, made up of a Council Tax surplus of £0.75 million and a deficit in relation to business rates of £2.779 million.

The year-end Collection Fund surplus in relation to council tax is distributed between billing (the Council) and precepting (Surrey County Council and Surrey Police and Crime Commissioner) authorities on the basis of estimates of the year-end balance made on 15 January.

The year-end Collection Fund deficit in relation to business rates is distributed between billing and precepting (central government and Surrey County Council) authorities on the basis of year-end estimates made on 31 January.

2. Income from Business Rates

The Council collects non-domestic rates for its area. These rates are based on local rateable values (£196,801,840 as at 31 March 2017) multiplied by a uniform rate (47.9p standard and 46.6p small business rate in 2016-17). Local authorities retain a proportion of the total collectable rates due. For Guildford this share is 40%. The remainder is distributed to central government (50%) and Surrey County Council (10%).

3. Income from Council Tax

The Council's tax base, that is 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:

Band	Estimated number of taxable properties after effect of discounts	Ratio	Band D equivalent dwellings
Dis A	2.25	5/9	1.25
A	653.83	6/9	435.89
B	1,843.42	7/9	1,433.77
C	8,272.62	8/9	7,353.44
D	12,860.11	9/9	12,860.11
E	8,701.81	11/9	10,635.55
F	5,955.03	13/9	8,601.71
G	6,871.70	15/9	11,452.83
H	1,582.51	18/9	3,165.02
	46,743.28		**55,939.57**
Plus adjustment for MoD properties and collection rates offset by anticipated changes during the year for successful appeals against valuation banding, new properties,demolitions, disabled person's relief, exempt properties and the Local Council Tax Scheme			(408.47)
			55,531.10

4. Collection Fund Provisions

The movement of the council tax bad debt provision during the year was as follows:

2015-16 £'000		2016-17 £'000
805	Balance at 1 April	736
500	Transfer from revenue	500
(569)	(Write offs)/write backs	67
736	Balance at 31 March	**1,303**

The movement on the business rates bad debt provision was as follows:

2015-16 £'000		2016-17 £'000
866	Balance at 1 April	724
150	Transfer from revenue	176
(292)	Write offs	-
724	Balance at 31 March	**900**

The movement on the business rates appeals provision was as follows:

2015-16 £'000		2016-17 £'000
8,228	Balance at 1 April	13,706
6,320	Transfer from revenue	(2,800)
(842)	RV list amendments	(2,721)
13,706	Balance at 31 March	**8,185**

GLOSSARY

Accrual – the recording of income and expenditure when it becomes due rather than when the cash is paid or received.

Accruals basis – accounting for income or expenditure when it becomes due rather than when the cash is paid out or received.

Appropriations – amounts transferred to or from revenue or capital reserves.

Balance Sheet – a statement which shows the value of the Council's assets and liabilities on a specific day. The final accounts show the value of the assets and liabilities as at 31 March.

Business Rates Retention Scheme – introduced by the Government in April 2013, the scheme means that each council retains some of the business rates generated in its area. The Government still controls the rateable value of the properties and the rate in the pound to be paid.

Capital commitment – a commitment to make a capital payment under a contract.

Capital expenditure – expenditure to purchase or construct a fixed asset, or expenditure adding to the value of an existing fixed asset. Expenditure that does not enhance an asset, such as repairs and maintenance expenditure, is not capital expenditure.

Capital Financing Requirement (CFR) - the monies required to finance capital expenditure.

Capital Receipt – relates to the money from the sale of a fixed asset. Capital receipts can only be used to pay for new capital expenditure or to repay outstanding loans. Capital receipts cannot be used to finance revenue expenditure.

Cash Equivalents – these are short term, highly liquid investments that are readily convertible into cash. They are subject to an insignificant risk of a change in value.

Cash Flow Statement – this shows the movement in cash and cash equivalents in the year.

Chartered Institute of Public Finance and Accountancy (CIPFA) – this is the professional organisation for accountants working in the public sector.

Code (The) – the Code of Practice on Local Authority Accounting in the United Kingdom. This is the code produced by CIPFA/LASAAC that sets out how Councils should show transactions in their accounts and the format of the accounts.

Collection Fund Revenue Account – this shows the transactions relating to national non-domestic rates (NNDR) and council tax. This fund shows on whose behalf Guildford Borough Council collects the amounts due and how these monies are distributed.

Comprehensive Income and Expenditure Statement (CIES) – this shows all the income and expenditure in the year.

Contingency – an amount of money set aside for unforeseen items of expenditure.

Depreciation – a reduction in the balance sheet value of a fixed asset due to either wearing out, consumption, or other reduction in its useful economic life, whether arising from use, passage of time or obsolescence, through technological or other changes.

Earmarked Reserve – money set aside for future use on a specific area of expenditure.

Financial Asset – a right to future economic benefits controlled by the Council.

Financial Liability – an obligation to transfer economic benefits controlled by the Council.

Financial Instrument – a contract that gives rise to a financial asset of one entity and a financial liability or equity investment of another entity.

Financial Year – the year that the accounts relate to. The financial year starts on 1 April and ends on 31 March the following year.

General Fund (GF) – the Council's main revenue fund credited with charges, grants etc. and to which the costs of services are charged. However, separate accounts are maintained for other aspects of Council activities, particularly the Collection Fund.

Heritage Assets – assets which are held and maintained principally for their contribution to knowledge and culture. These include monuments such as Guildford Castle, civic regalia at the Guildhall, the art collection at Guildford House Gallery, sculptures and artwork around the Borough and the museum collection at Guildford Museum.

Housing Revenue Account (HRA) – an account used to record the income and expenditure related to council housing. The Housing Revenue Account is ring-fenced from the rest of the General Fund. This is to ensure that the expenditure on managing tenancies and maintaining council houses is funded by rents charged to council tenants.

Housing Revenue Account Income and Expenditure Statement – this shows the income and expenditure relating to the provision of council housing.

Impairment – a reduction in the balance sheet value of a fixed asset.

International Accounting Standard (IAS) – these are the international accounting standards which state how balances, transactions and other events must be calculated and shown in the accounts.

International Financial Reporting Standards (IFRS) - these are the international financial reporting standards which state how balances, transactions and other events must be calculated and shown in the accounts.

Internal Borrowing – Internal borrowing occurs when rather than raising external borrowing to pay for capital expenditure, the Council uses cash, which would otherwise be externally invested.

Investment – a long-term investment is an investment held for use on a continuing basis in the activities of the Council for 365 days or more. A short-term investment relates to the investment of surplus funds for 364 days or fewer.

Investment Property – a property that is used to earn rental income.

LASAAC – Local Authority (Scotland) Accounts Advisory Committee.

Lease – a lease is a contract for the hire of a specified asset. The lessor owns the asset but transfers the right to use the asset to the lessee for an agreed period in return for the payment of specified rentals. A **finance lease** transfers all the risks and rewards of ownership, such as the cost of repairs and maintenance, to the lessee. All other leases are classified as **operating leases**.

Lessee – an organisation to whom a lease is granted.

Lessor – the owner of an asset who leases it to a third party

Local Council Tax Support Scheme (LCTSS) - introduced by the Government in April 2013. Under the LCTSS, council tax payers who previously received a benefit payment, now receive a discounted council tax bill instead.

Long term – a term of 365 days or more.

Minimum Revenue Provision (MRP) – the minimum amount which must be charged each year to the Council's General Fund revenue account and set aside as provision for credit liabilities. There is no MRP requirement for the Housing Revenue Account (HRA).

Movement In Reserves Statement (MIRS) – this shows the movement in the year on the different reserves held by the Council.

Out-turn – actual income and expenditure.

PPE – Property, Plant and Equipment i.e. tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used for at least part of the succeeding financial year.

Precept – a charge levied by a council. Precepts are levied by Guildford Borough Council, Surrey County Council, Parish Councils and the Surrey Police and Crime Commissioner.

Provision – an amount, set aside in the accounts, for likely liabilities incurred but where the amounts or dates on which they will arise are uncertain.

Prudential Code – a code produced by CIPFA that Councils are required to follow when deciding upon their programme for capital expenditure.

Revenue expenditure – the day-to-day costs incurred by the Council. This is distinct from capital expenditure.

Right to Buy – the right of council tenants to buy their council houses at a discount.

S106 income – money received from planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended).

Short term – a term of 364 days or fewer.

Straight line basis – depreciation that is charged on a straight line basis is charged in equal amounts for each year of the useful economic life of the fixed asset.

Trade payables – amounts owed to third parties when goods or services have been received but not yet paid for
Trade receivables – amounts due from third parties where goods or services have been supplied

Unapplied capital receipts – capital receipts which have not been used.

Usable reserves – those that the Council can use to finance expenditure or reduce local taxation.

Unusable reserves – these cannot be used to finance expenditure or reduce local taxation. These include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts only become available if the assets are sold; and reserves that hold timing differences.

Vacant Possession Adjustment Factor - a vacant possession adjustment factor of 32% means that the Council values its council houses at 32% of their open market value in the Balance Sheet. The percentages used are set by central government. The vacant possession adjustment factor is used to reflect that a council owned property has a lower open market value when it is occupied by a tenant.