


## Crawley Borough Council

### Audit Committee

Agenda for the **Audit Committee** which will be held in **Committee Room A - Town Hall**, on **Tuesday, 23 July 2019 at 7.00 pm**

Nightline Telephone No. 07881 500 227



**Head of Legal and Democratic Services**

Membership:  
Councillors

M W Pickett (Chair), Millar-Smith (Vice-Chair), R D Burrett, M G Jones  
and K Sudan

T G Belben

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Published 15 July 2019

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The order of business may change at the Chair's discretion

## Part A Business (Open to the Public)

	Pages
<b>1. Apologies for Absence</b>	
<b>2. Disclosures of Interest</b>	
In accordance with the Council's Code of Conduct, Councillors of the Council are reminded that it is a requirement to declare interests where appropriate.	
<b>3. Minutes</b>	5 - 8
To approve as a correct record the minutes of the Audit Committee held on 19 March 2019.	
<b>4. Fraud and Investigation Team Report</b>	9 - 12
To consider report FIN/476 of the Operational Benefits and Corporate Fraud Manager.	
<b>5. Progress Report and Risk Management</b>	13 - 34
To consider report FIN/475 of the Audit and Risk Manager.	
<b>6. Audit and Risk Manager's Annual Report 2018/2019</b>	35 - 40
To consider report FIN/474 of the Audit and Risk Manager.	
<b>7. Annual Audit Fee Letter for 2019/2020</b>	41 - 44
To consider Ernst and Young's Annual Audit Fee Letter for 2019/2020.	
<b>8. Audit Results Report: Year Ended 31 March 2019</b>	45 - 92
To consider Ernst and Young's Audit Results Report for the year ended 31 March 2019.	
<b>9. Approval of the 2018/2019 Statement of Accounts</b>	93 - 266
To consider report FIN/477 of the Head of Corporate Finance.	
<b>10. Supplemental Agenda</b>	
Any urgent item(s) complying with Section 100(B) of the Local Government Act 1972.	

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## Crawley Borough Council

### Minutes of Audit Committee

Tuesday, 19 March 2019 at 6.30 pm

#### Councillors Present:

K Sudan (Chair)

C R Eade (Vice-Chair)

R D Burrett and I T Irvine

#### Officers Present:

Chris Corker                      Operational Benefits and Corporate Fraud Manager

Karen Hayes                      Head of Corporate Finance

Mez Matthews                      Democratic Services Officer

#### Apologies for Absence:

Gillian Edwards                      Audit and Risk Manager

#### Absent:

Councillor L Willcock

#### 1. Disclosures of Interest

The following disclosure of interest was made:

<b>Councillor</b>	<b>Item and Minute</b>	<b>Type and Nature of Disclosure</b>
Councillor Irvine	Fraud and Investigation Team Report (Minute 3)	Personal Interest – he had received a Council Tax Single Person Discount data match letter

#### 2. Minutes

The minutes of the meeting of the Audit Committee held on 27 November 2018 were approved as a correct record and signed by the Chair.

### 3. Fraud and Investigation Team Report

The Committee considered report FIN/471 of the Operational Benefits and Corporate Fraud Manager, which focused on activity for the period from 13 November 2018 to 4 March 2019.

The report indicated that the Team had continued to perform successfully. The Committee was provided with details of cases investigated and the Team's investigations, whilst a discussion took place on the Team's work generally.

A Committee Member queried the types of cases which had been classed as "Housing Investigations (General)" and "CT Liability Investigations". As the Operational Benefits and Corporate Fraud Manager did not have information to hand regarding those specific cases, he advised the Committee that he would provide clarification on the matter via email following the meeting.

The Committee noted that an exercise regarding the Single Person Discount was currently underway, and that further information would be reported at the next Committee meeting. The Chair thanked the Operational Benefits and Corporate Fraud Manager for the work he and the Team had undertaken over the past year.

#### **RESOLVED**

That the Investigation Team Report be noted.

### 4. Progress Report and Risk Management

The Committee considered report FIN/469 of the Audit and Risk Manager. The purpose of the report was primarily to update the Committee on the progress made towards the completion of the 2018/2019 Audit Plan, and to report on the progress made in implementing the previous recommendations. The report also included an update on the Council's Strategic Risks. The Audit and Risk Manager was unable to attend the meeting and therefore the Head of Corporate Finance presented the report in her absence.

The Head of Corporate Finance briefed the Committee on the progress made towards the completion of the 2018/2019 Audit Plan and, in relation to the following areas, the Committee:

#### Work Completed in the Current Period:

- Received clarification in relation to the number of findings and the audit assurance classifications.

#### Follow Up Audit: Data Centre Migration Project

- Noted that, due to the date of the next meeting, it would not be possible for the Audit Committee to review the Terms of Reference for the post implementation review. It was therefore agreed that the Terms of Reference for the review would be circulated to Committee Members via email.
- Acknowledged that the review was being procured by the Head of Digital and Transformation in consultation with the Deputy Chief Executive, both of whom were not in post at the time of the Data Centre Migration.
- Noted that the review would be procured in line with the Council's established procedures.



# Agenda Item 3

Audit Committee (20)  
19 March 2019

## Follow Up Audit: Community Grants

- Noted that further information regarding segregation of duties would be reported at the next Committee meeting.
- Queried why work relating to ensuring the meaningfulness of the items on the checklist had not yet been achieved and was informed that the information would be brought before the Committee at its next meeting.

## Other Work

- Noted the arrangements in place for the provision of staff supplied to Mid Sussex District Council by Crawley Borough Council's Audit Department.

The Head of Corporate Finance provided an update on Strategic Risks, The Committee sought and received clarification on several matters including the work being undertaken to prepare for both Brexit and a possible 'no deal' Brexit.

## **RESOLVED**

That the Committee receive the report and note progress to date, as at 28 February 2019.

## **5. Internal Audit Annual Plan 2019-2020**

The Committee considered report FIN/470 of the Audit and Risk Manager. The Plan, which was attached as Appendix A to the report, included for each proposed audit area, an outline scope of work planned. The Committee sought and received clarification on a number of issues including the timing of the Housing Benefit 2018/19 Audit, the work being undertaken for Mid Sussex District Council, and the current level and use of Section 106 monies.

## **RESOLVED**

That the 2019/2020 Internal Audit Annual Plan attached as Appendix A to report FIN/470 be noted.

## **6. Certification of Claims and Returns Annual Report 2017-2018**

The Committee considered the Certification of Claims and Returns Annual Report 2017-18 from Ernst and Young LLP.

The report summarised the results of Ernst and Young's certification work on the Council's 2017-18 housing benefit claim.

The Associate Partner for Ernst and Young LLP provided clarification on the Housing Benefit Subsidy Claim (Section 1 of the report), including the level of errors found, the process of testing identified errors and the level of adjustment which had been made to the claim. The Head of Corporate Finance then provided further information on the measures being put in place to reduce the number of errors in the future.

## **RESOLVED**

That the Certification of Claims and Returns Annual Report 2017-18 be noted.

# Agenda Item 3

Audit Committee (21)  
19 March 2019

## **Last Committee Meeting of the Municipal Year**

With the meeting being the last Committee of the municipal year, the Chair took the opportunity to thank the Committee for its hard work and contributions, and officers for the work they had undertaken. The Committee then thanked the Chair for the way in which she had conducted the meetings.

## **Closure of Meeting**

With the business of the Audit Committee concluded, the Chair declared the meeting closed at 7.30 pm

**Chair**

# Agenda Item 4

## Crawley Borough Council

### Report to Audit Committee 23 July 2019

#### Fraud and Investigation Team Report

Report of the Operational Benefits & Corporate Fraud Manager - Report no. FIN/476

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#### 1. Purpose

- 1.1 This report describes the activity of the Corporate Fraud & Investigation Team for the period 5 March 2019 to 1 July 2019. All outcome figures are taken from closed cases. Year-end figures are also included in the report for 2018/19.

#### 2. Recommendations

- 2.1 That the Committee note the report.

#### 3. Reasons for the Recommendations

- 3.1 The Committee has a responsibility to oversee the Council's anti fraud and corruption arrangements. A major part of those arrangements is the activity of the Corporate Fraud & Inspection Team in identifying, investigating and taking action against cases of fraud.

#### 4. Information & Analysis

##### Active Caseload

The fraud team are currently investigating the following case types

Case Type	Number of Cases
Non domestic rates	3
Council Tax Reduction Scheme	12
Housing Applications	7
Housing Investigations (General)	4
Housing non occupation	18
Housing Right to Buy	13
CT Single person Discount	12
Taxi	1
Total	70

The above cases are all at various stages in the investigation lifecycle and will be reported on when the cases are closed.

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## 4.1 Housing Fraud

During the reporting period the team have achieved the following:

	<u>In period</u>	<u>2018/19</u>
Properties recovered	1	11
Prevented allocation (inc homeless applications)	4	10
Properties recovered for our RSL partners	NIL	4
Stopped Right to Buy (actual discount value)	2 (£163,700)	13 (£1,044,800)
Notional value of savings	£253,700	£1,494,800

The previous Audit Commission through their 'Protecting the public purse' studies conservatively estimated, that for each property being misused and not available to the Local Authority it cost the Authority £18,000 per year per property. Housing vulnerable families in Bed & Breakfast on a temporary basis is very expensive and can cost in excess of £100 per night. The Audit Commission figure is therefore used for recovering properties and preventing false applications.

The Right to Buy figures are the actual discounts which would have awarded had the sale of the property gone through.

## 4.2 Single Person Discount

A 25% discount in Council Tax liability is given to households where only 1 adult is resident.

The investigators and inspectors throughout the year will routinely look into referrals received from the public or other means suggesting there are 2 adults resident and therefore not eligible to the discount.

The team have just completed a single person discount exercise where households claiming the 25% discount are matched against the electoral register.

Initially 112 Council Tax accounts were flagged, requiring further investigation. After sifting through the referrals and contacting account holders 65 accounts had the Single Person Discount removed.

	<u>SPD Exercise 2018</u>	<u>Value of discounts</u>
Discounts removed	65	£27,733

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## 4.3 Council Tax and Business Rates

The team continue to investigate and inspect Council Tax and Business rates.

**New billable CT or Rates** – Inspectors are constantly looking for properties or businesses that are not on the valuation list and therefore not being billed. Legislation does not require occupiers to report new properties.

	Council Tax		Non Domestic Rates	
	In period	2018/19	In period	2018/19
New billable CT or Rates	£274,067	£909,790	£1,477,356	£5,430,399

## 5 Significant Cases

### Housing Fraud

- 5.1 Working jointly with one of our partner housing associations, CBC investigators successfully recovered a one bedroom property following a 2 day trial at Brighton County Court. The property, which was found to have been unoccupied by the tenant for some time, had also been illegally sublet for a period to her son. The tenant herself was living elsewhere with her partner. As a result of the evidence, the judge awarded an outright possession order.

### Business rates (NDR)

- 5.2 We received details about a business that was trying to avoid paying their business rates by declaring that a 3rd party was resident and liable to pay as they had sub-let the premises.

Checks and visits were made and information was gathered to show that the original company appeared to still be in occupation of the premises. The rate payer argued this until he was interviewed at the premises. He would not identify himself at the time but the team had some irrefutable evidence that it was him and when confronted he admitted who he was.

In the 2 months since the visit the rate payer has paid over £16,000 in business rates that would have been lost if the alleged bogus occupier had been billed.

## 6 Implications

There are no implications from the report.

## 7 Background Papers

- 7.1 None

Report author and contact officer: Chris Corker, Operational Benefits & Corporate Fraud Manager (telephone 01293 438598)

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# Agenda Item 5

## Crawley Borough Council

### Report to the Audit Committee

23<sup>rd</sup> July 2019

### Progress Report and Risk Management

Report of the Audit and Risk Manager – FIN/475

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#### 1. Purpose

- 1.1 The Committee has a responsibility to review the Internal Audit Progress report to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit.

#### 2. Recommendations

- 2.1 The Committee is requested to receive this report and note progress to date, as at 30<sup>th</sup> June 2019.

#### 3. Reasons for the Recommendations

- 3.1 The Committee has a responsibility to ensure that action has been taken by relevant Managers on risk based issues identified by Internal Audit.

#### 4. Background

##### 4.1 Work Completed

Since the last report, the following review has been completed.

Audit Title	Audit Opinion
Budgetary Control	Substantial Assurance
Council Tax	Substantial Assurance
Financial Management System (FMS)	Substantial Assurance
DWP CIS Compliance	Substantial Assurance
Sundry Debtors	Substantial Assurance
Community Centres	Substantial Assurance
Corporate Health and Safety	Satisfactory Assurance

##### 4.2 Work in Progress

The reviews in progress and other work that we have undertaken in the period are shown at Appendix A.

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## 4.3 High priority findings in this period

There were no high priority findings identified in this period.

## 4.4 Follow up Audits

### **Data Centre Migration Project – Post Implementation Review**

Following the work undertaken by Internal Audit on the Data Centre Migration Project, it was agreed by management that an independent post implementation review would be undertaken. This is now complete and the outcome of the work undertaken by Actica Consulting has concluded the following:

#### Change in Scope

A change in scope, to include the Crawley Town Hall Network and the Communications Room was vital in that the Data Centre project could not be delivered without them. The state of the infrastructure was acting as blocker to future IT initiatives, beyond just that of the Data Centre migration. However, the additional cost and effort was 'shoe-horned' into the same project due to the Data Centre's dependency on them. A further change in scope arose when the switch from Virgin to BT Unicorn was recognised. The switch was caused by a problem with the initial design for the wide area network. It was this issue which caused the greatest delay in delivery and the increase in cost.

This eventual scope delivered would be better viewed as a CBC infrastructure modernisation programme, rather than simply a Data Centre migration project. The infrastructure was at end-of-life and needed replacing. The Data Centre project was the catalyst that brought this to the fore.

#### Delivery Timescales

Virgin Media consistently misinterpreted the design and misconfigured the installation, which delayed identifying that the design was not fit for purpose.

The design fault in the specification of the communications link led to a false expectation being set for the timescales to deliver the link. The lead times for leased lines, which are required and were requested from BT Unicorn, added a further delay which was considerably longer than the original estimates given for using Internet connections.

BT Unicorn's installation timescales exacerbated the delay.

When taken individually, the other project initiatives were delivered in a timely manner. The delay with the RDC to Crawley Town Hall link inevitably pushed back the delivery of the project as a whole, due to the critical path dependency on the link. It is very difficult to negotiate with large suppliers of this nature, so there was little to no scope for reducing the lead times.

#### Project Governance

The initial selection of Virgin Media as the network supplier was made in compliance with the inherent CBC policy of choosing the least cost option, unless there are mitigating circumstances. However, in order to ensure that all 'mitigating' circumstances are understood, a greater level of due diligence is needed, so that issues such as the difference between traversing the Internet and direct connections are identified.

With regard to the Crawley Town Hall network, it is common for public sector bodies to 'sweat their assets' for as long as possible and so become unaware that they are reaching end of life. It is recommended that CBC should instigate an asset management system



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which flags up any component that is coming to end of life with sufficient time to cost, receive approval and install a replacement.

The design documents have all been at a high level. There is an absence of low-level design documents. These are essential to ensure that the design:

- configurations are explicit;
- is complete;
- can be reviewed;
- can be audited; and
- is available when configuration changes are required.

The lack of low-level designs led to an incomplete understanding of the individual parcels of work that needed to be identified, understood and managed. This should have been picked up by the project managers.

## Value for Money

The work undertaken by CBC would be better described as two projects, the Data Centre migration and an infrastructure modernisation project. Both the Data Centre and Crawley Town Hall are operational.

The scope of work which was finally delivered demonstrates value for money. The benefits that are gained for CBC, not only include immediate improvements in resilience, but also lay foundations for investment in numerous improvements which were not feasible on the previous infrastructure (e.g. proper Disaster Recovery, meaningful Business Continuity, flexibility of estates to renovate / move offices without real impact to IT). The investment made in this infrastructure will pay dividends for the future.

The report concluded that value for money had been achieved in the following areas:

- Redhill Data Centre – costs at industry standard levels with proportionate costs;

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- Crawley Town Hall Network including Communications Room – the communications room and internal network was specified, costed, designed and built to an appropriate specification. The Crawley Town Hall network and Communications Room has delivered value for money. It is a key infrastructure component that can be adapted and expanded to cater for CBC's future requirements;

It concluded that it did not achieve value for money in respect of:

- Time and money were expended on trying to manage Virgin Media to provide and configure a service that was not fit for purpose. BT took an inordinate amount of time, even by their standards, to install the leased lines. The leased lines are now installed, work to the correct specification and provide value for money.

## Project Management

Broadly speaking, the governance undertaken by CBC followed good practice, but they were let down by their suppliers, notably Virgin Media, the initial project manager and Company85. Company85 did not provide value for money, especially where the project management of further third parties was concerned. Company85 appear to have misrepresented their costs as fixed, but billed time and materials, leading to an overinflated bill. We believe that the amount spent on Company85 was excessive, accounting for one third of the capital expenditure.

Actica consulting have made several recommendations in respect of project governance arrangements, low level designs, non-functional requirements, back-ups and business continuity and contract scrutiny, **all of which are either being implemented or are already in place.**

## **Community Grants**

We reported at the last meeting that whilst we were satisfied that there was sufficient documentation to confirm eligibility for the grants awarded, we were unable to see evidence to confirm the process followed when making the grant award, in verifying that all documentation and evidence had been received from the organisation, and that they met the eligibility criteria.

We reported at the last meeting of this Committee that changes had been made to improve the internal controls in place, including the use of a checklist and checks being made by the then Community Services Manager.

A new Community Services Manager has recently been appointed, and after meeting with her recently, I am satisfied that there are measures being introduced that will address the weaknesses that we identified.

We will therefore undertake some follow up audit work once the new measures are in place and report the outcome to this Committee later in the year.

## 4.6 Freedom of Information (FOI) Requests

Between 1<sup>st</sup> March 2019 and 30<sup>th</sup> June 2019 we have processed 221 requests, and of these, 12 responses were sent to the requester outside of the 20 working day deadline. This was largely due to the complexity of the requests.

## 5. **Corporate Risks**

**Failure to deliver key infrastructure projects as planned, on time and within budget, such as:**

- **Town Hall and District Heat Network**

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The Council are working with Westrock in delivering a potential mixed use development which would see the provision of a new town hall, commercial office space and residential units on the town hall and adjacent car park site. A recommendation on the preferred option was presented to Cabinet early in 2017 and was approved at Full Council on 22<sup>nd</sup> February 2017. This proposal will require a partial demolition of the current building to allow for the development of a new Town Hall within the site. Planning permission for the New Town Hall was granted in June 2018, and for the District Heat Network in November 2018. Project Agreements with Westrock were signed in October 2018; A2 Dominion (Social Housing provider) agreed to take on the Babcock's Car Park Site in December 2018 (works have now commenced); and the business case for the District Heat Network was also signed off in December 2018. The majority of staff have now been decanted from the proposed demolition area, and these moves are currently being finalised. Tender prices for the DHN and the New Town Hall are due back in June and July respectively. Subject to these, work on decommissioning is scheduled to commence in late July or early August with demolition to begin by the end of the year. A risk register for the scheme is updated by the project team on a fortnightly basis and will be shared with the Audit Committee. Should the tenders suggest we are proceeding with the scheme the risk register will undergo a fundamental review reflecting the new stage of the project.

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- **LEP Infrastructure – Crawley Growth Programme**

CBC, together with WSCC (the lead body) was successful in securing £14.6 million of Local Growth Fund from the Coast to Capital LEP in autumn 2017, as part of the Crawley Growth Programme – a £60m package of public and private sector funding.

The principal purpose of the Crawley Growth Programme investment is to help bring forward regeneration sites to achieve new homes, jobs, and commercial space. The above resources are being invested in sustainable transport, highway and public realm infrastructure in the town centre and Manor Royal. The Worth Park Avenue cycle path, the Crawley town centre signage scheme and the Real Time Passenger Information upgrades at bus shelters across Crawley have already been completed. Some additional town centre signage has been installed and new signage for Queensway and Memorial Gardens will be installed once the Queensway public realm scheme is complete.

The Programme is being delivered over the period 2017 to 2021, founded on dialogue and active partnership working with stakeholders such as Metrobus, the Manor Royal BID, Gatwick Airport Ltd, Network Rail and site developers. It is being overseen by the Crawley Growth Board, chaired by CBC's Chief Executive and CBC key decisions on schemes going forward will be subject to Cabinet approval and associated due process.

The Queensway – Pavement scheme, the latest town centre phase of the Crawley Growth Programme, is currently being implemented and the contractor Blakedown is due to complete the works on schedule and on budget by October 2019. Design work continues on several other Crawley Growth programme schemes, including Station Gateway, Eastern Gateway, and Manor Royal sustainable transport improvements.

- **Three Bridges Railway Station**

On 11<sup>th</sup> February 2015 [SHAP/43](#), Cabinet approved the allocation of £430,000 of S106 funding towards the delivery of improvement works to the Station Forecourt. Network Rail have formally agreed to extend the S106 funding spend deadline to end March 2021.

Member approval has been granted to reallocate £1.5 million of Borough Council capital programme funding, originally earmarked for the Queens Square regeneration scheme, to the Three Bridges station improvements programme. These funds are being combined with the above S106 resources along with over £1 million of Community Infrastructure Levy (approved by Cabinet on 7<sup>th</sup> February 2018).

The Three Bridges station scheme Programme Manager has been working closely with GTR Southern and Network Rail in order to progress delivery of the scheme to detailed design stage with the aim of submitting a planning application next year. GTR Southern and Network Rail have both joined the Three Bridges Project Steering Group alongside Crawley Borough Council and West Sussex County Council. On 21<sup>st</sup> March 2018 Cabinet approval was secured to commence work on the detailed design stage and to undertake comprehensive traffic modelling to determine the impact on traffic flows of the scheme, taking account of the recently upgraded traffic lights infrastructure outside Three Bridges station on Haslett Avenue East. The modelling work is currently being assessed by the Highways Authority. Subject to the outcome of that assessment, further detailed design work will be undertaken later in the year.

A comprehensive risk register is overseen by the Project Board of the Crawley Growth programme.

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- **Delivering the affordable housing programme**

The Administration has pledged to build as much affordable housing for local people as possible. Delivery is being programmed through the Strategic Housing Board and scrutinised at CMT and through the Corporate Projects Assurance Board. Current projections for the next 4 year delivery period (2018-2021) indicate that delivery can be maintained at a similar level to the previous 4 year monitoring period at just over 1,000 new affordable homes. Approximately 2/3rds of this delivery will be by the Council and the remainder by other Registered Providers of affordable housing.

The officer Strategic Housing board meet on a regular basis and review the use of 1-4-1 receipts; any future risks will be highlighted through the Quarterly Monitoring Reports to Cabinet and in the Councillors' Information Bulletin. Spend is currently on track.

Mitigating actions have been taken to address the impact of the four year 1% rent reduction on the HRA to ensure the delivery programme can be maintained. These included setting affordable rather than social rents for new development, discounted sale as an alternative tenure option, and some re-profiling of the delivery programme. HRA and 1.4.1 receipt funding is currently fully committed, however, the HRA debt cap has been abolished providing the opportunity for additional Prudential borrowing. This will enable The Council to proceed with a number of sites to maintain its own build programme. Additional borrowing to provide more affordable housing on Telford Place was agreed by Full Council on 27<sup>th</sup> February 2019.

The decision to leave the EU may impact upon the costs of housing schemes as future restrictions may increase labour costs, this will be monitored over the coming years.

Perhaps the greatest risk to the delivery of affordable housing lies beyond the medium term, once the current programme has been delivered. This reflects the fact that the majority of larger sites within the Council boundary that can easily be built will have been developed. This will leave smaller sites that are more challenging in nature, or finding other opportunities. Work is commencing that will seek to identify these future sites and opportunities.

- **Future Income Streams and Transformation Agenda**

In preparation for the New Town Hall the Council has agreed a wider transformation programme to prepare the organisation for a new era and to help us meet future demand, needs and financial pressures. The pillars (in addition to the New Town Hall) within the plan are Digital Transformation, New Ways of Working, Values and Behaviours, Redesigning Services, Commercial Approach (a separate risk is being created for this) and Reducing Bureaucracy. At a programme level, the key risks are:

- The interdependencies between the areas of work not being recognised. The capacity required by the transformation programme could take resources away from core delivery which could impact on performance, finance and reputation
- Services are not prepared for the move to the new town hall putting performance at risk, impacting negatively on service provision and/or creating non-planned for additional costs (or reduced income)
- Staff are not prepared for the move to the new town hall impacting on motivation recruitment and retention
- Technology does not support the desired ways of working impact on performance, finance and morale

To manage these risks, a Transformation Board at CMT level has been created. It brings together and oversees a high level plan to ensure coherence, manage interdependencies and change, allocate resources and ensure delivery. A full revised

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risk analysis is to be undertaken once current negotiations on the New Town Hall are completed as outcomes will affect analysis.

A further senior management group – Corporate Project Assurance Group - has also been created (September 2018). Its role is to ensure appropriate governance of projects and assure that key projects beyond the transformation programme are not adversely impacted from the constraint of capacity and resources. In fulfilling this role the group has reviewed a wide range of current projects following an initial risk analysis. In doing so it has made changes to strengthen the governance structures for projects, for example the IT Boards Terms of Reference and membership has been changed, and a new Major Procurement Board has been created. As set out in the Capital Strategy (agreed at Council on 27 February 2019), this group will now shift to a more forward facing stance in overseeing delivery of the Capital Strategy whilst maintaining its focus on governance.

- **Disaster Recovery and Business Continuity.**

A report to Cabinet on 9<sup>th</sup> September 2015 recommended a more resilient hosting of data by providing a resilient, energy efficient, cost effective and available hosting environment for the IT systems to support our services. A partnership contract has been agreed with Surrey County Council for them to host at the data centre. Since June 2017 100% of Virtual servers and 98.4% of has applications have been migrated to the Surrey Data Centre.

A 2<sup>nd</sup> Phase of work is now being planned to move additional Physical infrastructure to the Surrey Data Centre, including additional storage to support Electronic Information Management (EIM) and backups.

The Bewbush Centre has been designated as the Council's main alternative 'warm' site should there be no or limited access to the Town Hall building. There is a link from this building to the Surrey Data Centre so that most IT systems will remain operational in the event of the Town Hall being out of operation and it will be possible for staff to access the CBC network via this link. There is corporate Wi-Fi installed at Bewbush which will allow access for up to 70 users at the Bewbush Centre using laptops or tablets together with a small number of desktop network points.

The Bewbush Centre has been designated as the Council's main alternative site should there be no or limited access to the Town Hall building. Departments have recently been refreshing service business continuity plans to ensure arrangements are in place for service continuity in the unlikely event of significant disruption.

- **A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable.**

The Budget and Council Tax 2019/20 [FIN/462](#) report to Cabinet on 6<sup>th</sup> February 2019 showed that we achieved a balanced budget despite a 89.72% reduction in revenue support grant, efficiencies were identified and the Budget Advisory Group scrutinised growth bids which were accepted including investment town wide in shrub bed removal. The Budget Strategy report was approved by [Cabinet on 31st October 2018](#), in addition projections are being constantly updated. Decisions made by West Sussex County Council that impact on Districts and Boroughs such as the amount of recycling credits paid will be a further demand on future budgets, the removal of the current sum paid would result in an increase of Council tax of £11.36 per Band D property. The proposed Fair Funding Review from 2020/21 makes it very difficult for all Local Authorities to project forward as the outcome will not be known until December 2019, the consultation closed on this on 21<sup>st</sup> February 2019. As a result there is a high possibility of the need to transfer either to or from reserves in 2020/21. Because of financial constraints, any growth items will have to be funded from savings, efficiencies or increased income, therefore there are increasing challenges over the medium term to incorporate future growth.

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Projections will be updated when the outcome of Town Hall tendering is finalised. The Corporate Management Team continue to work with staff and contractors to identify and implement improved ways of working and to focus on the aim of dealing with matters first time. In addition the Chief Executive together with the Head of Corporate Finance have undertaken a 'Budgets Challenge' exercise with all Heads of Service – this has resulted in savings and efficiencies which will assist in meeting future budget gaps. This process will be repeated in the coming financial year together with a review of vacant posts.

The refreshed transformation programme of service improvements and efficiencies achieved through service reviews will continue with the aim of continual streamlining of internal processes to reduced waste and duplication, and also to focus on the defined purpose of each service. The transformation programme includes an increased focus on achieving new sources of income by applying a commercial lens where possible.

The impact of the decision to leave the EU may have a detrimental impact on the Council's objectives and finances, this will be reviewed as part of future budget strategy reports and the annual budget report.

- **Recruitment, Retention and Succession Planning.**

Recruitment and retention of key specialist and professional roles is challenging. The impact of a period of pay restraint in the public sector combined with an increase in salary levels generally in the South East has led to problems with recruitment and retention in roles such as Finance, IT, and some Housing roles. HR staff are working with managers to ensure we promote these roles effectively, HR have supported on a number of interview assessments to ensure the best possible outcome.

With the introduction of the apprenticeship levy, the Council are in direct competition with organisations who can offer greater levels of remuneration in the way of benefits and incentives. To mitigate the risk of low recruitment levels the HR team have worked with recruiting managers to design tailored apprenticeships and have expanded the range of professions for which apprenticeships are available. HR have undertaken a comprehensive rewrite and redesign of apprenticeship promotional materials, the website, vacancy adverts and job descriptions. HR have increased the activity promoting apprenticeships by visits to schools and attendance at career fairs. The apprenticeship levy will require continuous resourcing and ongoing promotion and will be an area of continued challenge for the Council in attracting apprentices.

There is a recruitment and retention scheme which will allow time limited salary uplifts on appointment but this is only a temporary incentive and temporarily can cause pay inequality within teams. There are a number of benefits available to employees and by raising the profile to prospective employees and raising the profile to existing staff of incentives including different ways of working can support with recruitment incentive and retention.

The Corporate Management team will be discussion succession planning and putting processes in place to plan for the future.

The Job Evaluation Scheme has been amended to create a further grade at the top of the scale to assist with the recruitment and retention of third tier managers.

# Agenda Item 5

- **Possible 'no deal' Brexit**

On 31 January 2019 the Secretary for State for Housing Communities and Local Government wrote to all Leaders and Chief Executives of English Local Authorities setting out a local authority preparedness checklist. This stated that councils will want to assure themselves that they have undertaken necessary EU Exit Impact Assessments, relevant planning and the preparation of appropriate mitigation plans in the scenario of a no-deal Brexit. The areas listed were:

1. All statutory services for which the council is responsible for
2. All regulatory services for which the council is responsible
3. The impact (direct or indirect) of any border areas [this would include Gatwick as an airport]
4. The impact on supply chains (in the delivery of statutory services)
5. Data handling (impact of data held in the EU)
6. Local partnership working (for instance ensuring plans are in place to support vulnerable or managing increased community tensions)
7. Communications (to provide community assurance and provision of timely information)

A separate draft working document has been prepared looking at the implications of a no-deal Brexit to the council. This is a substantive assessment that includes all the areas listed above, but one that by the very nature of Brexit is constantly changing and being updated.



## Internal Audit Plans 2018/2019 and 2019/2020

### Progress Report as at 30<sup>th</sup> June 2019

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
<b>A. Work Completed in the Current Period</b>				
Budgetary Control	2018/19	Substantial		
Council Tax	2018/19	Substantial		
FMS	2018/19	Substantial		
DWP CIS Compliance	2018/19	Substantial		
Corporate Health and Safety	2018/19	Substantial		
Sundry Debtors	2018/19	Substantial		
Housing Benefits	2018/19	Substantial		
<b>B. Work In Progress</b>				
New Town Hall	2018/19			Ongoing advice to Project Team
Corporate Project Assurance Group	2018/19			Provide audit and risk support
Leasehold Income	2018/19			On hold
Section 106 Agreements and CIL	2019/20			
Publication Scheme	2019/20			
FOI Requests – day to day work				
<b>C: Follow Ups</b>				
Data Centre Migration Project	2018/19			
Community Grants	2018/19			
<b>Other Work</b>				
Mid Sussex District Council	2018/19			Work is ongoing.

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TOWN HALL PROJECT  
RISK REGISTER

**Likelihood**  
5 = Very High  
4 = High  
3 = Significant  
2 = Low  
1 = Very Low

**Impact**  
5 = Catastrophic  
4 = Critical  
3 = Moderate  
2 = Marginal  
1 = Negligible

Risk Score = Likelihood x Impact

All risks with a score of 10 or more are considered serious

File Ref:	Town Hall Development	Created by:	Mike Pidgeon
Name of Doc:	Risk Register	Date Created:	02/03/2017
Version No:	V16	Monitored by:	Project Board
File path:	T:\Town Hall Project\townhallprojectriskregister .doc	Date Printed:	08/07/2019
		No of Pages	1 of 1

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
	<b>Design &amp; Construction Risks</b>					
D1	Listing of existing Town Hall building	2 5 10	1 1 1	1 1 1	<ul style="list-style-type: none"> <li>COI granted and risk now only that demolition work not completed by March 2023.</li> </ul>	
D2	Planning conditions requires amending which impacts on financial viability of the scheme.	2 4 8	1 1 1	2 3 6	<ul style="list-style-type: none"> <li>Pre app meetings held between Westrock and planning officers</li> <li>Conditions for the scheme have been identified and so that ownership and dates can be agreed.</li> <li>Planning conditions project tracker created for WR.</li> </ul>	
D3	Errors in detailed design specification	2 4 8	1 4 4	3 4 12	<ul style="list-style-type: none"> <li>Consultant Architects appointed as our client to oversee design brief.</li> <li>Board to monitor mitigation actions to reduce costs, use of value engineering and errors</li> </ul>	<p><b>Stage 4 Comments provided to Design Team (187 comments to be signed off or carried forward for contractor negotiation)</b></p>

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
D4	<p>Phase 1 demolition works delay construction programme due to;</p> <ul style="list-style-type: none"> <li>• lack of clarity between roles, hours of working and retention of materials</li> <li>• Drainage and sewers are damaged during demolition</li> <li>• Town Hall comms link relocation works delay construction programme</li> <li>• <b>Decommissioning of old comms room.</b></li> </ul>	3 5 15	1 2 2	3 3 9	<ul style="list-style-type: none"> <li>• Works/moves programme to allow sufficient contingency should programme slip</li> <li>• Progress ahead of construction programme</li> <li>• Staff move complete and waiting to commence service utilities work.</li> <li>• Requirements to be outlined in tender documents for demolition contract</li> <li>• Insurance liabilities to be established with WR</li> <li>• Detailed works/moves programme agreed and signed off by Project Board/CMT</li> <li>• Works/moves programmed to allow sufficient contingency should programme slip</li> <li>• Coms link in place with completion of relocation work scheduled for Feb 2019</li> <li>• <b>Decommissioning of Old Comms Room in demolition zone outstanding – ICT dealing with contractors</b></li> </ul>	<p><b>RISK CHANGED FROM 2 4 8</b></p> <p><b>RISK ID D4 and D5 combined</b></p>
D5	Combined with D4					

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
D6	CBC lacking the necessary experience and/or skills to complete the development. <ul style="list-style-type: none"> <li>• ICT &amp; AV</li> <li>• Commercial letting &amp; Mgt</li> <li>• Acoustics</li> <li>• FM &amp; BMS</li> </ul>	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Consultant Architect and other consultants appointed to supplement in-house resources and expertise.</li> <li>• Appointment of new DCeX, handover given and greater involvement from CeX</li> <li>• Identified areas for additional support and advice</li> </ul>	
D7	Members facilities do not meet their requirements	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Regular consultation with Members and Member Working Group</li> <li>• Member sign-off to this element of the final design brief of these elements</li> <li>• Working Group to re-establish for Stage 4 design work with additional consultation with all Members.</li> </ul>	
D8	Staff facilities / infrastructure do not meet their requirements.	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Regular consultation with staff via a number of formats</li> <li>• Close liaison with staff groups during stage 4 design stage</li> <li>• Desk ratio demonstrates meeting needs and will work with staff to co-ordinate remaining elements.</li> <li>• Will be delivering office etiquette guidelines and trails for new ways of working</li> <li>• <b>Managers Conference and staff drop in sessions took place April 2019</b></li> </ul>	<p><b>Managers Conference and staff drop in sessions took place April 2019 with 230-240 staff attending</b></p> <p><b>Town Hall FAQ's updated following feedback from Managers conference and Staff</b></p>

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
						<b>drop in sessions June 2019</b>
D9	Customer facilities do not meet their requirements	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Crawley Homes Tenants Panel have been consulted.</li> <li>• Will undertake a consultation with customers</li> <li>• Will offer significant improvements to current arrangements.</li> <li>• Sufficient time to trail new arrangements for customers.</li> </ul>	
D10	Commercial office space including car park specification/design not attractive to potential occupiers.	2 4 8	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Design set at required level to attract commercial occupiers</li> <li>• Will ensure communal space and entrance area is attractive and floors will meet Grade A requirements.</li> <li>• Received feedback from commercial agents as part of the One Public Estate exercise</li> <li>• Impact of demolition area and public square may deter occupiers in first few years.</li> </ul>	
D11	Provision of the internal wall during the demolition period does not meet planning conditions	3 3 9	1 1 1	3 3 9	<ul style="list-style-type: none"> <li>• Discussions with demolition contractor to ensure requirements are outlined in tender documents</li> </ul>	
D12	Building as completed not to required quality/specification	2 4 8	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Establish robust project management structure</li> <li>• Maintain regular contact between CBC/developers to monitor construction against design specification</li> </ul>	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					<ul style="list-style-type: none"> <li>Regular design team meetings held to ensure Stage 4 designs meet requirements.</li> <li>Developers appoint Clerk of Works/Site Agent to oversee construction</li> </ul>	
D13	District Heat Network not being progressed impacts detrimentally on overall scheme	2 2 4	1 2 2	3 3 9	<ul style="list-style-type: none"> <li>Initial network to be constructed as part of phase 1 of the scheme with ability to extend</li> <li>Sufficient resources/project management allocated to project.</li> <li>Planning approval Nov 2018.</li> <li>Business case approval Dec 2018</li> <li>Alignment of project plans to include links to Babcock site.</li> </ul>	
D14	Delivery of improved car park facilities, allocated spaces and management plan.	1 1 1	1 1 1	2 3 6	<ul style="list-style-type: none"> <li>Car Park improvements part of development plan and costs.</li> <li>Need to review spaces allocations and control systems</li> <li>Car Park management plan to be submitted to planning.</li> </ul>	
D15	Impact of construction Phase 1 and Phase 2 to residents and commercial tenants	3 3 9	2 3 6	3 3 9	<ul style="list-style-type: none"> <li><b>Project agreement includes timescale to build phase 2</b></li> <li><b>Initial rental income projection incorporates phase 2 development impact</b></li> </ul>	
Legal or Contractual Risks						
L1	Errors or omissions in legal or contractual documentation	2 3 6	1 2 2	1 3 3	<ul style="list-style-type: none"> <li>Internal/External procurement and legal advice taken on all aspects of the contractual arrangements.</li> <li>Legal agreements signed 18Oct having sought external</li> </ul>	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					advice throughout negotiations.	
L2	Decision gateways and need for CBC authority result in delays making key decisions	2 4 8	1 4 4	2 4 8	<ul style="list-style-type: none"> <li>• Clear decision making leads identified at member and officer level agreed by Cabinet</li> <li>• Robust project management and Governance structure established</li> <li>• Continued working with consultants to ensure work to timeline.</li> </ul>	
L3	Westrock unable to obtain development funding for project Phase 2 (market housing)	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> <li>• Project agreement will stipulate time period, with CBC having the option to develop.</li> </ul>	
L4	Impact of changes to construction market and costs to the project.	2 2 4	2 2 4	2 3 6	<ul style="list-style-type: none"> <li>• Soft market testing to consider construction and build options to reduce time for procurement</li> </ul>	<b>Stage 3 Soft market testing costs within budget.</b>
L5	Impact of changes to values of offices/housing	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Valuations obtained, these will be refreshed during the project</li> </ul>	
L6	Health & Safety – ensure compliance during and after the construction period and for the future.	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> <li>• Robust project management from construction contractor(s)</li> <li>• Consultation programme to include all relevant authorities with regard to health &amp; safety matters</li> </ul>	
	<b>Financial Risks</b>					
F1	Project exceeds budget	2 4 8	1 4 4	3 4 12	<ul style="list-style-type: none"> <li>• Budget agreed and clearly communicated in Final design brief</li> <li>• Regular Project Board and Steering Group meetings to review and keep cost projections up to date</li> <li>• Identify robust contingencies sums</li> </ul>	



Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					<ul style="list-style-type: none"> <li>Identify value engineering opportunities</li> <li>Looking at procurement options to secure contractors at earliest opportunity through market testing.</li> </ul>	
F2	Cost of Project borrowing affected by interest rate fluctuations	2 4 8	1 4 4	1 4 4	<ul style="list-style-type: none"> <li>Projections are currently estimating interest rates higher than the current market.</li> </ul>	<p><b>RISK CHANGED FROM 2 4 8</b></p> <p>Treasury advice received July 19 advised interest rates unlikely to increase.</p>
F3	Business Rates for new Town Hall higher than estimated (cannot guarantee the valuation)	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> <li>Current projections based on business rates at existing rates and smaller Town Hall.</li> <li>Will work with valuation office when building works progress.</li> <li>Will minimise liability of vacant offices by delaying completion statements</li> </ul>	<p><b>Business Rates team liaising with Valuation Office July 19 regarding business rates liability reduction for demolition zone.</b></p>
F4	CAT B design specification exceeds budget.	3 3 9	1 4 4	3 3 9	<ul style="list-style-type: none"> <li>Regular design meetings and budget reviews scheduled.</li> </ul>	
	<b>Communication Risks</b>					
C1	Loss of support/ opposition for project (Members)	2 3 6	1 2 2	3 3 9	<ul style="list-style-type: none"> <li>Robust communication and stakeholder consultation plan</li> <li>Maintain involvement throughout and set out clear responses/justification to consultation responses in order to manage expectations</li> </ul>	<p><b>Continued support following May election</b></p>

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					<ul style="list-style-type: none"> <li>Regular consultation with Members to ensure scheme as finally proposed has cross-party support.</li> <li>Local elections May 2019</li> </ul>	
C2	Loss of support / opposition for project (Staff)	2 2 4	1 2 2	2 2 4	<ul style="list-style-type: none"> <li>As above (4a) but tailored approach</li> <li>Delivered some small scale additional benefits for staff during decant period</li> </ul>	<p><b>Managers Conference and staff drop in sessions took place April 2019 with 230-240 staff attending and providing feedback</b></p> <p><b>Air Conditioning installation on 1<sup>st</sup> and 4<sup>th</sup> Floor.</b></p> <p><b>Kitchen extension on Ground and 1<sup>st</sup> Floor</b></p>
C3	Loss of support / opposition for project (public)	2 2 4	1 2 2	3 2 6	<ul style="list-style-type: none"> <li>As above (4a) but tailored approach</li> <li>Regular press releases</li> <li>More likely increase around demolition</li> </ul>	<b>Communication plan updated</b>
C4	Management of the project does not meet required standards for audit & risk.  Procurement rules met for contracts	3 4 12	2 2 4	2 2 4	<ul style="list-style-type: none"> <li>Sub Group created to consider risks, audit and procurement to ensure compliance with requirements.</li> <li>Regular support and attendance from team</li> </ul>	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					<ul style="list-style-type: none"><li data-bbox="1503 280 1787 304">• <b>External Audit briefed</b></li></ul>	

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## Crawley Borough Council

### Report to the Audit Committee

23<sup>rd</sup> July 2019

### Audit and Risk Manager's Annual Report 2018/2019

Report of the Audit and Risk Manager – FIN/474

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#### 1. Purpose

1.1 This report has been prepared to:

- Summarise the work undertaken by Internal Audit during 2018/2019 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.
- Summarise the effectiveness of audit work.
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

#### 2. Recommendations

2.1 The Committee is requested to receive this reports and note progress to date.

#### 3. Reasons for the Recommendations

- To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013 (updated 2017).
- The Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

#### 4. Background

##### Introduction

4.1 The main purposes of the report are to:

- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- Comment on the performance of the Internal Audit Section during the year.

# Agenda Item 6

- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance improvement programme.

It should be emphasised that internal audit work can provide reasonable, not absolute, assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based solely on the audit work undertaken.

## 4.2 Quarterly Reports

The Audit Committee received quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

## 4.3 Annual Audit Plan

The Audit and Risk Section works to a one year annual audit plan, prepared by the Audit and Risk Manager and aims to review the Council's major areas of operation and systems over a three year rolling cycle. The annual plan was developed using a risk based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or which are considered to be high risk, are reviewed on an annual basis.

## 4.4 Staffing

During 2018/2019, the internal audit section operated with 3 full time members of staff with additional resources supplied by the use of contract staff. All auditors have the requisite experience to effectively fulfil their responsibilities; the Audit and Risk Manager is a Member of the Certified Institute of Internal Auditors, one Senior Auditor has passed the CISA computer audit exams and the other Senior Auditor is a Certified Fraud Examiner. The contract member of staff has many years' experience in internal auditing both local government and the organisations.

## 5. Relevant Policies

### 5.1 Statutory and Policy Background

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards (PSIAS). The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.

### 5.2 Relevant Government Policy / Professional Standards

Internal Audit follows the Public Sector Internal Audit Standards (PSIAS) which came into force on 1<sup>st</sup> April 2013.

### 5.3 Relevant Council Policy

The Council's Financial Procedure Rules support the statutory requirements outlined above at section and state 'The Head of Corporate Finance is responsible for the proper administration of the financial affairs of the Council and provision of an adequate internal audit function'. The Audit and Risk Manager reports on a quarterly basis the results of internal audit work, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

# Agenda Item 6

## **6. Compliance with the Public Sector Internal Audit Standards**

- 6.1 The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1<sup>st</sup> April 2013.
- 6.2 These standards require the Audit and Risk Manager to undertake an annual self assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report. This has been undertaken as at 31<sup>st</sup> March 2019 and I can confirm that the Internal Audit Service was compliant for the period under review.
- 6.3 Section 1320 of the PSIAS - Reporting on the Quality Assurance and Improvement Programme – states that 'the chief audit executive (Audit and Risk Manager) must communicate the results of the quality assurance and improvement programme to senior management and the board'.
- 6.4 In line with this standard, I can confirm that for the period 2018/2019, the Internal Audit section was compliant with the PSIAS.
- 6.5 The Internal Audit Team has maintained its independence throughout 2018/2019 in accordance with the PSIAS.

## **7 Effectiveness of Internal Audit**

### **7.1 Progress against Annual Audit Plan**

The annual audit plan is always flexible, allowing for audits or other pieces of work to be undertaken which are not in the plan if they are deemed to be of a higher risk than those contained in the plan. In addition, there is always a small number of days allocated to contingency for unexpected work to be completed.

During the year, the majority of audits were completed, with 2 audits carried forward into the new financial year. These have now been completed.

### **7.2 Implementation of Agreed Actions**

The Audit and Risk Section reports all high priority findings or all findings if an audit has received a rating of limited or no assurance, to the Audit and Governance Committee on a quarterly basis. Implementation of agreed actions is then confirmed and reported back to that Committee.

### **7.3 Reporting**

Draft audit reports and working papers are subject to a quality review undertaken by the Audit and Risk Manager before the final report is issued. During the period under review, a new process was introduced whereby the auditor meets face to face with the 'auditee' at the end of the audit fieldwork to discuss findings arising and to devise agreed actions. This is considered to be a more collaborative approach and makes the end to end process of the audit quicker.

In addition, if there is nothing to report, or just a minor or advisory finding has been identified, a short, rather than a full audit report, is produced. This reduces the end to end time taken to complete an audit and reduces the time spent by the auditor on writing reports.

# Agenda Item 6

## 8. Opinion on the Control Environment

- 8.1 This section of the report draws attention to any issues the Audit and Risk Manager considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.
- 8.2 My *overall* opinion is that "**Substantial**" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year and project work, notwithstanding the outcome of two audits that were undertaken in the ICT Section, both of which resulted in 'Limited Assurance' being given as the overall audit opinion. A new Head of Digital and Transformation was appointed in July 2018 and much work has been undertaken in the ICT section to strengthen the internal control environment. The outcome of these audits was reported to the Audit Committee at the time and subsequently in order to provide an update on progress made by management in strengthening the control environment. My opinion also takes into account the number of outstanding agreed action items from audit follow ups and management's positive approach to implementing agreed actions.
- 8.4 A commitment has been given by the Chief Executive and the Corporate Management Team to improve the governance framework at Crawley Borough Council, and in particular in respect of capital and revenue projects. This is reflected in the Annual Governance Statement for 2018/2019.

Assurance Areas:	
Governance	The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice. The Annual Governance Statement, which is prepared collaboratively by CMT and I support based upon my knowledge of the Council, shows one area of non-compliance with the CIPFA/SOLACE Framework. This relates to the management and governance arrangements in place in the Data Centre Migration Project, which was significantly delayed and which exceeded the original budget. Since reporting the outcome of this audit a number of initiatives have been introduced, for example the Corporate Project Assurance Group, which was in the process of being set up by the Chief Executive during the audit, Transformation and Project Boards and quarterly monitoring of performance by CMT. The Governance Committee meets on a quarterly basis.
Risk Management	The Council's Risk Management Strategy was updated in 2015.  This Strategy is a move in the culture from being risk adverse to risk cautious. A risk adverse culture is one where there is a tendency to try and mitigate all risks. A risk cautious culture is one where account is taken of the significance of the risk, the costs of the mitigation and the potential missed benefits in deciding whether to mitigate risks.  One consequence of this change was that there was greater challenge as to the need for some controls. The second change in emphasis is away from completing forms (such as risk matrices) and towards ensuring that due consideration is given to risks and that they are managed. For instance, there will be an expectation that



# Agenda Item 6

	<p>managers can articulate how they have considered risks rather than expecting it to be recorded in a prescribed format.</p> <p>The Audit and Risk section, during the normal course of their work, focus on the risks within systems and look at how they are controlled by management. The outcome of this work is reported to the Audit Committee on a quarterly basis.</p> <p>In relation to significant risks it is expected that there would also be evidence of the consideration of risks. However, that often exists in the form of notes from one to ones or other meetings, reports, e mails, etc. There is no need for that evidence to be duplicated through being recorded elsewhere.</p> <p>Strategic risks are constantly under review by the Corporate Management Team, and are formally discussed on a quarterly basis. The outcome of these discussions, along with the risks, are reported to the Audit Committee quarterly.</p>
Internal Control	Internal controls are basically sound in most areas and we did not identify any significant weaknesses, other than those reported to the Audit Committee in respect of the Data Centre Migration Project, the Use of ICT Consultants.. Action has been taken by management to strengthen the internal control environment.

## Summary of Work Undertaken in 2018/2019 (in chronological order)

INTERNAL AUDIT ASSURANCE OPINIONS	
AUDITS	
ICT Risk Assessment	N/A
Data Centre Migration Project	Limited
Procurement Audit – Use of ICT Consultants	Limited
Fraud Risk Assessment	Substantial
Community Grants	Limited
NNDR	Substantial
Taxi and Private Hire Licensing	Substantial
K2 Tendering Exercise	Substantial
Treasury Management	Substantial
Commercial Properties Including Rents	Substantial
Cash and Bank	Substantial
Tender for Gas Services	Substantial
Creditors	Substantial
Budgetary Control	Substantial
Council Tax	Substantial
FMS	Substantial
Sundry Debtors	Substantial
Payroll	Substantial
DWP CIS Compliance	Substantial
Corporate Health and Safety	Satisfactory
Housing Benefits	Substantial

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Ms Natalie Brahma-Pearl  
Chief Executive  
Crawley Borough Council  
Town Hall  
The Boulevard  
Crawley, West Sussex  
RH10 1UZ

30 April 2019

Ref: Fee Letter/19-20

Direct line: 01189 281167

Email: [abrittain@uk.ey.com](mailto:abrittain@uk.ey.com)

Dear Natalie

## **Annual Audit 2019/20**

We are writing to confirm the audit that we propose to undertake for the 2019/20 financial year at Crawley Borough Council.

From 2018/19, local government and police bodies have been responsible for making their own arrangements for the audit of the accounts and reporting on the housing benefit subsidy claim. The Secretary of State for Housing, Communities and Local Government has specified Public Sector Audit Appointments (PSAA) as an appointing person under provisions of the Local Audit and Accountability Act 2014. PSAA has appointed auditors for bodies that opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23.

The appointment of an auditor to report on the Council's housing benefit subsidy claim is no longer covered by the PSAA appointment.

## **Indicative audit fee**

For the 2019/20 financial year, PSAA has set the scale fee for each opted in body. Following consultation on its Work Programme and Scale of Fees, PSAA has maintained scale audit fees at the same level as for 2018/19, unless there are specific circumstances which require otherwise.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements;
- Value for money conclusion; and
- Whole of Government accounts.

Our final fee will include the impact of additional risks and/or circumstances that are out of the scope of the scale fee, for example:



- additional work performed on asset valuations, including the involvement of our valuation specialists;
- Additional work performed on the valuation of the net pension liability, including the involvement of our pension specialists; and
- Additional work arising from the implementation of IFRS 16 Leases.

At this stage, the indicative fee is set at the scale fee.

This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different to that of the prior year;
- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion are unqualified;
- Appropriate quality of documentation is provided by Officers;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2018/19, our audit planning process for 2019/20 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2019/20 £	Planned fee 2018/19 £	Actual fee 2017/18 £
Scale Fee	50,291	50,291	65,313
Impact of value for money conclusion significant risk		TBC	-
<b>Total Code audit fee</b>	<b>50,291</b>	<b>50,291</b>	<b>65,313</b>
Other fees charged for the reporting on housing subsidy	TBC	12,559**	14,919*

\* £11,386 plus £3,533 Scale Fee Variation which is with PSAA for approval.



\*\* From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed us to act as reporting accountants in relation to the housing subsidy claim. The fee is based on:  
£12,559 for the baseline certification work  
£1,000 - £4,000 for each set of extended ("40+") testing.

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance. All variations to the scale fee will be subject to PSAA approval.

## **Billing**

The scale fee will be billed in 4 quarterly instalments of £12,573.

## **Audit plan**

Our plan is expected to be issued in November 2019. This will communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance Revenues and Benefits and communicate the revised fee and the matters giving rise to any adjustments to the scale fee in our Audit Results Report which we will present to the Audit Committee.

For a high-level overview of our approach and further information on how we intend to work with you under the PSAA contract, please refer to our leaflet 'EY working with you' which is enclosed.

We remain committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me, or Janet Dawson as our Government and Public Sector Assurance Leader at [jdawson1@uk.ey.com](mailto:jdawson1@uk.ey.com). If you prefer an alternative route, please contact Steve Varley, our Managing Partner, by writing to him at 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Brittain', written in a cursive style.

Andrew Brittain  
Associate Partner  
For and on behalf of Ernst & Young LLP

cc. Karen Hayes, Head of Finance Revenues and Benefits  
Councillor Karen Sudan, Chair of the Audit Committee

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# Crawley Borough Council Audit results report

Year ended 31 March 2019

12 July 2019



Private and Confidential

12 July 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Crawley Borough Council for 2018/19.

We have substantially completed our audit of Crawley Borough Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4 of this report, before the statutory deadline of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 23 July 2019.

Yours faithfully

Andrew Brittain  
Associate Partner

For and on behalf of Ernst & Young LLP

Encl



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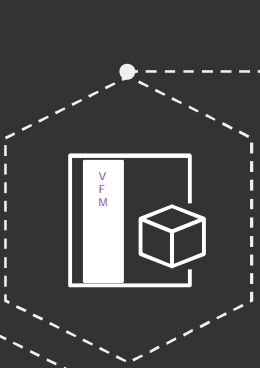
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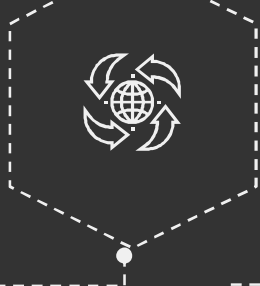
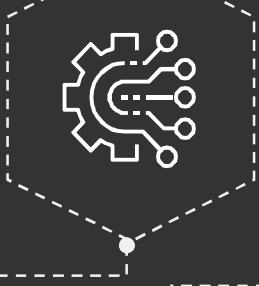
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Crawley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Crawley Borough Council those matters we are required to state to them in this 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 Audit Committee and management of Crawley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary



# Executive Summary

## Scope update

In our audit planning report tabled at the November 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.8m, with performance materiality, at 75% of overall materiality, of £2.1m, and a threshold for reporting misstatements of £138,000. This basis of materiality remains appropriate for the actual results for the financial year and our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) is £135,000.

## Status of the audit

We have substantially completed our audit of Crawley Borough Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

1. Review of revised IAS19 report from the actuary received on 4 July 2019. Testing of actuarial calculations, assumptions and subsequent amendments to financial accounting;
2. Receipt and review of Letter of Assurance from TCWG (Chair of the Audit Committee).
3. Receipt and review of 4 investment letters due - from Goldman Sachs and Lloyds Bank and Federated Prime Rate - supporting cash equivalents of £6,165,813.63 and accrued interest of £4,281.59
4. Completion of expenditure sample testing;
5. Completion of Journals testing;
6. Receipt and review of an updated draft account reflecting all casting and disclosure observations made during the course of our audit.
7. Completion of subsequent events review
8. Final Manager and Associate Partner review
9. Receipt of the signed management representation letter
10. Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

We expect to issue the audit certificate at the same time as the audit opinion.



# Executive Summary

## Audit differences

At the time of writing this report, we identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £391,000. We agree with management's assessment that the impact is not material to financial statements overall.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Crawley Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



# Executive Summary

## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk: New Town Hall Project (Informed Decision Making).

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

At the time of writing this report, we had not yet completed procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

## Independence

Please refer to Section 10 for our update on Independence.



02

# Understanding Financial Statements



## Understanding Financial Statements

The Council's net cost of services increased by some £2 million during 2018/19 - rising from £8,126,000 to £10,002,000). However, Taxation and Non-Specific Grant Income also increased by around £2 million over the period - rising from £14,523,000 to £16,926,000.

As a result, Net Assets remained very stable, falling only slightly from £664,467,000 at 31 March 2018 to £664,091,000 at 31 March 2019.

### Property, Plant and Equipment

31 March 2018: £793,060,000

31 March 2019: £815,495,000

Pension Liabilities in the draft accounts presented for audit (year on year change being driven by actuarial re-measurement and fluctuations in pension asset values)

31 March 2018: £3,223,000

31 March 2019: £16,164,000

### Net Expenditure on Corporate Resources:

2017/18: £7,388,000

2018/19: £7,187,000

### Net Expenditure on Environmental Services and Sustainability:

2017/18: £5,545,000

2018/19: £4,437,000

### Net Expenditure on Wellbeing:

2017/18: £7,877,000

2018/19: £7,853,000

Net Receipts from Housing Revenue Account (year on year fall being largely driven by revaluation losses in year):

2017/18: £16,152,000

2018/19: £12,252,000





03

# Areas of Audit Focus





# Areas of Audit Focus

## Significant risk

Misstatements due to fraud or error (management override)

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### What judgements are we focused on?

As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies; unusual transactions; and the key accounting estimates around valuation of Land and Buildings, net Pension Liabilities and the NNDR Appeals Provision (considered in more detail on pages 12 - 14 of this report).

### What did we do?

- Inquired of management and those charged with governance about risks of fraud; controls put in place to address those risks; and the oversight given by those charged with governance of management's processes over fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Substantively tested additions to Property, Plant and Equipment to confirm they meet appropriate criteria for capitalisation.
- Reviewed the accounting policies and key accounting estimates (Land and Buildings, Pension Liability and NNDR Appeals provision) for evidence of management bias.
- Evaluated the business rationale for significant unusual transactions.

### What are our conclusions?

Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.





## Areas of Audit Focus

### Other areas of inherent risk



#### Valuation of Property, Plant and Equipment and Investment Properties

##### What is the risk? (Audit Planning Report)

Property, Plant and Equipment were valued at £793,060,000 at 31 March 2018 and Investment Properties were valued at £21,322,000 as at that date. These represent significant balances in Crawley Borough Council's accounts and are subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Wilks, Head and Eve. We note that there is no in-house RICS qualified valuers within the Council.

Investment Properties and high value items of Land and Buildings are valued at the reporting date. For Council Dwellings and the remaining Other Land and Buildings, Wilks, Head and Eve undertake detailed revaluation work at the end of December and the Council applies an adjustment to reflect estimated valuation movements in the last three months of the year. We noted that on 29<sup>th</sup> March 2019 the UK was scheduled to leave the European Union and that fluctuations in value could have been more difficult to predict around this time.

##### What did we do?

Property, Plant and Equipment was valued at £815m at 31 March 2019 and Investment Properties were valued at £20m as at that date. Our testing included procedures to:

- Consider the work performed by the Council's valuers Wilks, Head and Eve, including the scope of the work performed on valuations at 31 December 2018; sample testing on data supporting the valuations; a comparison of valuation findings with market trends and Land Registry data; and review of valuer assumptions, qualifications and expertise.
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties.
- Review any assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.
- Consider changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.
- Confirm an appropriate uplift had been applied for Council Dwellings and Other Land and Buildings to reflect fluctuations in value in the last three months of the year.
- Noted that as at the date of this report, the UK had not yet left the European Union.

From our testing we were satisfied that Property, Plant and Equipment and Investment Property values in the year end accounts presented for audit are true and fair. One immaterial unadjusted overstatement of £152,000 was identified from our testing but established to be isolated and not indicative of wider error.



## Areas of Audit Focus

# Other areas of inherent risk



### Valuation of Pension Fund Assets and Liabilities

#### What is the risk? (Audit Planning Report)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

Crawley Borough Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2018 the net liability was valued at £3,223,000.

Asset and liability values captured in Crawley Borough Council's 2018-19 accounts again derive from information issued to the Council by the actuary to West Sussex County Council and again involve significant estimation and judgement.

We noted that on 29<sup>th</sup> March 2019 the UK was scheduled to leave the European Union and asset values could have been particularly difficult to estimate around this time. We note also that ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What did we do?

The net Pension Liability was valued at £16,164,000 in the draft accounts presented for audit. However, on 4 July 2019, a revised actuarial report was issued by Hymans Robertson restating this to £15,621,000 to reflect the impact of the McCloud/Sargeant ruling; the potential impact of GMP equalisation; and changes in year end pension scheme asset valuations. The decrease in the overall value of the defined benefit liability was noted as an unadjusted difference. Our testing has included / will include once complete, procedures to:

- Liaise with the auditors of West Sussex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Crawley Borough Council.
- Reviewed the work of PwC as consulting actuary to the NAO, on the Pension Fund actuary, Hymans Robertson;
- Assess the work of the Hymans Robertson including the assumptions they have used on both the original valuations and subsequent changes to reflect the impact of the above issues;
- Reviewed and test the accounting entries and disclosures made within Crawley Borough Council's financial statements in relation to IAS19.
- We note that as at the date of this report, the UK had not yet left the European Union.



## Areas of Audit Focus

### Other areas of inherent risk



#### Valuation of NNDR Appeals Provision

##### What is the risk? (Audit Planning Report)

Crawley Borough Council's NNDR Appeal Provision was valued at £2,648,000 at 31 March 2018. This is a high value estimate driven by internal calculations.

##### What did we do?

The provision at 31 March 2019 was valued at £4,083,000. Our testing included procedures to:

- Agree data used to calculate the provision to reports received from the Valuations Office Agency.
- Confirm appeals percentage provided for is inline with the government's baseline data for predicting business rates appeals.
- Repeat perform calculations to confirm arithmetical correctness.
- Compare the level of appeals at 31 March 2019 and 31 March 2018 to assess the reasonableness of amounts provided for at year end.

From our testing we were satisfied that the NNDR Appeals Provision in the year end accounts presented for audit is true and fair.



## Areas of Audit Focus

# Other areas of inherent risk



### New Accounting Standards

#### What is the risk? (Audit Planning Report)

##### IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

##### IFRS 15 Revenue from contracts with customers

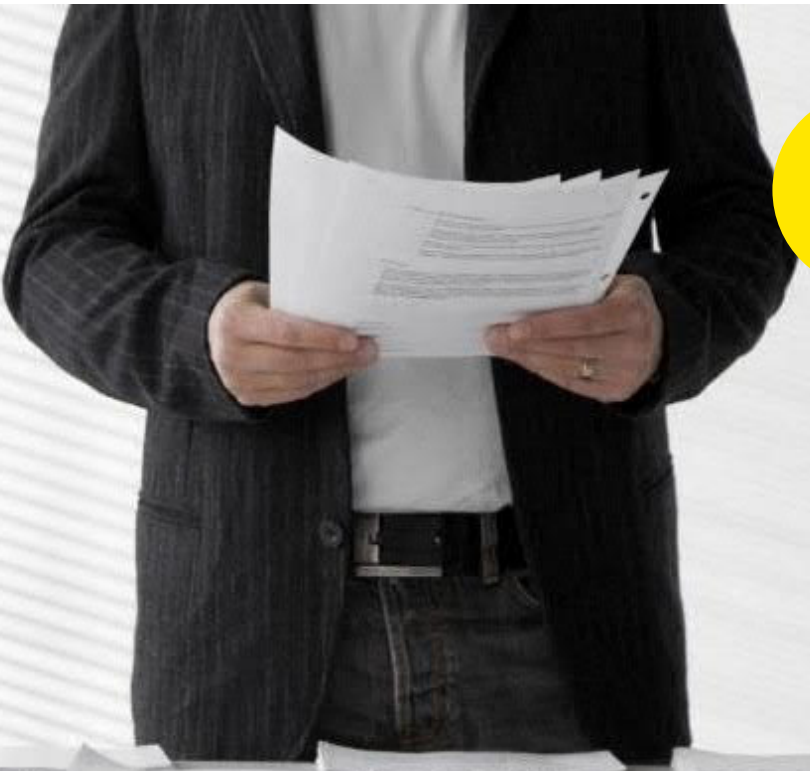
This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

#### What did we do?

We assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19. We agreed with the authority's assessment that IFRS9 has no significant impact on the authority's accounts and that the disclosure requirements of IFRS15 are already incorporated into the Income and Expenditure Account and Balance Sheet as required by other standards adopted by the Council.



04

Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRAWLEY BOROUGH COUNCIL

##### Opinion

We have audited the financial statements of Crawley Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 42,
- Housing Revenue Account Income and Expenditure Account, the Movement on the HRA Statement, and related notes 1 to 8, and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Crawley Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

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

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

##### Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Head of Corporate Finance is responsible for the other information.



# Audit Report

## Our opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Crawley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception  
We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.





# Audit Report

## Our opinion on the financial statements

### Responsibility of the Head of Corporate Finance

As explained more fully in the Statement of the Head of Corporate Finance responsibilities set out on page 9, the Head of Corporate Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Corporate Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

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

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

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



# Audit Report

## Our opinion on the financial statements

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

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 C&AG in November 2017, as to whether the Crawley 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 C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Crawley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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.

Certificate

We certify that we have completed the audit of the accounts of Crawley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Crawley Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
23 July 2019



05

# Audit Differences





## Audit Differences

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In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We undertook to highlight misstatements greater than £135,000 which have been corrected by management that were identified during the course of our audit. At the time of writing this report, there were no corrected misstatements greater than this amount.

# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements	Effect on the current period:	Balance Sheet (Decrease)/Increase			
		Assets current Debit/(Credit)	Assets non-current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Equity
Errors	£		£		
Known differences:					
• Overstatement of defined benefit scheme liabilities				543,000	(543,000)
• Ifield playing fields – valuer used incorrect land size.			(152,000)		152,000
Balance sheet totals			(152,000)	543,000	(391,000)
Income effect of uncorrected misstatements (before tax)	Nil				

## Uncorrected misstatements in the statement of cash flows

There are no uncorrected misstatements in the statement of cash flow

## Uncorrected disclosure misstatements

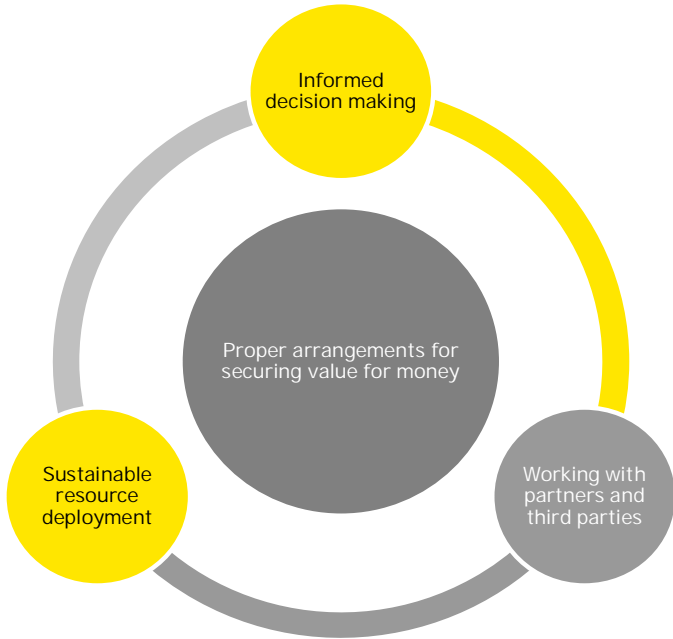
There are no uncorrected disclosure misstatements.





06

## Value for Money Risks



## Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks in so far as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Council will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



What is the significant value for money risk?	What arrangements does the risk affect?	What did we do?
<p>New Town Hall Project: Informed Decision Making:</p> <p>The project to demolish the existing Town Hall and replace it with a new Town Hall; affordable housing; car parking; and a heat distribution network has been under discussion and consideration for more than a year. To date though, material sums have not been spent on the project.</p> <p>Planning permission has been obtained for the New Town Hall construction but at the time of writing this report, it was understood that there were other elements (e.g. heat distribution network) yet to receive planning permission.</p> <p>Crawley Borough Council exchanged New Town Hall project management contracts with Westrock on 18<sup>th</sup> October 2018. Our understanding is that over the course of 2018/19, some £2 million will be spent by the Council on professional fees and a payment of some £5 million will be made out of the capital budget for land values associated with housing elements of the project. Expenditure is therefore expected to be material for the first time.</p> <p>Governance processes are new. During 2017-18, main oversight was exercised through a fortnightly officer's meeting. New Project Board Terms of Reference have now been drafted.</p> <p>Financing of the project is also developing. The February 2019 Treasury Management Strategy will include plans for financing the project when it is published.</p>	<p>Informed decision making and sustainable resource deployment:</p> <p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p> <p>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p> <p>Managing risks effectively and maintaining a sound system of internal control.</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>• Evaluating new Project Board Skills and Capacity and Terms of Reference and actions taken by Council in response to Project Board recommendation or decisions.</li> <li>• Reviewing the effectiveness of other reporting channels, considering for example the transparency and quality of reporting to Cabinet, Full Council and the public.</li> <li>• Assessing quality of information underpinning decision making. We considered the appropriateness of advisers engaged by officers and the terms of reference used to do so. Assessing also the effectiveness of procedures for responding to project information as it emerged.</li> <li>• Confirming which elements of the project have all planning permissions in place and monitor/ assess impact of progress in seeking planning permissions for other elements.</li> <li>• Reviewing the process by which the Council considers and appoints key partners as part of the project.</li> <li>• Obtaining and reviewing the February 2019 Treasury Management Strategy paper. Assessing the quality of information supporting that paper and the potential impact of any future borrowing plans on financial resilience.</li> <li>• Evaluating wider arrangements to ensure financial resilience of the Council, considering factors affecting future spending and the UK economy as a whole (including for example, the departure of the UK from the European Union).</li> </ul>





## Other matters to bring to your attention

### What are our findings?

Due to delays in securing planning permission, actual spend on the new Town Hall project totalled £1.982 million during 2018/19.

From our review of arrangements in place, we were satisfied that a Project Board with appropriate skills and capacity had been put in place and that appropriate procedures for reporting, scrutiny and transparency were being followed.

We were satisfied that proper due diligence and independent advice supported decisions and that suitable governance arrangements were in place to make informed decisions on the project.

We have reviewed the financial forecasts, and whilst noting that there is not excessive room for manoeuvre within the budget, the Council has in place mechanisms to minimise the impact through cost reduction and potential upside in the income assumptions.

We made one specific observation to management regarding an additional source that could have been consulted (Arrowsmith) in considering the use of direct awards to deliver efficient outcomes, but we were satisfied that the Counsel's advice sought, along with an appropriately issued VEAT notice, was sufficient to support the decisions being made.

Looking forwards we note that the authority is in the process of appointing a Stage 5 delivery partner and conducting required due diligence on the proposed appointment. We made observations regarding the need to demonstrate an overarching risk analysis, particularly with regard to business continuity of the delivery partner. We also made observations regarding consulting the necessary stakeholders to get the required approvals and, where relevant, the criteria the authority may wish to consider including in letters of comfort and contractual arrangements.



# 07 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements .

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

At the time of writing this report, we had not yet completed procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits





08

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client.

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.





# 09 Data Analytics





# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

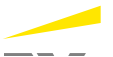
We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.







10

Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report of November 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 23 July 2019.

## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements in relation to the housing subsidy grant claim. Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	Note 1	Note 1	50,291	63,811
Non-audit work [Housing subsidy grant claim]	TBC Note 2	12,559 Note 2	N/A	14,886

Note 1 - We have undertaken additional work in relation our significant VfM risk - New Town Hall project, which included seeking external legal advice. We are not yet in a position to quantify the costs associated with this work but any variation to the fee will need to be agreed with officers and approved by PSAA.

Note 2 - From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed us to act as reporting accountants in relation to the housing subsidy claim. The fee is based on:

- £12,559 plus VAT and expenses for the baseline certification work
- £1,000 - £4,000 plus VAT and expenses for each set of extended ("40+") testing.

The final fee therefore will be dependent on the level of extended testing required for the 2018/19 claim.








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Appendices

## Appendix A

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit planning report	

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Crawley Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	No subsequent events have been identified that would impact either individually or together on Crawley Borough Council's financial statements as at 31 March 2019
Fraud	<ul style="list-style-type: none"> <li>Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit results report

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report – notes that none were identified
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

To:

Andrew Brittain  
Associate Partner  
Ernst & Young LLP  
Apex Plaza,  
Forbury Road  
Reading RG1 1YE

Ernst & Young

This letter of representations is provided in connection with your audit of the financial statements of Crawley Borough Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Crawley Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences brought to our attention from the audit because we do not consider their impact to be material to the accounts.

# Management representation letter

## Management Rep Letter

### Non-compliance with law and regulations, including fraud

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions We have provided you with:

- Access to all information of which we are 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 us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 23 July 2019.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Management representation letter

## Management Rep Letter

### D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 40 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property and in generating the IAS19 pension disclosures. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### H. Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### I. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed on behalf of Crawley Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 23 July 2019

Signed:

Karen Hayes (Head of Corporate Finance)

Date: 23 July 2019

Cllr Pickett (Chair of the Audit Committee)

Date: 23 July 2019

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ED None

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# Agenda Item 9

## Crawley Borough Council

### Report to Audit Committee

23 July 2019

### Approval of the 2018/19 Statement of Accounts

Report of the Head of Corporate Finance (FIN/477)

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#### 1. Purpose

- 1.1 The purpose of this report is to seek member approval of 2018/19 Statement of Accounts and to comply with the statutory deadline of 31 July 2019.

#### 2. Recommendations

- 2.1 It is recommended that:
- a) The 2018/19 Statement of Accounts be approved
  - b) The Committee approve the rationale why the unadjusted audit difference has not been corrected.
  - c) The Chair of the Audit Committee be authorised to sign the 2018/19 Letter of Representation.
  - d) The Chair of the Audit Committee be authorised to sign the 2018/19 Statement of Accounts on behalf of the Council.

#### 3. Reason for the Recommendations

- 3.1 The Council has a statutory responsibility to approve the statement of accounts by 31 July.

#### 4. Background

- 4.1 The Accounts and Audit Regulations 2015 set out the requirements for the accounts and audit of certain public bodies. One of the requirements is for the statement of accounts to be approved by a resolution of a Committee and for the Chair to sign the accounts. The latest date for approval is 31 July 2019.
- 4.2 To enable the accounts to be signed by the due date and to encourage a robust review of the accounts, Full Council has delegated the approval to this Committee.
- 4.3 This report deals with the Council's accounts as published in the required statutory format. The focus of the report is on recording all the assets and liabilities of the Council rather than a comparison with the original budget plans for the year. A summary of the outturn for 2018/2019 comparing actual expenditure against approved budgets was considered by Cabinet in June.

# Agenda Item 9

## **5. Narrative Statement**

- 5.1 The Narrative Statement is attached as Appendix B. The Narrative Statement, Statement of Accounts, and the Annual Governance Statement are shown as separate documents.
- 5.2 The narrative statement includes a brief explanation of the financial statements (see Section 7).

## **6. Statement of Accounts 2018/19**

- 6.1 The 2018/2019 Statement of Accounts is attached as Appendix C.
- 6.2 As last year, the Comprehensive Income and Expenditure Statement is now prepared on the same basis as the Council is organised – so the services breakdown is on a Portfolio basis. The Expenditure and Funding Analysis links the Outturn report to the Comprehensive Income and Expenditure Statement.
- 6.3 The statement of accounts is a very technical document and is not easy to understand. The main points from the accounts are set out below:
- 6.4 The Movement in Reserves Statement shows a decrease in the General Fund balance (inclusive of Earmarked Reserves) of £0.3 million (page 9). Note 10 details the contributions to, and use of, earmarked reserves. The Council's total usable reserves have decreased during the year from £101.9 million to £92.8 million. The main reason for this is the capital programme on the HRA and the building of new council dwellings.
- 6.5 The Balance Sheet (pages 11-12) shows that the Council's total assets less liabilities have remained broadly the same at £664.1 million. Whilst assets have increased, there has been an equal movement in the pension liability.
- 6.6 An explanatory document "Understanding Local Authority Financial Statements" in Appendix E aims to give Members and other stakeholders an introduction to the format of the accounts.

## **7. Unadjusted Audit Difference**

- 7.1 The Audit Results Report shows a net unadjusted audit difference of £391,000. This relates to an overstatement of pension scheme liabilities of £543,000 and an overstatement of the value of 1field playing fields of £152,000.
- 7.2 The audit difference is below the materiality level for the Council, and management do not consider it necessary to amend the Statement of Accounts for the following reason:
  - It only affects the Balance Sheet and the Unusable Reserves of the Council, and does not impact on the previously reported outturn.

## **8. Annual Governance Statement**

- 8.1 The Accounts and Audit Regulations 2015 establish requirements relating to systems of internal control, and the review and reporting of those systems.



# Agenda Item 9

Internal control and risk management are recognised as important elements of good corporate governance. The regulations state that:

*“A relevant authority must ensure that it has a sound system of internal control which—*

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk.”*

- 8.2 The Council is required to produce an Annual Governance Statement in line with guidance contained in the CIPFA/SOLACE document “Delivering Good Governance in Local Government”. Details of the 2018/2019 review are set out in Appendix D. The Annual Governance Statement has been approved and signed by the Leader and the Chief Executive.

## **9. Audit of Accounts for 2018/2019**

- 9.1 The audit of the accounts commenced in June. The work is due to be completed by 31 July. As stated in Ernst & Young’s Audit Results Report (elsewhere on the agenda) no substantial issues have emerged as a result of the audit.

## **10. Letter of Representation**

- 10.1 The Letter of Representation (Appendix A) are the assurances made by management and members to the auditors that all information pertinent to the audit has been made available to them.

## **11. Background Papers**

- 1. Accounts and Audit Regulations 2015
- 3. of Practice on Local Authority Accounting in the UK 2018/2019 (Chartered Institute of Public and Accountancy)
- 4. Notes for Practitioners (Chartered Institute of Public Finance and Accountancy)

Report author and contact officer: Paul Windust, Chief Accountant (Direct Line: 01293 438693)

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Crawley Borough Council  
Town Hall  
The Boulevard  
Crawley  
West Sussex  
RH10 1UZ

To:  
Andrew Brittain  
Associate Partner  
Ernst & Young LLP  
Apex Plaza,  
Forbury Road  
Reading RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Crawley Borough Council (“the Council”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Crawley Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## **A. Financial Statements and Financial Records**

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements

in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit difference, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences brought to our attention from the audit because we do not consider their impact to be material to the accounts.

## **B. Non-compliance with law and regulations, including fraud**

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers") including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

## **C. Information Provided and Completeness of Information and Transactions**

We have provided you with:

- Access to all information of which we are 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 us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 23 July 2019.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **D. Liabilities and Contingencies**

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 40 to the financial statements all guarantees that we have given to third parties.

#### **E. Subsequent Events**

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **F. Other information**

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.

We confirm that the content contained within the other information is consistent with the financial statements.

#### **G. Use of the Work of a Specialist**

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property and in generating the IAS19 pension disclosures. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given

to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## **H. Estimates**

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

## **I. Retirement benefits**

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed on behalf of Crawley Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 23 July 2019

Signed:

Karen Hayes (Head of Corporate Finance)

Date: 23 July 2019

Cllr Pickett (Chair of the Audit Committee)

Date: 23 July 2019

# **Narrative Report**

**2018 – 2019**

## Narrative Report (Continued)

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### 1. An Introduction to Crawley Borough Council

Crawley Borough covers just under 18 sq miles and has a population of approximately 111,700 residents, which is growing and forecast to reach 122,000 by 2034. It is situated in the north eastern part of the county of West Sussex.

Crawley is a bustling modern town and the major economic force in West Sussex as well as the Gatwick Diamond area, with over 3,000 active businesses.

Crawley Borough benefits from Gatwick Airport located within it, the world's busiest single runway airport, which hosts up to 46 million passengers per year and also from Manor Royal, the South East's premier business park, which employs 30,000 people and accommodates 600 businesses across 240 hectares. The land between Manor Royal and the airport is required to be safeguarded for a potential second runway.

Despite having just two per cent of the West Sussex land mass, Crawley contributes 25 per cent of its annual economic wealth output – it is superbly placed to sustain high value economic growth. Crawley's economy is not worth almost £5bn per annum in Gross Value Added and is one of the fastest growing in the Coast to Capital LEP area.

With 102,000 jobs and growing, Crawley has the second highest job density in the country outside Central London. Centre for Cities 2016 report, has found that Crawley is one of the most productive and innovative places in the UK (10<sup>th</sup> lowest JSA claimant count, 2<sup>nd</sup> highest weekly wages (after London), highest proportion of private sector jobs. The number of businesses in Crawley has grown by over 30% since 2013.

The town is divided into a series of residential neighbourhoods around the town centre, each with its own schools, shops and community facilities. Crawley has a rich history and heritage going back to the Bronze Age, but the town really took off in the 1940's when it was designated one of 8 'New Towns'. The town centre is undergoing major physical transformation with the regeneration of Queens Square over 600 new town centre residential units completed since 2014 and a further 1,050 with planning permission of which over 300 in the construction phase.

We have an ambitious programme of regeneration in the town centre, which is building on the strengths of the town's economy to help develop retail, employment, business and residential opportunities. The Queens Square refurbishment has been completed, we are now expanding these improvements to Queensway, major new developments and the wealth of town centre opportunity sites make Crawley the place to invest in.



## Narrative Report (Continued)

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### 2. **Council Structure-the council is made up of Portfolios, the structure below is for the financial year 2018/19 -**

#### **Cabinet (Leader)**

Leadership of the Council including:

- overall policy direction
- financial strategy
- representing the Council in the community
- negotiating with national organisations
- emergency planning
- democratic renewal
- concessionary travel
- regional governance and development

#### **Planning and Economic Development**

Responsibility for:

- local development framework
- transport issues
- economic development
- liaison on highways issues
- Gatwick strategy

#### **Resources**

Responsibility for driving up the performance of council services.

Specific responsibilities include:

- human resources and staffing issues
- ICT and e-government
- customer services and complaints
- the council's Contact Centre
- procurement
- performance issues across the whole council
- democratic services
- fostering interest in local government

#### **Public Protection and Community Engagement**

Responsibility for driving up the performance of council services.

Responsibility for:

- community strategy and planning
- community and neighbourhood development

## Narrative Report (Continued)

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- community safety
- equal opportunities
- grants to voluntary bodies
- issues relation to travellers
- health

### Housing

Responsibility for:

- Crawley Homes (landlord role)
- housing strategic services
- liaison and joint working with housing agencies

### Environmental Services and Sustainability

Responsibility for:

- public and environmental health
- waste management and recycling
- Port Health
- land drainage

### Wellbeing

Responsibility for:

- arts (including The Hawth)
- museums and galleries
- sport and fitness
- parks and open spaces
- allotments
- play service
- liaison with education authority
- community centres
- nature conservation

## 3. Council's Performance

### In 2018/19

- The Queens Square regeneration scheme has unlocked over £30 million of private sector investment in and around Queens Square.
- 216 residential units completed at the Apex building – former Southern Counties site, this includes 87 new Crawley Homes units for affordable housing.

## Narrative Report (Continued)

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- 3 major planning public enquiries on unauthorised off site airport parking successfully defended, upholding major planning policies in conjunction with Gatwick Airport.
- Crawley Borough Council launched a new online service which gives residents instant access to council services, when it suits them. The myCrawley self-service portal delivers secure access to account information including real-time rubbish, recycling and garden waste updates.
- Crawley's brand new museum opened its doors to the public in the summer.
- The town's Victorian bandstand was also opened in its new location, Memorial Gardens. The bandstand was refurbished and restored to its former beauty by a specialist decorative blacksmith.
- Crawley's own second Passivhaus development in Dobbins Place in Ifield West was completed. The development provides four – two bed houses and two – two bed maisonettes, complete with private gardens.
- Housing developments at Telford Place and Forge Wood received a government grant from Homes England's Housing Infrastructure Fund worth more than £6m helping to unlock another 620 new homes in the town.
- Worth Park joined Tilgate Park, Goffs Park and Memorial Gardens as one of the very best green spaces in the UK. Worth Park has been awarded the prestigious Green Flag for the first time and also received the Heritage Accreditation.
- Crawley Borough Council was awarded a grant by Arts Council England to stage the cultural event, CHIME, at the end of 2018. Hundreds of residents and visitors enjoyed the afternoon of music, dance, food demonstrations and tastings and community stalls. CHIME celebrated the town's cultural diversity with the unifying theme of light and sound.
- A free, innovative, training and support programme for Crawley's independent retailers, in partnership with Crawley College and Solent University, has been introduced.
- The brand new Small Independent Retail Training and Support Programme aims to enhance the success of local businesses in the area by offering hands on support, worth more than £1,800, to help businesses make small changes to see big results.
- Community Wardens scooped up the RSPCA's Gold Stray Dog Footprint for the tenth year in a row. In acknowledgment of the PawPrint Award's 10th anniversary and the Community Wardens' decade of commitment to animal welfare, they have subsequently achieved the Platinum Stray Dog Footprint.
- Hundreds of residents flocked to the town centre for fourth year of free outdoor cinema screenings in September. The council also hosted another cinema screening at the Halloween event in Queens Square. December saw Tilgate Park's Magical Christmas and Crawley Ice Rink in Goffs Park.
- During the winter, Crawley Borough Council offered local rough sleepers a unique, safe and warm place to sleep thanks to local charities Crawley Open House and The Danny Gallivan Trust. Danny the Bus is a double decker bus that offers separate sleeping pods for both men (8 spaces)

## Narrative Report (Continued)

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and women (4 spaces), alongside a kitchen and seating area. The bus was refurbished by Crawley Men's Shed over the course of 2018. Danny was operated by Crawley Open House during periods of extreme cold weather.

- Crowdfunding platform, Crowdfund Crawley, has seen ten projects reach their goals since the launch in June 2018. A cumulative total of £53,715 has been raised by 143 backers across the ten successful projects. Through the Neighbourhood Improvement Fund, the council has pledged £15,480 over six projects.
- Crawley Borough Council has won Skills Academy status for existing and forthcoming construction sites in Crawley Town Centre. The council has been given this prestigious recognition and the chance to launch a Town Centre Skills Academy by the Construction Industry Training Board (CITB).
- A 'wall of fame' feature in K2 Crawley has been created by Crawley Borough Council to honour "Crawley's Sporting Excellence" and consists of 13 sportspeople with a connection to Crawley.
- The inaugural Run Gatwick, which took place on Sunday 13 May 2018, incorporated the International Half Marathon, 5K race, corporate 5K and a Family Run for children aged four to 15 years, this was a very successful and won a gold award for 'New Event' from Running awards and Silver for '5K national'.
- £180,000 of Crawley Growth Programme funds invested in high quality brand new signage and wayfinding across Crawley Town Centre using place branding.
- S106 funds invested in High Street public realm improvement scheme, successfully removing unwanted car parking from the High Street.

### Some statistical information on our achievements

- 153,453 visits to Tilgate Park Nature Centre
- 207,659 attendances at the Hawth Theatre
- 1,374,805 attendances at our Leisure Centres
- 6,696 residents in receipt of Housing Benefits
- 7,142 residents in receipt of Council Tax Reduction (formally Council Tax Benefit)
- 207 Households were prevented from becoming Homeless
- 125 Households who Homelessness was relieved
- 2,136 Households on the Housing Register
- 159 Affordable Homes delivered in year with 381 Homes that are on site and due to be completed over the next two years.
- 28 People were helped to work through 'Employ Crawley'
- 341 Residents assisted on their journey towards or into employment
- 807 Freedom of Information requests processed
- 4,527 myCrawley accounts set up
- 903 Planning Applications processed, 529 Pre-Application enquiries, 30 appeals, 197 Planning Enforcement Investigations.
- 106,908 calls into the Contact Centre

## Narrative Report (Continued)

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- 3,677,200 scheduled refuse collections
- 382 Environmental Health Food Hygiene inspections, 93 Health and Safety Inspections (relating to accident notifications/investigations and alternative enforcement strategies)
- Almost 9,000 visitors to the New Museum
- 7,172 people assisted by the Health & Wellbeing team
- 7,726 Green Garden Waste Bin customers
- £128,814,441 collected in Business Rates - the majority of this is passed to the Government
- £58,921,594 of Council Tax collected, Crawley Borough Council kept 11.8p in each £1 collected with the balance transferred to West Sussex County Council and the Sussex Police and Crime Commissioner.

### Corporate Priorities in 2018/19

#### 1. Delivering value for money and modernising the way we work

We will:

- Continue to balance the budget (over a three year period), by improving our efficiency, increasing income and investing ethically and wisely.
- Work to keep council tax low without compromising local services and put money back into local reserves where possible, to finance future investments.
- Deliver the Transformation Plan.
- Develop digital service delivery enabling customers to engage with council services at their convenience, via an updated website and a new online self-service application.
- Develop a new Town Hall with lower running costs and high grade office space for residents, staff and commercial tenants.

#### 2. Delivering affordable homes for Crawley and reducing homelessness

We will:

- Continue to deliver as much affordable housing as possible, particularly Council housing, through our own-build and enabling programmes for people with a local connection to Crawley.
- Drive down homelessness across the borough and support partner agencies to help those most in need.
- We will continue working with neighbouring councils to ensure that they provide housing for Crawley residents through their 'duty to co-operate' arrangements.

#### 3. Improving job opportunities and developing the local Economy

We will:

- Develop an Economic Development vision and plan.

## Narrative Report (Continued)

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- Deliver the Crawley Growth Programme to provide major improvements to the town's infrastructure, including more sustainable transport and better community facilities.
- Deliver pathways to better job opportunities for local residents, through the ongoing development and delivery of Crawley's Employment and Skills Plan.
- Continue to work closely with our Local Economic Partnerships to deliver economic growth and jobs in the town.
- Utilise our place making responsibilities and powers to drive business growth and create new employment opportunities.

### **4. Creating stronger communities**

We will:

- Support local groups in delivering a range of events and activities that celebrate Crawley's diversity.
- Promote neighbourhood forums as a means of giving residents a voice over how services are delivered.
- Continue to help local voluntary organisations, through the grants process to provide important services.
- Continue to work with our partners to make Crawley a safe place.

### **5. Providing high quality leisure and culture facilities and supporting health and wellbeing services**

We will:

- Continue to invest and enhance the town's leisure and culture facilities, such as local parks, the Museum, K2 Crawley, the Hawth, adventure playgrounds and the Nature Centre.
- Work with partners and other key stakeholders to enhance our resident's health and wellbeing and reduce health inequalities across our town.

### **6. Protecting the environment**

We will:

- Protect and enhance our environment by reducing the Council's and the town's Carbon footprint.
- Deliver a number of energy efficient schemes including, a District Heat Network for the Town Centre, Combined Heat and Power at K2 Crawley and a Water Source Heat Pump at Tilgate Park.
- Continue to reduce, reuse and recycle our waste, providing the mechanisms to encourage residents to do more to recycle their waste.
- Continue to seek measures to improve the air quality across the Borough.
- Implement Crawley 2030, Local Plan and ensure that it remains up to date and reflects the key issues and growth challenges facing the town.

## Narrative Report (Continued)

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- Continue to provide a safe, clean and well maintained town, through the use of area focussed multi skilled teams.

### 4. Financial Performance

#### Revenue Expenditure and Income in 2018/19

In February 2018 the Council set a net expenditure budget for 2018/19 of £14.1million. This resulted in a Band D Council Tax for Crawley of £198.99 and a total Band D Council Tax including the precepts from West Sussex County Council and Sussex Police and Crime Commissioner of £1,682.68.

The 2018/2019 budget provided for a transfer to reserves of £0, at outturn this was higher due to the successes of the Council's transformation plan, budget efficiencies and sound financial management which brought forward efficiencies and savings and additional income and resulted in a contribution to revenue reserves of £425,181. In addition, £569,720 was transferred from the Business Rate Equalisation Reserve in accordance with the Budget Strategy.



**Narrative Report (Continued)**

	Original Budget £000's	Latest Budget £000's	Outturn £000's	Variance £000's
Cabinet	1,263	1,397	1,391	(6)
Public Protection & Community Engagement	1,659	1,777	1,754	(23)
Resources	1,285	1,400	1,324	(76)
Environmental Services & Sustainability	5,882	6,015	5,830	(185)
Housing	2,589	2,976	2,541	(435)
Wellbeing	8,314	9,722	9,796	74
Planning & Economic Development	(2,815)	(1,417)	(971)	445
<b>Total Portfolio Variances</b>	<b>18,176</b>	<b>21,870</b>	<b>21,664</b>	<b>(206)</b>
Depreciation	(3,596)	(3,940)	(3,940)	0
Renewals Fund	400	400	400	0
Investment Interest	(848)	(863)	(1,038)	(175)
New Homes Bonus	(1,467)	(1,467)	(1,467)	0
Transfer to Tilgate Park Investment reserve			10	10
Grant - Business Rates Levy Surplus		0	(55)	(55)
Year-end Financing	0	(1,971)	(1,970)	1
<b>Transfer to General Fund Reserve</b>			<b>425</b>	<b>425</b>
<b>Sub Total</b>	<b>12,665</b>	<b>14,029</b>	<b>14,029</b>	<b>(0)</b>
Funded by -	0			
Council Tax	(6,930)	(6,930)	(6,930)	0
RSG	(575)	(575)	(575)	0
NNDR	(5,160)	(6,524)	(6,524)	0
<b>Sub Total</b>	<b>(12,665)</b>	<b>(14,029)</b>	<b>(14,029)</b>	<b>0</b>
<b>Transfer from Business Rates Equalisation Reserve</b>	<b>0</b>	<b>0</b>	<b>570</b>	<b>570</b>
<b>Net Transfer (from) / to General Fund Reserve</b>	<b>0</b>	<b>0</b>	<b>995</b>	<b>995</b>

## Narrative Report (Continued)

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### Summary of the Housing Revenue Account

The Council continues to be the provider of rental accommodation within the borough with a stock of 7,956 dwellings at 31 March 2019. The Council is required to maintain a separate ring-fenced account to record all the financial transactions relating to those dwellings.

The change in stock can be summarised as follows:

	<b>31 March 2018</b>	<b>31 March 2019</b>
Stock at 1 April	7,946	7,921
Less Sales	(52)	(41)
Demolitions/Disposals	(12)	(1)
Add New Build	37	75
Acquisitions	2	1
Transfer to/from GF	0	1
<b>Stock at 31 March</b>	7,921	7,956

The income from tenants in council property was £44.9m in the year with other income to the HRA of £2.2m. The council took out loans on 28<sup>th</sup> March 2012 for £260.325m, borrowed from the Public Works Loan Board (PWLB). Interest on these loans amounted to £8.309m. This payment replaces the negative housing subsidy. As a result there is more certainty within the Housing Revenue Account as interest on the loans has been fixed over 26 years and a robust business plan to invest additional resources in place.

The balance was invested in the provision of council housing including management and maintenance of over 7,800 dwellings, 4,600 garages and 1,585 leasehold properties. There was a transfer to the Major Repairs reserve in the year of £19.961m for future investment in housing stock.

The Housing Revenue account saw an underspend in year due to additional rental income and reduced staffing costs in the year due to vacancies.

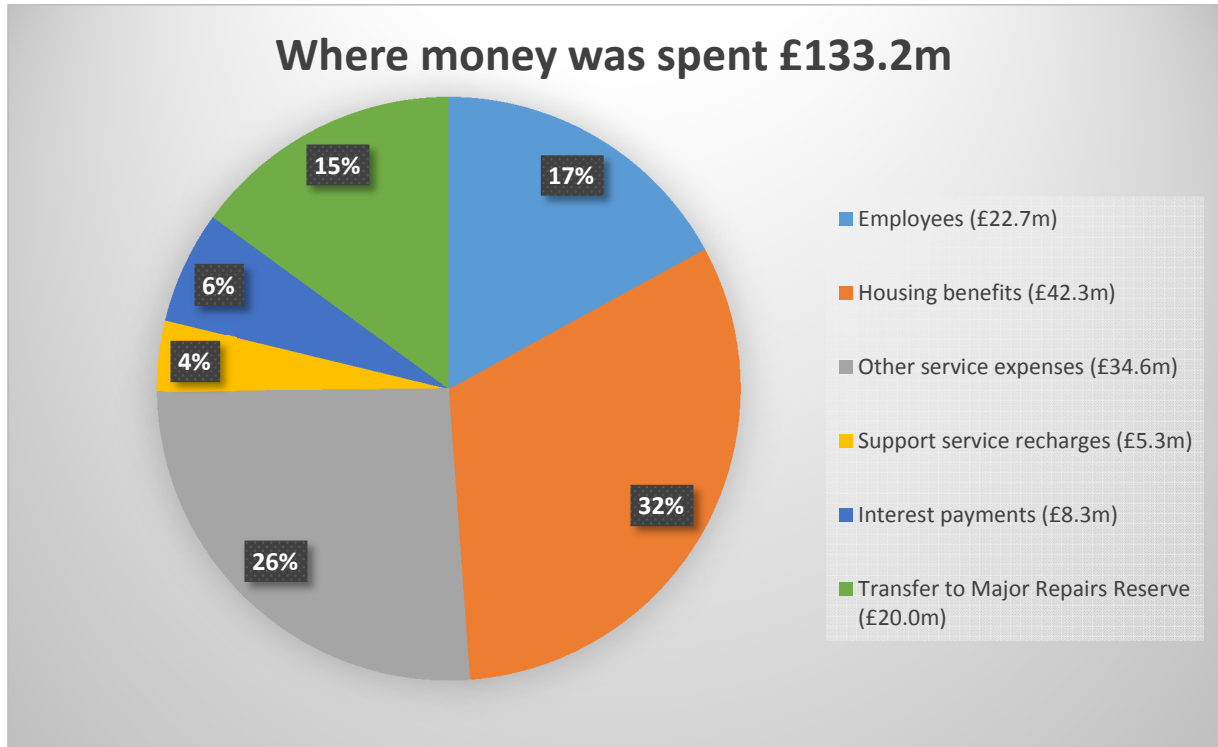
**Narrative Report (Continued)**

<b>HOUSING REVENUE ACCOUNT</b>			
<b>Expenditure Description</b>	<b>Latest Estimate</b> £'000s	<b>Outturn</b> £'000s	<b>Variation</b> £'000s
<b>Income</b>			
Rental Income	(44,697)	(44,875)	(178)
Other Income	(2,022)	(2,152)	(130)
Interest received on balances	(209)	(191)	18
<b>Total income</b>	<b>(46,928)</b>	<b>(47,218)</b>	<b>(290)</b>
<b>Expenditure</b>			
Employees	3,608	3,451	(157)
Repairs & Maintenance	10,515	10,600	85
Other running costs	2,133	2,094	(39)
Support services	2,673	2,673	0
	<b>18,929</b>	<b>18,818</b>	<b>(111)</b>
<b>Net (Surplus) / Deficit</b>	<b>(27,999)</b>	<b>(28,400)</b>	<b>(401)</b>
Use of Reserves:			
Debt Interest Payments	8,309	8,309	(0)
Depreciation, Revaluation & Impairment	6,437	6,437	0
Financing of Capital Programme & Transfer to Housing Reserve for Future Investment	13,253	13,654	401
<b>Total</b>	<b>27,999</b>	<b>28,400</b>	<b>401</b>

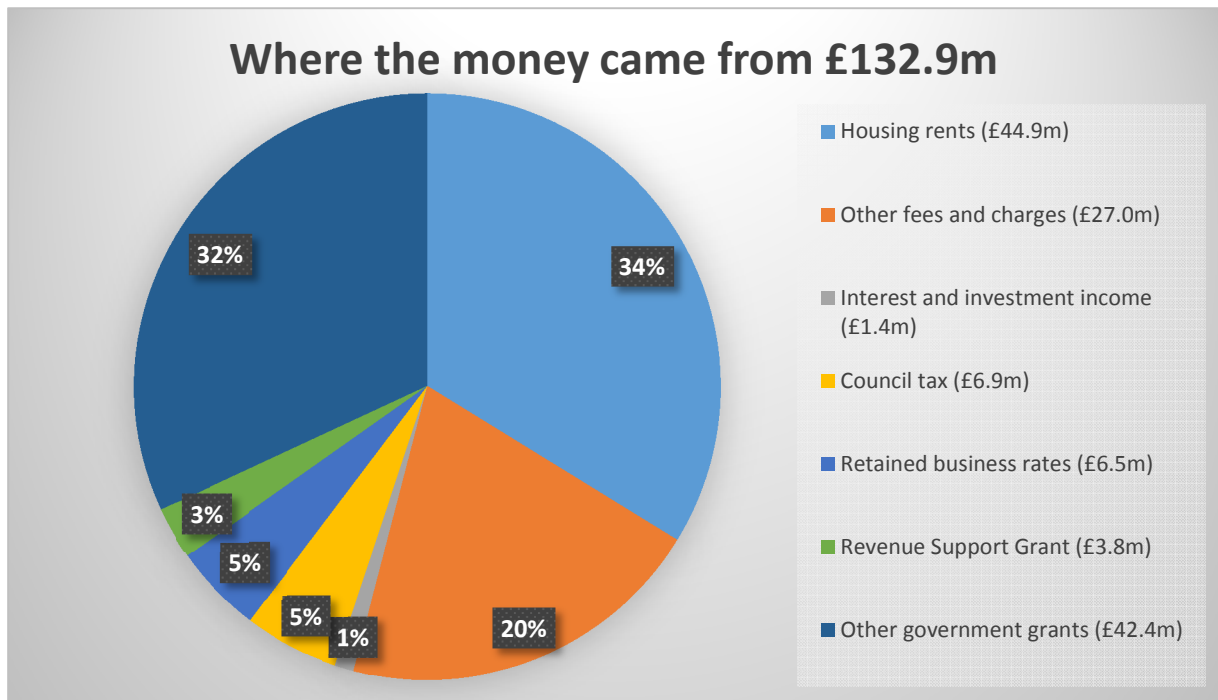
**Total Revenue Expenditure**

Overall the Council incurred expenditure in 2018/19 of £133.2m on its services to the public.

Narrative Report (Continued)



The main sources of income are depicted below:



The tables above are different from the figures reported in the statement of accounts because they have been adjusted from an accounting basis to a funding basis. The net expenditure of £0.3m agrees to the deficit on General Fund and HRA Balance in year as reported in the Expenditure and Funding Analysis and the Movement in Reserves Statement.

## Narrative Report (Continued)

### Capital Programme

The Council is embarking on an ambitious capital programme of £186m from 2018/19. This includes £126m within Crawley Homes for investment in new and existing housing stock.

In 2018/19 the Council spent £45.210 million on capital assets, which was funded from the sale of assets, capital grants, external funding and revenue resources

Portfolio Description	Outturn 2018/19 £000's	2019/20 Latest Budget £000's	2020/21 Latest Budget £000's	2021/22 Latest Budget £000's
Cabinet Resources	2,120	3,425	931	-
Environmental Services & Sustainability	94	991	400	67
Planning & Economic Development	825	2,392	2,961	-
Public Protection & Community Engagement	1,267	12,282	8,507	2,600
Housing Services	1,870	7,066	3,426	4,173
Wellbeing	1,472	2,243	517	-
<b>Total General Fund</b>	<b>7,648</b>	<b>28,399</b>	<b>16,742</b>	<b>6,840</b>
<b>Housing Revenue Account</b>	<b>37,562</b>	<b>44,026</b>	<b>18,993</b>	<b>25,366</b>
<b>Total Capital</b>	<b>45,210</b>	<b>72,425</b>	<b>35,735</b>	<b>32,206</b>

The table below summarises the approved resources available to fund the capital programme to 2021/22, this excludes the full costs associated with the New Town Hall as the scheme has not been fully legally signed off yet.

<b>Funded By</b>				
Capital Receipts	1,792	21,666	3,384	44
Capital Reserve	2,240	25	5,000	-
Disabled Facilities Grant	913	1,153	-	-
Lottery & External Funding	1,242	706	3,879	2,600
1-4-1 Receipts	7,478	12,291	6,177	3,139
MRR	30,047	35,125	16,896	17,423
Replacement Fund/Revenue Financing	902	571	-	-
Section 106	596	888	399	-
Borrowing	-	-	-	9,000
<b>TOTAL FUNDING</b>	<b>45,210</b>	<b>72,425</b>	<b>35,735</b>	<b>32,206</b>

**Narrative Report (Continued)**

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Financial outturn

The table below reconciles the outturn for the General Fund and HRA back to the Expenditure and Funding Analysis.

	<b>General Fund £'000</b>	<b>HRA £'000</b>	<b>Combined £'000</b>
<b>Total Portfolio (General Fund) and HRA Surplus</b>	<b>21,664</b>	<b>(28,400)</b>	<b>(6,756)</b>
Revaluation losses	(710)	-	(710)
Movement in investment properties	(370)	-	(370)
Capital grants	2,077	-	2,077
Revenue expenditure funded from capital	(2,313)	-	(2,313)
Pensions	(2,148)	-	(2,148)
Accumulated absences	(9)	-	(9)
<b>Net Cost of Services in the Expenditure and Funding Analysis</b>	<b>18,191</b>	<b>(28,400)</b>	<b>(10,209)</b>

**5. Corporate Risks**

**Failure to deliver key infrastructure projects as planned, on time and within budget, such as:**

- **Town Hall and District Heat Network**

The Council are working with Westrock in delivering a potential mixed use development which would see the provision of a new town hall, commercial office space and residential units on the town hall and adjacent car park site. A recommendation on the preferred option was presented to Cabinet early in 2017 and was approved at Full Council on 22<sup>nd</sup> February 2017. This proposal will require a partial demolition of the current building to allow for the development of a new Town Hall within the site. Planning permission for the New Town Hall was granted in June 2018, and for the District Heat Network in November 2018. Project Agreements with Westrock were signed in October 2018; A2 Dominion (Social Housing provider) agreed to take on the Babcock's Car Park Site in December 2018 and works have commenced; and the business case for the District Heat Network was also signed off in December 2018. The majority of staff have now been decanted from the proposed demolition area. A risk register for the scheme is updated by the project team on a fortnightly basis and will be shared with the Audit Committee. Tender prices for the DHN and the New Town Hall are due back in June

## Narrative Report (Continued)

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and July respectively. Subject to these, work on decommissioning is scheduled to commence in August.

- **LEP Infrastructure – Crawley Growth Programme**

CBC, together with WSCC (the lead body) was successful in securing £14.6 million of Local Growth Fund from the Coast to Capital LEP in autumn 2017, as part of the Crawley Growth Programme – a £60m package of public and private sector funding.

The principal purpose of the Crawley Growth Programme investment is to help bring forward regeneration sites to achieve new homes, jobs, and commercial space. The above resources are being invested in sustainable transport, highway and public realm infrastructure in the town centre and Manor Royal. The Worth Park Avenue cycle path, the Crawley town centre signage scheme and the Real Time Passenger Information upgrades at bus shelters across Crawley have already been completed. Some additional town centre signage has been installed and new signage for Queensway and Memorial Gardens will be installed once the Queensway public realm scheme is complete.

The Programme is being delivered over the period 2017 to 2021, founded on dialogue and active partnership working with stakeholders such as Metrobus, the Manor Royal BID, Gatwick Airport Ltd, Network Rail and site developers. It is being overseen by the Crawley Growth Board, chaired by CBC's Chief Executive and CBC key decisions on schemes going forward will be subject to Cabinet approval and associated due process.

The Queensway – Pavement scheme, the latest town centre phase of the Crawley Growth Programme, is currently being implemented and the contractor Blakedown is due to complete the works on schedule and on budget by October 2019. Design work continues on several other Crawley Growth programme schemes, including Station Gateway, Eastern Gateway, and Manor Royal sustainable transport improvements.

### **Three Bridges Railway Station**

On 11<sup>th</sup> February 2015 [SHAP/43](#), Cabinet approved the allocation of £430,000 of S106 funding towards the delivery of improvement works to the Station Forecourt. Network Rail have formally agreed to extend the S106 funding spend deadline to end March 2021.

Member approval has been granted to reallocate £1.5 million of Borough Council capital programme funding, originally earmarked for the Queens Square regeneration scheme, to the Three Bridges station improvements programme. These funds are being combined with the above S106 resources along with over £1 million of Community Infrastructure Levy (approved by Cabinet on 7<sup>th</sup> February 2018).

The Three Bridges station scheme Programme Manager has been working closely with GTR Southern and Network Rail in order to progress delivery of the scheme to detailed design stage with the aim of submitting a planning application next year. GTR Southern and Network Rail have both joined the Three Bridges Project Steering Group alongside Crawley Borough Council and West Sussex County Council. On 21<sup>st</sup> March 2018 Cabinet approval was secured to commence work on the detailed design stage and to undertake comprehensive traffic modelling to determine the impact on traffic flows of the scheme, taking account of the recently upgraded traffic lights infrastructure outside Three Bridges station on Haslett Avenue East. The modelling work is currently being



## Narrative Report (Continued)

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assessed by the Highways Authority. Subject to the outcome of that assessment, further detailed design work will be undertaken later in the year.

A comprehensive risk register is overseen by the Project Board of the Crawley Growth programme.

### **Delivering the affordable housing programme**

The Administration has pledged to build as much affordable housing for local people as possible. Delivery is being programmed through the Strategic Housing Board and scrutinised at CMT and through the Corporate Projects Assurance Board. Current projections for the next 4 year delivery period (2018-2021) indicate that delivery can be maintained at a similar level to the previous 4 year monitoring period at just over 1,000 new affordable homes. Approximately 2/3rds of this delivery will be by the Council and the remainder by other Registered Providers of affordable housing.

The officer Strategic Housing board meet on a regular basis and review the use of 1-4-1 receipts; any future risks will be highlighted through the Quarterly Monitoring Reports to Cabinet and in the Councillors' Information Bulletin. Spend is currently on track.

Mitigating actions have been taken to address the impact of the four year 1% rent reduction on the HRA to ensure the delivery programme can be maintained. These included setting affordable rather than social rents for new development, discounted sale as an alternative tenure option, and some re-profiling of the delivery programme. HRA and 1.4.1 receipt funding is currently fully committed, however, the HRA debt cap has been abolished providing the opportunity for additional Prudential borrowing. This will enable The Council to proceed with a number of sites to maintain its own build programme. Additional borrowing to provide more affordable housing on Telford Place was agreed by Full Council on 27<sup>th</sup> February 2019.

The decision to leave the EU may impact upon the costs of housing schemes as future restrictions may increase labour costs, this will be monitored over the coming years.

Perhaps the greatest risk to the delivery of affordable housing lies beyond the medium term, once the current programme has been delivered. This reflects the fact that the majority of larger sites within the Council boundary that can easily be built will have been developed. This will leave smaller sites that are more challenging in nature, or finding other opportunities. Work is commencing that will seek to identify these future sites and opportunities.

### **Future Income Streams and Transformation Agenda**

In preparation for the New Town Hall the Council has agreed a wider transformation programme to prepare the organisation for a new era and to help us meet future demand, needs and financial pressures. The pillars (in addition to the New Town Hall) within the plan are Digital Transformation, New Ways of Working, Values and Behaviours, Redesigning Services, Commercial Approach (a separate risk is being created for this) and Reducing Bureaucracy. At a programme level, the key risks are:

- The interdependencies between the areas of work not being recognised. The capacity required by the transformation programme could take resources away from core delivery which could impact on performance, finance and reputation

## Narrative Report (Continued)

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- Services are not prepared for the move to the new town hall putting performance at risk, impacting negatively on service provision and/or creating non-planned for additional costs (or reduced income)
- Staff are not prepared for the move to the new town hall impacting on motivation recruitment and retention
- Technology does not support the desired ways of working impact on performance, finance and morale

To manage these risks, a Transformation Board at CMT level has been created. It brings together and oversees a high level plan to ensure coherence, manage interdependencies and change, allocate resources and ensure delivery. A full revised risk analysis is to be undertaken once current negotiations on the New Town Hall are completed as outcomes will affect analysis.

A further senior management group – Corporate Project Assurance Group - has also been created (September 2018). Its role is to ensure appropriate governance of projects and assure that key projects beyond the transformation programme are not adversely impacted from the constraint of capacity and resources. In fulfilling this role the group has reviewed a wide range of current projects following an initial risk analysis. In doing so it has made changes to strengthen the governance structures for projects, for example the IT Boards Terms of Reference and membership has been changed, and a new Major Procurement Board has been created. As set out in the Capital Strategy (agreed at Council on 27 February 2019), this group will now shift to a more forward facing stance in overseeing delivery of the Capital Strategy whilst maintaining its focus on governance.

### **Disaster Recovery and Business Continuity.**

A report to Cabinet on 9<sup>th</sup> September 2015 recommended a more resilient hosting of data by providing a resilient, energy efficient, cost effective and available hosting environment for the IT systems to support our services. A partnership contract has been agreed with Surrey County Council for them to host at the data centre. Since June 2017 100% of Virtual servers and 98.4% of has applications have been migrated to the Surrey Data Centre.

A 2<sup>nd</sup> Phase of work is now being planned to move additional Physical infrastructure to the Surrey Data Centre, including additional storage to support Electronic Information Management (EIM) and backups.

The Bewbush Centre has been designated as the Council's main alternative 'warm' site should there be no or limited access to the Town Hall building. There is a link from this building to the Surrey Data Centre so that most IT systems will remain operational in the event of the Town Hall being out of operation and it will be possible for staff to access the CBC network via this link. There is corporate Wi-Fi installed at Bewbush which will allow access for up to 70 users at the Bewbush Centre using laptops or tablets together with a small number of desktop network points.

The Bewbush Centre has been designated as the Council's main alternative site should there be no or limited access to the Town Hall building. Departments have recently been refreshing service business continuity plans to ensure arrangements are in place for service continuity in the unlikely event of significant disruption.

## Narrative Report (Continued)

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### **A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable.**

The Budget and Council Tax 2019/20 [FIN/462](#) report to Cabinet on 6<sup>th</sup> February 2019 showed that we achieved a balanced budget despite a 89.72% reduction in revenue support grant, efficiencies were identified and the Budget Advisory Group scrutinised growth bids which were accepted including investment town wide in shrub bed removal. The budget Strategy report was approved by [Cabinet on 31st October 2018](#), in addition projections are being constantly updated. Decisions made by West Sussex County Council that impact on Districts and Boroughs such as the amount of recycling credits paid will be a further demand on future budgets, the removal of the current sum paid would result in an increase of Council tax of £11.36 per Band D property. The proposed Fair Funding Review from 2020/21 makes it very difficult for all Local Authorities to project forward as the outcome will not be known until December 2019, the consultation closed on this on 21<sup>st</sup> February 2019. As a result there is a high possibility of the need to transfer either to or from reserves in 2020/21. Because of financial constraints, any growth items will have to be funded from savings, efficiencies or increased income, therefore there are increasing challenges over the medium term to incorporate future growth.

Projections will be updated when the outcome of Town Hall tendering is finalised. The Corporate Management Team continue to work with staff and contractors to identify and implement improved ways of working and to focus on the aim of dealing with matters first time. In addition the Chief Executive together with the Head of Corporate Finance have undertaken a 'Budgets Challenge' exercise with all Heads of Service – this has resulted in savings and efficiencies which will assist in meeting future budget gaps. This process will be repeated in the coming financial year together with a review of vacant posts.

The refreshed transformation programme of service improvements and efficiencies achieved through service reviews will continue with the aim of continual streamlining of internal processes to reduced waste and duplication, and also to focus on the defined purpose of each service. The transformation programme includes an increased focus on achieving new sources of income by applying a commercial lens where possible.

The impact of the decision to leave the EU may have a detrimental impact on the Council's objectives and finances, this will be reviewed as part of future budget strategy reports and the annual budget report.

### **Recruitment, Retention and succession planning.**

Recruitment and retention of key specialist and professional roles is challenging. The impact of a period of pay restraint in the public sector combined with an increase in salary levels generally in the South East has led to problems with recruitment and retention in roles such as Finance, IT, and some Housing roles. HR staff are working with managers to ensure we promote these roles effectively, HR have supported on a number of interview assessments to ensure the best possible outcome.

With the introduction of the apprenticeship levy, the Council are in direct competition with organisations who can offer greater levels of remuneration in the way of benefits and incentives. To mitigate the risk of low recruitment levels the HR team have worked with recruiting managers to design tailored apprenticeships and have expanded the range of

## Narrative Report (Continued)

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professions for which apprenticeships are available. HR have undertaken a comprehensive rewrite and redesign of apprenticeship promotional materials, the website, vacancy adverts and job descriptions. HR have increased the activity promoting apprenticeships by visits to schools and attendance at career fairs. The apprenticeship levy will require continuous resourcing and ongoing promotion and will be an area of continued challenge for the Council in attracting apprentices.

There is a recruitment and retention scheme which will allow time limited salary uplifts on appointment but this is only a temporary incentive and temporarily can cause pay inequality within teams. There are a number of benefits available to employees and by raising the profile to prospective employees and raising the profile to existing staff of incentives including different ways of working can support with recruitment incentive and retention.

The Corporate Management team will be discussion succession planning and putting processes in place to plan for the future.

The Job Evaluation Scheme has been amended to create a further grade at the top of the scale to assist with the recruitment and retention of third tier managers.

### **Possible 'no deal' Brexit**

On 31 January 2019 the Secretary for State for Housing Communities and Local Government wrote to all Leaders and Chief Executives of English Local Authorities setting out a local authority preparedness checklist. This stated that councils will want to assure themselves that they have undertaken necessary EU Exit Impact Assessments, relevant planning and the preparation of appropriate mitigation plans in the scenario of a no-deal Brexit. The areas listed were:

1. All statutory services for which the council is responsible for
2. All regulatory services for which the council is responsible
3. The impact (direct or indirect) of any border areas [this would include Gatwick as an airport]
4. The impact on supply chains (in the delivery of statutory services)
5. Data handling (impact of data held in the EU)
6. Local partnership working (for instance ensuring plans are in place to support vulnerable or managing increased community tensions)
7. Communications (to provide community assurance and provision of timely information)

A separate draft working document has been prepared looking at the implications of a no-deal Brexit to the council. This is a substantive assessment that includes all the areas listed above, but one that by the very nature of Brexit is constantly changing and being updated.

## **6. Summary Position**

It is clear that the Council's financial and non-financial performance in 2018/19 continues to be good. The efficiency savings and additional income earned in the year were in most cases in line with expectations, capital outturn has been managed to minimise the level of re-profiling required at the year end and the Council has sufficient reserves and balances to provide financial resilience for 2019/20 and future years.

## Narrative Report (Continued)

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In 2018/19, the Council has faced and dealt successfully with significant change. This trend will continue and indeed accelerate but the Council is well placed to adapt to the challenges and to take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the Council is in a strong position as it moves into 2019/20.

### 7. Explanation of the Financial Statement

The Statement of Accounts for 2018/19 have been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and show the financial performance of Crawley Borough Council for the year, together with its overall financial position as at 31 March 2019. The purpose of the published statement of accounts is to give local taxpayers, Council Members, stakeholders and other interested parties clear information about the Council's finances. It therefore aims to provide information so that these stakeholders can:

- Understand the overarching financial position of the Council
- Have confidence that the public money with the Council has been entrusted and has used has been accounted for in an appropriate manner
- Be assured that the financial position of the Council is safe and secure

The style and format of the accounts complies with CIPFA standard and is similar to that of previous years.

The accounts provide the reader with information on the cost of services provided by the Council in the year 2018/19, how these services were paid for and a statement of the Council's assets and liabilities at the year end.

The Council's financial report consists of three reports:

- The Narrative Report (this statement)
- The Annual Governance Statement
- The Statement of Accounts

The Annual Governance Statement identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

The Statement of Accounts are presented in the following order:

- Statement of Responsibilities for the Statement of Accounts

This identifies the officer who is responsible for the proper administration of the Council's financial affairs.

- Main Financial Statements

#### **Expenditure and Funding Analysis**

This statement takes the net expenditure that is chargeable to taxation/rents and reconciles it to the Comprehensive Income and Expenditure Statement.

## Narrative Report (Continued)

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### **Comprehensive Income and Expenditure Statement**

The purpose of this account is to report income and expenditure relating to all the services provided by the Council and how the net cost of those services has been financed by local taxpayers and the Government.

### **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. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

### **Balance Sheet**

This statement shows the balances and reserves at the Council's disposal as well as the liabilities as at 31 March 2019. It also summarises the fixed and current assets used to carry out the Council's functions.

### **Cash Flow Statement**

This statement summarises the inflows and outflows of cash arising from the transactions with third parties for revenue and capital purposes. It differs from other accounts in that creditors and debtors are excluded.

- Notes to the Main Financial Statements

The explanatory notes in this section are largely prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the CIPFA/LASAAC Local Authority Code Board. Additional notes have been provided wherever possible to assist understanding of the financial statements.

- Supplementary Financial Statements

### **Housing Revenue Account**

This account shows the major element of expenditure on the provision of Council housing and how this has been financed by rents and other income.

### **Collection Fund**

The Collection Fund summarises the income received from taxpayers for council tax and business rates and its distribution to precepting bodies. The precepting bodies for council tax are Crawley Borough Council, West Sussex County Council and Sussex Police and Crime Commissioner. Business rates are distributed to Crawley Borough Council, West Sussex County Council and Central Government.

- Glossary of Terms

A glossary of the most commonly used technical terms in these accounts is provided.

## Narrative Report (Continued)

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### 8. Change in accounting policies

There were changes to accounting policies in the year in relation to IFRS 9 Financial Instruments. This resulted in the reclassification of financial assets and the remeasurements of carrying amounts. Further details can be found in Note 18 to the Statement of Accounts.

### 9. Further Information

Further information about the 2018/19 Statement of Accounts is available from:

Paul Windust,  
Chief Accountant,  
Town Hall, The Boulevard, Crawley, West Sussex, RH10 1UZ.  
Tel: (01293) 438693 email: paul.windust@crawley.gov.uk

Karen Hayes  
Head of Corporate Finance

Date:



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# **Statement of Accounts**

**2018 – 2019**

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**Statement of Responsibility for the Statement of Accounts**

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**The Council’s Responsibilities**

Crawley Borough Council is required:

- \* to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Corporate Finance.
- \* to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- \* to approve the Statement of Accounts.

**Responsibilities of the Head of Corporate Finance**

The Head of Corporate Finance is responsible for the preparation of the Council’s statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (“the Code”)

In preparing this statement of accounts, the Head of Corporate Finance has:

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

**The Head of Corporate Finance is also responsible for:-**

- \* keeping proper accounting records which are up-to-date;
- \* taking responsible steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31st March 2019. This is a replacement of the one signed on 30<sup>th</sup> May, 2019.

Karen Hayes  
 Head of Corporate Finance  
 Date: 23rd July 2019

**Member Sign Off**

I certify that these accounts were approved by the Audit Committee under delegated powers at a meeting held on 23rd July 2019.

Councillor Mike Pickett  
 Chair of the Audit Committee  
 Date: 23rd July 2019

**Opinion**

We have audited the financial statements of Crawley Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 42,
- Housing Revenue Account Income and Expenditure Account, the Movement on the HRA Statement, and related notes 1 to 8, and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Crawley Borough Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

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

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

## Independent Auditor's Report to the Members of Crawley Borough Council (Continued)

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### Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Head of Corporate Finance, is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

#### *Arrangements to secure economy, efficiency and effectiveness in the use of resources*

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Crawley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

### Responsibility of the Head of Corporate Finance

As explained more fully in the Statement of the Head of Corporate Finance responsibilities set out on page 9, the Head of Corporate Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

## **Independent Auditor's Report to the Members of Crawley Borough Council (Continued)**

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In preparing the financial statements, the Head of Corporate Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

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

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

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

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

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 C&AG in November 2017, as to whether the Crawley 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 C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Crawley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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.



## **Independent Auditor's Report to the Members of Crawley Borough Council (Continued)**

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### **Certificate**

We certify that we have completed the audit of the accounts of Crawley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### **Use of our report**

This report is made solely to the members of Crawley Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
23 July 2019

**Expenditure and Funding Analysis**

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

2017/18			2018/19			
Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
1,246	87	1,333	Public Protection & Community Engagement	1,382	87	1,469
6,900	488	7,388	Resources	6,744	443	7,187
4,064	1,481	5,545	Environmental Services & Sustainability	4,070	367	4,437
2,553	148	2,701	Cabinet	2,584	84	2,668
989	228	1,217	Housing	1,047	(4)	1,043
6,114	1,763	7,877	Wellbeing	6,761	1,092	7,853
(2,512)	2,692	180	Planning and Economic Development	(2,141)	1,824	(317)
(28,441)	12,289	(16,152)	Housing Revenue Account	(28,400)	16,148	(12,252)
(2,256)	293	(1,963)	All other segments	(2,256)	170	(2,086)
<b>(11,343)</b>	<b>19,469</b>	<b>8,126</b>	<b>Net Cost of Services</b>	<b>(10,209)</b>	<b>20,211</b>	<b>10,002</b>
11,576	(16,280)	(4,704)	Other income and Expenditure	10,536	(20,585)	(10,049)
<b>233</b>	<b>3,189</b>	<b>3,422</b>	<b>(Surplus) or Deficit</b>	<b>327</b>	<b>(374)</b>	<b>(47)</b>
<b>(25,983)</b>			<b>Opening General Fund and HRA Balance</b>	<b>(25,750)</b>		
<b>233</b>			<b>(Surplus) or Deficit on General Fund and HRA Balance in Year</b>	<b>327</b>		
<b>(25,750)</b>			<b>Closing General Fund and HRA Balance at 31 March</b>	<b>(25,423)</b>		

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

2017/18			2018/19		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
					Public Protection & Community
1,624	(291)	1,333	1,672	(203)	1,469
					Engagement
8,070	(682)	7,388	7,928	(741)	7,187
					Resources
					Environmental Services & Sustainability
11,707	(6,162)	5,545	10,446	(6,009)	4,437
					Cabinet
3,379	(678)	2,701	3,351	(683)	2,668
					Housing
50,632	(49,415)	1,217	46,203	(45,160)	1,043
					Wellbeing
17,676	(9,799)	7,877	18,484	(10,631)	7,853
					Planning and Economic Development
5,079	(4,899)	180	4,754	(5,071)	(317)
					Housing Revenue Account
30,706	(46,858)	(16,152)	34,805	(47,057)	(12,252)
					All other segments
(1,761)	(202)	(1,963)	(2,084)	(2)	(2,086)
<b>127,112</b>	<b>(118,986)</b>	<b>8,126</b>	<b>125,559</b>	<b>(115,557)</b>	<b>10,002</b>
					<b>Cost of Services</b>
					Other operating expenditure (Note 11)
		3,520			122
					Financing and investment income and expenditure (Note 12)
		6,299			6,755
					Taxation and non-specific grant income (note 13)
		(14,523)			(16,926)
					<b>(Surplus) or Deficit on Provision of Services</b>
		<b>3,422</b>			<b>(47)</b>
					(Surplus) or deficit on revaluation of Property, Plant and Equipment assets
		(24,476)			(9,844)
					(Surplus) or deficit on revaluation of available for sale financial assets
		(11)			-
					Remeasurements of the net defined benefit liability
		(11,660)			10,237
					<b>Other Comprehensive Income and Expenditure</b>
		<b>(36,147)</b>			<b>393</b>
					<b>Total Comprehensive Income and Expenditure</b>
		<b>(32,725)</b>			<b>346</b>

## Movement in Reserves Statement

### Details of Movement in Reserves in the year

This statement shows the movement in the year on the different reserves held by Crawley Borough Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2018 Carried Forward</b>	<b>22,552</b>	<b>3,198</b>	<b>41,107</b>	<b>32,474</b>	<b>2,604</b>	<b>101,935</b>	<b>562,532</b>	<b>664,467</b>
Remeasurements at 1 April 2018 (Note 25D)	-	-	-	-	-	-	(30)	(30)
<b>Restated Balance 31<sup>st</sup> March 2018</b>	<b>22,552</b>	<b>3,198</b>	<b>41,107</b>	<b>32,474</b>	<b>2,604</b>	<b>101,935</b>	<b>562,502</b>	<b>664,437</b>
<b>Movement in reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure	(1,327)	1,374	-	-	-	47	(393)	(346)
Adjustments between accounting basis & funding basis under regulations	1,000	(1,374)	607	(10,086)	654	(9,199)	9,199	-
<b>Increase/Decrease in 2018/19</b>	<b>(327)</b>	<b>-</b>	<b>607</b>	<b>(10,086)</b>	<b>654</b>	<b>(9,152)</b>	<b>8,806</b>	<b>(346)</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>22,225</b>	<b>3,198</b>	<b>41,714</b>	<b>22,388</b>	<b>3,258</b>	<b>92,783</b>	<b>571,308</b>	<b>664,091</b>
<b>Analysed by:</b>								
Amounts earmarked (Note 10)	17,230	-						
Amount uncommitted	4,995	3,198						
<b>Total Balance at 31 March 2019</b>	<b>22,225</b>	<b>3,198</b>						

## Movement in Reserves Statement (Continued)

	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2017</b>	<b>22,785</b>	<b>3,198</b>	<b>41,395</b>	<b>32,600</b>	<b>2,292</b>	<b>102,270</b>	<b>529,472</b>	<b>631,742</b>
<b>Movement in reserves during 2017/18</b>								
Total Comprehensive Income and Expenditure	(9,394)	5,972	-	-	-	(3,422)	36,147	32,725
Adjustments between accounting basis & funding basis under regulations	9,161	(5,972)	(288)	(126)	312	3,087	(3,087)	-
<b>Increase/Decrease in 2017/18</b>	<b>(233)</b>	<b>-</b>	<b>(288)</b>	<b>(126)</b>	<b>312</b>	<b>(335)</b>	<b>33,060</b>	<b>32,725</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>22,552</b>	<b>3,198</b>	<b>41,107</b>	<b>32,474</b>	<b>2,604</b>	<b>101,935</b>	<b>562,532</b>	<b>664,467</b>
<b>Analysed by:</b>								
Amounts earmarked (Note 10)	18,552	-						
Amount uncommitted	4,000	3,198						
<b>Total Balance at 31 March 2018</b>	<b>22,552</b>	<b>3,198</b>						

**Balance Sheet**

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

<b>31 March 2018</b>		<b>Notes</b>	<b>31 March 2019</b>
<b>£'000</b>			<b>£'000</b>
793,060	Property, Plant & Equipment	<b>14</b>	815,495
52	Heritage Assets	<b>15</b>	52
21,322	Investment Property	<b>16</b>	20,041
605	Intangible Assets	<b>17</b>	547
20,000	Long Term Investments	<b>18</b>	0
<u>7,301</u>	Long Term Debtors	<b>18</b>	<u>8,577</u>
<b>842,340</b>	<b>Long Term Assets</b>		<b>844,712</b>
93,559	Short Term Investments	<b>18</b>	106,042
4,452	Assets Held for Sale	<b>21</b>	4,452
26	Inventories		28
5,995	Short Term Debtors	<b>19</b>	6,631
<u>4,844</u>	Cash and Cash Equivalents	<b>20</b>	<u>5,623</u>
<b>108,876</b>	<b>Current Assets</b>		<b>122,776</b>

Balance Sheet (Continued)

31 March 2018		Notes	31 March 2019
£'000			£'000
(68)	Short Term Borrowing	18	(68)
(17,968)	Short Term Creditors	22	(20,654)
<u>(2,806)</u>	Provisions	23	<u>(4,249)</u>
<b>(20,842)</b>	<b>Current Liabilities</b>		<b>(24,971)</b>
(260,264)	Long Term Borrowing	18	(260,269)
(3,223)	Other Long Term Liabilities	39	(16,164)
<u>(2,420)</u>	Capital Grants Receipts in Advance	34	<u>(1,993)</u>
<b>(265,907)</b>	<b>Long Term Liabilities</b>		<b>(278,426)</b>
<u><b>664,467</b></u>	<b>Net Assets</b>		<u><b>664,091</b></u>
101,935	Usable Reserves	24	92,783
<u>562,532</u>	Unusable Reserves	25	<u>571,308</u>
<u><b>664,467</b></u>	<b>Total Reserves</b>		<u><b>664,091</b></u>



**Cash Flow Statement**

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

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(3,422)	Net surplus/(deficit) on the provision of services	47
31,429	Adjustments to net surplus or deficit on the provision of services for non-cash movement (Note 26)	37,418
(11,655)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 26)	(15,345)
16,352	Net cash flows from Operating Activities	22,120
(18,148)	Investing Activities (Note 27)	(22,402)
2,321	Financing Activities (Note 28)	1,061
525	Net increase or (decrease) in cash and cash equivalents	779
4,319	Cash and cash equivalents at the beginning of the reporting period	4,844
<b>4,844</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 20)</b>	<b>5,623</b>

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## 1. Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Crawley Borough Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going-concern' basis.

### ii. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

**iv. 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.

**v. 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, 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.

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

**vi. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

**vii. Council Tax and Non-Domestic Rates**

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 (i.e. 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 (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES 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 Councils share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowance for doubtful debts, overpayments and prepayments and appeals.

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

### **viii. Employee Benefits**

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the 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 entitlements 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 in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by West Sussex County Council.

This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

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

- The liabilities of the West Sussex 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 projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on the indicative rate of return on high quality corporate bond, the iBoxx AA corporate bonds index).
- The assets of West Sussex 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 the following components:

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

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses - changes in the net 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 West Sussex 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

**ix. 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.



## x. 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 Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. When risk has increased significantly since an instrument

was initially recognised, losses are assessed on lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

#### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

#### Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Gains and losses are recognised differently in the CIES.

- Interest income is recognised in the Surplus or Deficit on the Provision of Services
- Gains and losses arising on movements in fair value (after allowing for movements in amortised cost) are posted to Other Comprehensive Income, and the change in the amount of the investment in the Balance Sheet is matched with an entry in the Financial Instrument Revaluation Reserve.
- Impairment losses are charged to the Surplus or Deficit on the Provision of Services but are not applied to reducing the carrying amount of the asset – the credit entry is made against the Financial Instruments Revaluation Reserve.
- When an asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

**xi. 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 in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, 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.

Business Improvement District

A Business Improvement District (BID) scheme applies in Manor Royal. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as agent under the scheme, and does not show income or expenditure within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) 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 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 small proportion of charges may be used to fund revenue expenditure.

## xii. Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and described below. The council's collections of heritage assets are accounted for as follows:

- **Public Works of Art** – the Council considers that obtaining valuations for the vast majority of public works of art would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. This is because of the unique nature of the assets held and the lack of comparable values. Other than the small number of items that have been acquired recently, the Council does not recognise this collection of heritage assets on the Balance sheet.

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

## xiii. 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 revalued 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 line(s) 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 £10,000) the Capital Receipts Reserve.

#### **xiv. 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

#### **xv. Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

**xvi. 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****Operating Leases**

Rental 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)

**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.

**xvii. Overheads and Support Services**

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

**xviii. 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.

#### Assets Included

All land and buildings owned by the Council are included. Vehicles and equipment are included where the useful asset life is more than three years and the purchase cost is greater than £9,000 (vehicles), or £10,000 (equipment).

#### 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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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



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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. 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)
- 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).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a straight-line allocation over between 3 and 10 years according to estimated useful life.
- Infrastructure – straight-line allocation over 25 years

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.

#### Componentisation

Where assets are found to have significant components which would materially affect the depreciation charge, the valuation of these assets will be componentised. If the overall value of a Property, Plant and Equipment asset is greater than £1.5m, componentisation will then be applied to any such assets where individual components with a different useful life to the overall item has a cost of £10,000 or over.

#### 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 in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need

to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## **xix. Provisions, Contingent Liabilities and Contingent Assets**

### 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 when the Council has an 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.

### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

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

**xx. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. 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 transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

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

**xxi. Revenue Expenditure Funded from Capital under Statute**

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

**xxii. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

**xxiii. Fair value measurement**

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

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

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

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

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

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

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

## 2. Accounting Standards that have been issued but have not yet been adopted

At the balance sheet date the following new standards and amendments to existing standards have been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for application from 1 April 2019:

- **IAS 40 Investment Property: Transfers of Investment Property** clarifies that properties can only be reclassified to or from Investment Properties where there is evidence of a change in use. This will have no impact on the Council as it already complies.
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration** clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have material transactions within the scope of the amendment.
- **IFRIC 23 Uncertainty over Income Tax Treatments** provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the Council.
- **IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation** amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to which this would apply.
- **Annual Improvements to IFRS 2014-2016 Cycle** which includes amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of the Standard; and IAS 28 Investments in Associates and Joint Ventures: Measuring an Associate or Joint Venture at Fair Value. This will have no impact on the Council.

## 3. Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

**Funding**

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is 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.

**Investment properties**

Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which is subject to interpretation.

**Leases**

The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated implied interest rate with in the lease to calculate interest and principal payments.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those estimates.

The items in the Council’s Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Term	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.  It is estimated that the annual depreciation charge for buildings would increase by £178,846.26 for every year that useful lives had to be reduced.
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	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £26.5m. A 1



fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

year increase in member life expectancy would result in an increase in the pension liability of around £8.3m to £13.8m. A 0.5% increase in the Salary Increase Rate would result in an increase in the pension liability of £3.6m. A 0.5% increase in the Pension Increase Rate would result in an increase in £22.6m.

Arrears

At 31 March 2019, the Council had a balance of sundry debtors of £12.265m. A review of significant balances suggested that an impairment of doubtful debts of (£5.588m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

If Collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £5.588m to set aside as an allowance.

Business Rates

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013.

A 1% increase in the success rate of appeals would increase the provision by £1.4m. The Council's overall financial losses would be protected by the safety net.

The Council has recognised a provision for its share of the best estimate of refunds due to ratepayers who will successfully appeal against the rateable value of their properties on the rating list. This will include amounts relating to non-domestic rates charged to the business in 2012-13 and earlier financial years. The estimate has been calculated using the Valuation Office (VAO) rating list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2019.

Fair value measurements

When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include

The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets.

The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates-adjusted for regional factors (for both



considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.

Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's chief valuation officer and external valuer).

Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 15 and 17.

investment properties and some financial assets)

Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

**5. Events after the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Head of Corporate Finance on 23 July 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**6. Note to the Expenditure and Funding Analysis**

2018/19	Adjustments between Funding and Accounting Basis			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £' 000	Net change for the Pensions Adjustments £' 000	Other Differences £' 000	Total Adjustments £' 000
Public Protection & Community Engagement	-	88	(1)	87
Resources	(2)	444	1	443
Environmental Services & Sustainability	52	318	(3)	367
Cabinet	-	83	1	84
Housing	-	269	(273)	(4)
Wellbeing	369	711	12	1,092
Planning and Economic Development	897	235	692	1,824
Housing Revenue Account	15,535	422	191	16,148
All other segments	-	-	170	170
<b>Net Cost of Services</b>	<b>16,851</b>	<b>2,570</b>	<b>790</b>	<b>20,211</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(24,309)</b>	<b>134</b>	<b>3,590</b>	<b>(20,585)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(7,458)</b>	<b>2,704</b>	<b>4,380</b>	<b>(374)</b>

**Notes to Main Financial Statements (Continued)**

2017/18	Adjustments between Funding and Accounting Basis			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £' 000	Net change for the Pensions Adjustments £' 000	Other Differences £' 000	Total Adjustments £' 000
Public Protection & Community Engagement	-	87	-	87
Resources	(3)	491	-	488
Environmental Services & Sustainability	1,132	351	(2)	1,481
Cabinet	-	148	-	148
Housing	1	227	-	228
Wellbeing	1,130	627	6	1,763
Planning and Economic Development	868	239	1,585	2,692
Housing Revenue Account	12,116	406	(233)	12,289
All other segments	-	-	293	293
<b>Net Cost of Services</b>	<b>15,244</b>	<b>2,576</b>	<b>1,649</b>	<b>19,469</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(17,533)</b>	<b>485</b>	<b>768</b>	<b>(16,280)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(2,289)</b>	<b>3,061</b>	<b>2,417</b>	<b>3,189</b>

**Adjustments for Capital Purposes**

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the service line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

**Net Change for the Pensions Adjustments**

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

**For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs past service costs.

For **financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

**Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing differences as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

**7. Segmental Income & Expenditure**

Income received and depreciation are analysed below on a segmental basis:

<b>2017/18</b>			<b>2018/19</b>	
<b>Income from Services £' 000</b>	<b>Depreciation £' 000</b>	<b>Services</b>	<b>Income from Services £' 000</b>	<b>Depreciation £' 000</b>
(197)	-	Public Protection & Community Engagement	(204)	-
(7,042)	635	Resources	(6,803)	621
(6,094)	497	Environmental Services & Sustainability	(5,938)	558
(2,846)	6	Cabinet	(2,736)	-
(2,450)	-	Housing	(1,985)	-
(9,669)	2,048	Wellbeing	(10,551)	2,226
(6,693)	605	Planning and Economic Development	(6,717)	640
(46,792)	-	Housing Revenue Account	(46,926)	-
-	-	All other segments	-	-
<b>(81,783)</b>	<b>3,791</b>		<b>(81,860)</b>	<b>4,045</b>

## 8. Expenditure and Income Analysed by Nature

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

2017/18 £' 000	Expenditure/Income	2018/19 £' 000
	<b>Expenditure</b>	
25,310	Employee benefit expenses	25,422
77,223	Other services expenses	71,537
5,413	Support service recharges	5,266
18,282	Depreciation, amortisation, impairment	22,798
8,309	Interest payments	8,309
-	Precepts and levies	-
2,461	Payments to Housing Capital Receipts Pool	1,032
1,484	Gain on the disposal of assets	121
<b>138,482</b>	<b>Total expenditure</b>	<b>134,485</b>
	<b>Income</b>	
(71,764)	Fees, charges and other service income	(72,863)
(1,125)	Interest and investment income	(1,017)
(11,186)	Income from council tax, non-domestic rates	(13,127)
(50,985)	Government grants and contributions	(47,525)
<b>(135,060)</b>	<b>Total income</b>	<b>(134,532)</b>
<b>3,422</b>	<b>Surplus or deficit on the Provision of Services</b>	<b>(47)</b>

## 9. 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 the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority 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. However, the balance is not available to be applied to funding HRA services.

**Housing Revenue Account Balance**

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

**Major Repairs Reserve**

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

**Capital Receipts Reserve**

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

<b>2018/19</b>	<b>General Fund Balance £'000</b>	<b>Housing Revenue Account £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Major Repairs Reserve £'000</b>	<b>Capital Grant Unapplied £'000</b>
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**Adjustments to the Revenue Resources**

Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:

• Pension Cost (transferred to or from) the Pension Reserve)	2,282	422	-	-	-
• Financial instruments (transferred to the Financial Instruments Adjustment Account)	-	-	-	-	-
• Council tax and NDR (transfers to or from) Collection fund Adjustments Account	327	-	-	-	-
• Holiday pay (transferred to the Accumulated Absences Reserve)	8	-	-	-	-

**Notes to Main Financial Statements (Continued)**

<b>2018/19</b>	<b>General Fund Balance £'000</b>	<b>Housing Revenue Account £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Major Repairs Reserve £'000</b>	<b>Capital Grant Unapplied £'000</b>
<ul style="list-style-type: none"> <li>Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)</li> </ul>	4,115	26,482	-	-	793
<b>Total Adjustments to Revenue Resources</b>	<b>6,732</b>	<b>26,904</b>	<b>-</b>	<b>-</b>	<b>793</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	(2,590)	(8,297)	10,888	-	-
Administration costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(20)	20	-	-
Transfer of deferred sale proceeds credit as part of the gain /loss on disposal from revenue to the Deferred Capital Receipts Reserve	(1,032)	-	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	1,032	-	(1,032)	-	-
Posting of HRA resources from revenue to the Major Repair Reserve	-	(19,961)	-	19,961	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-	-	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(3,142)	-	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(5,732)</b>	<b>(28,278)</b>	<b>9,876</b>	<b>19,961</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts reserve to finance capital expenditure	-	-	(9,270)	-	-
Use of Major Repairs Reserve to financial capital expenditure	-	-	-	(30,047)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(139)
Cash Payments in relation to deferred capital receipts	-	-	1	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>(9,269)</b>	<b>(30,047)</b>	<b>(139)</b>
<b>Total Adjustments</b>	<b>1,000</b>	<b>(1,374)</b>	<b>607</b>	<b>(10,086)</b>	<b>654</b>



**Notes to Main Financial Statements (Continued)**

<b>2017/18</b>	<b>General Fund Balance</b>	<b>Housing Revenue Account</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grant Unapplied</b>
<b>Comparative Figures</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Adjustments to the Revenue Resources</b>					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
• Pension Cost (transferred to (or from) the Pension Reserve)	2,654	406	-	-	-
• Financial instruments (transferred to the Financial Instruments Adjustment Account)	-	-	-	-	-
• Council tax and NDR (transfers to (or from) Collection fund Adjustments Account)	(1,377)	-	-	-	-
• Holiday pay (transferred to the Accumulated Absences Reserve)	4	-	-	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	6,268	22,504	-	-	436
<b>Total Adjustments to Revenue Resources</b>	<b>7,549</b>	<b>22,910</b>	<b>-</b>	<b>-</b>	<b>436</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	(251)	(8,708)	8,959	-	-
Administration costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(42)	42	-	-
Transfer of deferred sale proceeds credit as part of the gain /loss on disposal from revenue to the Deferred Capital Receipts Reserve	(369)	-	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	2,461	-	(2,461)	-	-
Posting of HRA resources from revenue to the Major Repair Reserve	-	(20,132)	-	20,132	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-	-	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(229)	-	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>1,612</b>	<b>(28,882)</b>	<b>6,540</b>	<b>20,132</b>	<b>-</b>

Notes to Main Financial Statements (Continued)

<b>2017/18</b>	<b>General Fund Balance</b>	<b>Housing Revenue Account</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grant Unapplied</b>
<b>Comparative Figures</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts reserve to finance capital expenditure	-	-	(6,995)	-	-
Use of Major Repairs Reserve to financial capital expenditure	-	-	-	(20,258)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(124)
Cash Payments in relation to deferred capital receipts	-	-	167	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>(6,828)</b>	<b>(20,258)</b>	<b>(124)</b>
<b>Total Adjustments</b>	<b>9,161</b>	<b>(5,972)</b>	<b>(288)</b>	<b>(126)</b>	<b>312</b>

Notes to Main Financial Statements (Continued)

**10. Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000
<b>General Fund:</b>							
Capital Programme	5,264	-	923	6,187	(2,240)	-	3,947
Restructuring Impact Reserve	750	(55)	-	695	-	-	695
Vehicles and Plant	241	(74)	200	367	(258)	260	369
Insurance Fund	379	(1)	-	378	-	-	378
ICT Replacement	114	(95)	100	119	(19)	100	200
Specialist Equipment at K2 and Hawth	-	-	100	100	(200)	100	-
Risk Management	44	(17)	-	27	-	22	49
Quick Wins	39	(11)	-	28	(10)	-	18
Community Cohesion	3	(3)	-	-	-	-	-
Heritage Strategy	34	-	-	34	-	-	34
Pathfinder	33	(5)	1	29	(5)	-	24
Local Development Framework	442	-	65	507	-	33	540
Health & Wellbeing Grant	266	(30)	-	236	(22)	3	217
Connecting Communities	57	(5)	52	104	(48)	-	56
Homeless grant	26	(9)	64	81	-	-	81
Town Centre and Regeneration Reserve	377	(148)	21	250	(87)	-	163
Investment Acquisition	5,000	-	-	5,000	-	-	5,000
Waste Collection	281	(55)	-	226	-	-	226
Worth Park HLF	-	-	76	76	-	-	76
Preventing B&B over 6 weeks	50	(50)	-	-	-	-	-
Grant to voluntary organisations	75	-	-	75	-	-	75
Welfare Reform	91	-	35	126	-	74	200
Transparency	24	-	8	32	(37)	8	3
Shore gap fund	7	-	-	7	-	-	7
Tilgate Park Investment	41	(41)	57	57	(35)	10	32

**Notes to Main Financial Statements (Continued)**

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000
Business Rates Equalisation	5,000	(1,794)	-	3,206	(570)	1,364	4,000
New Museum	33	-	35	68	-	17	85
Leap Project Small Business Grants	69	-	8	77	(52)	-	25
Leisure Management Contract	45	(45)	-	-	-	-	-
Journey to Work	-	-	32	32	(32)	-	-
Flexible Homelessness Grant	-	-	372	372	(372)	-	-
Town Centre Partnership	-	(5)	47	42	-	-	42
Town Centre Markets	-	-	14	14	-	-	14
EU Exit Funding	-	-	-	-	-	154	154
Park Improvement Fund	-	-	-	-	-	18	18
Clean Our High Streets	-	-	-	-	-	20	20
Business Rates Pool Cycling	-	-	-	-	-	70	70
Shop Fronts	-	-	-	-	-	21	21
Town Centre BID Feasibility	-	-	-	-	-	17	17
Homeless Accommodation Acquisition	-	-	-	-	-	374	374
<b>Total</b>	<b>18,785</b>	<b>(2,443)</b>	<b>2,210</b>	<b>18,552</b>	<b>(3,987)</b>	<b>2,665</b>	<b>17,230</b>

**11. Other Operating Expenditure**

2017/18 £'000		2018/19 £'000
2,461	Payment to the Government Housing Receipts Pool	1,032
1,484	Gains/losses on the disposal of non-current assets	121
(425)	Notional Shared Equity Income	(1,031)
<b>3,520</b>	<b>Total</b>	<b>122</b>

**12. Financing and Investment Income and Expenditure**

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
8,309	Interest payable and similar charges	8,309
342	Net interest on the net defined benefit liability	122
(1,125)	Interest receivable and similar income	(1,386)
-	Impairment losses	369
(1,227)	Income and expenditure in relation to investment properties and changes in their fair market value	(659)
-	Other investment income	-
<b>6,299</b>	<b>Total</b>	<b>6,755</b>

**13. Taxation and Non Specific Grant Incomes**

The Following government grants are receivable which are not attributable to a specific service:

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
(6,615)	Council Tax Income	(6,909)
(4,572)	Retained Business Rates	(6,218)
(2,588)	Non-ringfenced government grants	(2,471)
(748)	Capital grants and contributions	(1,328)
<b>(14,523)</b>	<b>Total</b>	<b>(16,926)</b>

Notes to Main Financial Statements (Continued)

14. Property, Plant and Equipment

Movements on Balances

Movements in 2018/19

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>								
At 1 April 2018	593,142	179,050	13,255	3,863	3,573	650	12,607	806,140
Additions	17,478	1,655	859	-	23	-	22,821	42,836
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(3,379)	4,399	-	-	-	-	-	1,020
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(8,971)	(1,217)	-	-	-	-	-	(10,188)
Derecognition – Disposals	(10,321)	(21)	(104)	-	-	(650)	-	(11,096)
Assets Reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Other movements in asset classification	4,873	577	-	-	(280)	-	(4,260)	910
<b>At 31 March 2019</b>	<b>592,822</b>	<b>184,443</b>	<b>14,010</b>	<b>3,863</b>	<b>3,316</b>	<b>-</b>	<b>31,168</b>	<b>829,622</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2018	(1,479)	(2,753)	(8,676)	(40)	(132)	-	-	(13,080)
Depreciation charge	(5,980)	(3,029)	(1,162)	(20)	(50)	(5)	-	(10,246)
Depreciation written out to the Revaluation Reserve	5,892	2,922	-	-	-	-	-	8,814
Depreciation written out to the Surplus/Deficit on the Provision of Services	72	173	-	-	-	-	-	245
Impairment losses/(reversals) recognised in the Revaluation Reserves	-	9	-	-	-	-	-	9
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	4	-	-	-	-	-	4
Derecognition – Disposals	19	-	103	-	-	5	-	127
Other movements in depreciation and impairment	(2)	(1)	-	-	3	-	-	-
<b>At 31 March 2019</b>	<b>(1,478)</b>	<b>(2,675)</b>	<b>(9,735)</b>	<b>(60)</b>	<b>(179)</b>	<b>-</b>	<b>-</b>	<b>(14,127)</b>
<b>Net Book Value</b>								
<b>At 31 March 2019</b>	<b>591,344</b>	<b>181,768</b>	<b>4,275</b>	<b>3,803</b>	<b>3,137</b>	<b>-</b>	<b>31,168</b>	<b>815,495</b>
<b>At 31 March 2018</b>	<b>591,663</b>	<b>176,297</b>	<b>4,579</b>	<b>3,823</b>	<b>3,441</b>	<b>650</b>	<b>12,607</b>	<b>793,060</b>

## Comparative Movements in 2017/18

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment
<b>Cost or Valuation</b>								
At 1 April 2017	578,921	176,954	12,500	3,790	3,430	-	11,878	787,473
Additions	11,562	2,736	420	73	89	111	11,650	26,641
Revaluation increases/(decreases) recognised in the Revaluation Reserve	14,493	1,391	-	-	54	(227)	-	15,711
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(5,594)	(2,960)	-	-	-	-	-	(8,554)
Derecognition-Disposals	(10,415)	-	(85)	-	-	-	-	(10,500)
Assets Reclassified (to)/from Held for Sale	-	30	-	-	-	-	(4,451)	(4,421)
Other movements in asset classification	4,175	899	420	-	-	766	(6,470)	(210)
<b>At 31 March 2018</b>	<b>593,142</b>	<b>179,050</b>	<b>13,255</b>	<b>3,863</b>	<b>3,573</b>	<b>650</b>	<b>12,607</b>	<b>806,140</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2017	(1,923)	(2,656)	(7,787)	(20)	(102)	-	-	(12,488)
Depreciation charge	(5,828)	(2,927)	(966)	(20)	(55)	(1)	-	(9,797)
Depreciation written out to the Revaluation Reserve	6,201	2,525	-	-	25	11	-	8,762
Depreciation written out to the Surplus/Deficit on the Provision of Services	47	293	-	-	-	-	-	340
Derecognition – Disposals	26	-	77	-	-	-	-	103
Other movements in depreciation and impairment	(2)	12	-	-	-	(10)	-	-
<b>At 31 March 2018</b>	<b>(1,479)</b>	<b>(2,753)</b>	<b>(8,676)</b>	<b>(40)</b>	<b>(132)</b>	<b>-</b>	<b>-</b>	<b>(13,080)</b>
<b>Net Book Value</b>								
<b>At 31 March 2018</b>	<b>591,663</b>	<b>176,297</b>	<b>4,579</b>	<b>3,823</b>	<b>3,441</b>	<b>650</b>	<b>12,607</b>	<b>793,060</b>
<b>At 31 March 2017</b>	<b>576,998</b>	<b>174,298</b>	<b>4,713</b>	<b>3,770</b>	<b>3,328</b>	<b>-</b>	<b>11,878</b>	<b>774,985</b>



**Capital Commitments**

At 31 March 2019, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years budgeted to cost £22,858,894. Similar commitments at 31 March 2018 were £32,049,634.

The major commitments are:

	<b>£'000</b>
HRA Programmed Repairs	9,630
HRA Affordable Housing	12,007
Community – Park and Recreation	70
Cabinet – New Town Hall	4
Cabinet – Crawley Growth Programme	10
Environment – Town Centre Regeneration	1,137
	22,858

**Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings are carried out externally by Wilks Head Eve Chartered Surveyors, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

	Council Dwellings £' 000	Other Land & Buildings £' 000	Vehicles, Plant, Furniture & Equipment £' 000	Infrastructure Assets £' 000	Community Assets £' 000	Surplus Assets £' 000	Assets under construction £' 000	Total £' 000
Carried at historical cost	-	-	4,275	3,803	3,137	-	31,168	42,383
Value at fair value as at:								
31 March 2019	591,344	136,705	-	-	-	-	-	728,049
31 March 2018	-	8,823	-	-	-	-	-	8,823
31 March 2017	-	16,320	-	-	-	-	-	16,320
31 March 2016	-	16,725	-	-	-	-	-	16,725
31 March 2015	-	3,195	-	-	-	-	-	3,195
	591,344	181,768	4,275	3,803	3,137	-	31,168	815,495

### 15. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Council.

	<b>Public Works of Art 2018/19 £' 000</b>
<b>Cost or Valuation</b>	
01 April 2018	52
Additions	-
Disposals	-
<b>31 March 2019</b>	<b>52</b>

	<b>Public Works of Art 2017/18 £' 000</b>
<b>Cost or Valuation</b>	
01 April 2017	52
Additions	-
Disposals	-
<b>31 March 2018</b>	<b>52</b>

#### Public Works of Art

The Council has a number of sculptures and other art work throughout the Borough. These have been included in the Balance Sheet at cost where this information is available.

### 16. 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:

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Rental income from investment property	(1,269)	(1,210)
Direct operating expenses arising from investment property *	42	552
<b>Net (Gain)/Loss</b>	<b>(1,227)</b>	<b>(658)</b>

\*Direct operating expenses include revaluations of investment property (see net gains/losses from fair value adjustments in the table below)

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance on income and proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property. With the exception of leases in which the Authority retains responsibility for undertaking repairs, the Authority does not undertake repairs, maintenance or enhancement.

Notes to Main Financial Statements (Continued)

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

	2017/18 £'000	2018/19 £'000
Balance at the start of the year	20,972	21,322
Additions:		
• Purchases	-	-
• Subsequent expenditure	-	-
Disposals	-	-
Net gains/losses from fair value adjustments	140	(370)
Transfers:		
• to/from Property, Plant and Equipment	210	(911)
• to/from Assets Held for Sale	-	-
• to/from Land and Buildings	-	-
<b>Balance at end of the year</b>	<b>21,322</b>	<b>20,041</b>

**Revaluations**

The Council values all investment properties with a rolling programme that ensures that all Investment Property required to be measured at fair value is inspected at least every five years. Valuations of Investment Property are carried out externally by Wilks Head Eve Chartered Surveyors, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

**Fair Value**

	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Fair value as at 31 March 2019 £'000
Recurring fair value measurements using:				
Office Units	-	16,757	-	16,757
Commercial Units	-	3,284	-	3,284
<b>Total</b>		<b>20,041</b>	<b>-</b>	<b>20,041</b>

**2018 Comparative Figures**

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Fair value as at 31 March 2018 £'000
Office Units	-	17,063	-	17,063
Commercial Units	-	4,259	-	4,259
<b>Total</b>	-	21,322	-	21,322

**Transfer between Levels of the Fair Value Hierarchy**

There were no transfers between Levels 1 and 2 during the year.

**Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties**

**Significant Observable Inputs – Level 2**

The fair value of the Office and Commercial Units located in the local authority area (at market rents) has been based on the market approach using current market conditions and recent sales process and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

**Highest and Best use of Investment Properties**

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

For one of the authorities commercial properties are not being used at the highest and best current use, the authority is looking to address this by developing these sites in the future.

**Valuation Techniques**

There has been no change in the valuation techniques used during the year for investment properties.

Additional information has been supplied to arrive at the notional 'Highest and Best use value' for the assets within the principal market whilst ensuring that any alternative use is physically, legally and financially possible.

This has been achieved, for these purpose, by comparing the ‘current use’ of the assets to the notional ‘alternative use’ based on potential redevelopment on a land value basis for the site.

**Valuation Process for Investment Properties**

The fair value of the authority’s investment property is measured annually at each reporting date. All valuations are carried out by the authority’s appointed valuers Wilks Head & Eve, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The authority’s valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

**17. Intangible Assets**

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. None of the intangible assets are internally generated.

The carrying amount of all intangible assets is amortised on a straight-line basis across a useful life of 5 years. The amortisation of £104,519.97 charged to revenue in 2018/19 was charged to appropriate service headings in the Net Expenditure of Services.

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

	2017/18			2018/19		
	Internally Generated Assets £'000	Other Assets £'000	Total £'000	Internally Generated Assets £'000	Other Assets £'000	Total £'000
<b>Balance at start of year:</b>						
▪ Gross carrying amounts	-	3,345	3,345	-	3,530	3,530
▪ Accumulated amortisation	-	(2,790)	(2,790)	-	(2,925)	(2,925)
Net carrying amount at start of year	-	555	555	-	605	605
Additions:						
▪ Purchases	-	185	185	-	47	47
Assets reclassified	-	-	-	-	-	-
Other movements in Asset classification	-	-	-	-	-	-
Amortisation for the period	-	(135)	(135)	-	(105)	(105)
Net carrying amount at end of year	-	605	605	-	547	547
Comprising:						
▪ Gross carrying amounts	-	3,530	3,530	-	3,577	3,577
▪ Accumulated amortisation	-	(2,925)	(2,925)	-	(3,030)	(3,030)
	-	605	605	-	547	547

## 18. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

#### Financial Assets

	Long-Term		Short-Term	
	As at 31 March 2018 £'000	As at 31 March 2019 £'000	As at 31 March 2018 £'000	As at 31 March 2019 £'000
<b>Investments</b>				
Loans and receivables	20,000	-	75,371	-
Available-for-sale financial assets	-	-	18,188	-
Financial assets at amortised cost	-	-	-	106,042
<b>Total Investments</b>	<b>20,000</b>	<b>-</b>	<b>93,559</b>	<b>106,042</b>
<b>Cash and Cash Equivalents</b>				
Loans and receivables	-	-	5,205	-
Financial assets at amortised cost	-	-	-	6,898
Financial liabilities at amortised cost	-	-	(361)	(1,275)
<b>Total cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>4,844</b>	<b>5,623</b>
<b>Debtors</b>				
Loans and receivables	5,581	-	-	-
Shared equity loans valued at fair value through profit and loss	1,604	2,688	-	-
Financial assets carried at contract amounts	116	-	2,917	-
Financial assets at amortised cost	-	5,889	-	3,485
<b>Total included in Debtors</b>	<b>7,301</b>	<b>8,577</b>	<b>2,917</b>	<b>3,485</b>
Debtors that are not financial instrument	-	-	3,078	3,146
<b>Total Debtors</b>	<b>7,301</b>	<b>8,577</b>	<b>5,995</b>	<b>6,631</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(260,264)	(260,269)	(68)	(68)
<b>Total Borrowings</b>	<b>(260,264)</b>	<b>(260,269)</b>	<b>(68)</b>	<b>(68)</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	-	-	(8,924)	(10,226)
<b>Total included in Creditors</b>	<b>-</b>	<b>-</b>	<b>(8,924)</b>	<b>(10,226)</b>
Creditors that are not financial instruments	-	-	(9,044)	(10,428)
<b>Total Creditors</b>	<b>-</b>	<b>-</b>	<b>(17,968)</b>	<b>(20,654)</b>

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

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

	<b>New Classifications from 1 April</b>			
	<b>Carrying amount brought forward at 1 April</b>	<b>Amortised cost</b>	<b>Fair value through other comprehensive income</b>	<b>Fair value through profit and loss</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Previous classifications</b>				
Loans and receivables	100,953	106,157	-	-
Available for Sale	18,188	18,188	-	-
Fair value through profit and loss	1,604	-	-	1,604
Financial assets carried at contract amounts	3,033	3,033	-	-
<b>Reclassified amounts at 1 April 2018</b>		<b>127,378</b>	<b>-</b>	<b>1,604</b>
Remeasurements at 1 April 2018		(30)	-	-
<b>Remeasured carrying amounts at 1 April 2018</b>		<b>127,348</b>	<b>-</b>	<b>1,604</b>
Impact on General Fund		-	-	-
Impact on Financial Instruments Revaluation Reserve		(30)	-	-

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

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

	<b>New Classification from 1 April</b>				
	<b>Amortised Cost</b>	<b>Fair Value through Other Comprehensive Income</b>	<b>Fair Value through Profit and Loss</b>	<b>Non-financial instrument balances</b>	<b>Total Balance Sheet carrying amount</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Remeasured carrying amounts at 1 April 2018</b>	<b>122,143</b>	<b>-</b>	<b>1,604</b>		
Non-current investments	20,000	-	-	-	20,000
Long-term debtors	5,697	-	1,604	-	7,301
Current investments	93,530	-	-	-	93,530
Current debtors	2,917	-	-	3,079	5,996
Cash and Cash Equivalents	5,205	-	-	-	5,205



**Application of classification requirements at 1 April 2018**

The following judgements were made in reclassifying financial instruments at 1 April 2018:  
 -Certificates of Deposit and Corporate Bonds with a carrying amount of £18,187,781 were classified from available for sale to amortised cost, as the fact that they had a quoted market price is no longer relevant to its classification and it is being held as part of a business model to collect contractual cashflows

**Impact of remeasurement of financial assets on an amortised cost basis at 1 April 2018**

	<b>Amortised Cost</b>	<b>Fair value gain or (loss) that would have been recognised in the Comprehensive Income and Expenditure Statement in 2018/19 if reclassification had not taken place</b>
	<b>£'000</b>	<b>£'000</b>
CDs and bonds with fair value of £18,187,781 at 1 April 2018 reclassified from available for sale to amortised cost	-	(30)

Note 1 – Under accounting requirements the carrying value of the financial instrument value shown in the balance sheet which includes the principal amount borrowed or lent plus accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Note: Accrued interest is not required for instruments measured at EIR, as this adjustment covers a full year’s interest

Note 2 – Fair value has been measured by direct reference to published price quotations in an active market.

Note 3 – Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The Council provided a financial guarantee in respect of mortgages granted on shared ownership sales of certain Council dwellings, which has been initially recognised at fair value.

Subsequently this is measured at the higher of the amount recognised initially and the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Assets less when appropriate cumulative amortisation. Therefore, the carrying amount of the financial guarantee would remain at the original amount estimated at inception (less cumulative amortisation) unless payment under the guarantee becomes probable at which point the amount of the liability will be determined in accordance with IAS 37.

**Notes to Main Financial Statements (Continued)**

**Income, Expense, Gain and Losses**

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

	<b>31 March 2018</b>		<b>31 March 2019</b>	
	<b>Surplus or Deficit on the Provision of Services £'000</b>	<b>Other Comprehensive Income and Expenditure £'000</b>	<b>Surplus or Deficit on the Provision of Services £'000</b>	<b>Other Comprehensive Income and Expenditure £'000</b>
Net gains/losses on:				
- Financial assets measured at fair value through profit or loss	-	-	(252)	-
-Financial assets measured at amortised cost	-	(30)	369	
<b>Total net gains/losses</b>	<b>-</b>	<b>(30)</b>	<b>(117)</b>	<b>-</b>
Net gains/losses on:				
- Financial assets measured at amortised cost	(1,125)	-	(1,134)	-
<b>Total interest revenue</b>	<b>(1,125)</b>	<b>-</b>	<b>(1,134)</b>	<b>-</b>
<b>Interest expense</b>	<b>8,309</b>	<b>-</b>	<b>8,309</b>	<b>-</b>

**Fair value of financial assets**

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

**Financial assets measured at fair value**

<b>Recurring fair value measurements</b>	<b>Input level in fair value hierarchy</b>	<b>Valuation technique used to measure fair value</b>	<b>As at 31 March 2018 £'000</b>	<b>As at 31 March 2019 £'000</b>
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**Fair Value through  
Profit and Loss**

Shared equity loans	Level 3	Historic cost adjusted by house price indices and discounted to the balance sheet date	1,604	2,688
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**Transfer between Levels of the Fair Value Hierarchy**

There were no transfer between input levels 1 and 2 during the year.

**Changes to the Valuation Technique**

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

**Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised within Level 3 of the Fair Value Hierarchy for financial Assets**

	<b>Shared Equity Loans</b>	
	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Opening balance	1,350	1,604
Included in Surplus or Deficit on the Provision of Services	66	52
Additions	369	1,032
Disposals	(181)	-
Closing balance	1,604	2,688

Shared equity loans are provided by third party developers as a discount on the market value of new homes for the benefit of first time buyers. The discount is registered as a charge on the property and becomes payable to the Council on certain events, including the sale of the property. On initial recognition, the loan is recognised in the Other Operating Income line within the Surplus or Deficit on the Provision of Services. There is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme, and therefore the Council determines the fair value of the portfolio of loans based on house price indices and a discount factor. Details of the key assumptions are as follows:

<b>Assumption</b>	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Period over which shared equity loan receivable are discounted	9 years	9 years
Nominal discount rate	3.5%	3.5%
Number of loans under the shared equity scheme outstanding at the year-end	44	63

**The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)**

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loan from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the tables sets out the alternative fair value measurement applying the premature repayment rates (the alternative to the above), highlighting the impact of the alternative valuation;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised:
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

**Financial Liabilities**

	<b>31 March 2018</b>		<b>31 March 2019</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	361	361	1,275	1,275
PWLB debt	260,332	279,194	260,339	293,375
Short term creditors	8,924	8,924	10,226	10,226
<b>Total Liabilities</b>	<b>269,617</b>	<b>288,479</b>	<b>271,840</b>	<b>304,876</b>

The fair value of the assets is greater than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis the carrying amount of £260,269,445 would be valued at £293,375,417. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would rise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £322,764,589.

Financial Assets	31 March 2018		31 March 2019	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Money market loans<1 year	18,188	18,188	33,296	33,306
Short term investments	75,371	75,371	72,746	72,940
Long term investments	20,000	20,121	-	-
Short term debtors	2,917	2,917	3,485	3,485
Long term debtors	5,697	5,697	5,889	5,889
<b>Total Assets</b>	<b>122,173</b>	<b>122,294</b>	<b>115,416</b>	<b>115,620</b>

The fair value of the assets is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2019) arising from commitment to pay interest to lenders above current market rates.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

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

	31 March 2019			Total £'000
	Quoted Prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	
<b>Recurring fair value measurements using:</b>				
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost:				
PWLB	-	293,375	-	293,375
Short term creditors	-	-	10,226	10,226
<b>Total</b>	<b>-</b>	<b>293,375</b>	<b>10,226</b>	<b>303,601</b>
<b>Financial Assets</b>				
Financial assets held at amortised cost:				
Money market loans<1 year	33,306	-	-	33,306
Short term investments	-	72,940	-	72,940
Long term investments	-	-	-	-
Short term debtors	-	-	3,485	3,485
Long term debtors	-	-	5,889	5,889
<b>Total</b>	<b>33,306</b>	<b>72,940</b>	<b>9,374</b>	<b>115,620</b>

	31 March 2018			
	Quoted Prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
<b>Recurring fair value measurements using:</b>				
<b>Financial Liabilities</b>				
Financial liabilities held at amortised cost:				
PWLB	-	279,194	-	279,194
Short term creditors	-	-	8,924	8,924
<b>Total</b>	<b>-</b>	<b>279,194</b>	<b>8,924</b>	<b>288,118</b>
<b>Financial Assets</b>				
Financial assets held at amortised cost:				
Money market loans <1 year	18,188	-	-	18,188
Short term investments	-	75,371	-	75,371
Long term investments	-	20,121	-	20,121
Short term debtors	-	-	2,917	2,917
Long term debtors	-	-	5,697	5,697
<b>Total</b>	<b>18,188</b>	<b>95,492</b>	<b>8,614</b>	<b>122,294</b>

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using the discounted cash flow analysis with the most significant inputs being the discount rate.

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

**Financial assets**

- No early repayment or impairment is recognised
- Estimated ranges of interest rates at 31 March 2019 of 1.267% for loans receivable. Based on new lending rates for equivalent loans at that date
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

**Financial liabilities**

- No early repayment is recognised
- Estimated ranges of interest rates at 31 March 2019 of 2.56% to 3.46% for loans payable based on new lending rates for equivalent loans at that date

**19. Debtors**

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Central Government Departments	1,014	1,413
Other Local Authorities	743	309
NHS Bodies	75	77
Public Corporations and Trading Funds	-	-
Other Entities and Individuals	4,163	4,832
<b>Total Debtors</b>	<b>5,995</b>	<b>6,631</b>

**20. Cash and Cash Equivalent**

The balance of Cash and Cash Equivalents is made up of the following elements:

<b>31 March 2018 £'000</b>		<b>31 March 2019 £'000</b>
(361)	Cash overdrawn	(1,275)
11	Bank Call account	-
5,194	Money Market Funds	6,898
<b>4,844</b>	<b>Total Cash and Cash Equivalents</b>	<b>5,623</b>

**21. Assets Held for Sale**

	<b>Current</b>	
	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Balance Outstanding at start of year</b>	<b>9</b>	<b>4,452</b>
Assets newly classified as held for sale:		
• Property, Plant and Equipment	4,452	-
• Investment Property	-	-
Assets declassified as held for sale:		
• Property, Plant and Equipment	(30)	-
• Investment Property	-	-
Revaluation Gains	21	-
Impairment Losses	-	-
Assets sold	-	-
<b>Balance outstanding at year end</b>	<b>4,452</b>	<b>4,452</b>

**22. Creditors**

	<b>As at 31 March 2018 £'000</b>	<b>As at 31 March 2019 £'000</b>
Central Government Departments	6,617	8,518
Other Local Authorities	1,473	1,405
NHS Bodies	72	92
Public Corporations and Trading Funds	-	-
Other Entities and Individuals	9,806	10,639
<b>Total Creditors</b>	<b>17,968</b>	<b>20,654</b>

**23. Provisions**

	<b>Accumulated Absences £'000</b>	<b>NNDR Appeal £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2018</b>	<b>158</b>	<b>2,648</b>	<b>2,806</b>
Additional provisions made in 2018/19	166	1,605	1,771
Amounts used in 2018/19	(158)	(170)	(328)
Unused amounts reversed in 2018/19	-	-	-
Unwinding of discounting in 2018/19	-	-	-
<b>Balance at 31 March 2019</b>	<b>166</b>	<b>4,083</b>	<b>4,249</b>

**Accumulated Absences**

Provision for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

**NNDR Appeal**

An estimate of the Council's share of the outstanding appeals which may result in lower rateable values resulting in a refund of business rates, see collection fund.



**24. Usable Reserves**

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 10.

**25. Unusable Reserves**

<b>31 March 2018 £'000</b>		<b>31 March 2019 £'000</b>
	<b>Unusable Reserves Held for Capital Purposes</b>	
247,511	Revaluation Reserve	251,575
312,064	Capital Adjustment Account	329,053
5,890	Deferred Capital Receipts Reserve	6,919
<hr/>		<hr/>
<b>565,465</b>	<b>Total Unusable Reserves Held for Capital Purposes</b>	<b>587,547</b>
	<b>Unusable Reserves Held for Revenue Purposes</b>	
30	Available for Sale Financial Instrument Reserve	-
(3,223)	Pension Reserve	(16,164)
418	Collection Fund Adjustment Account	91
(158)	Accumulated Absences Account	(166)
<hr/>		<hr/>
<b>(2,933)</b>	<b>Total Unusable Reserves Held for Revenue Purposes</b>	<b>(16,239)</b>
<hr/>		<hr/>
<b>562,532</b>	<b>Total Unusable Reserves</b>	<b>571,308</b>

**(a) Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. Then 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 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.

<b>31 March 2018 £'000</b>		<b>31 March 2019 £'000</b>
<b>228,394</b>	<b>Balance at 1 April</b>	<b>247,511</b>
27,203	Upward revaluation of asset	13,308
(2,727)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,465)
<b>24,476</b>	Surplus or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<b>9,843</b>
-	Prior year adjustment	-
(4,114)	Difference between fair value depreciation and historical cost depreciation	(4,386)
(1,245)	Accumulated gains on assets sold or scrapped	(1,393)
<b>(5,359)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(5,779)</b>
<b>247,511</b>	<b>Balance at 31 March</b>	<b>251,575</b>

**(b) Capital Adjustment Account**

The balance on this Account represents resources set aside to finance capital expenditure less the historical cost of acquiring, creating or enhancing fixed assets. However, the balance also includes revaluation gains prior to 1 April 2007 on assets that are currently held.

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
<b>308,307</b>	<b>Balance at 1 April</b>	<b>312,064</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
	• Charges for depreciation and impairment of non-current assets	
(9,797)		(10,246)
	• Revaluation losses on Property, Plant and Equipment	
(8,196)		(9,939)
(134)	• Amortisation of intangible assets	(104)
	• Revenue expenditure funded from capital under statute	
(2,584)		(2,313)
	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
(10,485)		(11,029)
<u>(31,196)</u>		<u>(33,631)</u>
5,359	Adjusting amounts written out of the Revaluation Reserve	5,779
<b>(25,837)</b>	Net written out amount of the cost of non-current assets consumed in the year	<b>(27,852)</b>
	Capital financing applied in the year:	
	• Use of the Capital Receipts Reserve to finance new capital expenditure	
6,995		9,270
	• Use of the Major Repairs Reserve to finance new capital expenditure	
20,258		30,047
	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	
1,848		2,613
	• Application of grants to capital financing from the Capital Grants Unapplied Account	
124		139
	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	
-		-
	• Capital expenditure charged against the General fund and HRA balances	
229		3,142
<u>29,454</u>		<u>45,211</u>
<b>140</b>	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<b>(370)</b>
	Movement in the donated Assets Account credited to the Comprehensive Income and Expenditure Statement	
-		-
<b>312,064</b>	<b>Balance at 31 March</b>	<b>329,053</b>

**(c) Deferred Capital Receipts Reserve**

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

2017/18 £'000		2018/19 £'000
5,688	<b>Balance at 1 April</b>	5,890
369	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,029
(167)	Transfer to the Capital Receipts Reserve upon receipt of cash	-
5,890	<b>Balance at 31 March</b>	6,919

**d) Available for Sale Financial Instrument Reserve**

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

- Revalued downwards or impaired and the gains are lost
- Disposed of and the gains are realised.

2017/18 £'000		2018/19 £'000
19	<b>Balance at 1 April</b>	30
-	Remeasured at 1 April	(30)
19	Remeasured carrying amount 1 April	-
34	Upward revaluation of investments	-
(4)	Downward evaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
(19)	Accumulated gains on assets sold and maturing assets written out to the comprehensive Income and Expenditure Statement as part of Other Investment Income	-
30	<b>Balance at 31 March</b>	-

**(e) 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 substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
<b>(11,823)</b>	<b>Balance at 1 April</b>	<b>(3,223)</b>
11,660	Actuarial gains or losses on pensions assets and liabilities	(10,237)
(6,580)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and expenditure Statement	(6,196)
3,520	Employer’s pensions contribution and direct payments to pensioners payable in the year	3,492
<b>(3,223)</b>	<b>Balance at 31 March</b>	<b>(16,164)</b>

**(f) Collection Fund Adjustment Account**

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

<b>2017/18</b>		<b>2018/19</b>
<b>£'000</b>		<b>£'000</b>
<b>(959)</b>	<b>Balance at 1 April</b>	<b>418</b>
1,377	Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(327)
<b>418</b>	<b>Balance at 31 March</b>	<b>91</b>

**(g) Accumulated Absences Account**

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

<b>2017/18</b>			<b>2018/19</b>
<b>£'000</b>			<b>£'000</b>
<b>(154)</b>	<b>Balance at 1 April</b>		<b>(158)</b>
154	Settlement or cancellation of accrual made at the end of the preceding year	158	
<u>(158)</u>	Amounts accrued at the end of the current year	<u>(166)</u>	
<b>(4)</b>	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		<b>(8)</b>
<b>(158)</b>	<b>Balance at 31 March</b>		<b>(166)</b>

**26. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

<b>31 March</b>		<b>31 March</b>
<b>2018</b>		<b>2019</b>
<b>£'000</b>		<b>£'000</b>
916	Interest received	1,057
(8,304)	Interest paid	(8,304)
-	Dividends received	-

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

<b>31 March</b>		<b>31 March</b>
<b>2018</b>		<b>2019</b>
<b>£'000</b>		<b>£'000</b>
9,795	Depreciation	10,245
8,196	Impairments and downward valuations	9,940
135	Amortisation	105
(4)	Increase/(decrease) in impairment for bad debts	-
(223)	Increase/(decrease) in creditors	2,596
(128)	(Increase)/decrease in debtors	(753)
10	(Increase)/decrease in inventories	(2)

<b>31 March 2018 £'000</b>		<b>31 March 2019 £'000</b>
3,060	Movement in pension liability	2,704
10,485	Carrying amount of non-current assets and non-current assets held for sale, sole or derecognised	11,027
103	Other non-cash items charged to the net surplus or deficit on the provision of services	1,556
<b>31,429</b>		<b>37,418</b>

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

-	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-
(9,371)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(11,940)
(2,284)	Any other items for which the cash effects are investing or financing cash flows	(3,405)
<b>(11,655)</b>		<b>(15,345)</b>

## 27. Cash Flow Statement – Investing Activities

The cash flows for operating activities include the following items:

<b>2017/18 £'000</b>		<b>2018/19 £'000</b>
(28,479)	Purchase of property, plant and equipment, investment property and intangible assets	(43,854)
(171,067)	Purchase of short-term and long-term investments	(156,716)
(45)	Other payments for investing activities	(15)
9,080	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10,849
170,797	Proceeds from short-term and long-term investments	164,291
1,566	Other receipts from investing activities	3,043
<b>(18,148)</b>	<b>Net cash flows from investing activities</b>	<b>(22,402)</b>

**28. Cash Flow Statement – Financing Activities**

2017/18 £'000		2018/19 £'000
-	Cash receipts of short and long-term borrowing	-
-	Other receipts from financing activities	-
-	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	-
-	Repayments of short and long term borrowing	-
2,321	Other payments for financing activities	1,061
<b>2,321</b>	<b>Net cash flows from financing activities</b>	<b>1,061</b>

**29. Trading Operations**

The Council owns and manages Neighbourhood Parades and a number of other Non operational properties. In total there are around 350 leases generating rental income from letting premises. The trading objective is to maximise the surplus. The service also manages leases on properties let to some charity and community groups at a discounted rate.

	2017/18 £'000	2017/18 £'000	2018/19 £'000	2018/19 £'000
Turnover for commercial operations	1,227		1,210	
Turnover related to non-commercial lets	4,301		4,299	
Total Turnover		5,528		5,509
Expenditure	(2,011)		(1,904)	
Movement in Fair Value of investment Properties	539		(370)	
Net Surplus/(deficit) on trading operations		(1,472)		(2,274)
		4,056		3,235

Trading operations are incorporated in the Comprehensive Income and Expenditure Statement.

	2017/18 £'000	2018/19 £'000
<b>Net Surplus on trading operations</b>	4,056	3,235
<b>Net Surplus credited to Financing and Investment Income and Expenditure</b>	4,056	3,235



**30. Agency Services**

The Council operates three agency agreements as detailed below, the cost of which is fully reimbursable. In the case of verge maintenance the Council undertakes additional cuts.

**Verge maintenance on behalf of West Sussex County Council (WSSC)**

<b>WSSC-Verge/Shrub maintenance</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Expenditure incurred in providing verge/shrub maintenance	186	208
Income – contribution from WSSC	(180)	(182)
<b>Net (surplus)/deficit arising on agency arrangement</b>	<b>6</b>	<b>26</b>

**Car Parking Enforcement (CPE) service and Controlled Parking Zone (CPZ) service on behalf of WSSC and other Partners**

<b>WSSC-Civil Parking Enforcement</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Expenditure incurred in providing a CPE/CPZ service	540	458
Income raised from fees and charges	(967)	(1,076)
Contribution to expenditure	(540)	(458)
Income Share	950	1,059
Management Fee Payable	(110)	(148)
<b>Net (surplus)/deficit arising on agency arrangement</b>	<b>(127)</b>	<b>(165)</b>

**31. Members' Allowances**

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

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Salaries	n/a	n/a
Allowance	326	337
Expenses	-	-
<b>Total</b>	<b>326</b>	<b>337</b>

### 32. Officers' Remuneration & Exit Package

The following table sets out the remuneration paid to the Council's Senior Officers.

		Salary, Fees and Allowances	Benefits in Kind	Expenses Allowances	Compensation for loss of Office	Pension Contribution	Total
		£	£	£	£	£	£
Chief Executive	2018/19	116,846	1,776	-	-	25,239	143,861
	2017/18	87,471	1,301	-	-	18,456	107,228
Deputy Chief Executive	2018/19	74,656	-	-	-	16,126	90,782
	2017/18	75,140	1,239	-	-	15,698	92,077
Head of Finance, Revenue and Benefits (S.151 Officer)	2018/19	71,596	62	-	-	15,465	87,123
	2017/18	72,350	(381)	-	-	15,234	87,203
Head of Legal and Democratic Services	2018/19	71,966	-	-	-	15,465	87,431
	2017/18	84,652	(420)	-	-	17,659	101,891

The Council's other employees whose remuneration, excluding pension contributions was £50,000 or more in bands of £5,000 was:

Remuneration Band	Number of Employees 2017/18	Number of Employees 2018/19
£50,000 - £54,999	12	10
£55,000 - £59,999	6	10
£60,000 - £64,999	1	1
£65,000 - £69,999	1	1
£70,000 - £74,999	6	2
£75,000 - £79,999	1	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000+	-	-

**Notes to Main Financial Statements (Continued)**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies 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 by cost band		Total cost of exit packages in each band	
	2017/18 Qty	2018/19 Qty	2017/18 Qty	2018/19 Qty	2017/18 Qty	2018/19 Qty	2017/18 £	2018/19 £
£0 - £20,000	5	-	1	-	6	-	81,031	-
£20,001–£40,000	3	-	1	-	4	-	132,138	-
£40,001–£60,000	1	-	-	-	1	-	47,755	-
£60,001–£80,000	-	-	-	1	-	1	-	62,500
£80,001–£100,000	1	-	-	-	1	-	86,034	-
£100,001–£150,000	-	-	-	-	-	-	-	-
£150,001–£200,000	-	-	-	-	-	-	-	-
£200,001–£250,000	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>10</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>12</b>	<b>1</b>	<b>346,958</b>	<b>62,500</b>

**33. External Audit Cost**

In 2018/19 the Council incurred the following fees payable to Ernst & Young LLP relating to external audit and inspection:

	2017/18 £'000	2018/19 £'000
Fees payable with regard to external audit services carried out by the appointed auditor	77	65
Rebate due to the break-up of the Audit Commission	(10)	-
Fees payable in respect of other services provided by the auditor during the year*	3	3
<b>Total</b>	<b>70</b>	<b>68</b>

\*The fees for other services payable in 2018/19 related to the audit of the Capital Pooling return for 2017/18, which was not undertaken by the appointed auditor.

**34. Grant Income**

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

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	1,036	575
Capital Grants and Contributions	748	1,328
New Homes Bonus	1,440	1,467
Council Tax Freeze Grant	-	-
Preventing Homelessness Pathfinder	64	112
Community Cohesion	-	-
Other Grants	48	317
Business Rate Grants	572	1,013
	<b>3,908</b>	<b>4,812</b>
<b>Credited to Services</b>		
Rent Allowance	25,901	23,553
Rent Rebates	19,935	18,276
Benefits Administration	613	574
NNDR Collection	214	202
Other Grants	985	1,063
<b>Total</b>	<b>47,648</b>	<b>43,668</b>

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 will require the monies or property to be returned to the giver, if the condition is not met. The balance at the year end is;

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>Capital Grants Receipts in Advance</b>		
S106 – Transport	1,177	892
S106 – Amenity Space	911	793
S106 – Other Grants	332	308
<b>Total</b>	<b>2,420</b>	<b>1,993</b>

### **35. Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely within 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 the subjective analysis in Note 8 Expenditure and Income Analysed by Nature. Grant receipts outstanding at 31 March 2019 are shown in Note 34.

#### **Chief Officers and Members**

Relevant Chief Officers and Members were canvassed and signed declarations have been obtained from them to ascertain any material transactions with related parties. In the financial year the Voluntary Sector Grants Awarded totalled £622,698 in which fourteen members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants.

**36. Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

<b>Capital Expenditure and Capital Financing</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Opening Capital Financing Requirement	260,325	260,325
<b>Capital Investment</b>		
Property, Plant and Equipment	26,641	42,836
Investment Properties	-	-
Intangible Assets	185	47
Revenue Expenditure Funded from Capital under Statute	2,584	2,313
Long Term Debtors	44	15
<b>Sources of Finance</b>		
Capital receipts	6,995	9,270
Capital reserves	-	2,240
Major Repairs Reserve	20,258	30,047
Government Grants and other contributions	1,972	2,752
Revenue contributions	229	902
<b>Revaluation loss in the HRA</b>	-	-
Closing Capital Financing Requirement	260,325	260,325

<b>Explanation of movements in year</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
Increase in underlying need to borrowing (unsupported by government financial assistance)	-	-
<b>Increase/(decrease) in Capital Financing Requirement</b>	-	-

**37. Leases**

**Council as Lessor**

**Operating Leases**

The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of community services, such as sports facilities, tourism services and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses.

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

	<b>31 March 2018</b>	<b>31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	4,771	4,731
Later than one year and not later than five years	14,120	13,940
Later than five years	21,495	20,795
	<b>40,386</b>	<b>39,466</b>
Contingent rents	757	708

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £708,401 contingent rents were receivable by the authority (2017/18 £757,115).

**38. Termination Benefits**

The Council terminated the contracts of a number of employees in 2018/19, incurring liabilities of £62,500 (£346,958 in 2017/18). See note 32 for the number of exit packages and total cost per band.

### 39. Defined Benefit Pension Scheme

#### Participation in pension schemes

Employees of Crawley Borough Council may participate in the West Sussex County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme. The Fund is administered by the County Council in accordance with the Local Government Pension Scheme Regulations 1997.

Employees were required to pay a contribution, calculated as a percentage of pensionable earnings, towards their pension. The rate payable is dependent on the pay each employee falls into. Under Regulation 9 of the LGPS 2014 the contribution bands are reviewed on 1 April each year in line with Pension increase orders. The new bands for 2019/20 are expected to be as follows:

Bands	Range	Contribution Rates	
		Main Section	50/50 Section
1	Up to £14,400	5.50%	2.75%
2	£14,401 to £22,500	5.80%	2.90%
3	£22,501 to £36,500	6.50%	3.25%
4	£36,501 to £46,200	6.80%	3.40%
5	£46,201 to £64,600	8.50%	4.25%
6	£64,601 to £91,500	9.90%	4.95%
7	£91,501 to £107,700	10.50%	5.25%
8	£107,701 to £161,500	11.40%	5.70%
9	£161,501 or more	12.50%	6.25%

The Council's contribution is set to meet the balance of the fund liabilities as required under the pension regulations. In 2018/19 the Council made a contribution of £3.246 million, 21.6% of pensionable pay (2017/18 £3.242 million, 21.1%). In addition the Council made a contribution for unfunded benefits of 0.309 million (2017/18 £0.310 million). The agreed contribution rate for future years is set out below.

Recommended Contribution Rates	Primary rate Cost of New Benefits Accruing % of Payroll	Plus	Secondary Rate Adjustment to the Primary Rate of % of payroll	Rate
2019/20	17.90%	Plus	4.20%	22.10%

#### Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable into the pension fund. The real cost of retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.



	2017/18 £'000	2018/19 £'000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
Cost of Services		
- Current service cost	(6,095)	(6,062)
- Past service cost	(143)	(12)
- (Gains)/losses from settlements	-	-
Financing and Investment Income and Expenditure		
Net interest comprising:		
- Interest on plan assets	6,129	6,639
- Interest cost on defined benefit obligation	(6,471)	(6,761)
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	(6,580)	(6,196)
<b>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>		
Remeasurement of the net defined benefit liability comprising:		
- Changes in demographic assumptions	-	-
- Changes in financial assumptions	4,319	(19,291)
- Other experience	524	(52)
- Return on assets (excluding amounts included in net interest)	6,817	9,106
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	5,080	(16,433)
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	3,060	2,704
Actual amount charged against the General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	(3,210)	(3,183)
Contributions in respect of unfunded benefits	(310)	(309)

**Pension Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the Council's obligation in respect to fits defined benefit plan is as follows:

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of the employer assets	247,620	260,295
Present value of funded liabilities	(246,043)	(271,728)
Present value of unfunded liabilities	(4,800)	(4,731)
Net liability	(3,223)	(16,164)

**Reconciliation of the Movements in the Fair Value of Plan Assets**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Opening fair value of scheme assets	237,270	247,620
Interest income on plan assets	6,129	6,639
Remeasurement gain/(loss):		
- Return on assets excluding amounts included in net interest	6,817	9,106
Contributes from employer	3,210	3,183
Contributions from employees into the scheme	1,001	1,013
Contributions in respect of unfunded benefits	310	309
Benefits paid	(6,807)	(7,266)
Unfunded benefits paid	(310)	(309)
Closing fair value of scheme assets	247,620	260,295

**Reconciliation of Present Value of the Scheme Liabilities**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Opening balance at 1 April	(249,093)	(250,843)
Current service cost	(6,095)	(6,062)
Past service cost	(143)	(12)
Interest cost on defined benefit obligation	(6,471)	(6,761)
Remeasurement (gains)/losses:		
- Changes in demographic assumptions	-	-
- Changes in financial assumptions	4,319	(19,291)
- Other experience	524	(52)
Contributions from employees into the scheme	(1,001)	(1,013)
Benefits paid	6,807	7,266
Unfunded benefits paid	310	309
Closing balance at 31 March	(250,843)	(276,459)

**Local Government Pension Scheme assets comprised:**

	Period Ended 31 March 2018			Period Ended 31 March 2019		
	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000
<b>Equity Securities</b>						
Consumer	35,218.1	-	35,218.1	25,355.3	-	25,355.3
Manufacturing	22,626.8	-	22,626.8	14,959.5	-	14,959.5
Energy and Utilities	11,955.5	-	11,955.5	7,924.3	-	7,924.3
Financial Institutions	40,321.3	-	40,321.3	31,229.2	-	31,229.2
Health and Care	17,152.8	-	17,152.8	12,527.5	-	12,527.5
Information Technology	33,829.3	-	33,829.3	16,855.2	-	16,855.2
Other	11,405.7	-	11,405.7	14,873.0	-	14,873.0
<b>Debt Securities</b>						
Corporate Bonds (investment grade)	-	-	-	-	-	-
Corporate Bonds (non-investment grade)	-	-	-	-	-	-
UK Government	4,590.3	-	4,590.3	7,385.9	-	7,385.9
Other	-	-	-	-	-	-
Private Equity	10,642.1	-	10,642.1	-	7,231.6	7,231.6
<b>Real Estate</b>						
UK Property	19,522.6	-	19,522.6	-	24,233.6	24,233.6
Overseas Property	-	-	-	-	-	-
<b>Investment Funds and Unit Trusts</b>						
Equities	-	-	-	-	-	-
Bonds	31,019.6	-	31,019.6	87,767.4	-	87,767.4
Hedge Funds	-	-	-	-	-	-
Commodities	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-
Other	2,964.8	-	2,964.8	2,777.8	-	2,777.8
Cash and Cash Equivalents	6,371.1	-	6,371.1	7,174.7	-	7,174.7
<b>Totals</b>	<b>247,620.0</b>	<b>-</b>	<b>247,620.0</b>	<b>228,829.8</b>	<b>31,465.2</b>	<b>260,295.0</b>

**Basis of estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	<b>Local Government Pension Scheme</b>	
	2017/18	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
• Men	23.6	23.6
• Women	25.0	25.0
Longevity at 65 for future pensioners:		
• Men	26.0	26.0
• Women	27.8	27.8
Rate of increase in salaries	3.10%	3.20%
Rate of increase in pensions	2.40%	2.50%
Rate for discounting scheme liabilities	2.70%	2.40%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post April 2008 service.

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

	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
Change in assumptions at 31 March 2019:		
0.5% decrease in Real Discount Rate	10%	26,546
0.5% increase in the Salary Increase Rate	1%	3,556
0.5% increase in the Pension Increase Rate	8%	22,554

## McCloud

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Therefore, LGPS benefits accrued from 2014 may need to be enhanced so that all eligible members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The West Sussex County Council Pension Fund's actuary has adjusted GAD's estimate to better reflect the Fund's local assumptions, particularly those for salary increases and withdrawal rates. GAD's estimates for salary increases are 1.5% above CPI, compared to the scheme estimate of 0.7% above CPI. GAD's withdrawal assumptions are lower than the scheme actuary's across the board, leading to a lower likelihood that members will retire from active service. The revised estimate results in around a 1% increase in active member liabilities as at 31 March 2019 which results in an increase of approximately £1.1m. This does not result in a material impact on the financial statements and so no adjustment has been made.

## GMP

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits.

As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

The estimated impact of GMP indexation is not considered to have a material impact on the financial statements and so no adjustments have been made.

**Information about the Defined benefit obligation**

	Liability split	Weighted Average Duration
Active members	40.40%	24.10%
Deferred members	21.10%	23.40%
Pensioner members	38.60%	11.90%
<b>Total</b>	<b>100%</b>	<b>17.60%</b>

**Analysis of projected amount to be charged to operating profit for the period to 31 March 2020**

	Assets	Obligation	Net (liability)/asset	
Period Ended 31 March 2020	£'000	£'000	£'000	% of pay
Projected Current service cost*	-	7,043	(7,043)	(47.00%)
Past service cost including curtailment	-	-	-	-
Effect of settlements	-	-	-	-
<b>Total Service Cost</b>	<b>-</b>	<b>7,043</b>	<b>(7,043)</b>	<b>(47.00%)</b>
Interest income on plan assets	6,213	-	6,213	41.50%
Interest cost on defined benefit obligation	-	6,642	(6,642)	(44.40%)
<b>Total Net Interest cost</b>	<b>6,213</b>	<b>6,642</b>	<b>(429)</b>	<b>(2.90%)</b>
<b>Total Included in Profit and Loss</b>	<b>6,213</b>	<b>13,685</b>	<b>(7,472)</b>	<b>(49.90%)</b>

\*The current service cost includes an allowance for administration expenses of 0.4% of payroll.

The contributions paid by the Employer are set by the Fund Actuary at each triennial actuarial valuation (the most recent being as at 31 March 2016), or at any other time as instructed to do so by the Administering Authority.

**40. Contingent Liabilities**

The Council has entered into indemnity agreements with financial institutions in respect of mortgages granted by the institutions on shared ownership sales of certain Council dwellings. At 31 March 2019, the total amount guaranteed was £1,002,204.

**41. Nature and Extent of Risks arising from Financial Instruments**

**Key Risks**

The Council's activities expose it to a variety of financial risks, 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 requiring to renew a financial instrument on maturity at disadvantageous interest 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 rates movements.

**Overall Procedures for Managing Risk**

The Council’s overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

**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, which is contained within the Treasury Management Strategy which is available on the Council’s website.

**Credit Risk management Practices**

The Council’s credit risk management practices are set out in the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The Annual Investment Strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody’s and Standard & Poor’s Credit Ratings Services. The 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:

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moody’s and Standard and Poor’s, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Treasury Management Strategy for 2018/19 was approved by Full Council on 21 February 2018 and is available on the Council’s website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council’s maximum exposure to credit risk in relation to its investments in financial institutions of £106.0m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council’s deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

**Amounts Arising from Expected Credit Losses**

The changes in loss allowance for investments at amortised cost during the year are as follows:

**Credit Risk Exposure**

The authority has the following exposure to credit risk at 31 March 2019:

£000s	Credit rating	Risk	Gross Carrying Amount
12-month expected credit losses	AAA		6,898
	AA		20,148
	A		27,700
	n/a		58,194

The Council has a substantial number of trade receivables. As the assets do not have a significant financing component, the loss allowance is to be based on lifetime expected credit losses. The Council uses a provision matrix based on historical observed default rates over the lifecycle of trade receivables, adjust for forward-looking estimates. The loss allowance is as follows:

Lifecycle stage	Gross carrying amount* £000	Lifetime expected credit losses* £000
Current	2,892	122



Less than 3 months	642	73
3 to 6 months	179	73
6 months to 1 year	223	115
More than 1 year	854	639
	<b>4,790</b>	<b>1,152</b>

\* Excluding statutory debtors – Council Tax / NNDR

**Collateral** – The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2019 was £0.6m.

### Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when 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 through 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.

The maturity analysis of financial assets, excluding the sums due from customers, is as follows:

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Less than 1 year	98,764	112,940
Between 1 and 2 years	15,000	-
Between 2 and 3 years	-	-
More than 3 years	5,000	-
Total	118,764	112,940

### Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy):

	<b>Approved minimum limits</b>	<b>Approved maximum limits</b>	<b>Actual 31 March 2018 £'000</b>	<b>Actual 31 March 2019 £'000</b>
Less than one year	0%	10%	-	-
Between 1 and 2 years	0%	10%	-	-
Between 2 and 5 years	0%	10%	11,000	23,000
Between 5 and 10 years	0%	30%	69,000	74,000
Between 10 and 20 years	0%	80%	180,325	163,325
Between 20 and 30 years	0%	15%	-	-
Between 30 and 40 years	0%	10%	-	-
Between 40 and 50 years	0%	10%	-	-
<b>Total</b>			<b>260,325</b>	<b>260,325</b>

**Market risk**

Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure statement will rise, and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together 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 limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest

rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(173)
Increase in Government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	(173)
Share of overall impact credited to the HRA	(305)
Decrease in fair value of fixed rate investment assets (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	273
Impact on Other Comprehensive Income and Expenditure	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	27,446

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair Value of Assets and Liabilities carried at Amortised Cost.

Price risk

The Council does not generally invest in equity shares.

Foreign exchange risk

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

**42. Heritage Assets: Five-Year Summary of Transactions**

There has been no transaction in the five-year period to March 31, 2019.

**Housing Revenue Account – Income and Expenditure Account**

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rent to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised is shown in the Movement on the HRA Statement.

<b>2017/18 £'000</b>		<b>2018/19 £'000</b>
	<b>Expenditure</b>	
10,683	Repairs and Maintenance	10,978
8,080	Supervision and Management	8,015
119	Rent Rebates	277
107	(Increase)/decrease in provision for bad & doubtful debts	-
6,140	Depreciation & Impairments of non-current assets (Note 5)	6,306
<u>5,577</u>	Revaluation Losses	<u>9,229</u>
<b>30,706</b>	<b>Total Expenditure</b>	<b>34,805</b>
	<b>Income</b>	
(43,009)	Dwelling Rents	(42,618)
(2,186)	Non-dwelling Rents (gross)	(2,256)
(1,578)	Charges for Services and Facilities	(2,112)
<u>(85)</u>	Contributions towards expenditure	<u>(71)</u>
<b>(46,858)</b>	<b>Total Income</b>	<b>(47,057)</b>
(16,152)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	(12,252)
-	HRA services' share of Corporate and Democratic Core	0
-	HRA share of other amounts included in the whole Council Cost of Services but not allocated to specific services	0
<b>(16,152)</b>	<b>Net Income for HRA Services (cost if positive)</b>	<b>(12,252)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>	
1,639	(Gain) or loss on sale of HRA non-current assets	2,629
8,309	Interest payable and similar charges	8,309
232	Interest and Investment Income	(60)
-	Capital Grants and Contributions	0
<b>(5,972)</b>	<b>(Surplus) or deficit for the year on HRA services</b>	<b>(1,374)</b>

**Movement on the HRA Statement**

<b>2017/18</b> <b>£'000</b>		<b>2018/19</b> <b>£'000</b>
<b>(3,198)</b>	Balance on HRA at the end of the previous year	<b>(3,198)</b>
(5,972)	(Surplus) or deficit for the year on the HRA income and expenditure statement	(1,374)
5,972	Adjustment between accounting basis and funding basis under regulation (note 9 of financial statement)	1,374
-	Net (increase) or decrease before transfers to or from reserves	-
-	Transfers to or (from) reserves	-
-	(Increase) or decrease in year on the HRA	-
<b><u>(3,198)</u></b>	<b>Balance on the HRA at the end of the current year</b>	<b><u>(3,198)</u></b>

## 1. Housing Stock

The Council was responsible for over 7,800 dwellings in 2018/19. The stock at the year-end was made up as follows:

	<b>31 March 2018</b>	<b>31 March 2019</b>
Houses	4,298	4,299
Flats and Maisonettes	3,042	3,080
Bungalows	437	435
Hostels – lettable units	48	48
Number of rented units	7,825	7,862
Shared Ownership *	96	94
<b>Total Stock</b>	<b>7,921</b>	<b>7,956</b>

\*Shared ownership properties are owned in part by the Council. A rent, based on the proportion of the dwelling owned by the Council is charged to the occupier who is also responsible for maintaining the property.

The change in stock can be summarised as follows:

	<b>31 March 2018</b>	<b>31 March 2019</b>
Stock at 1 April	7,946	7,921
Less Sales	(52)	(41)
Demolitions/Disposals	(12)	(1)
Add New Build	37	75
Acquisitions	2	1
Transfer to/from GF	0	1
<b>Stock at 31 March</b>	<b>7,921</b>	<b>7,956</b>

## 2. Stock Valuation

The following statement shows the value of HRA assets in the Balance Sheet. Valuation of land and buildings are carried out externally by Wilks Head Eve Chartered Surveyors. The basis for valuation is set out in the Statement of Accounting Policies.

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Property, Plant and Equipment:		
Council Dwellings	591,663	591,343
Other Land and Buildings	22,557	21,824
Vehicles, Plant & Equipment	96	77
Investment Properties	911	-
Intangible Assets	-	-
<b>Total</b>	<b>615,227</b>	<b>613,244</b>

The vacant possession value of dwellings within the Council's HRA, excluding hostels, as at 31 March 2019 was £1,781 million (£1,783 million at March 31 2018). The difference between the vacant possession value and the balance sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than open market rents.

**3. Major Repairs Reserve (MRR)**

Authorities are required to set up a Major Repairs Reserve, and to transfer into it a sum equal to depreciation. Authorities are permitted to make an additional transfer for an amount to the Major Repairs Reserve in excess of any charge for depreciation.

	<b>31 March 2018 £'000</b>	<b>31 March 2019 £'000</b>
Balance on MRR 1 April 2018	32,600	32,474
Transfer amount equal to depreciation	6,140	6,306
Additional transfer	13,992	13,655
Financing of capital expenditure	<u>(20,258)</u>	<u>(30,047)</u>
Balance on MRR 31 March 2019	<u>32,474</u>	<u>22,388</u>

**Notes to the Housing Revenue Account (Continued)**

**4. Capital Expenditure**

Capital expenditure on land, houses and other property within the Council's HRA during the financial year was as follows:

		<b>£'000</b>
<b>Opening Capital Financing Requirement</b>		<b>260,325</b>
<b>Capital Investment</b>		
Enhancements to Council Housing	10,680	
Other Capital Expenditure	20,084	
Acquisition of Council Dwellings	6,798	
		37,562
 <b>Sources of Finance</b>		
Usable Capital Receipts	7,515	
Revenue Contribution to Capital	-	
Major Repairs Reserve	30,047	
Government Grant	-	
		(37,562)
 <b>Closing Capital Financing Requirement</b>		<b>260,325</b>

	<b>£'000</b>	<b>£'000</b>
<b>A summary of capital receipts is as follows:</b>		
<b>Capital Receipts</b>		
Sale of Dwellings	7,361	
Less Pooled Housing Capital Receipts	(1,032)	
		6,329
Miscellaneous HRA Land Sales		936
		7,265

**5. Depreciation & Impairment of Non-Current Assets**

Depreciation charges for council dwellings within the HRA amounted to £5,980,337. Depreciation on other HRA assets amounted to £325,513. No impairment charges were applied to HRA assets during the financial year, giving a total charge for depreciation and impairment losses of £6,305,850.

**6. Rent Arrears**

Rent arrears at the end of the financial year totalled £1,054,219 (£882,801 in 2017/18).



A provision of £726,934 (£637,267 in 2017/18) for bad or doubtful debts has been made in the balance sheet.

**7. Adjustments between Accounting Basis and Funding Basis under Regulation**

Note 9 of the main financial statements include details of the adjustments in relation to the HRA.

**8. Transfer to or from reserves**

The transfer to or from reserves is detailed within the Movement in Reserves Statement and Notes 10 and 25 of the main financial statements.

## COLLECTION FUND 2018/19

<b>INCOME</b>	<b>Notes</b>	<b>Business Rates £'000</b>	<b>Council Tax £'000</b>	<b>Total £'000</b>
Council Tax Receivable	<b>3</b>	-	58,543	58,543
Business Rates Receivable	<b>2</b>	126,575	-	126,575
Total Income		126,575	58,543	185,118
<b>EXPENDITURE</b>				
<b>Apportionment of Previous Year (Surplus)/Deficit</b>				
Central Government		(208)	-	(208)
Crawley Borough Council		(166)	(68)	(234)
West Sussex County Council		(42)	(442)	(484)
Sussex Police and Crime Commissioner		-	(54)	(54)
Total Expenditure		(416)	(564)	(980)
<b>Precepts, Demands and shares</b>				
Central Government		(59,978)	-	(59,978)
Crawley Borough Council		(47,983)	(6,862)	(54,845)
West Sussex County Council		(11,996)	(45,443)	(57,439)
Sussex Police and Crime Commissioner		-	(5,721)	(5,721)
		(119,957)	(58,026)	(177,983)
<b>Charges to Collection Fund</b>				
Less write offs of uncollectible amounts		-	-	-
Less: (Increase) / Decrease in Impairment of debts		(830)	(115)	(945)
Less: (Increase) / Decrease in Provision for Appeals		(3,586)	-	(3,586)
Less: Transitional Protection Payments		(2,345)	-	(2,345)
Less: Cost of Collection		(202)	-	(202)
Less: Disregarded Amounts		(5)	-	(5)
		(6,968)	(115)	(7,083)
<b>Surplus / (Deficit) arising during the year</b>		(766)	(162)	(928)
<b>Surplus / (Deficit) b/fwd 1<sup>st</sup> April</b>		875	559	1,434
<b>Surplus / (Deficit) c/fwd 31<sup>st</sup> March</b>	<b>1</b>	109	397	506

## COLLECTION FUND 2017/18

INCOME	Notes	Business Rates £'000	Council Tax £'000	Total £'000
Council Tax Receivable	3	-	54,762	54,762
Business Rates Receivable	2	118,895	-	118,895
Total Income		118,895	54,762	173,657
<b>EXPENDITURE</b>				
<b>Apportionment of Previous Year Surplus</b>				
Central Government		2,953	-	2,953
Crawley Borough Council		2,363	(47)	2,316
West Sussex County Council		591	(303)	288
Sussex Police and Crime Commissioner		-	(37)	(37)
Total Expenditure		5,907	(387)	5,520
<b>Precepts, Demands and shares</b>				
Central Government		(58,218)	-	(58,218)
Crawley Borough Council		(46,574)	(6,577)	(53,151)
West Sussex County Council		(11,644)	(42,556)	(54,200)
Sussex Police and Crime Commissioner		-	(5,217)	(5,217)
		(116,436)	(54,350)	(170,786)
<b>Charges to Collection Fund</b>				
Less write offs of uncollectible amounts		-	-	-
Less: (Increase) / Decrease in impairments of debt		224	(100)	124
Less: (Increase) / Decrease in Provision for Appeals		(1,242)	-	(1,242)
Less: Transitional Protection Payments		(3,677)	-	(3,677)
Less: Cost of Collection		(202)	-	(202)
Less: Disregarded Amounts		(4)	-	(4)
		(4,901)	(100)	(5,001)
<b>Surplus / Deficit (-) arising during the year</b>		3,465	(75)	3,390
<b>Surplus / Deficit (-) b/fwd 1<sup>st</sup> April</b>		(2,590)	634	(1,956)
<b>Surplus / Deficit (-) c/fwd 31<sup>st</sup> March</b>	1	875	559	1,434

Notes to the Collection Fund

1. General

The Collection Fund is a statutory account administered separately by the Council as the billing authority for the area. The account reflects income due from the Council Tax payers, Non-Domestic Rate payers, residual Community Charge payments and the distribution of such sums.

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. Business Rates collected are shared between Central Government (50%), Crawley Borough Council (40%) and West Sussex County Council (10%).

The year-end surplus or deficit on the Collection Fund must be distributed between billing and precepting authorities and Central Government in the following financial years. This in turn will reduce/increase the relevant authority's requirement from the Collection Fund in future years. Surpluses and deficits relating to Community Charge are retained by the Council to reduce its demand on the Collection Fund. The balance as at 31 March 2019 will be distributed as follows:

	2018-19		
	Business Rates £'000	Council Tax £'000	Total £'000
Central Government	54	-	54
Crawley Borough Council	44	47	91
West Sussex County Council	11	310	321
Sussex Police	-	40	40
	109	397	506

	2017-18		
	Business Rates £'000	Council Tax £'000	Total £'000
Central Government	437	-	437
Crawley Borough Council	350	68	418
West Sussex County Council	88	438	526
Sussex Police	-	53	53
	875	559	1,434

2. Income from Business Rates (NNDR)

Business Rates are set by the Government but collected locally by the Council. The amount collected is paid into a central pool administered by the Government after the deduction of an allowance towards collection costs. The Government specifies a uniform rate in the pound (49.3p for 2018/19) which is multiplied by the rateable value for each property to arrive at the charge per property for the year. For businesses that qualify for Small Business Rate Relief, the rate multiplier was 48.0p for 2018/19. At year-end, the total rateable value was £275 million.

**3. Income from Council Tax**

This figure represents the total Council Tax due for the year compiled as follows:

	<b>£'000</b>
Council Tax benefits paid by the General Fund	11
Balance payable by Council Tax Payers	<u>58,532</u>
Total Council Tax due for year	<u>58,543</u>

Each domestic property has been placed by the Inland Revenue into one of eight bands according to April 1991 valuations. The Council Tax due from each property varies according to the band it has been placed into. Band D has been assumed to be the national average with A having the lowest tax and H the highest. Statutory discounts relating to particular circumstances such as single occupancy reduce the Council Tax charged for relevant properties. An estimate of the Council Tax to be collected after allowing for discounts, changes in valuation, new properties and bad debts is made prior to the commencement of the year. This estimate is converted to a Band D equivalent number of properties described as the Council Tax Base. The figures for 2018/19 are shown in the following table.

<b>Band</b>	<b>Number of Properties (a)</b>	<b>Net Properties (b)</b>	<b>Ratio to Band D</b>	<b>Equivalent Number of Band D</b>
A	1,157	712	6/9	475
B	6,972	4,387	7/9	3,412
C	21,507	17,093	8/9	15,194
D	8,580	7,599	9/9	7,599
E	3,754	3,457	11/9	4,225
F	2,214	2,098	13/9	3,031
G	461	427	15/9	711
H	9	5	18/9	10
	44,654	35,778		34,657
Less provision for bad debts				(173)
Council Tax Base				34,484

Notes

(a) Number of properties per October 2017 valuation list.

(b) Net properties after allowing for discounts and other estimated charges.

To arrive at the Council Tax payable per band, the precepts and demands on the fund are divided by the estimated Council Tax Base to arrive at a Band D charge for the year. Other bands are calculated pro rata to Band D by the proportions shown in the table above.

The Band D charge for the year was £1,682.68

The Council Tax Surplus as at 31 March 2019 was £397,163.82

## Glossary of Terms

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### Accounting Period

The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1<sup>st</sup> April to 31<sup>st</sup> March.

### Accounting Policies

Accounting Policies are the specified principles, bases, conventions, rules and practices applied by the authority in preparing and presenting its financial statements.

### Accounting Standards

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Act of Parliament and in professional codes and statements of recommended practice.

### Accruals

The concept that income is accounted for when it is earned and expenditure when it is incurred, rather than when the money is received or paid.

### Actuarial Gains and Losses

The changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with actuarial assumptions made for the last valuation (experience gains or losses), or
- (b) the actuarial assumptions have changed.

### Actuarial Valuation

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

### Agency Arrangements

Services which are performed by or for another Authority or public body, where the agent is reimbursed for the cost of the work done.

### Amortisation

A term that applies to Intangible Assets and Capital Grants. It is an accounting adjustment that spreads the cost of an asset over its useful life.

### Amortised Cost

The amortised cost of a financial asset or a financial liability is

- the amount at which the financial asset or financial liability is measured at initial recognition (usually "cost").
- minus any repayments of principal
- minus any reduction for impairment or uncollectibility, and
- plus or minus the cumulative amortisation of the difference between that initial amount and the maturity amount.

Amortisation is calculated using the **effective interest method**.

### Appropriations

The transfer of resources between various revenue reserves.

### Area Based Grant

Area based grant is a non ring fenced general grant allocate directly to the Council.

## Glossary of Terms (Continued)

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### Asset

An item having value to the authority in monetary terms. Assets are categorised as either current or fixed:

- A **current** asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A **fixed** asset provides benefits to the Council and to the services it provides for a period of more than one year and may be **tangible** e.g. a school building, or **intangible**, e.g. computer software licences.

### Asset Register

A record of Council assets including land and buildings, housing, infrastructure, vehicles equipment etc. This is maintained for the purpose of calculating capital charges that are made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals, revaluations and depreciation.

### Audit Commission

The body responsible for the appointment of external auditors to local authorities, co-ordinating audits throughout the country, and operates a quality control framework to ensure auditing standards are met.

### Audit of Accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### Available for Sale Financial Asset

An available for sale financial asset is a non derivative financial asset that is not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

### Balances

These represent the accumulated surplus of revenue income over expenditure.

### Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

### Baseline Funding Level

Set at the outset of the *retained business rates* scheme and based on collected business rates before commencement of the scheme. Increases each year in line with the small business non-domestic rate *multiplier*.

### Benefit Payable during Employment

Benefits payable during employment covers:

- Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.
- Benefits earned by current employees but payable 12 months or more after the end of the reporting period, such as disability benefits.

### Budget

An expression, mainly in financial terms, of the Council's intended income and expenditure to carry out its objectives

### Capital Adjustment Account

The capital adjustment account provides a specific accounting mechanism to reconcile the different rates at which assets are depreciated under the Code and are financed through the capital controls system. Statute required that the charge to the General Fund Balance is determined by the capital control system.

## Glossary of Terms (Continued)

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### Capital Expenditure

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

### Capital Financing

This term describes the method of financing capital expenditure, the principal methods now being, capital receipts, the Major Repairs Reserve, government grants and revenue contributions.

### Capital Programme

The capital schemes the Council intends to carry out over a specified period of time.

### Capital Receipts

Monies received from the sale of assets, which may be used to finance new capital expenditure or to repay outstanding loan debt as laid down within rules set by Central Government.

### Carrying Amount

The carrying amount is the amount at which an asset is recognised in the Balance Sheet after deducting any accumulated depreciation and accumulated impairment losses.

### Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the main professional body for accountants working in the public service. It draws up the Accounting Code of Practices and issues professional guidance that is used to compile these accounts.

### Collection Fund

The Collection Fund is a separate account kept by every billing authority into which Council Tax and Business Rates are paid.

### Community Assets

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

### Comprehensive Income and Expenditure Statement

The comprehensive income and expenditure statement shows the accounting costing the year of providing services in accordance with generally accepted practices, rather than the amount to be funded from taxation.

### Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

### Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

### Contingent Liabilities

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.



## Glossary of Terms (Continued)

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### **Corporate and Democratic Core**

These are the activities that a local authority engages in specifically because it is a democratically elected division making body. These are over and above what a private company would have if it were providing similar services. These costs are not apportioned to services but are shown separately. Examples of costs are Councillors' allowances, committee support and time spent by professional officers in giving policy advice.

### **Creditors**

Amounts owed by the Council for goods and services provided for which payment has not been made at the end of the financial year.

### **Current Asset**

A current asset is an asset that is intended to be sold within the normal operating cycle; the asset is held primarily for the purpose of trading or the Council expects to realise the asset within 12 months after the reporting date.

### **Current Liability**

A current liability is an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

### **Current Service (Pensions) Cost**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

### **Curtailement**

Curtailements will show the cost of the early payment of pensions benefits if any employee has been made redundant in the previous financial year.

### **Debtors**

Sums of money due to the Council but not received at the end of the financial year.

### **Deferred Capital Receipts**

This represents capital income still to be received. These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years. The balance is reduced by the amount repayable in any financial year.

### **Deferred Liabilities**

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. The main example of this is outstanding finance lease obligations.

### **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### **Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### **Depreciation**

A provision made in the accounts to reflect the value of assets used during the year. Depreciation forms part of the capital charge made to service revenue accounts.

## Glossary of Terms (Continued)

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### **Derivatives**

Derivatives are securities or financial instruments whose value is derived from another, underlying asset.

### **Earmarked Reserves**

These are amounts set aside for a specific purpose or a particular service, to meet future liabilities, for which it is not appropriate to establish provisions.

### **Effective Interest Method**

This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument (either through to maturity or to the next re-pricing date) to the net carrying amount at initial recognition, i.e. a constant rate on the carrying amount. The effective interest rate is sometimes termed the level yield to maturity (or the next re-pricing date), and is the internal rate of return of the financial asset or liability for that period.

### **Equity**

The Council's value of total assets less total liabilities.

### **Events after Balance Sheet Date**

Events after the balance sheet date are those events, favourable or unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

### **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### **Expected Rate of Return on Pensions Assets**

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

### **Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

### **Fair Value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### **Finance Lease**

A finance lease transfers all of the risks and rewards of ownership of a fixed asset to the lessee and such assets have been valued and included within Fixed Assets in the Balance Sheet.

### **Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities, from straightforward trade receivables (invoices owing) and trade payables (invoices owed) to complex derivatives and embedded derivatives.

### **Fixed Assets**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

### **General Fund**

## Glossary of Terms (Continued)

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The General Fund is the main revenue account of the Council which provides the finance for all of its services other than council housing (e.g. leisure services, environmental services etc).

### **Going Concern**

Going Concern defines that the functions of the Council will continue in operational existence for the foreseeable future.

### **Government Grants**

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

### **Heritage Assets**

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

### **Historic Cost**

The actual cost of an asset in terms of past consideration as opposed to its current value.

### **Housing Benefits**

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by Central Government.

### **Housing Revenue Account**

Local authorities are required to maintain a separate account - the Housing Revenue Account - which sets out the expenditure and income arising from the provision of council housing.

### **Impairment**

A reduction in the value of a fixed asset to below its carrying amount on the balance sheet.

### **Income**

Amounts that the Council receives or expects to receive from any source, including fees, charges, sales and grants.

### **Intangible Assets**

Fixed assets that do not have physical substance, e.g. computer software licences

### **Interest Cost (Pensions)**

The expected increase during the year in the present value of the scheme liabilities because the benefits are one year closer to settlement.

### **Interest on pension scheme liabilities**

The expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement.

### **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

### **International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards advise the accounting treatment and disclosure requirement of transactions so that the Council's accounts present fairly the financial position of the Council. IFRS applies to local authorities with effect from 1 April 2010.

## Glossary of Terms (Continued)

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### Investments (Non-Pensions Fund)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pensions fund, that do not meet the above criteria should be classified as current assets.

### Investments (Pensions Fund)

The investments in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

### Investment Property

Investment property is property (land or a building) held solely to earn rentals or for capital appreciation.

### LABGI – Local Authority Business Growth Incentive Grant

A Government grant payable to Councils for the growth, over a year, in the value of Non-domestic Rateable values in the area.

### LASAAC

Local Authority (Scotland) Accounts Advisory Committee.

### Levy

Applied to the surplus of *retained business rates* over the *baseline funding level*. The levy rate for the Council is 50%.

### Liability

A liability is where the Council owes payment to an individual or another organisation.

- A **current** liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A **deferred** liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

### Liquid Resources

Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- readily convertible to known amounts of cash at or close to the carrying amount; or
- traded in an active market.

### Major Repairs Reserve

The major repairs reserve controls an element of capital resources required to be used on Housing Revenue Account (HRA) assets or for capital financing purposes.

### Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

### Movement in Reserves Statement

The movement in reserves statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves and other reserves.

**Glossary of Terms (Continued)****Multiplier**

The business rates multiplier when multiplied by the rateable value of a property determines a ratepayer's business rate bill. There are two multipliers – one for small businesses and one for larger businesses. These are set nationally. The small business rate multiplier is updated annually by the retail price index (RPI) (although exceptionally a less increase may be imposed) and the other multiplier adjusted accordingly.

**National Non-Domestic Rate (NNDR)**

The rates paid by businesses. The amount paid is based on the rateable value set by Valuation Office Agency multiplied by a rate in the £ set by the government which is the same throughout the country.

**Negative Subsidy**

If the Housing Revenue Account subsidy produces a result, which assumes that the Council's income is higher than its expenditure, a 'Negative Subsidy' situation arises. In this case the Council must pay an amount equivalent to the notional surplus, from its Housing Revenue Account to the government.

**Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**Non-Distributed Costs**

These are overheads for which no user now benefits and as such are not apportioned to services.

**Net Realisable Value**

The open market value of the asset less the expenses to be incurred in realising the asset.

**Operating Lease**

A lease where the ownership of the fixed asset remains with the lessor and the annual rent is charged to the relevant service account.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Other Comprehensive Income and Expenditure**

Other comprehensive income and expenditure comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in the revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on the re-measuring available-for-sale financial assets.

**Outturn**

Actual income and expenditure in a financial year.

**Past Service Costs**

The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

**Pension Scheme Liabilities**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Pooling Arrangements (Capital Receipts)**

Since 1<sup>st</sup> April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the Government; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects.

## Glossary of Terms (Continued)

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### Post Balance Sheet Events

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

### Precepts

Amounts which the Borough Council is required to raise from Council Tax on behalf of other authorities.

### Property, Plant and Equipment

Property, plant and equipment are tangible assets (i.e. assets with a physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and which are expected to be used during more than one period.

### Provision

An amount set aside to provide for a liability which is likely to be incurred but the exact amount and the date on which it will arise is uncertain.

### Prior Year Adjustment

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### PWLB (Public Works Loans Board)

The PWLB is part of the Government Debt Management Organisation.

### Rateable Value

The annual assumed rental value of a hereditament (normally a building), which is used for NDR purposes.

### Related Parties

There is a detailed definition of related parties in IAS 24. For the Council's purposes, related parties are deemed to include the Council's members, the Chief Executive, its Directors and their close family and household members.

### Related Party Transactions

The Code requires the disclosure of any material transactions between the Council and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

### Reserves

A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.

### Residual Value

The net realisable value of an asset at the end of its useful life.

### Retained Business Rates

From 1 April 2013, collected business rates are shared between Central Government (50%), Billing Authority (40%) and County Council (10%). Retained business rates are the Council's share less the *tariff*.

## Glossary of Terms (Continued)

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### Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### Revenue Expenditure

Day to day expenses, mainly salaries and wages, general running costs and debt charges.

### Revenue Expenditure funded from Capital under Statute

Revenue expenditure funded from capital under statute is revenue expenditure incurred that may be funded from capital resources under statutory provisions but does not result in the creation of a fixed asset. Items generally include grants, advances and financial assistance to others, expenditure on property not owned by the Council and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

### Revenue Support Grant

Central Government Grant towards the cost of local authority services.

### Right to Buy

The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the government under pooling arrangements.

### Safety Net

Applies if the Council experiences a decrease in its business rates revenue. This protection limits losses to 7.5% of the Council's *baseline funding level*.

### Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### Service Reporting Code of Practice (SeRCOP)

SeRCOP sets the financial reporting guidelines for local authorities. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (known as the Code), by establishing practice for consistent reporting. It provides guidance in three key areas:

- The definition of total cost
- Trading accounts
- Service expenditure analysis

### Soft Loan

A loan made interest free or at a rate less than the market rate, usually for policy reasons. Such loans are often made to individuals or organisations that the Council considers benefits the local population.

### SOLACE

Society of Local Authority Chief Executives.

### Specific Government Grants

Central Government financial support towards particular services which is 'ring fenced', i.e. can only be spent on a specific service area or items.



## Glossary of Terms (Continued)

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### **Stocks**

Items of raw materials and stores a Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

### **Tariff**

Calculated at the outset of the *retained business rates* scheme and increased each year by the retail price index (RPI).

### **Temporary Borrowing**

Temporary borrowing is a sum of money borrowed for a period of less than one year.

### **Transfer Payments**

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the Council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

### **Usable Capital Receipts**

Holds the proceeds of fixed assets sales available to meet future capital investment. These capital receipts are held in this reserve until such time they are used to finance capital expenditure.

### **VAT**

Value-added tax: a tax levied on the difference between the cost of materials and the selling price of a commodity or service.

### **Write-Offs**

Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income is already showing in the accounts and has to be reduced or written off.



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# **Annual Governance Statement**

**2018 – 2019**

**1. Scope of Responsibility**

The Leader of the Council (Councillor Peter Lamb) and the Chief Executive (Natalie Brahma-Pearl) both recognise the importance of having robust rules, systems and information available to guide the Council when managing and delivering services to the communities of Crawley.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how its corporate governance arrangements have been working over the year.

This AGS in respect of 2018/2019 will be considered by the Audit Committee at its meeting on 23<sup>rd</sup> July 2019.

Crawley Borough Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles and reflects the requirements outlined in the 2016 Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework, 'Delivering Good Governance in Local Government'. This statement explains how the Council has complied with the Framework and also meets the requirements of Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to prepare an annual governance statement. This is currently being updated as part of the rewriting of the Constitution.

**2. The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Crawley Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Crawley Borough Council for the year ended 31<sup>st</sup> March 2019 and will continue to be developed in coming years.

### **3. The Governance Framework**

#### **The Principles of Good Governance**

The CIPFA/SOLACE framework was reviewed in 2015 to ensure that it remained “fit for purpose” and a revised edition was published in 2016. The new Delivering Good Governance in Local Government Framework applies to the Annual Governance Statement prepared for the year ended 31 March 2019 and up to the date of the approval of the Annual Report and Statement of Accounts for the financial year 2018-2019. The key elements of the systems and processes that comprise the Council's governance arrangements are as follows.

#### **BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW**

##### ***The Constitution***

The Constitution sets out how the Council operates, how decisions are made and the procedures to be followed to ensure that there are efficient, transparent, and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The current Constitution was reviewed and adopted in 2018.

The Constitution is divided into 15 articles which set out the basic rules governing the Council's business. More detailed procedures and codes of practice are provided in separate rules and protocols within the Constitution. This includes the roles and responsibilities of Councillors, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.

The Governance Committee is responsible for regularly reviewing the Constitution and ensuring that it is both up to date and fit for purpose. It regularly receives updates advising of Constitutional changes. The Committee approved the establishment of a Constitutional Review Working Group to undertake a comprehensive review of the document. The review has been undertaken and is near conclusion and the New Constitution will be adopted in 2019/2020.

##### ***Head of Paid Service***

The Head of Paid Service (Chief Executive) is a statutory role and is responsible for the strategic management and running of the authority as a whole. They are required to report to and provide information for the Cabinet, the Council, the Overview and Scrutiny Commission and other Committees. They are responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation. As head of the officer staff, the Chief Executive oversees the employment and conditions of staff. A Deputy Chief Executive was appointed to the Council in June 2018.

##### ***The Monitoring Officer***

The Monitoring Officer is a statutory role. The designated Monitoring Officer ensures that the Council, its officers, and its elected Councillors, maintain the highest standards of conduct in all they do. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures. They are also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation and maintenance of the Council's Constitution.

The Monitoring Officer also ensures the lawfulness and fairness of decision making within the Council and after consulting with the Head of Paid Service and the Chief Finance Officer, will report to the Full Council (or to the Cabinet in relation to a Cabinet function) if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the

proposal or decision being implemented until the report has been considered. This role is also the Head of Legal, Democracy and HR.

***Deputy Monitoring Officer***

A Deputy Monitoring Officer has been appointed to act in the absence of the Monitoring Officer.

***Section 151 Officer***

Whilst all Councillors and Officers have a general financial responsibility, Section 151 of the Local Government Act 1972 specifies that one Officer in particular must be responsible for the financial administration of the organisation and that this Officer must be Consultative Committee of Accountancy Bodies (CCAB) qualified. This is typically the highest ranking qualified finance officer and in this Council is also the Head of Corporate Finance.

***Deputy Section 151 Officer***

A Deputy Section 151 Officer has been appointed to act in the absence of the Section 151 Officer.

The Statutory roles of the Monitoring Officer and the Chief Finance Officer are set out in the Constitution. Both officers report to the Head of the Paid Service.

***Codes of Conduct***

Codes of Conduct exist for both staff and Councillors. The Codes define the behaviour expected of officers and members. These Codes are part of the Constitution.

All Councillors must adhere to a Code of Conduct to ensure that they maintain the high ethical standards the public expect from them. Training is provided to members on the Code, Interests and on Gifts and Hospitality. All members complete a Declaration of Interests Form which is published on the Crawley Borough Council Website and reviewed periodically. If a complainant reveals that a potential breach of this Code has taken place the Council may refer the allegations for investigation or decide to take other action.

The Governance Committee has responsibility for Standards. This Committee received a report on the Review of Local Government Ethical Standards undertaken by the Committee on Standards in Public Life and will receive a further report on how the Council demonstrates compliance with the Best Practice Recommendations. The Committee has agreed to the publication of Code of Conduct complaints that are upheld.

On joining the Council, Officers are provided with a contract outlining the terms and conditions of their appointment. All staff must declare any financial interests, gifts or hospitality on a public register, as set out in the Constitution. Additionally, Councillors are expected to declare appropriate interests in items of business that are considered at meetings of the Council that they attend in accordance with the Code of Conduct. Councillors and officers are required to comply with approved policies.

***Whistleblowing***

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy was revised in February 2018 and it sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter.

***Anti-fraud, bribery and corruption***

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Councillors and Officers regarding the administration of financial affairs. The Anti-Fraud and Corruption Policy was updated on 13<sup>th</sup> March 2018 and is on the **intranet/website** for staff, Councillors and **the public** to see.

The Council has a Fraud and Investigations Team which acts to minimise the risk of fraud, bribery, corruption and dishonesty and recommends procedures for dealing with actual or expected fraud. The team also prosecutes where appropriate and is involved in fraud training and awareness.

## **ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

### ***Transparency***

The Council has clear decision making processes that demonstrate openness and transparency. The Council and its decisions are open and accessible to the community, service users, partners and its staff. All reports requiring a decision are considered by appropriately qualified legal, and finance staff with expertise in the particular function area before they are progressed to the relevant Committee or group. This Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out when there is significant change to major council services, functions, projects and policies in order to better understand whether the change will impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making.

All reports and details of decisions made can be found on the Council's website at:

<http://democracy.crawley.gov.uk/ieDocHome.aspx?bcr=1>

### ***Freedom of Information/Environmental Information requests***

The Freedom of Information (FOI) Act 2000 and Environmental Information Regulations (EIR) 2004 give anyone the right to ask for any information held by a public authority, which includes this Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so. We respond to such requests in a timely and impartial manner and in line with the legislation, and proactively publish information via the Publication Scheme on our Website.

### ***Managing Data***

The processing of Data is essential to many of the services and functions of the Council. The Council complies with the Data Protection Act 2018 and the General Data Protection Regulations. This will ensure that personal data is processed fairly, lawfully and transparently. The Data Protection legislation gives individuals with a number of rights. The Council ensures that all valid requests from individuals exercising those rights are dealt with in a timely manner.

### ***Engagement and communication***

Crawley Borough Council recognises that stakeholders require information about the decisions that are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. The views of customers are at the heart of the council's service delivery arrangements and we frequently cover a range of services seek user and customer input in to how we deliver and improve the delivery of our services.

In January 2019, six months after the successful launch of the myCrawley self-service portal, the Council undertook a digital services survey. The survey was carried out online and sought to gain a picture of how people access the internet, the devices they use, time spent online and confidence in using online services. It also followed up questions from the 2017 survey to see whether preferences have changed and to check we are on track with our ongoing plans for digital service delivery.

The Council held its annual Question Time on 14<sup>th</sup> March 2019, which gave residents the opportunity to ask questions about topics important to them.

### ***Consultations***

The council maintains a Forward Plan of Key Decisions that are to be made over a specific period. The Plan also includes details of consultations undertaken in connection with those

decisions. Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted.

## **ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

### ***Complaints***

Crawley Borough Council is committed to delivering a high quality service and aims to achieve the highest possible standards but recognises that despite its best intentions and hard work, things can go wrong. When there is service failure or users are unhappy about the way a matter has been handled, the Council openly wants to hear about such experiences and operates a two stage complaints system. Stage 1 is where the complaint is dealt with locally by the relevant service area. If the complainant continues to remain dissatisfied with the Stage 1 response, a request can be made to a further review, conducted by a senior officer, normally Head of Service as a Stage 2 complaint. Following this if the matter is still not resolved satisfactorily then the complainant is asked to take the matter up with the Local Government and Social Care Ombudsman. We also use our complaints information to improve service delivery and undertake root cause analysis where appropriate, in order to ensure on-going continuous improvement.

The Housing Ombudsman deals with any complaints that relate to the housing managed service.

## **DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS**

### ***Corporate Priorities***

The council's strategic objectives and corporate priorities, are set out in the new Corporate Plan 2018-2022, which was adopted in October 2018 and are as follows:

- Delivering value for money and modernising the way we work
- Delivering affordable homes for Crawley and reducing homelessness
- Improving job opportunities and developing the local Economy
- Creating stronger communities
- Providing high quality leisure and culture facilities and supporting health and wellbeing services
- Protecting the environment

The Council continues to improve performance management within the organisation and service quality and best use of resources is ensured via:

- Transformation and Project Boards
- Portfolio Briefings
- Corporate Project Assurance Group
- Quarterly monitoring of performance by CMT

The Council has a ***'dashboard of measures' to track performance across a range of key service and ensure that a more timely response can be applied to service improvement*** and also against service plans and strategies.

The Council recognises that to drive improvement it needs to closely monitor and review its performance. The Council routinely monitors its spend against budgets, and its departments have agreed purpose and collect data to measure their performance.



### ***Financial Controls***

Financial reports comparing budget to actual and projections to end of year are available in real time to all key officers, with access/drilldown facilities appropriate to role and responsibilities. The Leader of the Council and the Cabinet also receive quarterly budget monitoring reports.

### ***Local Plan***

The Local Plan – Crawley 2030 - was adopted in December 2015 and now forms the Council's development plan under which development control decisions will be taken. The Local Plan is supported by a number of companion planning documents and considerations including Supplementary Planning Documents, Development Briefs, Article 4 Directions and the Community Infrastructure Levy Charging Schedule and associated CIL Infrastructure (Regulation 123) List. The Council's planning policies seek to balance the economic, social and environmental needs of residents, businesses and visitors, ensuring that Crawley continues to be a great place to live, to work and to visit.

Implementation of the Local Plan and the success of the Council's planning policies is measured and reported through the Authority's Monitoring Report which is published annually. A process is in place for updating the Local Plan in 2020.

### ***Transformation***

The council is in the process of revising The Transformation Plan 2018/2022.

Our refreshed Transformation Plan consists of seven pillars:-

1. Delivering a New Town Hall;
2. Delivering Digital Transformation of services to meet customer demand, making it easy to do business with us and creating efficiency;
3. Developing New Ways of Working to meet the needs of the business whilst delivering what matters to customers;
4. Developing the organisation and our staff, defining the culture and being clear about expectations – Values and Behaviours;
5. Redesigning services from the customers perspective using Systems Thinking methodology to deliver efficiency savings whilst protecting frontline services;
6. Developing a more Commercial Approach to how we operate and ensuring that Income Generation opportunities are maximised;
7. Reducing Bureaucracy in order to streamline the decision making process.

The previous Transformation Plan delivered £5,378,600 in savings over a five year period 2012/2013 to 2016/2017. In addition through efficiencies and savings we have increased income from 2017/2018 total £3,903,000.

### ***Housing Strategy***

Housing need and the Council's policies to address this are contained within the Local Plan Housing policies.

The Council's Homelessness Strategy is currently being revised following the introduction of the Homelessness Reduction Act and informed by the Homeless Review undertaken in late 2018. The revised strategy also incorporates the approach being taken to tackle rough sleeping. The new strategy is expected to be formally adopted by the Council in October 2019 and will link to the Council's Tenancy Strategy and Allocations Scheme. Key achievements from the existing 2014-2019 strategy have included a review and revision of the Council's allocation policy to provide a more effective homelessness prevention tool and speed the flow through temporary accommodation. The Council has been able to significantly reduce the use of nightly paid (B&B) accommodation as a result and has sustained this position despite the increased demands arising from the Homelessness Reduction Act. A total of 2800 households have been prevented from becoming homeless, 1000 of these enabled to remain in their existing accommodation through the Council's intervention and 1800 assisted into alternative accommodation. The Council continues to develop and maintain a varied portfolio of temporary accommodation,



supports other service providers in developing move on accommodation and has sustained a delivery programme of 250 new affordable homes each year over the past 5 years. The aim is for delivery at this level over the following 4 year period and work is in hand to identify further sites to maximise housing delivery through the Local Plan review.

### ***Local Partnerships***

The Council has a key role in a number of local partnerships, working for the benefits of residents and the community to improve the quality of life, including:

- Safer Crawley Partnership - formed in 1998 in response to the Crime and Disorder Act 1998.
- Crawley Wellbeing - a free, friendly and impartial health advisory delivered in partnership with West Sussex County Council and the local NHS.
- Economic Partnerships, Local Economic Action Group (LEAG), Crawley Growth Programme, Gatwick Diamond Initiative, Greater Brighton Economic Board and the Manor Royal Business Improvement District (BID).
- We are also statutory members of the West Sussex Local Safeguarding Children Board, the West Sussex Adult Safeguarding Board and the West Sussex Health & Wellbeing Board.
- Strategic Housing - the Council both leads and participates in a range of groups providing a multi-agency response to tackling street homelessness and providing improved outcomes for care leavers, ex-offenders and people with supported housing needs.

The Council also participates in numerous national, sub-regional and County-wide partnership initiatives, including the Coast to Capital LEP, which is a body made up of representatives from business, academia and the wider public sector. The partnership's aim is to be the catalyst for realising the sub-regional economic and commercial potential.

## **DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES**

### ***Effectiveness of Governance Framework***

The Council has responsibility for reviewing the effectiveness of its governance framework and this is undertaken by work of the Corporate Management Team in their development and maintenance of the governance environment. The Audit and Risk Manager produces an annual report and specifically comment's on the governance framework, as does the External Auditor. Areas identified for improvement are acted upon by CMT.

### ***Financial Measures***

Crawley Borough Council publishes its Annual Statement of Accounts in accordance with CIPFA guidelines and the annual Budget is approved by Full Council and monitored and reported upon regularly.

### ***Consultations***

To be effective this policy aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council. Local people have the option to engage in a dialogue through: social media sites (including Facebook and twitter), petition schemes, neighbourhood forums, council meetings (open to the public), and through their local Councillor.

Internally, a Statement of Community Involvement has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness and participation, consultations are proactively promoted via publications (printed and digital), press releases, social media, email, town notice boards and the council's website. A council publication, Crawley

Live, is published quarterly and mailed to every household in Crawley to keep residents informed. Various methods are used (depending on the scope of the consultation) to seek people's views, including questionnaires, public events and exhibitions, focus groups, satisfaction surveys and feedback forms. A list of current consultations and consultation events is available on the council's website at [www.crawley.gov.uk/consultation](http://www.crawley.gov.uk/consultation)

### **Public Consultation**

Where appropriate the Council has carried out public consultations. There were a number carried out during 2018/2019, which included the Mystic Joe/Arts Council England arts and culture consultation, employment skills survey, proposed Public Spaces Protection Order consultation and abandoned trolleys survey. All information gathered from public consultations is analysed and considered as part of the council's decision-making process.

## **DEVELOPING THE COUNCIL'S CAPABILITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT**

### ***Recruitment, Training and Development***

Human Resources policies and procedures are in place to facilitate the recruitment and retention of capable staff. The Council operates a robust interview and selection process to ensure that staff are only appointed if they have the right levels of skills and experience to effectively fulfil their role. All new staff attend corporate induction sessions and undertake an e-learning induction package. Suitable training is available to support all staff to carry out their roles to the best of their ability. Newly elected Councillors are required to attend an induction programme which includes information on: roles and responsibilities; political management and decision-making; the Code of Conduct; declaration and registration of interests; financial management and processes; information governance; and Data Protection.

Councillor's attendance at meetings is recorded via the Modern.Gov system. In the event of continual non-attendance for 4 months the matter will be passed to the Leader of the political group concerned for action to be taken. Should a Councillor fail to attend any formal meeting of the Council, for a period of 6 months, they relinquish being a Councillor. Each Group may seek approval from the Full Council to extend the 6 month non-attendance period, in exceptional circumstances.

Performance issues relating to staff are dealt with by the Manager / Head of Service.

### ***Legal Compliance***

The Council's Constitution clearly defines the roles and responsibilities of the Chief Executive, Chief and Senior Officers, Councillors and Committees and outlines procedural standards, scheme of delegation and protocol on Council/Officer relations.

The Monitoring Officer, who is the Head of Legal & Democracy and HR, is responsible for legal compliance, Conduct and Compliance and working with departments to advise on legal issues across the Council.

### ***Financial Compliance***

The Head of Corporate Finance is the designated S151 Officer and has overall financial responsibility within the Council, as outlined in the Constitution.

## **MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT**

### ***Effective scrutiny***

The Council operates an Overview and Scrutiny Commission which has its own terms of reference, as outlined in the Council's Constitution. This Commission supports the work of the

Cabinet and the Council as a whole. It allows citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Cabinet and the Council as a whole on its policies, budget and service delivery. The Overview and Scrutiny Commission also monitors the decisions of the Cabinet. This enables them to consider whether the decision is appropriate. They may recommend that the Cabinet reconsider or amend the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy.

### ***Financial management***

The Head of Corporate Finance (S151 Officer) is responsible for leading the promotion and delivery of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. The Head of Corporate Finance provides advice on financial matters to both the Cabinet Executive and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term financial goals. The Head of Corporate Finance, together with the Finance team, ensures that new policies or service proposals are costed, financially appraised, fully financed and identifies the key assumptions and financial risks that face the council.

### ***Risk management***

All significant (strategic) risks are discussed by CMT and reported to the Audit Committee on a quarterly basis. These include the new Town Hall, delivering affordable housing and planning for Britain's exit from the European Union.

## **IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY**

### ***Internal Audit***

The Audit and Risk Manager (Head of Internal Audit) is a qualified member of the Chartered Institute of Internal Auditors and they have full access to CMT and the Audit Committee. The audit team is properly resourced and the Council is in compliance with the CIPFA statement on the Role of the Head of Internal Audit (2010) and Public Sector Internal Audit Standards.

The Audit and Risk Manager provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance each year. This is carried out by the Internal Audit team in accordance with the Public Sector Internal Audit Standards. The Audit and Risk Manager reports to the Audit Committee on a quarterly basis.

***Overview and Scrutiny Commission – see above.***

### ***Audit Committee***

The role of the Audit Committee is to review and assess the adequacy of the Council's internal audit and risk management arrangements. This Committee meets quarterly and receives the reports from the Audit and Risk Manager, including their progress reports and Annual Report. This committee approves the Internal Audit Plan, ensures the Audit and Risk section is properly resourced and reviews the effectiveness of the Council's risk management arrangements.

### ***Governance Committee***

The Governance Committee will deal with Constitutional matters, the Conduct of Councillors, Political Management Arrangements, Corporate Governance, Councillors' Allowances, Elections and all non-Executive functions not specifically delegated to another Committee or Sub-Committee of the Council. This Committee specifically monitors and reviews the Corporate Governance of the Council including giving consideration of the Authority's Annual Governance Statement.

**Annual accounts**

The Council publishes full audited accounts each year which are published on the website at <http://www.crawley.gov.uk/pw/sitesearch/index.htm?q=accounts%23>

**4. Review of Effectiveness**

Crawley Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CMT, who have responsibility for the development and maintenance of the governance environment, the Audit and Risk Manager's Annual Report, and also by comments made by relevant stakeholders, the external auditors and other review agencies and inspectorates.

**5. Significant Governance Issues**

- Data Centre Migration Project – this project was significantly delayed and the budget was exceeded. A lack of governance and internal controls was identified by an Internal Audit review.

**6. Proposed Action**

We propose over the coming year to take further steps to address the above matter to further enhance our governance arrangements. Much work has already been undertaken following the report on the Data Centre Migration Project, and the migration to the Redhill Data Centre is substantially complete.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signatures: \_\_\_\_\_ Date: \_\_\_\_\_  
Leader of the Council

\_\_\_\_\_ Date: \_\_\_\_\_  
Chief Executive

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# understanding local authority financial statements

2016

# \ introduction

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. However, the complexity of the financial statements has not always helped this accountability, particularly allowing the amounts in the statements to be easily reconciled to management accounting and in-year monitoring of budgets.

The introduction of the Expenditure and Funding Analysis to the 2016/17 Code is intended to allow a clear link to be made between in-year monitoring and General Fund information and final outturn as set out in the audited financial statements, thus closing the accountability loop from budgets through to outturn.

A key to achieving the aims of the changes will be to use the information not just in the narrative section of the financial statements to explain performance during the year, but more widely to all stakeholders, including elected members as citizens' representatives, in a range of formats and media to provide a definitive position on financial performance. Local authorities are also urged to look to their balance sheets as a part of this explanation and the key messages that can be drawn out.

At the same time it is important that opportunities are taken to cut the clutter and remove immaterial disclosures or through the use of technical appendices to separate out the more complex disclosures. Working in partnership CIPFA/LASAAC will itself continue to review opportunities for improvement and explore links with other published information to ensure that the definitive position remains clear.

This briefing note is intended to help chief financial officers and other senior staff to present the financial statements to members and other stakeholders by explaining how the formats can be used to convey key information. It is also designed to give elected members and stakeholders an introduction to the format of the accounts and provide them with key questions on the financial statements.

An important element of financial reporting which will assist local authorities to tell the story of their financial performance is the narrative report (management commentary in Scotland). This report accompanies the financial statements and should provide a commentary on how the authority has used its resources to achieve desired outcomes in line with its objectives and strategies. It should provide an explanation of the main messages of financial performance, financial position and cash flows in the financial statements.

This publication includes extract financial statements to demonstrate key issues. It is important to note that the Code sets out the minimum requirements for the financial statements of the authority, but authorities are free to include more detail if they think it will help them to explain the accounts to members and other stakeholders.

This publication also highlights the opportunities to simplify presentation and make the messages clearer in a number of areas:

- comparisons with budgets (General Fund and Housing Revenue Account performance)
- reserves position, and
- cash flows.

# comparisons with budgets

For members, probably the most important issue will be whether the authority has a surplus or deficit on General Fund or Housing Revenue Account (HRA) balances against its budget for the year.

The financial statements will enable individual authorities to demonstrate performance both in the way in which they organise themselves and, more importantly, in how they budget against the General Fund to provide services.

## **The introduction of the new expenditure and funding analysis**

The financial statements primarily follow accounting standards rather than local government legislation. Although some information is provided on General Fund and HRA balances this hasn't always been easy to identify in the past. However, the new Expenditure and Funding Analysis provides users of the financial statements with more information to make that analysis (for example, by comparison with their budget reports).

The Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund (including the HRA).

Proper accounting practices measure the resources that have been generated and consumed in the year including such things as the use of property (depreciation) and the value of pensions benefits earned by the employees. Statutory provisions determine how much of the authority's expenditure needs to be met from council tax each year.

The Expenditure and Funding Analysis:

- shows for each of the authority's services or directorates a comparison of the net resources applied and the net charge against council tax, and
- provides an opportunity to explain significant differences between the two within the authority's framework for accountability.

The Expenditure and Funding Analysis promotes accountability and stewardship by providing a more direct link with the annual decision making process of the authority and its budget ie the General Fund. The changes are more transparent and follow the performance framework of the authority.

The Expenditure and Funding Analysis takes the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Statement. To demonstrate accountability and to meet segmental reporting requirements it is necessary to reconcile to the statutory position on the General Fund balance. The service analysis for both the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement are now both provided in the way in which an authority organises itself and manages financial performance.

The Expenditure and Funding Analysis needs to be positioned in the financial statements where it is most accessible and relevant to its users. This means it could be placed before the main statements, to accompany the Comprehensive Income and Expenditure Statement, or even included as the first note. An authority will be able to decide for itself.



## Expenditure and Funding Analysis (extract)

The Expenditure and Funding Analysis analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

20X0/20X1	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
People Directorate	47,385	898	48,283
Neighbourhoods	5,929	13,608	19,537
Business Change	30	224	254
Corporate and Central Services	19,358	833	20,191
<b>Net Cost of Services</b>	<b>72,702</b>	<b>15,563</b>	<b>88,265</b>
Other Income and Expenditure	(72,658)	(1,019)	(73,677)
<b>Surplus or Deficit</b>	<b>44</b>	<b>14,544</b>	<b>14,588</b>
Opening General Fund and HRA Balance at 31 March 20X0	(25,247)		
Less Deficit on General Fund and HRA Balance in Year	44		
<b>Closing General Fund and HRA Balance at 31 March 20x1*</b>	<b>(25,203)</b>		

\*for a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

# comprehensive income and expenditure statement

The Comprehensive Income and Expenditure Statement shows how resources have been generated and expended in accordance with International Financial Reporting Standards. It shows whether the authority's operations resulted in a surplus or deficit. The key lines that summarise performance are highlighted below.

## Comprehensive Income and Expenditure Statement (extract)

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

Comprehensive Income and Expenditure Statement 20X0/X1	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
People Directorate	74,297	(26,014)	48,283
Neighbourhoods	58,225	(38,688)	19,537
Business Change	11,624	(11,370)	254
Corporate and Central Services	24,021	(3,830)	20,191
<b>Cost of Services</b>	<b>168,167</b>	<b>(79,902)</b>	<b>88,265</b>
Other Operating Expenditure (Note 9)	2,218	-	2,218
Financing and Investment Income and Expenditure (Note 10)	11,340	(2,359)	8,981
Taxation and Non-specific Grant Income and Expenditure (Note 11)	-	(84,876)	(84,876)
<b>(Surplus) or Deficit on Provision of Services</b>			<b>14,588</b>
(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets			(36,597)
(Surplus) or Deficit on Revaluation of Available-for-Sale Financial Assets			(101)
Remeasurement of the Net Defined Benefit Liability (Asset)			(8,444)
<b>Other Comprehensive Income and Expenditure</b>			<b>(45,142)</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>(30,554)</b>

Expenditure of continuing operations, analysed by service segment, these lines are reconciled to the General Fund in the Expenditure and Funding Analysis

Operational costs of providing the services of the authority.

Total income and expenditure of the authority for the year, this line is also reconciled to the General Fund in the Expenditure and Funding Analysis

From 2016/17 local authorities are required to report their service segments based on the way in which they operate and manage services. There is no longer a requirement for that service analysis to be based on the definition of total cost or the service expenditure analysis in the *Service Reporting Code of Practice* in the financial statements. This new format means that the service section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

Where an authority uses alternative service reporting formats it will need to select the presentation most commonly used by the individual or group within the authority who has the most significant role in allocating resources and assessing performance of services when considering the allocation of resources.

This format of the Comprehensive Income and Expenditure Statement is also more meaningful for both local authority members and users of the financial statements as it follows their budget and performance monitoring and other key documents such as their council tax leaflets.

Treatment of overheads will depend on an authority's arrangements for accountability. If an authority operates and manages some or all of its corporate and support services separately then these service segments would be shown separately on the face of the Comprehensive Income and Expenditure Statement and not apportioned.

The test is whether the expenditure relating to these activities is reported to key decision makers as separate activities or spread across services as overheads for the financial statements. Therefore, there is no longer an absolute requirement to apportion support service overheads to services. However, local authorities will not need to change any of their financial reporting requirements for internal management processes. Whatever you are doing internally determines the structure for external reporting statements.

The Comprehensive Income and Expenditure Statement is then split into two parts.

The first part reflects the full economic cost of providing the services of the authority with the results summarised at the Surplus or Deficit on the Provision of Services line, highlighted above. It represents the operating costs of providing the services of the authority in the year. In the private sector this would be equivalent to the profit or loss of a company.

The second part, other comprehensive income and expenditure, shows the gains or losses in the measurement of the assets and liabilities of the authority. These gains or losses arise as a result of changes in market valuations, interest rates or changes in measurement assumptions in relation to pensions assets and liabilities.

# movement in reserves statement

The Comprehensive Income and Expenditure Statement shows the income and expenditure on the authority’s services in the year in accordance with International Financial Reporting Standards as adopted by the Code. However, the amount chargeable to council tax and an authority’s General Fund is limited by statutory requirements and requires a number of adjustments. The statutory adjustments largely relate to arrangements for funding local authority capital expenditure or the timing with which some items are charged to council tax. The reserves of the authority represent its net worth; the usable reserves show the resources currently available to spend on services.

The movements in the financial position of the authority are summarised in the Movement in Reserves Statement.

The Movement in Reserves Statement shows how:

- the authority has generated and expended resources in the year; and
- the resourcing position is adjusted under statutory rules to show the funds available to be spent at year end.

The Movement in Reserves Statement prescriptions have been reduced to the absolute minimum in the Code. Authorities can provide additional rows to these minimum requirements if they consider that they need to do so to provide a true and fair presentation of their reserves.

## Movement in Reserves Statement (extract)

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

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve* £000	Major Repairs Reserve** £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 20X0</b>	22,118	3,129	10,065	1,600	450	37,362	1,350,567	1,387,929
<b>Movement in reserves during 20X0/X1</b>								
<b>Total Comprehensive Income and Expenditure</b>	(14,983)	395	–	–	–	(14,588)	45,142	30,554
Adjustments from income & expenditure charged under the accounting basis to the funding basis	14,835	(291)	(750)	–	–	13,794	(13,794)	–
<b>Increase or (decrease) in 20X0/X1</b>	<b>(148)</b>	<b>104</b>	<b>(750)</b>	<b>–</b>	<b>–</b>	<b>(794)</b>	<b>31,348</b>	<b>30,554</b>
<b>Balance at 31 March 20X1 carried forward</b>	<b>21,970</b>	<b>3,233</b>	<b>9,315</b>	<b>1,600</b>	<b>450</b>	<b>36,568</b>	<b>1,381,915</b>	<b>1,418,483</b>

\* Capital Fund Scotland

\*\* Applicable in England Only

An overall increase in usable reserves can arise despite a loss being shown in the Comprehensive Income and Expenditure Statement where statutory provisions allow a different charge to revenue from the authority expenditure incurred (eg replacement of depreciation by minimum revenue provision (MRP)). The adjustment to usable reserves is balanced by a movement in unusable reserves.

Unusable reserves such as the Capital Adjustment Account and the Pensions Reserve with debit balances will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

## balance sheet

The balance sheet in local authorities is very similar to other public sector or private sector balance sheets. The balance sheet presents an authority's financial position, ie its net resources at the financial year end. The balance sheet is composed of two main balancing parts: its net assets and its total reserves. The net assets part shows the assets the authority would have control of after settling all its liabilities. The balance of these assets and liabilities is then shown as being attributable to the various reserves of the authority.

For local authorities balance sheet presentation is split between the usable reserves and unusable reserves. Usable reserves are those which the authority can utilise to support future service provision. Unusable reserves cannot be used to support services and include gains and losses where amounts can only become available to support services if the assets are sold. These gains and losses are referred to as unrealised.

## Balance sheet (extract)

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

Balance Sheet	Notes	31 March 20X1 £000	
Property, plant and equipment	12	628,924	The authority's property portfolio
Highways Network Asset	13	1,028,700	The Highways Network Asset (not applicable to district councils). This will be the largest asset balance in a local highways authority balance sheet
Heritage assets	14	3,379	
Investment property	15	4,020	
Intangible assets	16	709	
Long-term investments	17	948	
Long-term debtors	17	3,798	Long term assets ie those expected to provide benefits to the authority beyond 12 months
<b>Long-term assets</b>		<b>1,670,478</b>	
Short-term investments	17	24,060	
Assets held for sale	22	1,409	Current assets ie those anticipated to be consumed in 12 months – the normal operating cycle for the authority
Inventories	18	1,769	
Short-term debtors	20	15,351	
<b>Current assets</b>		<b>42,589</b>	Reconciles to the cash and cash equivalents balance in the cash flow statement
Bank overdraft		(13,767)	
Short-term borrowing	17	(9,500)	
Short-term creditors	23	(21,960)	Current liabilities ie those liabilities anticipated to be settled within 12 months
<b>Current liabilities</b>		<b>(45,227)</b>	
Provisions	24	(4,297)	
Long-term borrowing	17	(89,733)	
Other long-term liabilities	17	(155,327)	Long-term liabilities ie those liabilities that are anticipated to be settled beyond 12 months
<b>Long-term liabilities</b>		<b>(249,357)</b>	
<b>Net assets</b>		<b>1,418,483</b>	Total assets less total liabilities

# \ reserves

Reserves – including the General Fund and (where relevant) the Housing Revenue Account – are an indication of the resources available to an authority to deliver services at the balance sheet date. The key messages that members will be looking for in terms of reserves – especially the General Fund and the HRA – are how the balances have changed over the year, whether the balances are still adequate, and what the balances mean in terms of future budgets and services.

Information on the level of reserves can be found in the balance sheet and related notes, and in the Movement in Reserves Statement (and related notes). This latter statement will be more useful in explaining the changes that have taken place during the year.

	Notes	31 March 20X1 £'000
Usable reserves	24	36,568
Unusable Reserves	25	1,381,915
		<u>1,418,483</u>

The minimum requirement in presenting resources is to include only two lines – usable reserves (such as General Fund) and unusable reserves (such as the Revaluation Reserve and the Capital Adjustment Account).  
  
If there are some reserves you do want to show on the balance sheet, that's fine, as long as these totals are shown.

While the balance sheet aims to show those reserves over which members have control, don't forget that some of the unusable reserves will become a charge against the revenue account – or usable reserves – over time. And in some cases, such as the Unequal Pay Back Pay Account, this might be within a year or two.

As indicated above, not all reserves can be used to deliver services, and the Code reflects this by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves such as the General Fund are those where members will be involved in deciding on the levels maintained, and their use. Unusable reserves such as the Revaluation Reserve and the Capital Adjustment Account are not subject to such member influence.



# cash flows

The final statement required by the Code is the cash flow statement.<sup>1</sup> The cash flow statement shows changes in cash flows of the authority during the financial year. It shows net cash flows split into three activities: operating, investing and financing. The cash flow statement shows the resulting movement in the authority’s cash and cash equivalents. Cash and cash equivalents include short term investments that are readily convertible and which are subject to only insignificant risk of changes in value.

### Cash Flow Statement (extract)

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

	20X0/X1 £000	
Net (surplus) or deficit on the provision of services	14,588	Surplus or deficit taken from the Comprehensive Income and Expenditure Statement
Adjustments to net surplus or deficit on the provision of services for non-cash movements	(36,267)	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11,523	
Net cash flows from Operating Activities (Note 26)	(10,156)	Three groups of transactions: <ul style="list-style-type: none"> <li>■ Operating</li> <li>■ Investing</li> <li>■ Financing</li> </ul>
Investing Activities (Note 27)	(24,585)	
Financing Activities (Note 28)	35,140	
Net increase or decrease in cash and cash equivalents	399	
Cash and cash equivalents at the beginning of the reporting period	(14,166)	
<b>Cash and cash equivalents at the end of the reporting period (Note 19)</b>	<b>(13,767)</b>	Cash and cash equivalents figure in the balance sheet

<sup>1</sup> Note the format of the cash flow statement shown is produced under the indirect method.

# a checklist of questions to ask about a local authority's financial statements

To assist with the understanding of local authority financial statements a checklist about the core financial statements and the Expenditure and Funding Analysis has been included below.

<b>Checklist</b>	
<b>Expenditure and Funding Analysis</b>	
1	Have any significant differences between budget reports and net expenditure chargeable to General Fund and Housing Revenue Account balances been explained?
2	Are the major statutory adjustments clearly explained and easily understood?
<b>Comprehensive Income and Expenditure Statement</b>	
3	Is the purpose of the Comprehensive Income and Expenditure Statement clear (ie does it show actual financial performance under accounting standards before fiscal adjustments)?
4	Do the service net expenditure figures clearly demonstrate the financial performance of the services on the face of the Comprehensive Income and Expenditure Statement during the year?
5	Are the material items of income and expenditure in the Comprehensive Income and Expenditure Statement presented separately on the face of the Statement or explained in the notes?
6	Do the notes to the Comprehensive Income and Expenditure Statement provide easily understandable information relating to the Statement (or lines within the Statement)?
7	Are there any unexplained significant variances between current and previous year information?
<b>Movement in Reserves Statement</b>	
8	Can the major movements in net worth that occur within the Movement in Reserves Statement be easily identified? Are these explained within the financial statements or Narrative Report?
9	Do the opening balances in the Movement in Reserves Statement match with the closing balances of the preceding year? Are any adjustments to opening balances explained on the face of the Statement and/or in the notes?
10	Is there a clear explanation of the statutory adjustments in the adjustments from income and expenditure charged under the accounting basis to the funding basis line in the Movement in Reserves Statement? (Note this may be linked with the Expenditure and Funding Analysis.)
11	Do the entries on the statutory adjustment line net to nil?
12	Do the related notes on reserves clearly explain the line or columnar items not explained in the Statement?

<b>Checklist</b>	
13	Does the Total Comprehensive Income and Expenditure line in the Movement in Reserves Statement agree with the information in the Comprehensive Income and Expenditure Statement?
14	How have the balances of usable reserves moved during the year? Are these balances sufficient to support an authority's financial plans in the immediate future and over the medium term?
<b>Balance Sheet</b>	
15	Does the property, plant and equipment information tell the story of the authority's property portfolio during the year (including the major movements in that portfolio ie major disposals and acquisitions)? Do these balances reflect the authority's asset management strategy?  (Note the same question can be asked for local authorities with substantial portfolios of investment properties.)
16	For highways authorities – do the movements in the Highways Network Asset represent the transport management/investment decisions of the authority?
17	Has there been any substantial movement in the pension asset or liability? If yes, has the reason for such a movement been explained and the subsequent consequences described in the financial statements or the Narrative Report?
18	Have there been any new provisions or significant movements in provisions in the year? If yes, have the reasons for making these provisions been set out in the financial statements or any material movements been explained?
19	Have there been any significant movements in the authority's borrowings during the year? Are these movements reflected in your council's borrowing strategy and what impact will this have on the prudential indicators or future investment plans?
20	Are there any significant movements in an authority's investment portfolio? Do these agree with the plans in the authority's treasury management strategies and statutory investment plans?
21	Are there any other significant movements in balances in the balance sheet that are not clearly explained?
22	Do the balance sheet reserves agree with the totals in the Movement in Reserves Statement?
<b>Cash Flow Statement</b>	
23	Do the cash balances in the cash flow statement agree with the relevant balances in the balance sheet?
24	Are the council's cash balances reflected adequately in the council's treasury management strategies?

# reminders and questions raised on the IFRS-based code

## **IFRS – what is it?**

International Financial Reporting Standards (IFRSs) are a suite of accounting standards used across the world. The Code of Practice on Local Authority Accounting is based on IFRS standards as adapted or interpreted for local authority circumstances.

## **The pension deficit is meaningless – why do we have to show it?**

The deficit doesn't have to be funded from this year's budget, but it's still a true cost estimated by actuaries – it represents the amount that will need to be found from future budgets to pay for pension entitlements already incurred in delivering services. So it's a real call on future funding arising from past activity. Not showing this would hide the liability that the authority has incurred.

This also applies to other reserves. Like the Pension Reserve, the Capital Adjustment Account, the Unequal Pay Back Pay Account and similar reserves all do one thing: they hold expenditure that the authority has incurred but not yet financed. Think of them as being a bit like a credit card balance – these amounts will have to be funded in future, either from taxation or from usable reserves.

Concerns have been expressed that all these reserves make the balance sheet incomprehensible. But all that needs to be shown on the balance sheet itself are 'usable reserves' and 'unusable reserves' – the details can all go in a note. This will help to declutter the balance sheet.

## **The financial statements do not clearly demonstrate traditional measures of local authority performance ie General Fund and HRA balances**

The IFRS-based Code sets out that local authority financial statements are intended to be used for assessing the stewardship of local authority resources and for making economic decisions. Thus the information is intended for two purposes. The Comprehensive Income and Expenditure Statement presents information on the real economic cost of providing services in the year and it does not show the movement in General Fund and HRA balances. This reconciliation is provided in the Movement in Reserves Statement, whose bottom line shows the General Fund and HRA resources available at year end. CIPFA has reviewed options for making this even clearer. The new Expenditure and Funding Analysis brings together both the accounting measures of performance and the performance against General Fund for council tax setting purposes.

## **The accounts are too long!**

Yes, the accounts can be long, but local authorities have a complex story to tell. But notes only need to be produced if they are material – leaving out notes that aren't material or required by legislation is a good start. CIPFA/LASAAC as standard setter is continuously challenging the need to introduce disclosures and reporting requirements for local government.

## What changes were made to the 2016/17 Code?

CIPFA and CIPFA/LASAAC consulted widely in preparation for these changes, particularly the Telling the Story consultation in the summer of 2015. CIPFA also engaged a working group to consider a wide range of proposals for change. Following feedback from consultations from local authority accounts preparers and the work of the Working Group, the Telling the Story consultation set out proposals for change that CIPFA/LASAAC considers will reconnect the financial statements of local authorities with the way those authorities are both organised and funded.

The changes to the 2016/17 Code therefore have two main strands:

- to allow local authorities to report on the same basis as they are organised by breaking the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement
- to introduce a new Expenditure and Funding Analysis which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the Comprehensive Income and Expenditure Statement in a way that is accessible to the lay reader. This analysis is supported by a streamlined Movement in Reserves Statement and replaces the current segmental reporting note.

The changes to the Code will for the first time allow local authorities to bring together the funding framework and the accounting framework in one analysis.

# further reading

*Financial Statements: A Good Practice Guide for Local Authorities* (CIPFA, 2013)

*Clear out the Clutter* (Public Finance, April 2014)

*Simplified Accounts: Small Isn't Always Beautiful* (Public Finance, September 2015)

*Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA, issued annually)

*Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners*  
(CIPFA, issued annually)



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