ADDENDUM TO AGENDA

Agenda Item 4 – Annex 1 and Annex 2

CONSIDERATION OF THE REPORT FROM THE EXTERNAL AUDITORS ON THE 2017/18 FINANCIAL STATEMENTS (ISA 260)

The report from the external auditors (Annex 1) and Management Response Letter (Annex 2) were not ready for dispatch with the rest of the agenda. This was because work needed to be completed by the external auditors.

KPMG

External Audit Report 2017/18

DRAFT

Reigate and Banstead Borough Council

—

July 2018

Content

Contacts in connection with this report are:

Joanne Lees

Director

Tel: 07833 747 074
joanne.less@kpmg.co.uk

Satinder Jas
Manager

Tel: **07979 612771**
satinder.jas@kpmg.co.uk

4

This report is addressed to Reigate and Banstead Borough Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Joanne Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Reigate and Banstead Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Executive Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Executive Committee meeting. The following work is ongoing:

— Financial statements audit:

- PPE (one samples for additions outstanding and review of the basis of the revaluation split from the external valuers report)
- Pensions (awaiting final confirmation from Pensions auditors)
- Related party disclosures (query with management over including presentations)
- Final review of the accounts
- Receipt of management representations letter

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Executive Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There was one unadjusted audit differences, explained in section 2 and appendix 2.
- We identified four primary statement changes and presentational changes to the accounts, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - Valuation of land and buildings
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 30 July 2018. We also intend to issue our 2017/18 Annual Audit Letter in September 2018.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

Summary

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We have raised two recommendations this year in relation to your bank reconciliation and the process for including the figures from your PPE valuers report into your fixed asset register.

We identified one prior year recommendations that require further action by Management and has been raised again this year. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority which fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- BEN01 Housing benefit certification: audit fieldwork will commence in August 2018 and be completed in advance of the PSAA 30 November 2018 deadline.

The fees for this work is explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

	Accounts production stage		
Work Performed	**Before**	**During**	**After**
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made two recommendations which relates to the bank reconciliation and the process for updating your FAR with your external valuation figures. We believe that this recommendation (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Finance Manager and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails in the majority of areas.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: No issues were found as a result of our audit; and • Amended guidance on the Annual Governance Statement: No issues were found as a result of our audit.
5. Accounts Production	We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year-end to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. The areas which you need to pay particular attention to are ensuring reconciling items as per your bank reconciliations have a clear audit trail. We consider the Authority's accounting practices to be appropriate. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We have identified presentational changes to the accounts along with audit adjustments to PPE and investment properties which we have presented in Appendix 2.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Head of Finance on 10 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. . We are asking Management to provide specific representations on: • Valuation of land and buildings.

Section Two

Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over valuation of land and buildings and pension liabilities which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	£113,127k, PY: £113,564k	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end. The procedures we undertook to address this included: ▪ We reviewed the approach that the Authority adopted to assess the risk that the assets that were not subject to valuation could be materially misstated and considered the robustness of that approach. ▪ We considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. ▪ In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. ▪ We assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that there was one adjustment required in relation the primary financial statements as detailed in appendix 3 and a small number of presentational adjustments. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 13

11

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension liabilities	(£71,124k), PY: (£70,518k)	The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey County Council, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. Our procedures in respect of this risk included: ▪ We have written to the Fund Auditors to seek assurance over the controls and processes in operation at the Pension Fund ▪ We reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary (Hymans Robertson), including the Authority's process and controls with respect to the assumptions used in the valuation. ▪ We evaluated the competency, objectivity and independence of Hymans Robertson. ▪ We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson. ▪ We reviewed the overall actuarial valuation and considered the disclosure implications in the financial statements. As a result of this work we determined that the pensions liabilities stated in the financial statements are appropriate and in line with our expectations. We have set out our view of the assumptions used in valuing pension liabilities at page 14.

12

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Faster close	N/A	In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work. We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years. A small number of adjustments were required, including four which impacted on the primary financial statements. In a number of areas the Authority made increased use of estimates. In these areas we considered the assumptions used and challenged the robustness of those estimates. As a result of this work we did not identify any significant issues relating to the Authority completing a faster close.

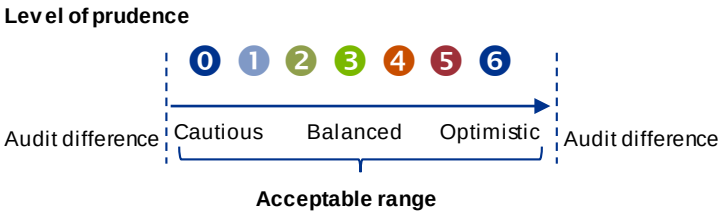
Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to commercial revenue streams and will review these if they are material.	Our review of your commercial revenue streams confirmed these were not material and therefore no further work has been completed.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will carry out appropriate controls testing and substantive procedures, over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas

Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Land and Buildings and investment properties	3	3	L&B: £109.2m (PY: £109.4m) IP £66.1m (PY: £47.1m)	The Authority utilise an external valuer, Wilkes, Head and Eve (WHE), to value their land, buildings and investment properties. All land and buildings are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended. All assets are subsequently measured at fair value, as part of a rolling revaluation programme which ensures that all assets are revalued within a five year period. Land and buildings are valued at fair value, determined as the amount that would be paid for the asset in its existing use (existing use – EUV). These methods are in line with the Code of Practice on Local Authority Accounting 2017/18 and the RICS Red Book. Investment properties are valued initially at cost, and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. This valuation basis is in line with the Code of Practice on Local Authority Accounting 2017/18 and the RICS Red Book. Our audit work has included a detailed consideration of the valuation basis used and review of the WHE valuation reports by KPMG's expert valuer. From our work we have assessed the judgements made in the valuation of land, buildings and investment properties to be balanced.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Debtors provisioning	3	3	£2.3m (PY:£2.2m)	The Authority has recorded a provision for impairment of receivables of £2.3m for 2017/18 (£2.2m in 2016/17). Of this, the largest individual amount relates to Housing Benefits overpayment provisions, which are provided on the basis of 5% for those debts under one year old, and 100% for debts over one year old, which is consistent with the prior year. Other than Housing Benefits, other debtors provisions are maintained for Council Tax and NNDR debts, which have been maintained at consistent levels in 2017/18 as in previous years. Our procedures here have focussed on sample testing of individual bad debt provisions, as well as a variance analysis to ensure completeness, and enquiries of Management. From our work we have assessed the judgements made in the valuation of debtors and associated provisions to be balanced.
Pension liability	3	3	£71.1m (PY:£70.5)	In the previous year, the Local Government Pension Scheme for Surrey County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2017/18 are based on the output of the triennial valuation rolled forward to 31 March 2018. For 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. Our procedures here focussed on ensuring that the information provided to Surrey County Council Pension Fund were complete and accurate, and ensuring that the assumptions applied by the expert actuary Hymans Robertson were appropriate. We utilised KPMG's expert actuary to review the pensions valuation and the assumptions incorporated within it. From our work we have assessed the judgements made in the valuation of pensions to be balanced.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Creditor accruals	3	2	£4.3m (PY £4.4m)	The Authority recorded creditor accruals of £4.3m for 2017/18 (£4.4m in 2016/17). In most cases, the Authority will make significant judgements when calculating estimates for accruals, as information about actual amounts owed were not available at 31 March 2018. Accruals are based on estimates and judgements of historical trends and anticipated outcomes. At the end of each accounting period, Management reviews outstanding items and estimates amounts to be accrued. Any variation between the estimate and the actual is recorded under the relevant heading in the accounts in the subsequent financial period. Our procedures focussed on considering the nature of accruals, selected on a sample basis, and whether the Authority has calculated the accrual using relevant supporting documentation and reasonable assumptions. In addition we have undertaken a retrospective review of accruals made in 2016/17 and agreed them to subsequent cash payments in 2017/18, to support the accuracy of methodologies to accrue expenditure. We consider the level of prudence in relation to accruals balances to be balanced.

17

Financial statements audit

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by Kreston Reeves on the financial statements of the Authority's subsidiary Greensand Holdings Limited, as a material component .

There are no specific matters to report pertaining to the group audit. There were no issues to note in relation to the consolidation process.

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2018 and anticipate issuing our audit certificate with our audit opinion.

Audit fees

Our fee for the audit was £48,812 excluding VAT (£48,812 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Executive Committee in April 2018.

Our work on the certification of Housing Benefits (BEN01) is planned for August 2018. The planned scale fee for this is £9,768 excluding VAT (£12,079 excluding VAT in 2016/17).

We have not completed any non-audit work at the Authority in the year.

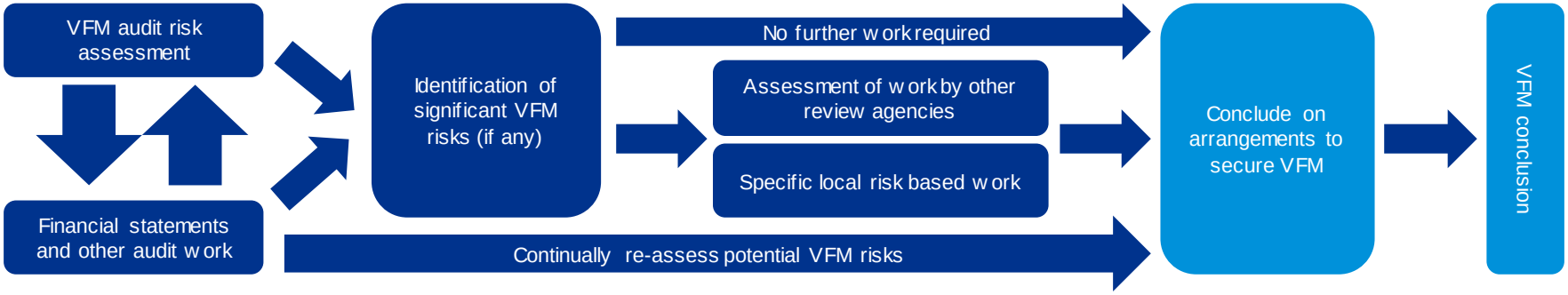
Section Three

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We did not identify any significant VFM risks and provide a summary below of the other areas of audit focus arising from our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Value for money

Other areas of audit focus

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
Budget performance	For 2017/18 the Authority represented a budget which required savings of just over £1.5m. Despite continued challenging economic and market conditions in 2017/18 the Authority achieved a net revenue underspend of £850k and a net capital underspend of £2.6m against a forecast of £16.2m and £23.4m respectively. The Authority's budget for 2018/19 was approved at the Council meeting in November and result in a net budget for 2018/19 of £15.5m. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £2.6 million will be required in 2019/20 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience. Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority reported an overall underspend of £0.8 million on its net expenditure budget for 2017/18 after the net contribution of £1.2 million from earmarked reserves. This enabled the General Fund balance to remain at £12.5 million as of 31 March 2018. The Authority's MTFP details a balanced budget for 2018/19 including savings of £0.62m million in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified. We carried out testing a number of the Authority's saving schemes and have found that whilst overall there are good-quality schemes and robust reporting, the Authority has further opportunities to leverage synergies between individual schemes to achieve greater savings.

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	2	**Bank reconciliations** In the prior year our audit identified a number of weaknesses in bank reconciliations undertaken by the Authority. These included four out of five accounts had not been effectively reconciled in year, with either high value erroneous reconciling items identified, reconciliations not being completed correctly, delays in the preparation of the year end bank reconciliation (and included errors as part of our testing in 2016/17) and difficulties in identifying what reconciling items related to. For 2017/18, we identified that reconciliations were completed for four out of the five bank accounts. All four were the expenditure accounts used by the Authority. For one of the four accounts management were unable to provide supporting documentation for five samples of the reconciling items noted. This included not being able to find the expenditure leaving the bank account for three of the five samples. The total balance of these five items £612,235. We have included this as a unadjusted audit difference in our findings. For the fifth account, the 'general account', which is the income account, although reconciliations are being completed there are still unreconciled items, which management are unable to individually identify. We note, management have been working with their IT team to understand the differences, which are believed to be timing differences, but have not been able to resolve the matter for the 2017/18 financial year. Continued on next page	

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	2	*Recommendation* Regular effective reconciliations of the bank account to the general ledger are an essential internal control which enables any discrepancies with regards to cash to be identified and resolved in a timely manner. When reconciling items are identified, they should then be investigated and cleared on a monthly basis. We therefore recommend that management continue to review the reconciling balances with their IT team and also with their external systems supplier in order to understand what the reconciling income balance consists of. In addition, management should review their reconciling items to confirm they have supporting documentation for all items within the reconciliations produced. Management should also review the processes in place for ensuring there is an audit trail for expenditure which has occurred.	
2	2	**Review between FAR and the external valuers report** Our review of the FAR and external valuers report identified six PPE assets and four investment properties where the FAR did not agree to the value provided in the valuation report, resulting in audit adjustments to the core financial statements. *Recommendation* We recommend that management complete a review of the FAR to the external valuers report as part of the accounts compilation process.	

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	3	1

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	2	Bank reconciliations Our audit identified a number of weaknesses in bank reconciliations undertaken by the Authority. We identified that: Our interim audit in March 2017 identified that the bank reconciliation control had not operated effectively throughout the year. Testing of the reconciliations of the five bank accounts showed that four of the accounts had not been effectively reconciled in year, with either high value erroneous reconciling items identified, or reconciliations not completed correctly. The year end bank reconciliation for March 2017 was not prepared until 12/05/17, and was subsequently not reviewed until 06/07/17, two working days before the year end audit began. The year end audit identified a total of 6 erroneous reconciling items contained within the bank reconciliations. These included items which had been reconciling items for some time but which had not been appropriately investigated and cleared. Of these erroneous items, 3 items resulted in adjustments to the financial statements. Audit queries during the final accounts audit identified that the Finance Team did not know what all reconciling items related to, and investigation was required to establish the genesis and nature of transactions once queries were raised by KPMG.	**Agreed** To improve the bank reconciliation control process, Reigate & Banstead BC will: Utilise external advice to redesign the bank reconciliation control process. Prepare the bank reconciliation on a monthly basis Due Date: December 2017 Identify, investigate and resolve discrepancies on a monthly basis Improve Finance Team understanding of the control process Due Date: March 2018 Officer responsible: Head of Finance	In progress: Reigate & Banstead BC has made significant improvements to its bank reconciliation process. Redesign work is complete within existing systems. Further systems enhancements requiring investments are being considered. The Council has worked with external providers to test process and controls, and redesign work is ongoing. The Finance Team have developed, documented and agreed a new extended control process. This recommendation has been re-raised in 2017/18.

23

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	2	Bank reconciliations contd.. *Recommendation* Regular effective reconciliations of the bank account to the general ledger are an essential internal control which enables any discrepancies with regards to cash to be identified and resolved in a timely manner. When reconciling items are identified, they should then be investigated and cleared on a monthly basis. We therefore recommend that management perform bank reconciliations on a monthly basis, to ensure that any discrepancies are identified and resolved in a timely manner. These bank reconciliations should be separately prepared and authorized to ensure sufficient segregation of duties, and all reconciling items should be investigated and cleared on a month by month basis.		

24

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in April 2018.

Materiality for the Authority's accounts was set at £2 million which equates to around 2% of gross expenditure.

Materiality for the group accounts was set at £2 million which equates to around 2% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Executive Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Executive Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £103k for the Authority and less than £103k for the group accounts.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Executive Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Adjusted audit differences

To assist the Executive Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr £1,551k		Cr PPE £1,991k		Dr RR £440k	We identified six assets where they were recorded as having a £NIL value in the valuers report but had a value in the FAR.
2	Dr £1,793k Cr £1,760k		Cr IP £1,758k Dr IP £1,760k			Three adjustments were identified in relation to Investment Properties 1) One assets which was recorded as having a £NIL value in the valuers report but had a value in the FAR (£33k value). 2) One asset (£1,725k) which was disposed of in the previous year and had been included in the FAR for 2017/18 and final accounts. 3) One asset valued which was not recognised in the FAR in the previous year. In 2017/18 it was identified as an asset omitted from the FAR and therefore included by creating a low value asset (of £1) and revalued by the valuers to £1,720k.
3	Cr Expenses £667k			Dr Creditors £667k		This resulted from an error in the calculation.
4			Cr Long Term investments £1,125 Dr Short term investments £1,100 Dr Debtors £25			Following the end of the reporting period, the ownership structure of Pathway for Care changed. The decision relating to this was made prior to the year end and therefore the long-term investment required reclassification to short term.

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Executive Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Executive Committee, details of all adjustments greater than £103K are shown below.

Authority unadjusted audit differences (£'000)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Expenditure £612k		Cr £612k			We identified five samples in as part of our bank reconciliation review where the their was no supporting evidence for the expenditure which had occurred. In addition, for three of the samples there Authority were unable to provide the bank statement which showed the cash leaving the bank.

27

Appendix 3

Audit differences

Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Authority	
#	**Basis of audit difference**
1	Senior officer remuneration - only three senior officers remuneration have been disclosed in final accounts whereas all 'senior employees' with salaries over £50,000 should be disclosed.

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF REIGATE AND BANSTEAD BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate.

We are satisfied that our general procedures support our independence and objectivity

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period below and on page 27. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	48,812	48,812
Total audit services	**48,812**	**48,812**
Mandatory assurance services	9,768	12,079
Total Non Audit Services	**9,768**	**12,079**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of audit fees to non-audit fees for the year was 5:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. We confirm that all non-audit services were approved by the Executive Committee or equivalent.

Appendix 4

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	9,768

31 Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Contingent fees

We have not agreed any contingent fees with the Authority.

Audit independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Executive Committee

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Executive Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

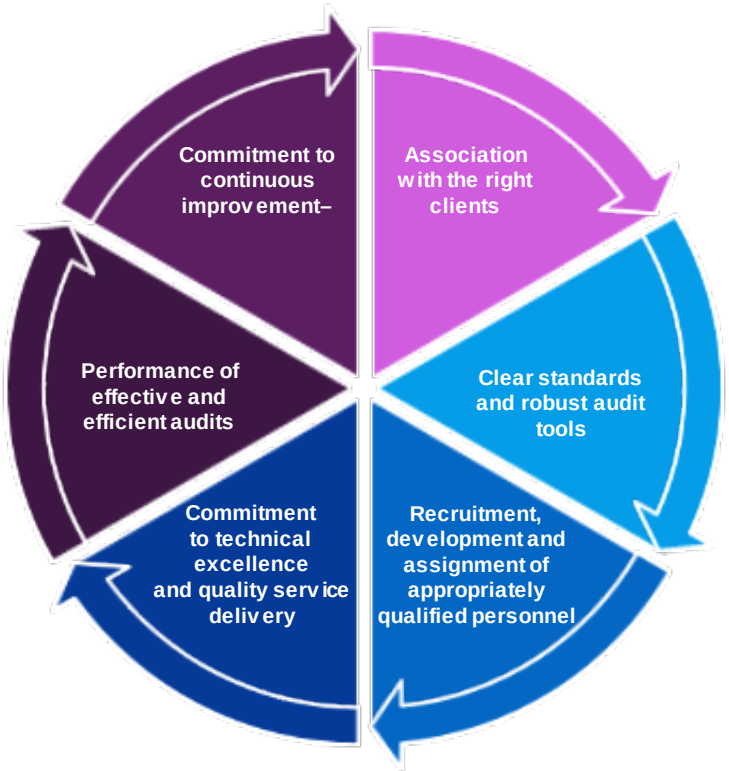
Appendix 5

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

kpmg.com/socialmedia

kpmg.com/app

(Letterhead of Client)

KPMG LLP
15 Canada Square
London
E14 5GL

19 July 2018

Dear Joanne

This representation letter is provided in connection with your audit of the financial statements of Reigate and Banstead Borough Council ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Expenditure and Funding Analysis, the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, and the Collection Fund and the related notes

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended;

    ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;

    iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

    The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Authority has disclosed to you all information in relation to:

    a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:

        - management;
        - employees who have significant roles in internal control; or
        - others where the fraud could have a material effect on the financial statements; and

    b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

    In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the

Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures.*

    Included in the Apendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits.*

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

14. The Authority has included £111.1m of land and buildings within its financial statements. The Authority confirms it is satisfied with the valuation of land and buildings included on the balance sheet as at 31 March 2018

This letter was tabled and agreed at the meeting of the Audit Committee on 19 July 2018.

Yours faithfully,

Appendix to the Authority Representation Letter of Reigate and Banstead Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenduture and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A penson fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

This page is intentionally left blank

ADDENDUM TO AGENDA

Agenda Item 5 – Annex 1

STATEMENT OF ACCOUNTS 2017/18

The Annual Financial Report including the Statement of Accounts for 2017/18 (Annex 1) was not ready for dispatch with the rest of the agenda. This was because work needed to be completed by the external auditors.

Annual Financial Report

for the year ended 31 March 2018

Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

ANNUAL FINANCIAL REPORT

(INCORPORATING THE STATEMENT OF ACCOUNTS)

for the year ended 31 March 2018

Contents

REPORT

The purpose of this Statement of Accounts (the Accounts) is to summarise the financial performance for the year 2017/18 and the overall financial position of the Council. The report aims to give a general guide to the main features of the information within the rest of the Accounts.

Revenue budget and outturn
Despite continued challenging economic and market conditions in 2017/18, financial performance has been well managed to give a net underspend of £849,600 (5%). The final outturn position for the year against the revised budget is set out in the table below.

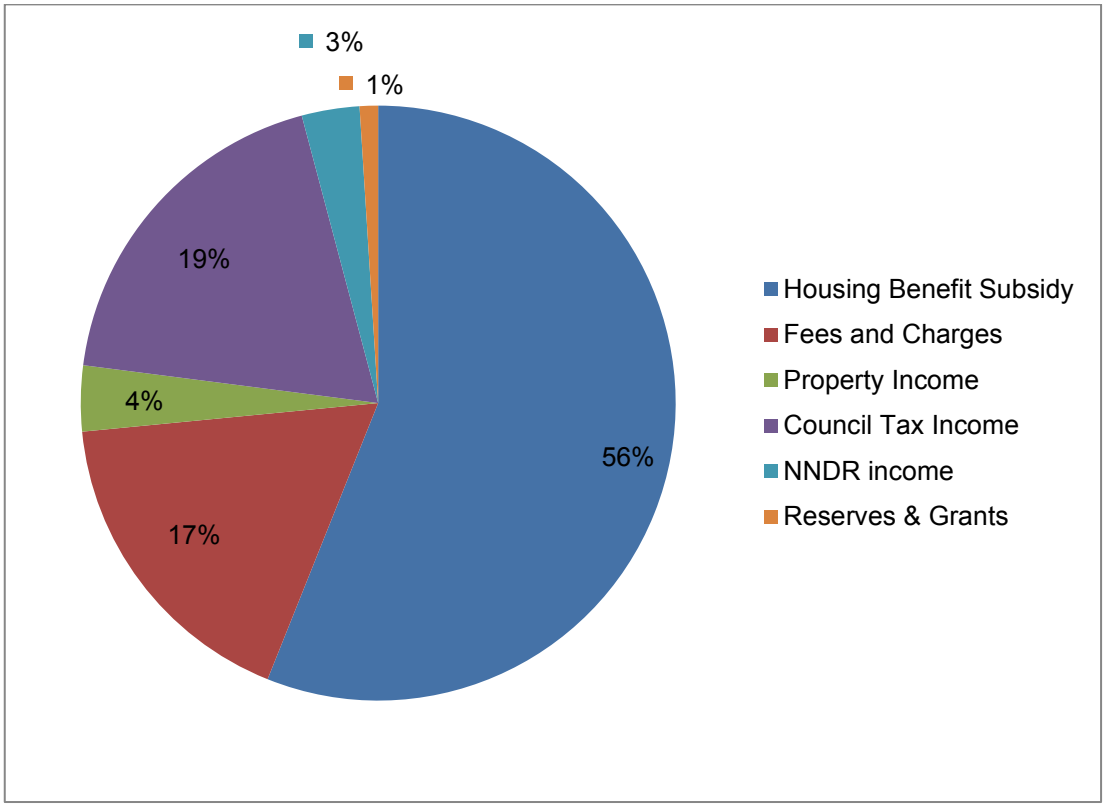
Function	Budget £000	2017/18 Outturn £000	Variance £000
Management Team	1,314.7	1,342.7	28.0
Democratic & Electoral Services	1,105.9	883.2	(222.7)
Planning Policy	692.2	751.3	59.1
Information & Communication Technology	1,135.7	1,158.9	23.2
Communications, Web & Information	613.7	621.5	7.8
Customer Contact	405.9	337.0	(68.9)
Human Resources	626.4	651.3	24.9
Legal Services	188.2	468.8	280.6
Finance	4,856.9	4,516.0	(340.9)
Projects, Performance & Contingency Planning	304.5	305.6	1.1
Waste & Recycling	777.6	117.6	(660.0)
Greenspaces	1,114.7	1,187.9	73.2
Street Cleansing	939.9	987.8	47.9
Vehicle Fleet Operation	744.6	776.5	31.9
Car Parking	(2,030.9)	(1,920.0)	110.9
Property & Facilities	(170.4)	(392.3)	(221.9)
Engineering & Construction	101.2	70.3	(30.9)
Development Services	269.0	341.2	72.2
Building Control	(11.5)	74.4	85.9
Joint Enforcement Team	275.7	438.8	163.1
Housing, Supporting Families & Communities	1,282.9	1,041.0	(241.9)
Benefits	32.5	11.9	(20.6)
Local Taxation	19.9	41.7	21.8
Environmental Health	768.1	750.8	(17.3)
Environmental Licensing	(323.1)	(314.1)	9.0
Theatre & Leisure Services	983.2	954.2	(29.0)
Corporate Support Services	117.2	111.1	(6.1)
Events	83.4	53.4	(30.0)
Net Total	**16,218.1**	**15,368.5**	**(849.6)**
Depreciation		3,205.5	
Accounting adjustments		3,198.7	
Total Gross Expenditure		**21,772.7**	

REPORT

The most significant revenue budget variances for 2017/18 have been recyclate income in refuse and recycling and homelessness prevention activity with the increased supply of temporary accommodation leading to a significant underspend on emergency accommodation. Changing economic factors such as this have been recognised in setting the 2018/19 budget.

The gross expenditure budget of £70 million has been funded from the sources set out in the pie chart below. The Council has received income from fees and charges of £12.2m (17%), property income of £2.5 million (4%) and specific government grants, such as housing benefit subsidy of £39.3 million (56%). In addition £13.2 million (19%) was budgeted to be collected from locally raised council tax and £2.2 million (3%) from business rate payers. We have drawn £1.3 million (1%) from reserves to fund specific projects and the remainder has been funded from central government grants.

Funding sources of gross revenue (percentage)



REPORT

Capital budget and outturn
Capital expenditure usually results in a physical asset which the Council uses in its provision of services. The capital expenditure for the year and sources of financing are set out in the table below.

Theme	Revised budget £000	2017/18 Outturn £000	Variance £000
Waste & Recycling	78.9	77.2	(1.7)
Environment	126.0	67.4	(58.6)
Capital Grants	1,303.4	866.0	(437.4)
Regeneration	551.2	1,021.1	469.9
Leisure & Culture	711.6	705.1	(6.5)
Strategic Property	19,619.2	17,196.6	(2,422.6)
Rolling Programmes	1,012.1	913.3	(98.8)
Total	**23,402.4**	**20,846.7**	**(2,555.7)**
Capital expenditure adjustment post Outturn reporting		**191.3**	
Total Capital Expenditure	**23,402.4**	**21,038.0**	**(2,55.7)**

Financed by

Government grants and contributions	2,888
Capital Receipts	18,150
Revenue	0
Total	**21,038.0**

The majority of this underspend was due to slippage in projects and outstanding retention amounts which have been re-profiled in the five-year capital programme. The capital programme totals £17.5 million for the years 2018/19 to 2022/23. A large proportion of this planned spend is on a series of regeneration projects in Merstham, Redhill and Preston in partnership with Surrey County Council and Raven Housing Trust. The majority of the capital spend is expected to take place over the next two years.

Financial Statements
The Statement of Accounts for 2017/18 is prepared using International Financial Reporting Standards (IFRS) and the framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The main statements are supported by explanatory notes that set out the main areas of income and expenditure, and by technical notes which include detailed accounting disclosures. A glossary of terms is also provided.

The Accounts consist of:

- Movement in Reserves Statement on page 17
- Comprehensive Income and Expenditure Statement on page 18
- Balance Sheet on page 19
- Cash Flow Statement on page 20

REPORT

Further information
Further information on the Accounts may be obtained from the Head of Finance at the Town Hall, Castlefield Road, Reigate, RH2 0SH.
On completion of the audit, copies of the Statements of Accounts will be published on the council's website at www.reigate-banstead.gov.uk.

J. Convey
Head of Finance

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

Corporate governance describes how organisations direct and control what they do. For local authorities this also includes how a council relates to the communities that it serves.

The changing needs of our residents and communities, significant reductions in resources and central government reforms present a challenge to all councils. In addressing these challenges we must ensure that governance arrangements support the effective delivery of services and management of risk.

By applying the principles in our Code of Corporate Governance (summarised below) and applying the Principles of Standards in Public Life, we are committed to planning and delivering services to the residents of the borough in a way that demonstrates accountability, transparency, effectiveness, integrity and inclusivity.

Our Code of Corporate Governance outlines our governance principles:

i. Focusing on the Council's purpose and community needs;

ii. Having clear responsibilities and arrangements for accountability;

iii. Requiring good conduct and behaviour;

iv. Taking informed and transparent decisions which are subject to effective scrutiny and risk management;

v. Developing the capacity and capability of members and officers to be effective;

vi. Engaging with local people and other stakeholders.

This statement describes how we have complied with our Code of Corporate Governance and how we have met the requirements of the Accounts and Audit Regulations 2015. Compliance with our Code of Corporate Governance is shown on the Councils website in the following areas :

Corporate Governance webpage

Councillor Code of Conduct webpage

Risk Management webpage

2. The Purpose of the Governance Framework

Our governance arrangements are designed to manage risk to a reasonable level. The arrangements cannot eliminate all risks but can provide reasonable assurance of our effectiveness.

The governance framework has been in place for the year to the date of approval of this annual governance statement.

3. The Governance Framework

Our governance framework comprises the systems and processes, and culture and values that allow us to achieve our strategic objectives and establish the extent to which services are delivered in an appropriate and cost effective way.

These are summarised below:

- Our Five Year Plan and other documents contained in our Budget and Policy Framework that set out priorities and intended outcomes for residents and service users.

ANNUAL GOVERNANCE STATEMENT

- The Executive, Committees and Panels we have established to ensure democratic engagement and accountability is central to our key and other important decisions, as well as stronger governance to support our commercial activities.
- Our arrangements for the oversight and scrutiny of decisions and policy development by Councillors.
- A review of our governance arrangements in 2018 in relation to our commercial plans.
- The delegation and authorisation arrangements which document the roles and responsibilities of Executive and non-Executive councillors and our statutory (and other senior) officer functions.
- Our risk, performance and accountability arrangements that measure the quality of services - ensuring they are delivered in accordance with our objectives and that they represent the best use of resources. Our commercial decisions are subject to due diligence process and risk analysis.
- Our Human Resources Plan, role profiles and codes of conduct which underpin how Members and employees work.
- Our arrangements for consultation and engagement with the community.
- Our independent internal audit service arrangements which provide risk-based assurance as well as supporting wider audit requirements.
- The independent oversight and challenge provided by our external auditors, the Information Commissioner, Freedom of Information Act (2000) requests for information, General Data Protection Regulations and the Local Government Ombudsman.
- Our procedure rules and internal management processes for:
    - Financial management
    - Procurement
    - Project management
    - Information governance & data security
    - Health & safety
    - Decision making
    - Whistleblowing
    - Complaints handling
    - Anti-fraud & corruption

4. Review of Effectiveness

We regularly review the effectiveness of our governance arrangements through the officer Corporate Governance Group, by evaluating our performance against the CIPFA/Solace framework *(Delivering Good Governance in Local Government)* and through independent audit reviews.

Our review of effectiveness considers decisions taken and matters considered by full Council, the Executive, the Management Team, the work of the Overview & Scrutiny Committee, the Corporate Governance Group, internal auditors, work undertaken by external auditors and the opinion of the Local Government Ombudsman.

ANNUAL GOVERNANCE STATEMENT

A self-assessment of our effectiveness

Our planning, performance and risk management framework has enabled us to focus on the delivery of our corporate priorities and provides the Executive and Overview & Scrutiny Committee with the information to check and challenge attainment of our priorities.

An internal audit review of our risk management function was undertaken in 2017/18 which provided full assurance of adherence to our risk strategy.

Executive Members have reviewed the register of the strategic business risks facing the Council and the Overview and Scrutiny Committee has received positive assurances about the operation of the arrangements for identifying and managing risk. Our Investment Strategy will provide a new framework within which all of the Councils investment decisions can be assessed.

Effective financial planning and management

The 2017/18 budget represented a challenge for the Council and required savings of just over £1.5m. Difficult economic conditions created budget pressures but the final outturn was an underspend equivalent to 5% of the budget (£0.849m).

The Chief Finance Officer has ensured that effective budget monitoring and reporting arrangements, involving the Management Team, Executive and Overview & Scrutiny Committee, Corporate Governance Group, and the Business Managers Group have remained in place. Given the scale of the financial challenges, the Overview & Scrutiny Committee (and Budget Scrutiny Panel) also reviewed the proposed savings as part of the budget preparation process in Autumn 2017 noting that the proposals were clear, focused, achievable, realistic and based on sound financial practices.

Effective arrangements for accountability

We have reviewed the Constitution to reflect legislative changes particularly in relation to procurement. We also continue to review the Scheme of Delegation for the Council and Executive responsibilities to reflect various legislative and organisational changes. All Managers are being asked to participate in a review of document authorisation procedures for decisions made under the scheme to provide a clear description of decision making responsibilities and transparency of our decision making.

The Overview & Scrutiny Committee has agreed the Audit Plan and received independent reports from Internal Audit.

Effective Conduct Arrangements

The Standards Committee has operated in accordance with our published local arrangements, supported by the Monitoring Officer, since the abolition of the statutory requirement to have a Standards Committee.

The Council has a locally adopted Code of Conduct and all Councillors are given training regarding the conduct requirements. A review of the Code of Conduct is proposed for 2018/19 to ensure it remains fit for purpose.

Our Councillor conduct complaint handling arrangements are approved by the Standards Committee and published on our website. Emphasis is placed on a speedy informal resolution of concerns where possible. A set of principles has been agreed by the Political Group Leaders who work together to support this process. The Monitoring Officer maintains a register of complaints and resolutions and provides, as a minimum, an annual report to the Standards Committee.

Registers of Interest for Elected Members and senior Employees have been maintained and arrangements are in place for the declaration of appropriate interests when decisions are taken. We have also appointed an Independent Person in accordance with our statutory responsibilities.

ANNUAL GOVERNANCE STATEMENT

Effective decision making arrangements

Our decision-making arrangements are one of our significant governance controls, linking to all of the governance principles that are set out in our Code of Corporate Governance. We continue to review these key principles on an ongoing basis and will recommend consideration of changes to reflect new working arrangements as identified.

Positive assurances have been given by all Managers and by the Statutory Officers on risk management activities.

Effectively developing skills and capacity

The Council has a Human Resource Plan which sets out the resources required to deliver the Council's priorities and services. Personal development plans and the "talent management" programmes help to ensure we have in place effective succession planning and that our workforce has the skills, capability and capacity to meet the challenges facing the Council.

We undertake regular staff surveys and an action plan is in place to address the themes emerging from these.

An induction programme is in place for new Councillors and skills training for regulatory functions takes place annually before Members take up places on the Planning and Licensing and Regulatory Committees. In addition, all Members are briefed on the requirements of the Member Code of Conduct. A variety of learning events take place during the year to ensure that, where needed, Councillors are briefed on new initiatives or legislative changes. The bespoke training and development undertaken in 2017/18 focused on Member communication skills to help to deal with the new way in which Social Media is so immediate in its delivery of news and the need to be able to respond accordingly. Training in 2018/19 will include local government finance training.

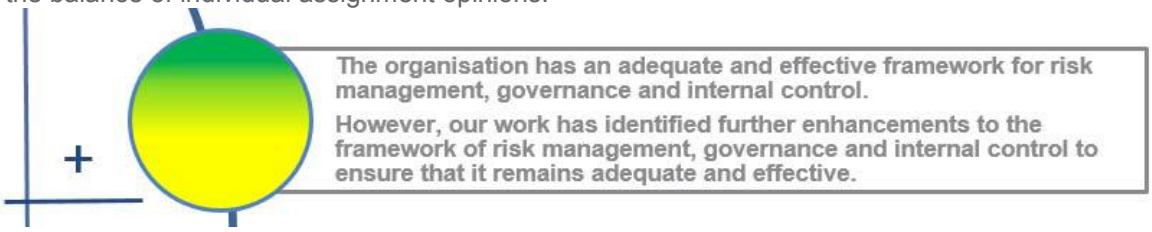
Effective Engagement

Consultation and engagement has taken place with local people and other stakeholders on a range of issues during the year to inform the plans and decisions taken by the Council. We have reviewed our approach to engagement and continue to improve our use of digital channels to reach audiences with an improved website and a greater use of social media.

Independent Opinions on Effectiveness

The Chief Internal Auditor provides independent assurance on the adequacy and effectiveness of the system of internal financial control. The Internal Audit Annual Report for 2017/18 included the following:

"For the 12 months ended 31 March 2018, the head of internal audit opinion for Reigate and Banstead Borough Council is as follows. This is consistent with the prior year and reflective of the balance of individual assignment opinions.



The Annual Audit Letter (from our external auditors - KPMG) summarises the finding of the audit of the Council each year. The last letter received by the Council, in October 2017, in respect of the 2016/17 financial year contained the following conclusions:

- *"We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 21 September 2017. This means we are*

ANNUAL GOVERNANCE STATEMENT

satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources".

- *"We issued an unqualified opinion on the Authority's financial statements on 21 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include the Authority's Group, which consists of the Authority itself and its consolidated subsidiaries; Greensand Holding LLP; Pathway for Care Limited; and Horley Business Park Development LLP".*

A full copy of the KPMG Audit Letter can be found on the Council website:

http://www.reigate-banstead.gov.uk/downloads/file/3679/annual_audit_letter_2016-17

5. Significant Governance Issues

The independent opinions of our internal and external auditors provide considerable assurance in respect of the Council's arrangements. These have identified no significant issues or areas for improvement.

The outlook for local government over the next few years has increased challenges, related to growing demand and declining resources. The Council is confident that it has proposals in place to ensure that resources are directed toward identified priorities and to ensure that it will continue to seek innovative ways of securing value for money.

Councillor Mark Brunt	**John Jory**
Leader of the Council	**Chief Executive**
Date 21 June 2018	**Date** 21 June 2018

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

AUTHORITIY'S RESPONSIBILITIES

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

THE CHIEF FINANCIAL OFFICER'S RESPONSIBILITIES

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('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 Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2018 and of its income and expenditure for the year then ended.

Jocelyn Convey
Head of Finance

AUDITORS REPORT ON THE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REIGATE AND BANSTEAD BOROUGH COUNCIL

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Reigate and Banstead Borough Council ('the Authority') for the year ended 31 March 2018 which comprise the Authority and Group Comprehensive Income and Expenditure Statement(s), the Authority and Group Balance Sheet(s), the Authority and Group Movement in Reserves Statement(s), the Authority and Group Cash Flow Statement, the Collection Fund and the related notes, including the accounting policies on page 56.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information published with the financial statements

The Head of Finance is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

AUDITORS REPORT ON THE FINANCIAL STATEMENTS

Head of Finance responsibilities

As explained more fully in the statement set out on page X the Head of Finance is responsible for: the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Reigate and Banstead Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Reigate and Banstead Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Reigate and Banstead Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Statutory reporting matters

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;

AUDITORS REPORT ON THE FINANCIAL STATEMENTS

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the financial statements of Reigate and Banstead Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Joanne Lees
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

30 July 2018

STATEMENT OF ACCOUNTS

The financial statements consist of:

Movement in Reserves Statement

- This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves (that cannot).

Comprehensive Income and Expenditure Statement

- This statement shows the accounting cost of providing services rather than the amount to be funded from taxation. This statement is different from the Council's reported revenue costs.

Balance Sheet

- This statement shows the value of the Council's assets and liabilities at the end of the financial year. The net assets (assets less liabilities) are matched by the reserves held by the Council.

Cash Flow Statement

- This statement shows the changes in cash and cash equivalents during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying the type of cash flow as operating, investing or financing activities.

Supporting Notes

- These provide further detail or explanation to support the financial statements.

Technical Notes

- These provide further detail or explanations to support the financial statements. These notes set out the technical accounting requirements.

Accounting Policies

- These provide further detail on the accounting policies applied in preparing this Statement of Accounts.

Collection Fund

- This account reflects the statutory requirement to maintain a separate Collection Fund, which shows the transactions of the Council as a billing authority in relation to National Non-Domestic Rates (NNDR) and Council Tax and shows the way in which these have been distributed.

Group Accounts

- These statements show the financial position of Reigate & Banstead Borough Council and each of its trading companies as a single group, rather than separate entities.

STATEMENT OF ACCOUNTS

Movement in Reserves Statement

	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Usable Reserves**	**Unusable Reserves**	**Total Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2016	**8,737**	**13,485**	**26,148**	**5,724**	**54,094**	**89,576**	**143,670**
Movement in reserves during 2016/17							
Surplus (deficit) on provision of services	14,393	0	0	0	**14,393**	**0**	**14,393**
Other comprehensive income and expenditure	0	0	0	0	**0**	**(1,020)**	**(1,020)**
Adjustments between accounting and funding basis under regulations (Note 17)	(11,628)	0	3,361	4,700	**(3,567)**	**3,567**	**0**
Transfers to/from Usable Reserves (Note 10)	(5,590)	5,590	0	0	**0**	**0**	**0**
Other adjustments	0	0	0	0	**0**	**0**	**0**
Increase/Decrease in 2016/17	**(2,825)**	**5,590**	**3,361**	**4,700**	**10,826**	**2,547**	**13,373**
Balance at 31 March 2017	**5,912**	**19,075**	**29,509**	**10,424**	**64,920**	**92,123**	**157,043**
Movement in reserves during 2017/18							
Surplus (deficit) on provision of services	8,109	0	0	0	**8,109**	**0**	**8,109**
Other comprehensive income and expenditure	0	0	0	0	**0**	**5,149**	**5,149**
Adjustments between accounting and funding basis under regulations (Note 17)	1,153	0	(13,699)	2,884	**(9,662)**	**9,662**	**0**
Transfers to/from Usable Reserves (Note 10)	(2,628)	2,628	0	0	**0**	**0**	**0**
Other adjustments	0	0	0	0	**0**	**0**	**0**
Increase/Decrease in 2017/18	**6,634**	**2,628**	**(13,699)**	**2,884**	**(1,553)**	**14,811**	**13,258**
Balance at 31 March 2018	**12,546**	**21,703**	**15,810**	**13,308**	**63,367**	**106,934**	**170,301**

STATEMENT OF ACCOUNTS

Comprehensive Income and Expenditure Statement

2016/17 Gross Exp £000	2016/17 Gross Inc £000	2016/17 Net Exp £000		2017/18 Gross Exp £000	2017/18 Gross Inc £000	2017/18 Net Exp £000
45,092	(41,703)	3,389	People and Communities	44,681	(40,364)	4,317
12,527	(8,222)	4,305	Recycling, Cleansing and Parking	12,114	(9,445)	2,669
7,589	(2,103)	5,486	Leisure and Regulation	7,638	(1,975)	5,663
2,754	(2,110)	644	Communication, Customers and Change	2,868	(2,283)	585
4,201	(2,371)	1,830	Policy, Performance and Legal	5,384	(2,158)	3,226
4,792	(5,035)	(243)	Property	6,335	(5,886)	449
6,309	(1,599)	4,710	Places and Planning	6,282	(1,614)	4,668
1,735	(1,482)	253	Finance	1,577	(1,434)	143
138	(48)	90	Health and Wellbeing	55	(2)	53
85,137	**(64,673)**	**20,464**	Cost of Services	**86,934**	**(65,161)**	**21,773**
347	(2,562)	(2,215)	Other Operating Expenditure (Note 2)	364	(965)	(601)
1,978	(6,357)	(4,379)	Financing and Investment Income and Expenditure (Note 3)	1,776	(5,003)	(3,227)
15,613	(43,876)	(28,263)	Taxation and Non-specific Grant Income and Expenditure (Note 4)	22,126	(48,180)	(26,054)
103,075	**(117,468)**	**(14,393)**	**(Surplus) or Deficit on Provision of Services**	**111,200**	**(119,309)**	**(8,109)**
		(11,400)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment assets			**(2,830)**
		12,420	Actuarial remeasurements			(2,319)
		1,020	**Other Comprehensive Income and Expenditure**			**(5,149)**
		(13,373)	**Total Comprehensive Income and Expenditure**			**(13,258)**

STATEMENT OF ACCOUNTS

Balance Sheet

31 March 2017 £000		Note	31 March 2018 £000
113,564	Property, Plant and Equipment	11.1	113,217
468	Heritage Assets	11.2	477
47,122	Investment Property	12	66,055
23	Long Term Debtors		211
8,000	Long Term Investments		7,822
169,177	**Long Term Assets**		**187,782**
47,057	Short Term Investments	27	52,104
0	Assets Held for Sale	13	0
45	Inventories		54
4,140	Short Term Debtors	14	6,832
23,380	Cash and Cash Equivalents	15	7,031
74,622	**Current Assets**		**66,021**
(11,538)	Short Term Creditors	16	(7,536)
(11,538)	**Current Liabilities**		**(7,536)**
(1,701)	Long Term Creditors	35	(1,702)
(1,670)	Business Rates Appeals Provision		(1,965)
(70,518)	Pension Liability	20	(71,124)
(1,177)	Capital Grants in Advance	5	(1,023)
(152)	Other Long Term Liabilities		(152)
(75,218)	**Long Term Liabilities**		**(75,966)**
157,043	**Net Assets**		**170,301**
(5,912)	General Fund Reserve		(12,547)
(19,075)	Earmarked Reserves	10	(21,703)
(29,509)	Capital Receipts Reserve		(15,810)
(10,424)	Capital Grants Unapplied		(13,308)
(64,920)	**Usable Reserves**		**(63,368)**
(54,900)	Revaluation Reserve	18	(56,770)
(106,267)	Capital Adjustment Account	19	(122,991)
(424)	Deferred Capital Receipts Reserve		(302)
70,518	Pensions Reserve	20	71,124
(1,751)	Collection Fund Adjustment Account	21	1,607
701	Accumulated Absences Account	22	399
(92,123)	**Unusable Reserves**		**(106,933)**
(157,043)	**Total Reserves**		**(170,301)**

STATEMENT OF ACCOUNTS

Cash Flow Statement

2016/17 £000		2017/18 £000
(14,393)	Net (surplus) or deficit on the provision of services	**(8,109)**
(18,909)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(1,603)
24,037	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	10,224
(9,265)	**Net cash flows from Operating Activities**	**512**
15,388	Purchase of Property Plant and Equipment (PPE) & Investment Property	16,921
2,936	Purchase of short-term and long-term investments	8,986
(15,526)	Proceeds from the sale of PPE & Investment Property	(4,451)
(8,334)	Capital grants received	(5,619)
(5,536)	**Net cash flows from Investment Activities**	**15,837**
(14,801)	**Net (increase)/decrease in cash and cash equivalents**	**16,349**
8,579	**Cash and cash equivalents at the beginning of the reporting period**	**23,380**
23,380	**Cash and cash equivalents at the end of the reporting period (Note 15)**	**7,031**

NOTES TO ACCOUNTS

1. Analysis of Comprehensive Income and Expenditure

1.1 Expenditure and Funding Analysis

This reconciliation shows how the provisional outturn figures and amounts reported to management relate to the final figures in the Comprehensive Income and Expenditure Statement.

2017/18	Provisional Outturn	Recharges and Adjustments Affecting the General Fund	Net Expenditure Chargeable to the General Fund	Adjustments Between Accounting Basis and Funding Basis	Comprehensive Income and Expenditure Statement
	£000	£000	£000	£000	£000
People and Communities	1,746	1,686	**3,432**	885	**4,317**
Recycling, Cleansing and Parking	(38)	1,781	**1,743**	926	**2,669**
Leisure and Regulation	1,830	2,718	**4,548**	1,115	**5,663**
Communication, Customers and Change	2,117	(2,079)	**38**	547	**585**
Policy, Performance and Legal	3,186	(416)	**2,770**	456	**3,226**
Property	(392)	(2,957)	**(3,349)**	3,798	**449**
Places and Planning	2,351	1,798	**4,149**	519	**4,668**
Finance	4,516	(2,378)	**2,138**	(1,995)	**143**
Health and Wellbeing	53	0	**53**	0	**53**
Net Cost of Services	**15,369**	**153**	**15,522**	**6,251**	**21,773**
Other Income and Expenditure			**(24,785)**	**(5,097)**	**(29,882)**
Surplus or Deficit			**(9,263)**	**1,154**	**(8,109)**
Opening General Fund Balance			**(24,987)**		
Add Surplus/Less Deficit			**(9,263)**		
Closing General Fund Balance			**(34,250)**		

NOTES TO ACCOUNTS

2016/17	Provisional Outturn	Recharges and Adjustments Affecting the General Fund	Net Expenditure Chargeable to the General Fund	Adjustments Between Accounting Basis and Funding Basis	Comprehensive Income and Expenditure Statement
	£000	**£000**	**£000**	**£000**	**£000**
People and Communities	1,604	1,256	**2,860**	529	**3,389**
Recycling, Cleansing and Parking	85	1,726	**1,811**	2,494	**4,305**
Leisure and Regulation	1,625	3,062	**4,687**	799	**5,486**
Communication, Customers and Change	2,275	(1,898)	**377**	267	**644**
Policy, Performance and Legal	2,067	(354)	**1,713**	117	**1,830**
Property	352	(2,802)	**(2,450)**	2,207	**(243)**
Places and Planning	2,380	2,020	**4,400**	310	**4,710**
Finance	4,536	(2,316)	**2,220**	(1,967)	**253**
Health and Wellbeing	485	(395)	**90**	0	**90**
Net Cost of Services	**15,409**	**299**	**15,708**	**4,756**	**20,464**
Other Income and Expenditure			**(18,473)**	**(16,384)**	**(34,857)**
Surplus or Deficit			**(2,765)**	**(11,628)**	**(14,393)**
Opening General Fund Balance			**(22,222)**		
Add Surplus/Less Deficit			**(2,765)**		
Closing General Fund Balance			**(24,987)**		

NOTES TO ACCOUNTS

1.2 Note to the EFA

This note shows the breakdown of the funding adjustments column within the Expenditure and Funding Analysis (EFA).

	2017/18			
	Adjustments for Capital Purposes	**Net Change for Pensions Adjustments**	**Other Differences**	**Total Funding Adjustments**
	£000	**£000**	**£000**	**£000**
People and Communities	337	588	(40)	**885**
Recycling, Cleansing and Parking	244	792	(110)	**926**
Leisure and Regulation	799	356	(40)	**1,115**
Communication, Customers and Change	259	303	(15)	**547**
Policy, Performance and Legal	0	464	(8)	**456**
Property	3,708	93	(3)	**3,798**
Places and Planning	50	537	(68)	**519**
Finance	6	(1,983)	(18)	**(1,995)**
Health and Wellbeing	0	0	0	**0**
Cost of Services	**5,403**	**1,150**	**(302)**	**6,251**
Other Income and Expenditure	(10,231)	1,776	3,358	**(5,097)**
Financing and Difference between GF Surplus or Deficit and CIES Surplus or Deficit				**(1,154)**

NOTES TO ACCOUNTS

	2016/17			
	Adjustments for Capital Purposes	**Net Change for Pensions Adjustments**	**Other Differences**	**Total Funding Adjustments**
	£000	**£000**	**£000**	**£000**
People and Communities	326	183	20	**529**
Recycling, Cleansing and Parking	2,171	314	9	**2,494**
Leisure and Regulation	631	136	32	**799**
Communication, Customers and Change	172	112	(17)	**267**
Policy, Performance and Legal	0	120	(3)	**117**
Property	2,171	42	(6)	**2,207**
Places and Planning	74	223	13	**310**
Finance	7	(1,985)	11	**(1,967)**
Health and Wellbeing	0	0	0	**0**
Cost of Services	**5,552**	**(855)**	**59**	**4,756**
Other Income and Expenditure	(15,975)	1,978	(2,387)	**(16,384)**
Financing and Difference between GF Surplus or Deficit and CIES Surplus or Deficit				**(11,628)**

1.3 Subjective Note to the Accounts

	2017/18 £000	**2016/17 £000**
Employee Benefits Expense	20,909	17,091
Depreciation and Amortisation Expense	4,346	2,849
Other Service Expenses	23,183	83,912
Fees, Charges and Other Income	(56,547)	(117,877)
Surplus or Deficit on the Provision of Services	**(8,109)**	**(14,025)**

NOTES TO ACCOUNTS

2. Other Operating Expenditure

	2017/18 £000	2016/17 £000
Parish council precepts and grants paid	364	347
(Gains)/losses on the disposal of non-current assets	(965)	(2,562)
Total	**(601)**	**(2,215)**

3. Financing & Investment Income and Expenditure

	2017/18 £000	2016/17 £000
Interest payable and similar charges	0	0
Net interest on the defined benefit liability	1,776	1,978
Interest receivable and similar income	(602)	(527)
Income and expenditure in relation to investment properties and changes in their fair value	(4,401)	(5,830)
Total	**(3,227)**	**(4,379)**

4. Taxation and Non Specific Grant Income and Expenditure

	2017/18 £000	2016/17 £000
Council tax income	(13,194)	(12,719)
Non domestic rates income	(24,366)	(19,888)
Non domestic rates expenditure	22,088	17,711
Non-ring fenced government grants	(4,809)	(4,856)
Capital grants and contributions	(5,773)	(8,511)
Total	**(26,054)**	**(28,263)**

NOTES TO ACCOUNTS

5. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2017/18 £000	2016/17 £000
Council Tax income	(13,194)	(12,719)
Non domestic rates	(2,278)	(2,177)
Non ring-fenced government grants	(4,809)	(4,856)
Capital grants and contributions	(5,773)	(8,511)
Total - Credited to Taxation and Non Specific Grant Income	**(26,054)**	**(28,263)**
Rent Allowances	(36,959)	(38,653)
Council Tax Support	(284)	(285)
Rent Rebates	(83)	(207)
Refugee Support Grant	(210)	(44)
OFGEM renewable grants	0	(1)
Individual electoral registration grant	0	(48)
Core Funding (Joint Charitable)	0	(1)
Total – Credited to Cost of Services	**(37,536)**	**(39,239)**
Total – Grant Income	**(63,590)**	**(67,502)**

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

Capital Grants Receipts in Advance

	2017/18 £000	2016/17 £000
Unapplied Capital Grants & Contributions	0	0
Developers Contributions Unapplied – Horley Master Plan	(163)	(166)
Developers Contributions Unapplied - non tariff	(860)	(1,011)
Total	**(1,023)**	**(1,177)**

NOTES TO ACCOUNTS

6. Officers' Remuneration

Detailed remuneration information for statutory officers is set out below.

Name/Post Title	Year	Salary Fees and Allowances	Bonus	Allowances & Expenses	Compensation for Loss of Office	Pension Contribution	Total
		£000	£000	£000	£000	£000	£000
Chief Executive - John Jory	**17/18**	**175**	**17**	**12**	**0**	**0**	**204**
	16/17	170	15	4	0	4	193
Head of Finance (S.151 Officer) *	**17/18**	**79**	**0**	**0**	**0**	**12**	**91**
	16/17	0	0	0	0	0	0
Head of Finance (S.151 Officer) **	**17/18**	**7**	**7**	**0**	**0**	**2**	**16**
	16/17	80	0	0	0	12	92
Head of Corporate Policy, Performance & Legal (Monitoring Officer)***	**17/18**	**90**	**2**	**6**	**0**	**14**	**112**
	16/17	6	0	0	0	0	6
Head of Customers Communications & Change	**17/18**	**82**	**2**	**1**	**0**	**12**	**97**
	16/17	71	7	1	0	12	91
Head of People & Communities	**17/18**	**82**	**2**	**1**	**0**	**12**	**97**
	16/17	71	0	0	0	11	82
Head of Places & Planning	**17/18**	**92**	**7**	**1**	**0**	**15**	**115**
	16/17	91	7	1	0	15	114
Head of Property	**17/18**	**92**	**9**	**0**	**0**	**15**	**116**
	16/17	87	7	0	0	14	108
Head of Recycling, Clensing & Parking	**17/18**	**82**	**2**	**0**	**0**	**13**	**97**
	16/17	69	0	0	0	11	80
Head of Health & Wellbeing	**17/18**	**82**	**2**	**0**	**0**	**12**	**96**
	16/17	71	7	0	0	12	90
Leisure & Regulation Manager	**17/18**	**61**	**0**	**1**	**0**	**9**	**71**
	16/17	51	1	1	0	8	61

* During 2017/18 two individuals held the post of Head of Finance. The instance listed here started as of the 22 June 2017 and was in post as at 31 March 2018.

** During 2017/18 two individuals held the post of Head of Finance. The instance listed here was in post as at 31 March 2017 and retired from the council on 30 April 2017.

*** From 2015/16 the Legal Manager post was shared with another Council and was not directly employed by Reigate and Banstead Borough Council. This arrangement continued to 28 February 2017. After which the post was streamlined into the existing management team structure.

NOTES TO ACCOUNTS

The number of employees whose remuneration was £50,000 or more is shown below (in bands of £5,000). Those compensated for loss of office are shown separately. All figures exclude employer's pension contributions.

	2017/18	2016/17
Remuneration Band	**No. of Employees**	**No. of Employees**
£50,000 to £54,999	10	13
£55,000 to £59,999	9	1
£60,000 to £64,999	4	2
£65,000 to £69,999	1	2
£70,000 to £74,999	0	0
£75,000 to £79,999	0	3
£80,000 to £84,999	5	1
£85,000 to £89,999	0	0
£90,000 to £94,999	1	1
£95,000 to £99,999	1	1
£100,000 to £104,999	1	0
£105,000 to £109,999	0	0
£110,000 to £114,999	0	0
£115,000 to £119,999	0	0
£120,000 to £124,999	0	0
£125,000 to £129,999	0	0
£130,000 to £134,999	0	0
£135,000 to £139,999	0	0
£140,000 to £144,999	0	0
£145,000 to £149,999	0	0
£150,000 to £154,999	0	0
£155,000 to £159,999	0	0
£160,000 to £164,999	0	0
£165,000 to £169,999	0	0
£170,000 to £174,999	0	0
£175,000 to £179,999	0	0
£180,000 to £184,999	0	0
£185,000 to £189,999	0	1
£190,000 to £194,999	0	0
£195,000 to £199,999	0	0
£200,000 to £204,999	1	0
	33	25

NOTES TO ACCOUNTS

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies for 2017/18 are set out in the table below:

Exit package cost band (including Special Payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total cost of exit packages
2017/18	**No.**	**No.**	**No.**	**£000**
£0-£20,000	0	6	6	47
£20,000-£40,000	0	2	2	50
£40,000-£60,000	0	0	0	0
£60,000-£80,000	0	0	0	0
£80,000-£100,000	0	0	0	0
2016/17	**No.**	**No.**	**No.**	**£000**
£0-£20,000	1	8	9	44
£20,000-£40,000	0	0	0	0
£40,000-£60,000	0	3	3	139
£60,000-£80,000	0	0	0	0
£80,000-£100,000	0	1	1	92

7. External Audit Costs

During the year the Council incurred the following fees in relation to external audit and inspection:

	2017/18 £000	2016/17 £000
Fees payable for external audit services	49	49
Fees payable for statutory inspections	0	0
Fees payable for the certification of grant claims	10	12
Fees payable for other services provided by the auditor	7	2
Total	**66**	**63**

8. Members Allowances

The total value of the allowances paid to the 51 Members and former members of the Council during the year was £428,993 (£429,725 in 2016/17). Full details are published annually on the Council's website.

NOTES TO ACCOUNTS

9. 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.

Central Government
Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Grant Income analysis in Note 5.

Members
Members of the council have direct control over the council's financial and operating policies. The total of Members' Allowances paid in 2017/18 is shown in Note 8. Details of all returned interests are recorded in the Register of Members' Interest, open to public inspection at the Town Hall during office hours. Eight Members declared an interest in organisations which shared transactions with the Council. These included Pathway for Care Ltd (see below), YMCA (£146,452), Reigate & Banstead District Citizens Advice Bureau (£104,000), Banstead Commons Conservators Committee (£85,500) and Age Concern Banstead (£26,650)
The relevant members did not take part in any discussion or decision relating to the core funding grants received by any of the listed entities.

Officers
CEO John Jory and Officer Tom Kealey are directors of Pathway for Care Ltd, a subsidiary of the authority. CEO John Jory and Officer John Reed are directors of Horley Business Park Development LLP, a joint venture of the authority. CEO John Jory and Officer John Reed are Directors of Greensand Property Holdings Limited, a subsidiary of the authority. On 30 April 2017 Officer Bill Pallett left Reigate and Banstead Borough Council, but has remained a Director of Greensand Property Holdings Limited.

Entities controlled or significantly influenced by the council
The council has invested in two subsidiaries and a joint venture during 2017/18 over which it has control or significant influence.

Pathway for Care Ltd
During 2017/18 the authority owned 80% of the shareholding and T7 Group Ltd owned the remaining 20% of the shareholding. Pathway is a business that seeks to address some of the challenges faced by a significant number of vulnerable people across the borough and beyond.
The Council has lent the company £644,000 during the financial year 2017/18.

Horley Business Park Development LLP
The authority owns a 50% shareholding in the LLP. The other partners of the joint venture are Berwick Hill Properties Ltd (BHP) and Millhill Properties (Horley) Ltd. The purpose is to promote the borough as a place to do business, securing resources to maintain and improve business related infrastructure and to create new jobs for our residents.
The Council has lent the company £275,800 during the financial year 2017/18 and the interest charged for the loan was £39,367.

NOTES TO ACCOUNTS

Greensand Property Holdings Ltd
The authority owns a 100% shareholding in the company. The purpose is buying and selling of real estate. The Council lent the company £2,269,538 in 2016/17 and the interest charged for the loan was £102,325 for the financial year 2017/18. There have been no further loans in 2017/18.

10. Transfers to/from Usable Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves.

	Balance at 31 March 2016 £000	Transfers £000	Balance at 31 March 2017 £000	Transfers £000	Balance at 31 March 2018 £000
General Fund Reserves:					
Superannuation Reserve	1,507	0	1,507	0	1,507
Corporate Plan Delivery Fund	2,000	2,000	4,000	(1,264)	2,736
Insurance Reserve	550	0	550	0	550
New Homes Bonus Reserve	7,675	3,730	11,405	3,093	14,498
Growth Points Reserve	286	0	286	0	286
Business Rates Equalisation Reserve	1,000	0	1,000	0	1,000
Supporting Families Reserve	59	(59)	0	0	0
High Street Innovation Fund Reserve	70	(30)	40	0	40
Business Support Scheme Reserve	148	0	148	(1)	147
Neighbourhood Improvement Reserve	190	(51)	139	(48)	91
Homelessness Prevention Reserve Fund	0	0	0	48	48
Government Grant Reduction Reserve	0	0	0	800	800
Total	**13,485**	**5,590**	**19,075**	**2,628**	**21,703**

NOTES TO ACCOUNTS

11. Property, Plant and Equipment & Heritage Assets

11.1 Property, Plant and Equipment

Movements in 2017/18

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
Gross Cost or valuation				
At 1 April 2017	**109,546**	**18,654**	**0**	**128,200**
Additions	1,220	986	0	**2,206**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	1,503	0	0	**1,503**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,425)	0	0	**(1,425)**
Derecognition – disposals	0	(109)	0	**(109)**
Assets reclassifications	(1,041)	0	0	**(1,041)**
At 31 March 2018	**109,803**	**19,531**	**0**	**129,334**
Gross Accumulated Depreciation and Impairment				
At 1 April 2017	193	14,441	0	**14,634**
Adjustments to brought forward balance	0	2	0	**2**
Depreciation charge	2,076	1,127	0	**3,203**
Depreciation written out to the Revaluation Reserve	(1,327)	0	0	**(1,327)**
Depreciation written out to the Surplus/Deficit on the Provision of Services	(284)	0	0	**(284)**
Derecognition – disposals	0	(103)	0	**(103)**
Other movements in depreciation and impairment	(8)	0	0	**(8)**
At 31 March 2018	**650**	**15,467**	**0**	**16,117**
Net Book value:				
At 31 March 2018	**109,153**	**4,064**	**0**	**113,217**
At 31 March 2017	**109,353**	**4,213**	**0**	**113,566**

NOTES TO ACCOUNTS

Movements in 2016/17

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
Gross Cost or valuation				
At 1 April 2016	**99,736**	**17,798**	**0**	**117,534**
Additions	2,418	1,081	0	**3,499**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	10,154	0	0	**10,154**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,634)	0	0	**(2,634)**
Derecognition – disposals	(128)	(225)	0	**(353)**
Assets reclassifications	0	0	0	**0**
At 31 March 2017	**109,546**	**18,654**	**0**	**128,200**
Gross Accumulated Depreciation and Impairment				
At 1 April 2016	**403**	**13,374**	**0**	**13,777**
Depreciation charge	1,422	1,067		**2,489**
Depreciation written out to the Revaluation Reserve	(1,217)	0	0	**(1,217)**
Depreciation written out to the Surplus/Deficit on the Provision of Services	(193)	0	0	**(193)**
Derecognition – disposals	(222)	0	0	**(222)**
Other movements in depreciation and impairment	0	0	0	**0**
At 31 March 2017	**193**	**14,441**	**0**	**14,634**
Net Book value:				
At 31 March 2017	**109,353**	**4,213**	**0**	**113,566**
At 31 March 2016	**99,333**	**4,424**	**0**	**103,757**

NOTES TO ACCOUNTS

11.2 Heritage Assets

Movements in 2017/18

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Total Heritage Assets £000
Gross Cost or valuation			
At 1 April 2017	268	256	**524**
Additions	0	9	**9**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	0	0	**0**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	**0**
Derecognition – disposals	0	0	**0**
Assets reclassifications	0	0	**0**
At 31 March 2018	**268**	**265**	**533**
Gross Accumulated Depreciation and Impairment			
At 1 April 2017	0	56	**56**
Depreciation charge	0	0	**0**
Depreciation written out to the Revaluation Reserve	0	0	**0**
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	**0**
Derecognition – disposals	0	0	**0**
Other movements in depreciation and impairment	0	0	**0**
At 31 March 2018	**0**	**56**	**56**
Net Book value:			
At 31 March 2018	**268**	**209**	**477**
At 31 March 2017	**268**	**200**	**468**

NOTES TO ACCOUNTS

12. Investment Properties

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

	2017/18 £000	2016/17 £000
Rental income from investment property	(1,097)	(1,321)
Direct operating expenses arising from investment property	188	393
Net (gain)/loss	**(909)**	**(928)**

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.

All Investment Property assets are valued at a price at which the property would have been sold on the valuation date, for its best use, after a period of suitable marketing to a buyer with no special interest where both parties have had sufficient advice or knowledge and are not under any duress to agree the sale/purchase. The valuer assessed this value by maximising the use of evidence of sales of similar properties around the valuation date.

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

	31 March 2018 £000	31 March 2017 £000
Balance at start of the year	47,122	35,960
Additions	17,634	12,142
Recognition	624	0
Disposals	(1,725)	0
Net gains/losses from fair value adjustments	2,999	4,902
Transfers (to)/from Property, Plant and Equipment	1,033	0
Transfers (to)/from Assets held for Sale	(1,632)	(5,881)
Balance at end of the year	**66,055**	**47,122**

13. Assets Held for Sale

	31 March 2018 £000	31 March 2017 £000
Balance outstanding at start of year		
Assets classified as held for sale	1,632	5,881
Assets sold	(1,632)	(5,881)
Revaluation gains/(losses):		
Charged to the revaluation reserve	0	0
Charged to the Comprehensive Income and Expenditure Statement	0	0
Property, plant and equipment assets declassified as held for sale:	0	0
Balance outstanding at year-end	**0**	**0**

NOTES TO ACCOUNTS

14. Debtors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	1,575	348
Other local authorities	77	988
NHS bodies	0	1
Public corporations and trading funds	0	0
Other entities and individuals	7,509	5,008
Total (Gross)	**9,161**	**6,345**
Less Provision for Bad Debts	(2,329)	(2,205)
Total	**6,832**	**4,140**

15. Cash and Cash Equivalents

	31 March 2018 £000	31 March 2017 £000
Cash held by the Council	2	3
Bank current accounts	7,029	23,377
Short-term deposits with banks and building societies	0	0
Total	**7,031**	**23,380**

16. Creditors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	(350)	(3,875)
Other local authorities	(3,063)	(3,290)
Other entities and individuals	(4,123)	(4,373)
Total	**(7,536)**	**(11,538)**

Payment of invoices within 30 days:

For the year ending 31 March 2018 97.2% of undisputed purchase invoices were paid within 30 days of the invoice date. £0.83 was paid in late payment interest.

TECHNICAL NOTES

These technical notes provide further detail and explanation to support the financial statements. These notes set out the technical accounting requirements.

17. Adjustments between accounting basis and funding basis under regulations

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

The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

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

Capital Grants Unapplied

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

TECHNICAL NOTES

2017/18	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Reserves Usable	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:							
Charges for depreciation and impairment of non-current assets	3,205	0	0	0	**3,205**	**(3,205)**	**0**
Revaluation gains on Property, Plant and Equipment	1,141	0	0	0	**1,141**	**(1,141)**	**0**
Movement in the fair values of Investment Properties	(3,493)	0	0	0	**(3,493)**	**3,493**	**0**
Revenue funded from capital under statute	1,057	0	0	0	**1,057**	**(1,057)**	**0**
Amount of non-current assets written off on disposal or sale as part of the gain/loss on disposal	3,363	0	0	0	**3,363**	**(3,363)**	**0**
Capital expenditure funded from revenue	0	0	0	0	**0**	**0**	**0**
Adjustments primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(5,773)	0	0	5,773	**0**	**0**	**0**
Application of capital financing transferred to the Capital Adjustment Account	0	0	0	(2,889)	**(2,889)**	**2,889**	**0**
Adjustments primarily involving the Capital Receipts Reserve							
Transfer of cash proceeds credited as part of the gain/loss on disposal	(4,328)	0	(13,699)	0	**(18,027)**	**18,027**	**0**

Continued

TECHNICAL NOTES

2017/18	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Reserves Usable	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	6,838	0	0	0	**6,838**	**(6,838)**	**0**
Employer's pension contributions and direct payments to pensioners payable in year	(3,913)	0	0	0	**(3,913)**	**3,913**	**0**
Adjustments primarily involving the Collection Fund Adjustment Account							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	3,358	0	0	0	**3,358**	**(3,358)**	**0**
Adjustments primarily involving the Accumulated Absences Account							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	302	0	0	0	**302**	**(302)**	**0**
Total adjustments	**1,153**	**0**	**(13,699)**	**2,884**	**(9,662)**	**9,662**	**0**

Continued

TECHNICAL NOTES

2016/17	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Reserves Usable	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:							
Charges for depreciation and impairment of non-current assets	2,489	0	0	0	**2,489**	**(2,489)**	**0**
Revaluation gains on Property, Plant and Equipment	2,441	0	0	0	**2,441**	**(2,441)**	**0**
Movement in the fair values of Investment Properties	(4,901)	0	0	0	**(4,901)**	**4,901**	**0**
Revenue funded from capital under statute	832	0	0	0	**832**	**(832)**	**0**
Amount of non-current assets written off on disposal or sale as part of the gain/loss on disposal	6,012	0	0	0	**6,012**	**(6,012)**	**0**
Capital expenditure funded from revenue	(498)	0	0	0	**(498)**	**498**	**0**
Adjustments primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(8,511)	0	0	5,810	**(2,701)**	**2,701**	**0**
Application of capital financing transferred to the Capital Adjustment Account	0	0	0	(1,110)	**(1,110)**	**1,110**	**0**
Adjustments primarily involving the Capital Receipts Reserve							
Transfer of cash proceeds credited as part of the gain/loss on disposal	(8,575)	0	3,361	0	**(5,214)**	**5,214**	**0**

Continued

TECHNICAL NOTES

2016/17	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Reserves Usable	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	4,873	0	0	0	**4,873**	**(4,873)**	**0**
Employer's pension contributions and direct payments to pensioners payable in year	(3,750)	0	0	0	**(3,750)**	**3,750**	**0**
Adjustments primarily involving the Collection Fund Adjustment Account							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(2,099)	0	0	0	**(2,099)**	**2,099**	**0**
Adjustments primarily involving the Accumulated Absences Account							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	59	0	0	0	**59**	**(59)**	**0**
Total adjustments	**(11,628)**	**0**	**3,361**	**4,700**	**(3,567)**	**3,567**	**0**

TECHNICAL NOTES

18. 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.

	31 March 2018 £000	31 March 2017 £000
Balance at 1 April	**(54,900)**	**(44,388)**
Other movements	0	0
Upward revaluation of assets	(13,997)	(14,772)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	11,167	3,373
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**(2,830)**	**(11,399)**
Difference between fair value depreciation and historical cost depreciation	960	760
Accumulated gains on assets sold or scrapped	0	127
Amounts written off to the Capital Adjustment Account	**960**	**887**
Balance at 31 March	**(56,770)**	**(54,900)**

TECHNICAL NOTES

19. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the 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.

	31 March 2018 £000	31 March 2017 £000
Balance at 1 April	**(106,267)**	**(95,776)**
Other adjustments		
Reversal of items relating to capital expenditure:		
Charges for depreciation and impairment of non-current assets	3,205	2,488
Revaluation (gains) losses on Property, Plant and Equipment	1,141	2,441
Revenue expenditure funded from capital under statute	1,057	832
Amounts written off on disposal or sale of non-current assets	3,363	6,012
Adjusting amounts written out of the Revaluation Reserve	(960)	(888)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(18,150)	(12,165)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(317)	(2,701)
Application of grants to capital financing from the Capital Grants Unapplied Account	(2,570)	(1,110)
Capital expenditure charged against the General Fund	0	(498)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(3,493)	(4,902)
Balance at 31 March	**(122,991)**	**(106,267)**

TECHNICAL NOTES

20. 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 Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the 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 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.

	31 March 2018 £000	31 March 2017 £000
Balance at 1 April	**70,518**	**56,975**
Remeasurements of the net defined liability	(2,319)	12,420
Reversal of items in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	6,838	4,873
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,913)	(3,750)
Balance at 31 March	**71,124**	**70,518**

21. Collection Fund Adjustment Account

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

	31 March 2018 £000	31 March 2017 £000
Balance at 1 April	**(1,751)**	**348**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	3,358	(2,099)
Balance at 31 March	**1,607**	**(1,751)**

TECHNICAL NOTES

22. Accumulated Absences Account

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

	31 March 2018	31 March 2017
	£000	£000
Balance at 1 April	**701**	**642**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(302)	59
Balance at 31 March	**399**	**701**

23. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it.

	2017/18 £000	2016/17 £000
Capital investment		
Property, Plant and Equipment	2,206	3,499
Investment Properties	17,766	12,142
Heritage Assets	9	0
Revenue Expenditure Funded from Capital under Statute	1,057	832
	21,038	**16,474**
Sources of finance		
Capital receipts received and applied	(18,150)	(12,165)
Capital receipts reserve applied	0	0
Government grants and other contributions	(2,888)	(3,811)
Revenue	0	(498)
	(21,038)	**(16,474)**

24. Capital Commitments

At 31 March 2018, total capital programme commitments outstanding totalled £1.632m which represent orders placed but works not completed. Of this amount £0.384m related to Marketfield Way.

25. Construction Contracts

As at 31 March 2018 the Council had no material construction contracts in place.

TECHNICAL NOTES

26. Leases

Council as Lessee

26.1 Finance leases

The Council has acquired use of 11 properties under finance leases which are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	2017/18 £000	2016/17 £000
Other Land and Buildings – freehold owned by Council	8,826	16,125
Other Land and Buildings – freehold not owned by Council	2,895	1,347
Total	**11,721**	**17,472**

26.2 Operating Leases

The Council rents two allotment sites and a library car park which are not treated as non-current assets as they are short term operating leases.

Council as Lessor

26.3 Operating Leases

In order to achieve operational objectives the Council has leased out land and property, providing £194,000 in 2017/18 (£647,000 in 2016/17). Similarly other assets leased out for investment purposes provided rent of £1,199,000 in 2017/18 (£1,233,000 in 2016/17).

The estimated total of future minimum lease payments per annum under non-cancellable operating leases for each of the following periods are:

	31 March 2018 £000	31 March 2017 £000
Not later than one year	2,943	1,611
Later than one year and not later than five years	7,194	4,895
Later than five years	131,666	68,016
	141,803	**74,522**

These totals are subject to a number of assumptions and should be regarded as illustrative of future income streams rather than as targets. Despite being nominally non-cancellable they depend on a wide range of economic and policy variables which could materially affect the outcomes going forward.

TECHNICAL NOTES

27. Financial Instruments:

27.1 Balances

The borrowings and investments included in the Balance Sheet consist of the following categories of financial instruments.

	Long-Term		Current	
	31 March 2018 £000	31 March 2017 £000	**31 March 2018 £000**	31 March 2017 £000
Financial Liabilities	**0**	0	**0**	0
Interest accrued (included in creditors – other)	**0**	26	**0**	0
Total Borrowings	**0**	26	**0**	0
Loans and Receivables	**5,000**	8,000	**51,004**	44,121
Loans to Trading companies	**2,822**	3,002	**1,100**	0
Interest accrued	**62**	52	**340**	376
Total Investments	**7,884**	11,054	**52,444**	44,497

The Total Investments figures include trust fund balances of £1,702,000 (£1,701,000 in 2016/17), and £5,462,883 deposited in 2014/15 in an escrow account for the construction of a hotel as part of a regeneration project in Redhill. Of the initial escrow deposit a balance of £4,436 remains in 2017/18. These form part of our total investment portfolio and are now treated as resources controlled by the Council and so are included in the Council's Balance Sheet.

27.2 Gains and Losses

The gains and losses recognised in the Income and Expenditure Account and the Movement in Reserves Statement - in relation to financial instruments – are shown in the table below.

	Financial Liabilities (at amortised cost) £000	**Financial Assets (loans and receivables) £000**
Interest and Investment Income	0	**636**
Net Gain/(Loss) for the years	**0**	**636**

27.3 Fair Value of Assets and Liabilities

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

- For loans receivable, prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.

TECHNICAL NOTES

- Where an instrument has a maturity of less than 12 months, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The trade debtors and trade creditors figures shown below do not include any payables or receivables in respect of Central Government or local taxation as these reflect statutory duties rather than contractual obligations (full information on Debtors and Creditors can be found in Notes 14 and 16).

The fair values are shown below along with an explanation of their calculation.

Financial Liabilities	**31 March 2018**		31 March 2017	
	Carrying Amount £000	**Fair Value £000**	Carrying Amount £000	Fair Value £000
Other Debt	**0**	**0**	0	0
Interest accrued	**0**	**0**	0	0
Total Debt	**0**	**0**	0	0
Trade Creditors	**4,801**	**4,801**	4,373	4,373
Total Financial Liabilities	**4,801**	**4,801**	4,373	4,373

The fair value of the loans and the trade creditors is the same as the carrying value as they are all for less than 12 months duration.

Financial Assets	**31 March 2018**		31 March 2017	
	Carrying Amount £000	**Fair Value £000**	Carrying Amount £000	Fair Value £000
Money Market Loans	**56,000**	**56,401**	48,000	48,555
Company Loans	**3,922**	**3,922**	3,002	3,002
Investment interest accrued – short term debtors	**340**	**340**	377	377
Money Deposited in Escrow Account	**4**	**4**	4,121	4,121
Trade Debtors	**6,832**	**6,832**	4,140	4,140
Total Financial Assets	**67,098**	**67,499**	59,640	60,195

The differences between the carrying amounts and the fair values of the loans are attributable to fixed rate loans which are attracting a higher rate of interest than the rates available for similar loans at the Balance Sheet date. This increases the fair value of the loans.

The fair value of the trade debtors is the same as the invoiced amount .

TECHNICAL NOTES

27.4 Key Risks

The Council's activities expose it to a variety of financial risks. The Council's Annual Treasury Management Strategy sets out its approach to managing risk. The key risks are:

- 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 funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

27.5 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, contained within the Annual Treasury Management Strategy, which requires that deposits are not made with institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below:

- Credit ratings of Short Term F1, Long Term AA-, with the lowest available rating being applied to the criteria.
- UK institutions provided with support from the UK Government.
- Building Societies with assets in excess of £1bn.

The full Treasury Management Strategy for 2017/18 was approved by Full Council on 13 April 2017 and is available on the Council's website.

27.6 Liquidity Risk

The Council manages its liquidity position through the risk management procedures, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB and Money Markets for access to longer term funds. The Council is also required to provide a balanced budget by the *Local Government Finance Act 1992*, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

TECHNICAL NOTES

27.7 Refinancing and Maturity Risk

The Council maintains an investment portfolio. The key risk relates to managing the exposure in replacing financial instruments as they mature. This risk therefore relates to the maturing of longer - term financial assets.

The approved treasury indicator sets limits on investments placed for greater than one year in duration and is the key control used to address this risk. Operationally, risks are mitigated by monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day-to-day cash flow needs, and by ensuring that the spread of longer-term investments provide stability of both maturities and returns in relation to the longer-term cash flow needs.

The maturity analysis of financial assets is shown below.	**2017/18 £000**	2016/17 £000
Less than 1 year	**52,104**	39,935
More than 1 year, less than 2 years	**5,000**	3,000
More than 2 years, less 3 years	**0**	5,000
More than 3 years	**2,822**	7,122
Total	**59,926**	55,057

Trade debtors of £6,832,000 are not shown in the table above. The Council has no long-term financial liabilities. All trade and other payables are due to be paid in less than one year.

27.8 Market Risk

Interest rate risk - The Council is exposed to interest rate movements on its investments.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure.

All investments are currently in fixed interest rate deposits and therefore a change in interest rates would have no effect on the interest receivable for the year. Since all investments are classified as Loans and Receivables any change in the fair value resulting from changes in interest rates would have no effect upon the figures contained within the Accounts.

28. Defined Benefits Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be paid until employees retire, the Council has a commitment to make the payments, disclosed here, at the time the employees earn their future entitlement.

The Council is a contributor to the Local Government Pension Scheme administered by Surrey County Council. The Scheme is a funded defined benefit scheme. Both the Council and its employees pay contributions at a level intended to balance the pension liabilities with the pension assets.

In addition, there are arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, no investment assets have been

TECHNICAL NOTES

built up to meet these pension's liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee at Surrey County Council. Policy is determined in accordance with the Pension Fund Regulations.

The principal risks to the Council are changes to financial assumptions (discount rate, pension increase rate and salary increase rate), longevity assumptions, bond yields and the performance of the equity investments, as well as any statutory changes to 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.

28.1 Transactions Relating to Retirement Benefits

Comprehensive Income and Expenditure Statement	**2017/18**	**2016/17**
	£000	**£000**
Cost of Services:		
Current service cost	5,026	2,850
Admin costs	36	45
Past service cost	0	0
Financing and Investment Income and Expenditure:		
Net interest expense	1,776	1,978
Remeasurement of the net defined benefit liability:		
Return on plan assets	1,239	(56,295)
Changes in financial assumptions	(3,540)	32,457
Changes in demographic assumptions	0	(3,081)
Other	(18)	39,339
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**4,519**	**17,293**

Movement in Reserves Statement		
Reversal of net charges made to the Surplus of Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(6,838)	(4,873)
Actual amount charged against the General Fund Balance for pensions in the year	3,913	3,750

TECHNICAL NOTES

28.2 Assets and Liabilities in Relation to Post-Employment Benefits

The fair value of assets relating to retirement benefits attributable to the Council are:

	2017/18 £000	2016/17 £000
Total Assets as at 1 April	161,135	106,111
Interest income	3,972	3,626
Return on plan assets	(1,239)	56,295
Employer contributions	3,913	3,750
Participant's contributions	831	772
Benefits paid	(9,100)	(9,419)
Total Assets as at 31 March	**159,512**	**161,135**

The present value of liabilities relating to retirement benefits attributable to the Council are:

	2017/18 £000	2016/17 £000
Total Liabilities as at 1 April	231,653	163,086
Current service cost	5,062	2,850
Administration Costs	36	45
Past service cost (including curtailments)	0	0
Interest cost on defined benefit obligations	5,748	5,604
Participant contributions	831	772
Benefits paid	(9,100)	(9,419)
Remeasurements:		
Changes in financial assumptions	(3,540)	32,457
Changes in demographic assumptions	0	(3,081)
Other experience	(18)	39,339
Total Liabilities as at 31 March	**230,672**	**231,653**

TECHNICAL NOTES

The fund's assets comprise the following:

	2017/18		2016/17	
	£000	**%**	**£000**	**%**
Equity Securities:				
Consumer	12,941	8%	13,073	8%
Manufacturing	11,731	7%	11,850	7%
Energy and Utilities	6,431	4%	6,496	4%
Financial Institutions	11,284	7%	11,399	7%
Health and Care	4,262	3%	4,306	3%
Information Technology	8,984	6%	9,076	6%
Other	325	0%	328	0%
Debt Securities:				
Corporate Bonds (investment grade)	5,538	3%	5,594	3%
Corporate Bonds (non-investment grade)	350	0%	353	0%
UK Government	325	0%	328	0%
Other	731	0%	739	0%
Private Equity:				
All	6,695	4%	6,763	4%
Property:				
UK	9,070	6%	9,162	6%
Overseas	59	0%	60	0%
Investment Funds and Unit Trusts:				
Equities	44,233	28%	44,683	28%
Bonds	17,436	11%	17,613	11%
Other	0	0%	0	0%
Derivatives:				
Interest Rate	(5)	0%	(5)	0%
Foreign Exchange	226	0%	228	0%
Cash and cash equivalents:				
All	18,896	12%	19,089	12%
	159,512	**100%**	**161,135**	**100%**

TECHNICAL NOTES

28.3 Basis for Estimating Assets and Liabilities

The principal assumptions used in the estimation of assets and liabilities are shown below.

	2017/18	2016/17
Longevity at 65		
Average future life expectancy at age 65:		
Current pensioners – Men	**22.5 yrs**	**22.5 yrs**
Current pensioners – Women	**24.6 yrs**	**24.6 yrs**
Future pensioners – Men	**24.1 yrs**	**24.1 yrs**
Future pensioners – Women	**26.4 yrs**	**26.4 yrs**
Other Assumptions		
Expected return on assets	**1.7%**	**20.4%**
Rate of Increase in Salaries	**2.7%**	**2.7%**
Rate of Increase in Pensions	**2.4%**	**2.4%**
Rate for Discounting Scheme Liabilities	**2.5%**	**2.5%**
Take–up of Option to Convert Pension into Lump-sum:		
Pre April 2008 service	**25%**	**25%**
Post April 2008 service	**63%**	**63%**

*Figures assume members aged 45 as at the last formal valuation date.

28.4 Impact on Cash Flows

The objectives of the scheme are to keep employers' contributions at a constant rate. Surrey County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis and the most recent triennial valuation was completed on 31 March 2016.

29. Critical Judgements in applying accounting policies

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

The critical judgements made in the Statement of Accounts are:

There is a high degree of uncertainty about future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. The Council has determined that these uncertainties are not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

30. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of the Statement of Accounts requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcome may differ from those estimates.

TECHNICAL NOTES

The key judgements and estimates of uncertainty that have a significant risk of causing a material adjustment to the value are:

- Pensions liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied. The basis for estimating the pension assets and liabilities are set out in note 28.3.
- Allowance for bad debts – an allowance for bad debts has been estimated to cover all major items of income (see note 14). This allowance is considered adequate to cover future bad debts, but by its nature is an estimate.
- Asset valuations and impairments – the Council engages with an external valuer in order to calculate valuations, useful lives and impairment reviews of its fixed assets in accordance with professional guidance.

31. Events after the Reporting Date

The Statement of Accounts was authorised for issue by the Head of Finance on 19 July 2018. Events taking place after this date are not reflected in the financial position or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Following the end of the reporting period, the ownership structure of Pathway for Care has changed. In early 2018/19 the Council sold a majority stake in Pathway for Care retaining a 10% shareholding and converted its £1.1m of loan stock into £1.1m preference shares in Pathway for Care.

32. Contingent Liabilities

A new road bridge was constructed in 2005 beneath the London to Brighton railway line. If, as a result of this work, Network Rail incurs costs or damages in excess of £2,000,000 then the Council will provide further compensation up to a maximum of £1,000,000.

The Council was not directly involved in the construction work but has agreed to act as an enabler to ensure that the bridge is built. It is empowered to do this by virtue of Part 1 of the *Local Government Act 2000*. The potential liability will cease when Surrey County Council formally adopts the new road.

National Non Domestic Rates (NNDR) and NHS Foundation Trusts: The Council has a possible future reduction in NNDR income of approximately £1,129,000 if the NHS Foundation Trusts application for mandatory rate relief, based upon being classed as a charity, is granted.

33. Agency Services

The *Road Traffic Act 1991* provided for the decriminalisation of on-street parking offences with responsibility for enforcement passing from the local police authority to local traffic authorities. Surrey Police ceased enforcement of on-street parking controls with effect from 1

TECHNICAL NOTES

April 2004 when responsibility passed to Surrey County Council.

This Council entered into an agreement with Surrey County Council to take on the responsibility for on-street parking enforcement within the Borough during 2004/05 on an agency basis with the net costs of running the scheme being fully refunded to the Council.

The surplus of income over expenditure paid to Surrey County Council during 2017/18 amounted to £0 (£0 in 2016/17).

34. Accounting Standards that have been issued but have not yet been adopted

There are a number of new changes to accounting standards that will apply from 2018/19. A brief summary and their impact are set out below:

- IFRS 9 Financial Instruments. Replaces IAS39. Covers classification and measurement of financial instruments, impairment and hedge accounting. Intended to simplify classification and measurement of Financial Instruments. Impairment requires recognition of expected credit losses, rather than the previous incurred loss model which allowed postponement of recognition of losses. The impact of this is expected to be minimal.

- IFRS 15 Revenue from Contracts with Customers. Replaces IAS 11 Construction Contracts and IAS18 Revenue related interpretations. Intended to defer income to match associated contracted expenditure. This ties in with the accruals concept already used so will have minimal impact on the Local Authority accounts. However consideration will be needed in preparation of the Group Accounts.

35. Balances on Trust Funds

The Council acts as trustee for a number of Trust Funds. The Funds are held by the Council largely to ensure the continuing provision of specific areas of land and other facilities for use by the public. Brief details of each of the Trusts are also shown below.

Notes	Trust Fund	31 March 2017 £000	Receipts in Year £000	Payments in Year £000	31 March 2018 £000
i.	Commons Trust	(779)	(8)	8	(779)
ii.	Reigate Baths Trust	(773)	(7)	7	(773)
iii.	Environmental Traffic Trust	(76)	(1)	0	(77)
iv.	Reigate Priory & Park Hill Trust	(48)	0	0	(48)
v.	Redhill Memorial Sports Ground Trust	(13)	0	0	(13)
vi.	Other Trusts	(12)	0	0	(12)
	Total	**(1,701)**	**(16)**	**15**	**(1,702)**

TECHNICAL NOTES

Notes

i. Established in 1922 to ensure the continuing provision of public open spaces.

ii. Established in 1906 to ensure the continued provision of swimming facilities.

iii. Established in 2000 to facilitate traffic surveys, traffic management and other environmental improvements in and around Walton on the Hill.

iv. Established in 1921 to ensure the continuing provision of public open spaces.

v. Established in 1922 to ensure the continuing provision of sports and recreation grounds.

vi. Miscellaneous sums to support the provision of parks and open spaces.

ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and shows its position at 31 March 2018. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the UK 2017*.

The accounts are prepared on a going concern basis. The accounting convention adopted is to record information at historic cost, with the exception of certain categories of financial instruments and non-current assets.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when 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.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between receipt and consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received, including those 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, at the effective rate of interest, 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.

Cash and Cash Equivalents

Cash and Cash Equivalents are cash in hand and deposits repayable on demand. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts which are repayable on demand.

Exceptional Items

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

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions,

ACCOUNTING POLICIES

other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. There have been changes to IAS19 which has resulted in changes to the Employee Benefits accounting policy as set out below.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Council Tax and Non-domestic Rates (England)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

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 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 (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates 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. Redundancy costs are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when

ACCOUNTING POLICIES

the Council can no longer withdraw the termination of the employment or make an offer to encourage voluntary redundancy. Other staff settlements are charged to the service once agreement has been reached by both parties.

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

Employees of the Council are members of the Local Government Pensions Scheme, administered by Surrey County Council. The Local Government Pension Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Surrey County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.3%.
- The assets of Surrey County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
    - 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 several components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Administration cost – calculated as a percentage of current service cost, as provided within the annual actuarial report.
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - net interest on the net defined benefit liability/(asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) arises from the passage of time charged to the Finance and Investment Income and Expenditure line on Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes

ACCOUNTING POLICIES

in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as 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.

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 nature of the events and their estimated financial effect.

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

Asset and Liability Measurement

The authority's assets and liabilities carrying value were measured by the fair value hierarchy, where the fair value hierarchy is as follows:

Level 1:
The carrying value in the statement of accounts is measured by quoted prices in active markets for identical assets. Information on measurement values is either publicly available or there is measurement information about actual events or transactions, or there is a quoted price. There were no properties categorised as being valued within level 1 of the fair value hierarchy during the year.

ACCOUNTING POLICIES

Level 2:

The carrying value of assets or liabilities in the statement of accounts are measured using inputs that are not quoted prices (as described within level 1), but that are observable either directly or indirectly. This measurement is used when the market data is not available, and so valuations are developed using the best information available by considering market rental, sales values, yields, size, construction type, condition and other observable inputs of comparable assets.

Level 3:

The carrying value of assets or liabilities in the statement of accounts is measured by unobservable inputs, which significantly draw on valuers skill and judgement. There were no properties categorised as being valued within level 3 of the fair value hierarchy during the year.

Carrying Value Measurement Transfer Policy

Where assets and liabilities are subject to transfer between levels the transfer is deemed to have occurred at the end of the reporting period. This transfer policy is applied consistently between transfers into levels and transfers out of levels.

Financial Instruments

Financial Liabilities

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure

ACCOUNTING POLICIES

Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

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 there is reasonable assurance 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 Comprehensive Income and Expenditure Statement until conditions attached 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 acquired using 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, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this authority may be used to fund revenue expenditure.

Heritage Assets

The Council's heritage assets consist of paintings (oil and watercolour) and marble sculptures which have been donated to the Council and are held in the Town Hall, and the mayor's regalia.

These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis. The collection

ACCOUNTING POLICIES

is relatively static with donations being rare. Where they do occur, donations are recognised at valuation.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £5,000) the Capital Receipts Reserve.

Interests in Companies and Other Entities

The authority has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

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.

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However,

ACCOUNTING POLICIES

revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

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

The Council as Lessee

Finance Leases

Property, Plant and Equipment 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 (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases 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 (where ownership of the asset does not transfer to the Council at the end of the lease period).

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 contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution 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 Comprehensive Income and Expenditure Statement as an expense of the services benefiting 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 (e.g. there is a rent-free period at the commencement of the lease).

ACCOUNTING POLICIES

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017/18 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- 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; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- operational assets – current value basis, determined by the characteristics of the asset
- all other assets – fair value, determined as the highest and best use amount that would be paid for the asset in an orderly transaction between market participants.

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

ACCOUNTING POLICIES

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

Assets included in the Balance Sheet at current value and fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value or fair value at the year-end, but as a minimum every five years by a qualified external valuer. Valuations are undertaken on 31 December and an impairment review carried out on 31 March. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for 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); or
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. 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 Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as set determined by the valuer;
- vehicles, plant, and equipment – straight-line allocation over the useful life of the asset as set out below:

ACCOUNTING POLICIES

- Vehicles and plant – 7 years
- Equipment– 5 years

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

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

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. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

Amounts received for a disposal are categorised as capital receipts which is 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. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the

ACCOUNTING POLICIES

obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. 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 in a note to the accounts.

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 to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

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 Comprehensive Income and Expenditure Statement 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.

Value Added Tax (VAT)

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

COLLECTION FUND

Introduction

This account reflects the statutory requirement to maintain a separate Collection Fund, which shows the transactions of the Council as a billing authority in relation to National Non-Domestic Rates (NNDR) and Council Tax. The account includes the transactions of all precepting partners (Central Government, Surrey County Council, Surrey Police Authority, and Reigate & Banstead Borough Council).

Collection Fund for the Year Ended 31 March

Council Tax £000	2016/17 Business Rates £000	Total £000		Council Tax £000	2017/18 Business Rates £000	Total £000
			INCOME			
(100,840)	0	(100,840)	Council Tax receivable	(106,536)	0	(106,536)
	(50,504)	(50,504)	Business Rates receivable	0	(53,640)	(53,640)
(100,840)	**(50,504)**	**(151,344)**	**Total Income**	**(106,536)**	**(53,640)**	**(160,176)**
			EXPENDITURE			
			Precepts and Demands:			
0	24,411	24,411	Central Government	0	28,137	28,137
12,558	19,529	32,087	Reigate & Banstead Borough Council	13,032	22,510	35,542
73,942	4,882	78,824	Surrey County Council	78,663	5,627	84,290
12,837	0	12,837	Surrey Police Authority	13,267	0	13,267
			Distribution of Prior Years' Surplus:			
0	(2,117)	(2,117)	Central Government	0	2,321	2,321
116	(1,694)	(1,578)	Reigate & Banstead Borough Council	199	1,857	2,056
690	(423)	267	Surrey County Council	1,173	464	1,637
122	0	122	Surrey Police Authority	204	0	204
			Charges to the Collection Fund:			
223	116	339	Increase/decrease in bad debt provision	155	114	269
0	496	496	Increase/decrease in appeals provision	0	736	736
0	172	172	Cost of collection	0	174	174
100,488	**45,372**	**145,860**	**Total Expenditure**	**106,693**	**61,940**	**168,633**
(352)	**(5,132)**	**(5,484)**	**Deficit/(Surplus) for the Year**	**157**	**8,300**	**8,457**
(2,191)	1,571	(620)	Add Opening Balance as at 1 April	(2,543)	(3,561)	(6,104)
(2,543)	**(3,561)**	**(6,104)**	**Closing Balance as at 31 March**	**(2,386)**	**4,739**	**2,353**

The NNDR distribution of prior year surplus/(deficit) is based upon the prior year estimated value. The difference between the estimated surplus/(deficit) and the actual surplus/(deficit) is settled in the forthcoming year.

COLLECTION FUND

NOTES TO THE COLLECTION FUND

1. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund in the forthcoming year by the Council and its preceptors (that is, authorities we collect Council Tax for).

The Council's preceptors are:

- Surrey County Council
- Surrey Police Authority
- Horley Town Council
- Salfords and Sidlow Parish Council.

The total Council Tax requirement is then divided by the Council Tax Base.

The Council Tax Base is calculated before the start of the year by estimating the number of dwellings in each valuation band (adjusted for discounts where applicable) and converting this into an equivalent number of "Band D" dwellings.

The calculation of the Council Tax Base for 2017/18 (with comparative figures for 2016/17) is set out below.

Band	Range of Values	Estimated Number of Properties	Multiplier	2017/18 Band D Equivalent	2016/17 Band D Equivalent
A	Up to £40,000	619	6/9	413	415
B	£40,000 to £52,000	2,376	7/9	1,848	1,784
C	£52,001 to £68,000	8,946	8/9	7,952	7,794
D	£68,001 to £88,000	14,517	9/9	14,517	14,305
E	£88,001 to £120,000	9,570	11/9	11,697	11,616
F	£120,001 to £160,000	6,727	13/9	9,716	9,662
G	£160,001 to £320,000	6,856	15/9	11,427	11,257
H	More than £320,000	991	18/9	1,982	1,938
	Total	50,602		59,552	58,771
Less Allowance for Non-collection				(476)	(470)
Council Tax Base				59,076	58,301

The average "Band D" Council Tax for 2017/18 was £1,770.56 (£1,697.91 in 2016/17).

COLLECTION FUND

2. Business Rates

The Council collects Business Rates for the area, which is based on rateable values multiplied by a uniform rate set by central government. Information on rateable values and the rates are set out below:

	2017/18	2016/17
Rateable value at 1 April	£134.3m	£119.5m
Standard Business Rate	47.9p	49.7p
Small Business Rate	46.6p	48.4p

GROUP ACCOUNTS 2017/18

GROUP ACCOUNTS 2017/18

1. Introduction

The IFRS based Code of Practice on Local Authority Accounting sets out the comprehensive requirements for Group Accounts. These require local authorities to prepare a full set of group financial statements when they have material interests in subsidiaries, associates or joint ventures.

The group financial statements are intended to present financial information about the parent (the Council) and the subsidiaries and joint ventures, by bringing together their results in a unified set of accounts.

The following table summarises the Council's interests in subsidiaries and joint ventures.

GROUP ACCOUNTS 2017/18

Group Company and Joint Venture Information

Company Name	Shareholding	Council's Nature of Interest	In year activity 2017	Purpose
Horley Business Park Development LLP (Joint Venture)	Council 50%, Millhill Properties (Horley) Ltd 49.99%, Berwick Hill Properties Ltd 0.01%	Ownership structure has not changed during the financial year 2017/18. RBBC doesn't have any significant restrictions on its ability to access or use the assets and settle the liabilities of the group.	The Council has lent the LLP £275,800 during the financial year 2017/18 and the interest charged for the loan was £39,367.	The purpose is to promote the borough as a place to do business, securing resources to maintain and improve business related infrastructure and to create new jobs for our residents.
Pathway for Care Ltd (Subsidiary)	Council 80% and Table 7 Consulting Ltd 20%	T7 Group Ltd as a non-controlling interest has a 20% of ownership in Pathway The council doesn't have any significant restrictions on its ability to access or use assets, and settle liabilities of the group. The council does not have any contractual obligations towards Pathway. The ownership composition of Pathway has not changed during the financial year 2017/18.	The Council has lent the company £644,000 during the financial year 2017/18.	Pathway is a home health care company that supports people across the borough and beyond to live as independently as possible in their own homes.
Greensand Holdings Ltd (Subsidiary)	Council 100%	Greensand is fully owned by the council and this has not changed during the financial year 2017/18. The council doesn't have any significant restrictions on its ability to access or use assets, and settle liabilities of the group. The council does not have any contractual obligations towards Greensand Holdings Ltd and therefore no risk associated with its interest in the group.	The Council has lent the company £2,269,538 (all during 2016/17) and the interest charged for the loan was £102,325 for the financial year 2017/18	Greensand is a property company

GROUP ACCOUNTS 2017/18

Group Movement in Reserves Statement

	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**	Authority's share of Reserves of subsidiary & Joint Venture	**Total Reserves attributable to the Council**	Minority Interest	**Group Reserve Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2016	**8,737**	**13,485**	**26,148**	**5,724**	**54,094**	**89,576**	**143,670**	**0**	**143,670**	0	**143,670**
Movement in reserves during 2016/17											
Surplus or (deficit) on provision of services	14,370	0	0	0	**14,370**	**0**	**14,370**	(188)	**14,182**	(52)	**14,130**
Other comprehensive income and expenditure	0	0	0	0	**0**	**(1,020)**	**(1,020)**	0	**(1,020)**	0	**(1,020)**
Adjustment between group and authority accounts	23	0	0	0	**23**	**0**	**23**	(11)	**12**	0	**12**
Adjustments between accounting and funding basis under regulations (Note 17)	(11,628)	0	3,361	4,700	**(3,567)**	**3,567**	**0**	0	**0**	0	0
Transfers to/from Usable Reserves (Note 10)	(5,590)	5,590	0	0	**0**	**0**	**0**	0	**0**	0	**0**
Other adjustments	0	0	0	0	**0**	**0**	**0**	0	**0**	0	**0**
Increase/Decrease in 2016/17	**(2,825)**	**5,590**	**3,361**	**4,700**	**10,826**	**2,547**	**13,373**	**(199)**	**13,174**	**(52)**	**13,122**
Balance at 31 March 2017	**5,912**	**19,075**	**29,509**	**10,424**	**64,920**	**92,123**	**157,043**	**(199)**	**156,844**	**(52)**	**156,792**

GROUP ACCOUNTS 2017/18

	General Fund Reserve	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**	Authority's share of Reserves of subsidiary & Joint Venture	**Total Reserves attributable to the Council**	Minority Interest	**Group Reserve Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2017	**5,912**	**19,075**	**29,509**	**10,424**	**64,920**	**92,123**	**157,043**	**(199)**	**156,844**	**(52)**	**156,792**
Movement in reserves during 2017/18											
Surplus (deficit) on provision of services	**8,007**	0	0	0	**8,007**	**0**	**8,007**	(334)	**7,673**	(155)	**7,518**
Other comprehensive income and expenditure	0	0	0	0	**0**	**5,149**	**5,149**	0	**5,149**	0	**5,149**
Adjustment between group and authority accounts	102	0	0	0	**102**	**0**	**102**	(102)	**0**	0	**0**
Adjustments between accounting and funding basis under regulations (Note 17)	1,153	0	(13,699)	2,884	**(9,662)**	**9,662**	**0**	0	**0**	0	0
Transfers to/from Usable Reserves (Note 10)	(2,628)	2,628	0	0	**0**	**0**	**0**	0	**0**	0	**0**
Other Adjustments	0	0	0	0	**0**	**0**	**0**	0	**0**	0	**0**
Increase/Decrease in 2017/18	**6,634**	**2,628**	**(13,699)**	**2,884**	**(1,553)**	**14,811**	**13,258**	**(436)**	**12,822**	**(155)**	**12,667**
Balance at 31 March 2018	**12,546**	**21,703**	**15,810**	**13,308**	**63,367**	**106,934**	**170,301**	**(635)**	**169,666**	**(207)**	**169,459**

GROUP ACCOUNTS 2017/18

121

Group Comprehensive Income and Expenditure Statement

2016/17 Gross Exp £000	2016/17 Gross Inc £000	2016/17 Net Exp £000		2017/18 Gross Exp £000	2017/18 Gross Inc £000	2017/18 Net Exp £000
3,449	(1,427)	2,022	People and Communities	44,681	(40,364)	4,317
9,818	(5,246)	4,572	Recycling, Cleansing and Parking	12,114	(9,445)	2,669
2,761	(2,110)	651	Leisure and Regulation	7,638	(1,975)	5,663
6,000	(4,246)	1,754	Communication, Customers and Change	2,868	(2,283)	585
4,792	(5,035)	(243)	Policy, Performance and Legal	5,384	(2,158)	3,226
6,308	(1,598)	4,710	Property	6,335	(5,886)	449
910	(1,100)	(190)	Places and Planning	6,282	(1,614)	4,668
43,427	(41,807)	1,620	Finance	1,577	(1,434)	143
7,935	(2,103)	5,832	Health and Wellbeing	828	(2)	826
85,400	**(64,672)**	**20,728**	**Cost of Services**	**87,707**	**(65,161)**	**22,546**
347	(2,562)	(2,215)	Other Operating Expenditure (Note 2)	364	(965)	(601)
1,990	(6,383)	(4,393)	Financing and Investment Income and Expenditure (Note 43)	1,776	(5,230)	(3,454)
15,613	(43,876)	(28,263)	Taxation and Non-specific Grant Income and Expenditure (Note 4)	22,126	(48,180)	(26,054)
103,350	**(117,493)**	**(14,143)**	**(Surplus) or Deficit on Provision of Services**	**111,973**	**(119309)**	**(7,563)**
		6	Joint venture accounted for on an equity basis (Note 44)			4
		7	Tax expenses of subsidiaries			41
		0	Tax expenses of Joint venture			0
		(14,130)	**Group surplus or deficit**			**(7,518)**
		(11,400)	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment assets			(2,830)
		12,420	Actuarial remeasurements			(2,319)
		0	Share of other comprehensive income and expenditure of Joint venture			0
		1,020	**Other Comprehensive Income and Expenditure**			**(5,149)**
		(13,110)	**Total Comprehensive Income and Expenditure**			**(12,667)**

GROUP ACCOUNTS 2017/18

Analysis of Minority Interest Shares in the Group Comprehensive Income & Expenditure Statement

Attributable shares of income and expenditure

2016/17				2017/18		
Authority	Minority Interests	Total		Authority	Minority Interests	Total
£000	£000	£000		£000	£000	£000
(14,182)	52	(14,130)	Surplus or deficit on the Provision of Services	(7,673)	155	(7,518)
1,020	0	1,020	Other Comprehensive Income & Expenditure	(5,149)	0	(5,149)
(13,162)	52	(13,110)	Total Comprehensive Income & Expenditure	(12,822)	155	(12,667)

GROUP ACCOUNTS 2017/18

Group Balance Sheet

31 March 2017 £000		Note	31 March 2018 £000
113,564	Property, Plant and Equipment	38	113,326
49,433	Investment Property	39	68,599
468	Heritage Assets		477
4	Investment in Joint venture	44	0
15	Long Term Debtors		211
0	Deferred Tax Asset		0
11,002	Long term Investment		5,552
174,486	**Long Term Assets**		**188,165**
41,320	Short Term Investments		50,994
0	Assets Held for Sale		0
45	Inventories		54
4,149	Short Term Debtors	40	6,801
23,841	Cash and Cash Equivalents	42	7,057
0	Current Tax Asset		0
69,355	**Current Assets**		**64,906**
(11,824)	Short Term Creditors	41	(7,605)
(7)	Current Tax liability		
(11,831)	**Current Liabilities**		**(7,605)**
(1,701)	Long Term Creditors		(1,702)
(1,670)	Business Rates Appeals Provision		(1,965)
(70,518)	Pension Liability		(71,124)
(1,177)	Capital Grants in Advance		(1,023)
(152)	Other Long Term Liabilities		(152)
0	Deferred Tax liability		(41)
(75,218)	**Long Term Liabilities**		**(76,007)**
156,792	**Net Assets**		**169,459**
(5,912)	General Fund Reserve		(12,547)
(19,075)	Earmarked Reserves		(21,703)
(29,509)	Capital Receipts Reserve		(15,810)
(10,424)	Capital Grants Unapplied		(13,308)
0	Pension Reserve – Private		0
199	Profit and Loss Reserve		838
(64,721)	**Usable Reserves**		**(62,530)**
(54,900)	Revaluation Reserve		(56,973)
(106,266)	Capital Adjustment Account		(122,991)
(425)	Deferred Capital Receipts Reserve		(302)
70,518	Pensions Reserve – Local Government		71,124
(1,751)	Collection Fund Adjustment Account		1,607
701	Accumulated Absences Account		399
52	Minority Interest		207
(92,071)	**Unusable Reserves**		**(106,929)**
156,792	**Total Reserves**		**(169,459)**

GROUP ACCOUNTS 2017/18

Group Cash Flow Statement

2016/17 £000		2017/18 £000
(14,130)	Net (surplus) or deficit on the provision of services	**(7,526)**
(19,174)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(1,239)
24,004	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	10,037
(9,300)	**Net cash flows from Operating Activities**	**1,272**
17,687	Purchase of Property Plant and Equipment (PPE) & Investment Property	17,067
211	Purchase of short-term and long-term investments	8,350
(15,526)	Proceeds from the sale of PPE & Investment Property	(4,451)
(8,334)	Capital grants received	(5,619)
0	Shareholdings in companies	0
(5,962)	**Net cash flows from Investment Activities**	**15,347**
0	**Net cash flows from financing Activities**	**165**
(15,262)	**Net (increase)/decrease in cash and cash equivalents**	**16,784**
8,579	**Cash and cash equivalents at the beginning of the reporting period**	**23,841**
23,841	**Cash and cash equivalents at the end of the reporting period (Note 42)**	**7,057**

Notes to the Group Accounts

36. General

These notes should be read in conjunction with the explanatory notes to Reigate and Banstead Borough Council's single entity accounts.

37. Subsidiary & Joint venture Companies

The operating expenditure and income of the subsidiary company, Pathway for Care Limited has been included within Health and Wellbeing and Greensand Holdings Limited has been included within Financing and Investment Income and Expenditure.

GROUP ACCOUNTS 2017/18

38. Fixed Asset

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Gross Cost or valuation				
At 1 April 2017	**109,546**	**18,654**	**0**	**128,200**
Additions	1,220	1,131	0	**2,351**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	1,503	0	0	**1,503**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,425)	0	0	**(1,425)**
Derecognition – disposals	0	(109)	0	**(109)**
Assets reclassifications	(1,041)	0	0	**(1,041)**
At 31 March 2018	**109,803**	**19,676**	**0**	**129,479**
Gross Accumulated Depreciation and Impairment				
At 1 April 2017	**193**	**14,443**	**0**	**14,636**
Depreciation charge	2,076	1,163	0	**3,239**
Depreciation written out to the Revaluation Reserve	(1,327)	0	0	**(1,327)**
Depreciation written out to the Surplus/Deficit on the Provision of Services	(284)	0	0	**(284)**
Derecognition – disposals	0	(103)	0	**(103)**
Other movements in depreciation and impairment	(8)	0	0	**(8)**
At 31 March 2018	**650**	**15,503**	**0**	**16,153**
Net Value at 31 March 2018	**109,153**	**4,173**	**0**	**113,326**

GROUP ACCOUNTS 2017/18

39. Investment Property

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

	2017/18 £000	2016/17 £000
Rental income from investment property	(1,554)	(1,343)
Direct operating expenses arising from investment property	418	393
Net (gain)/loss	**(1,136)**	**(950)**

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

	31 March 2018 £000	31 March 2017 £000
Balance at start of the year	49,433	35,960
Additions	17,867	14,453
Recognition	624	0
Disposals	(1,725)	0
Net gains/losses from fair value adjustments	2,999	4,901
Transfers (to)/from Property, Plant and Equipment	1,033	0
Transfers (to)/from Assets held for Sale	(1,632)	(5,881)
Balance at end of the year	**68,599**	**49,433**

40. Debtors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	1,575	348
Other local authorities	77	988
NHS bodies	0	1
Public corporations and trading funds	0	0
Other entities and individuals	7,470	4,993
Trade Debtors	8	24
Total (Gross)	**9,130**	**6,354**
Less Provision for Bad Debts	(2,329)	(2,205)
Total	**6,801**	**4,149**

41. Creditors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	(350)	(273)
Other local authorities	(3,063)	(6,892)
Other entities and individuals	(4,084)	(4,417)
Trade Creditors	(108)	(267)
Other Taxes and Social Security	0	36
Accruals and Deferred income	0	(11)
Total	**(7,605)**	**(11,824)**

GROUP ACCOUNTS 2017/18

42. Cash & Cash Equivalents

	31 March 2018 £000	31 March 2017 £000
Cash held by the Council	2	3
Bank current accounts	7,055	23,838
Short-term deposits with banks and building societies	0	0
Total	**7,057**	**23,841**

43. Financing & Investment Income and Expenditure

	2017/18 £000	2016/17 £000
Interest payable and similar charges	0	0
Net interest on the defined benefit liability	1,776	1,978
Interest receivable and similar income	(727)	(527)
Income and expenditure in relation to investment properties and changes in their fair value	(4,503)	(5,844)
Total	**(3,454)**	**(4,393)**

44. Joint Venture – Allocating Income and Expenditure Items

	Joint Venture – Horley LLP £ 000	RBBC Share at 50% £ 000
Share of the (Surplus) or Deficit on the Provisions of Services by Joint Venture	10	5
Tax Expenses of Joint Venture	0	0
Share of the other Comprehensive Income and Expenditure of Joint Venture	0	0
Total	10	5

Joint Venture - Net Assets – Council's Interest

	Joint Venture – Horley LLP	RBBC Share at 50%
Current Assets	675	338
Current Liability	(110)	(55)
Long Term Liability	(587)	(294)
Net Asset	**(22)**	**(11)**

GROUP ACCOUNTS 2017/18

Statement of Group Accounting Policies

General

These notes should be read in conjunction with the Accounting Policies used to prepare Reigate and Banstead Borough Council accounts. Unless otherwise stated, the Group Accounting Statements have been prepared on the same basis.

Financial Year End

Reigate and Banstead Borough Council's accounts are based on a financial year ending on 31 March. The subsidiary companies prepare their accounts to 31 December each year. For the purpose of preparing the group accounting statements, the accounts have been consolidated using differing accounting year ends, adjusted as necessary to reflect any material transactions taking place in the period from January to March.

Accounting Convention

The accounts of Greensand Ltd have been prepared in accordance with IFRS (international financial reporting standards). The Pathway for Care Ltd accounts have been prepared in accordance with FRS102 and the Horley Business Park Development LLP accounts have been prepared in accordance with UKGAAP (United Kingdom Generally Accepted Accounting Practice), and adjusted in the group statement to reflect IFRS.

Financial Instruments

As detailed in the Reigate and Banstead Borough Council notes 27, financial instruments arising from the council's subsidiaries balances with external parties continue to be included in these group accounts at the lower of cost and net realisable value.

GLOSSARY

Accrual

An accounting concept that recognises income when it is earned and expenditure when it is incurred, and not when cash is transferred. Debtors and creditors are examples of accruals.

Business Rates

Occupiers of non-domestic properties (such as shops, factories and warehouses) do not pay Council Tax but instead pay Business Rates – also known as National Non-Domestic Rates.

Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure that adds to and not merely maintains the value of existing assets.

Capital Receipts

Proceeds from the sale of fixed assets (land, buildings and plant).

Current Value

The best estimate of the value of assets used by the Council to deliver service potential for the authority (operational assets).

Carrying Value

The value at which assets and liabilities are recorded in the accounting records. This is also known as “Book Value”.

Contingent Liability

A contingent liability is a possible obligation that arises from past events but whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation’s control. It can also be a present obligation arising from past events but where a transfer of economic benefits to settle the obligation is not probable or where the amount of the obligation cannot be measured with sufficient reliability.

Depreciation

The loss of value of assets due to wear and tear, age or obsolescence. A charge is made to the Income and Expenditure Account to reflect the consumption or use of a fixed asset in service delivery. There is a corresponding reduction in the value of the fixed asset.

Fair Value

The best estimate of the value of assets (but not operational assets – see current value) and liabilities at a specific point in time.

Fixed Assets

Tangible assets that yield benefits to the Council and its services for a period of more than one year.

General Fund

The main fund of the Council. The balance on the General Fund compares the Council’s spending against the Council Tax that it raised for the year but also takes into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

GLOSSARY

Impairment

A reduction in the value of an asset caused by either a reduction in the benefits to be gained from the asset (e.g. Due to physical damage) or a fall in prices (which mean it is worth less than it was before prices fell).

International Accounting Standards (IAS)

IAS are a set of accounting standards developed and supervised by the UK-based International Accounting Standards Board (IASB). Since 2001, all new standards published have been issued as International Financial Reporting Standards (IFRS), as opposed to International Accounting Standards (IAS).

International Financial Reporting Interpretations Committee (IFRIC)

The IASB and the IFRS Interpretations Committee (IFRIC) are responsible for the maintenance of IFRS. The objectives of the Interpretations Committee are to interpret the application of IFRS.

International Financial Reporting Standards (IFRS)

IFRS are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the independent, not-for-profit organization called the International Accounting Standards Board (IASB). All member states of the EU are required to use IFRS as adopted by the EU for listed companies since 2005.

Non-Distributed Costs

These are defined as certain past pension costs, the costs associated with unused shares of IT facilities and the costs of shares of other long-term, unused but unrealisable assets. They cannot be charged to service revenue accounts.

Precepts

Council Tax collected on behalf of non-charging authorities (i.e. Surrey County Council, Surrey Police who are major preceptors, and Town and Parish Councils who are minor preceptors).

Provisions

Amounts set aside for any liabilities that are likely to be incurred but where it is not possible to be specific about the amounts involved or the dates on which they will arise.

Revenue Expenditure

The day-to-day costs of running Council services.

Revenue Support Grant

The principal way that Central Government funds local government revenue expenditure. This grant is non-specific and is based upon the Government's assessment of how much a local authority should need to spend to provide a common level of service.