

# ***Supplementary Committee Agenda***



**Epping Forest  
District Council**

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## ***Audit and Governance Committee Monday, 30th July, 2018***

**Place:** Council Chamber, Civic Offices, High Street, Epping

**Time:** 7.00 pm

**Democratic Services:** Rebecca Perrin  
Tel: 01992 564532 Email:  
democraticservices@eppingforestdc.gov.uk

### **8. STATUTORY STATEMENT OF ACCOUNTS 2017/18 (Pages 3 - 90)**

To consider the attached report. (AGC-001-2018/19).

#### **14.a Audit of Accounts - Annual Governance Report 2017/18 (Pages 91 - 128)**

(External Auditor) International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council's Statutory Statement of Accounts for 2017/18 is nearly complete and that they wish to present their ISA260 report to this meeting. (AGC-007-2018/19).

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*Epping Forest District Council*

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# **STATEMENT OF ACCOUNTS 2017/18**



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Further copies of this report are available from the Councils website, following the URL below:  
<http://www.eppingforestdc.gov.uk/index.php/home/file-store/category/373-statements-of-accounts>

# Narrative Report

## 1. INTRODUCTION TO EPPING FOREST DISTRICT COUNCIL

Epping Forest District in Essex takes its name from the forest which runs from its southern boundaries northwards. The district shares boundaries with Greater London and Hertfordshire as well as four other Essex districts. The three main settlements of Buckhurst Hill, Chigwell and Loughton are all located in the south of the district and contain more than half the district's population of approximately 132,000 people. However, this southern area amounts to only 5% of the district. The remaining 95% consists largely of separate market towns, villages and hamlets in attractive countryside. Most of the district is designated within the protective status of the Metropolitan Green Belt.

Services are provided at three levels by Essex County Council, Epping Forest District Council and local Town and Parish Councils.

- District Council services include - housing, street cleansing, waste collection and recycling, sports and recreation, planning applications for homes and business, voter registration, benefit administration, council tax and business rate collection & environmental health.
- County Council services include - education, social care & highways and transportation.
- Parish and Town Council services include - allotments, burial grounds and cemeteries, public halls & playgrounds and sports grounds.

Forecasts suggest that the population of the district could rise significantly from the current 132,000 over the next twenty years. A key factor in this estimated growth is that life expectancy in the district is higher than the national average and rising; projections indicate that over 55% of the district's population will be aged over 60 by 2020. Additional properties will be built over the coming years to assist in accommodating the rising population expected.

Although the population of the district is fairly affluent there are some areas of deprivation with children living in poverty. Nearly a quarter of the district's adult population and almost a fifth of children are classified as obese.

Unemployment is generally low. Many residents commute to jobs in London. The district is well connected by eight London Underground stations and a National Rail station. The M25 and M11 provide good road links including a fast route to Stansted Airport. Local employment opportunities centre on distribution, hotels, restaurants, banks and finance and public services.

## 2. PERFORMANCE ON CORPORATE OBJECTIVES

The Corporate Plan 2015 - 2020 has three strategic aims and each of these is supported by three key objectives. Performance against the key objectives is monitored on a quarterly basis, with reports to Member meetings of both the Executive and Overview and Scrutiny Committee.

The first strategic aim is to ensure that the Council has appropriate resources, on an ongoing basis, to fund its statutory duties and appropriate discretionary services whilst continuing to keep the Council Tax low. This aim is supported by key objectives covering budgets, property assets and joint working.

The key objective for budgets is to ensure that the Council's Medium Term Financial Strategy (MTFS) meets the Council's financial and service requirements for any forward five year period, whilst minimising any reliance on Government funding. There were five actions to support this objective which included an early start to the budget cycle, delivering the savings already identified for both 2017/18 and 2018/19 and developing additional business cases to address the need for net savings. Four of the five actions were achieved during 2017/18.

The key objective for property assets is to continue to review and develop the Council's own assets and landholdings for appropriate uses, in order to maximise revenue streams and capital receipts and to deliver four key projects. There were nine actions to support this objective, most of which were linked to the four key projects of the Epping Forest Shopping park, the Council House building Programme, the St John's redevelopment Scheme and working with an operating partner to maximise usage at North Weald Airfield. The Shopping Park has been completed and was opened during August 2017. As at the year end 3 units were still vacant but negotiations with prospective tenants are ongoing. The various phases of the Council House building Programme have progressed at different rates. Phase 1 was completed during November 2017, Phase 2, although behind schedule due to contaminated land issues, has a revised completion date of September 2018. Work has commenced on all eight sites of phase 3; two sites were completed by 31 March 2018 and the remainder are on schedule. Preparatory work relating to the remaining phases is ongoing. Progress on the St John's redevelopment is behind schedule due to a series of delays, however the development agreement is now nearing completion. The action relating to North Weald Airfield is on target. Overall four of the actions on property assets have been achieved but five are behind schedule.

The key objective for joint working is to explore appropriate opportunities to make savings and increase income through the shared delivery of services with other organisations, where such arrangements would provide improved and/or more cost effective outcomes. There were seven actions shared across the organisation to support this objective. Four actions were achieved in the year and some progress has been made on the other three but they are behind schedule. The actions behind schedule mostly relate to establishing shared service arrangements and on reflection the original timescales set were too ambitious.

The second strategic aim is to ensure that the Council has a sound and approved Local Plan and its delivery is started. This aim is supported by key objectives covering the Local Plan, an Economic Development Strategy and a Leisure and Cultural Strategy.

The key objective for the Local Plan is to produce a sound Local Plan delivering around 11,400 homes, following consultation with local residents and working with neighbouring councils, that meets the needs of our communities whilst minimising the impact on the District's Green Belt. There were three actions to support this objective, which covered various aspects of the preparatory work necessary to deliver the Local Plan. The only action achieved in the year was to update the Council's housing strategy following production of the Draft Local Plan 'preferred options approach'. The Plan was due to be submitted by 31 March 2018 but was called in for judicial review. The review took place during May and the Council was successful in defending its position, however the claimant has now lodged an application with the Court of Appeal to seek leave for a full appeal hearing. Until the outcome of this is known the injunction originally granted on 20th March 2018 is still in force.

The key objective for economic development is to increase opportunities for sustainable economic development within the District, in order to increase local employment opportunities for residents. There were three actions to support this objective. Only one action relating to the continuation of the apprenticeship scheme was achieved.

The key objective for the leisure and cultural strategy is to deliver the strategy, in order to maximise participation and value for money in leisure and cultural services for local residents and visitors. There were four actions to support this objective, these included taking forward the master plan for the Hillhouse area and investigating the establishment of a development trust for the museum. Three of the four actions were achieved in the year.

The third strategic aim is to ensure that the Council adopts a modern approach to the delivery of its services and that they are efficient, effective and fit for purpose. This aim is supported by key objectives covering customer contact, modernising Council operations and the district's demographic profile.



The key objective for customer contact is to have efficient arrangements in place to enable customers to easily contact the Council, in a variety of ways, and in most cases have their service needs met effectively on first contact. There were five actions to support this objective, including implementing the common operating model and ensuring our customer services are fit for purpose. Three actions were achieved in the year.

The key objective for modernisation of Council operations is to utilise technology to enable Council officers and Members to work more effectively, in order to provide enhanced services to customers and make Council services and information easier to access. There were six actions to support this objective which included: progressing flexible working practises, implementing the ICT Strategy and delivering the corporate communications project. Four actions were achieved in the year.

The key objective for the demographic profile is to ensure that the Council understands the effects of an ageing population and works with other agencies to make appropriate plans and arrangements to respond to this need. There were four actions to support this objective. The action relating to transferring the Careline operation to an external provider was achieved but the other three actions were not achieved.

The performance in 2017/18 shows a deterioration compared to 2016/17, with in total the percentage of actions achieved in the year falling from 65% to 54%. There were 50 actions in total with a little over half being achieved, though a further 15 actions were defined as being under control which means that they will be completed within six months of their due date or a revised date has been established.

### 3. PERFORMANCE ON KEY INDICATORS

Each of the four Directorates has a set of key performance indicators that Members consider and set targets for on an annual basis. Quarterly monitoring reports on the indicators go to both Overview and Scrutiny Committee and Executive Member meetings. The Communities Directorate had nine key performance indicators for 2017/18 and seven of these achieved the target level of performance. The indicators meeting their targets included rent collection, tenant satisfaction, responsive repairs and the Careline service. The indicators falling short of their targets were the time taken to re-let void properties (39 days against target of 37) and the percentage of emergency repairs attended to within 4 working hours (97% against target of 99%). However, the shortfall on the latter was partly due to the adverse winter weather experienced during February and March.

The Governance Directorate had five key performance indicators for 2017/18 and three of these achieved the target level of performance. The indicators all relate to the processing of various types of planning applications and it was a considerable achievement to again meet the processing targets whilst also dealing with a much higher volume of work. The indicators that fell short of target were for the percentage of appeals lost, following both officer and Member decisions. Targets of a maximum of 20% for officers and 50% for Members had been set but the outturns were higher at 20.3% and 61.5%. In both instances the outturn was closer to the target than in the previous year so there is evidence that progress is being made though this is still slightly disappointing. The same targets have been maintained for 2018/19.

The Neighbourhoods Directorate had twelve key performance indicators for 2017/18 and nine of the targets were achieved. The indicators meeting their targets relate to environmental health issues such as fly tipping and noise nuisance and also the collection of commercial rents. The indicators falling short of their targets were the percentage of household waste sent for composting and the percentage of commercial properties let to tenants. With regard to the latter, the shortfall was less than 1% on a target of 98% so very high levels of occupation are being achieved.

The Resources Directorate had six key performance indicators for 2017/18 and achieved two targets; these being Council Tax collection and Benefits processing of changes to circumstances. Two indicators marginally missed their targets; these were Business Rate collection and processing of new claims. The other two indicators were outside the tolerance limit set; these were sickness absence and the percentage of invoices paid in 30 days. There was a significant increase in sickness in the final two quarters of the year compared to the same two quarters in 2016/17, although this was mainly short term. With regard to the percentage of invoices paid in 30 days, 96% was achieved which was only just short of the 97% target.

In summary, there were 32 key performance indicators for 2017/18 and 21 (66%) of these achieved their targets during the year. Performance was worse than last year when 75% was achieved, however, five of the eleven indicators that failed, performed within the tolerance limit which means they missed out marginally. There is a new Corporate Plan for 2018/19 and a new indicator set is being derived to support this. Some of the current indicators are likely to be retained and others may continue to be collected for management information.

#### 4. FINANCIAL PERFORMANCE

The following tables provide a summary review of net expenditure and financing for 2017/18.

##### General Fund

The table below summarises the revenue outturn for the General Fund and the consequential movement in balances for 2017/18.

	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
<b>General Fund</b>					
Net Expenditure after Adjustments	13,109	13,596	12,831	(278)	(765)
Government Grants and Local	(13,009)	(13,123)	(13,350)	(341)	(227)
<b>(Contribution to) / from Balances</b>	<b>100</b>	<b>473</b>	<b>(519)</b>	<b>(619)</b>	<b>(992)</b>
Opening Balances - 1/04/2017	(6,207)	(6,207)	(6,207)	-	-
(Contribution to) / from Balances	100	473	(519)	(619)	(992)
<b>Closing Balances - 31/3/18</b>	<b>(6,107)</b>	<b>(5,734)</b>	<b>(6,726)</b>	<b>(619)</b>	<b>(992)</b>

Net expenditure for 2017/18 totalled £12.831 million, which was £0.278 million (2.2%) below the original estimate agreed in February 2017 and £0.765 (6.0%) below the revised estimate compiled in December 2017. The variance on the revised position is almost entirely due to a change in accounting treatment relating to the rent free periods on the shopping park.



An analysis of the changes between Continuing Services Budget (CSB) (ongoing expenditure and Income) and District Development Fund (DDF) (One-off Expenditure and income) expenditure illustrates where the main variances in revenue expenditure have occurred.

	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
<b>General Fund</b>					
Opening CSB	13,567	13,277	13,594	27	317
In Year Growth	595	792	555	(40)	(237)
In Year Savings	(1,053)	(1,473)	(2,318)	(1,265)	(845)
<b>Total Continuing Services Budget</b>	<b>13,109</b>	<b>12,596</b>	<b>11,831</b>	<b>(1,278)</b>	<b>(765)</b>
Transfer to DDF	-	1,000	1,000	1,000	-
<b>Total All CSB Items</b>	<b>13,109</b>	<b>13,596</b>	<b>12,831</b>	<b>(278)</b>	<b>(765)</b>
DDF / ITS - Expenditure	2,932	3,818	2,758	(174)	(1,060)
DDF / ITS - One Off Savings / Income	(832)	(1,395)	(2,691)	(1,859)	(1,296)
<b>Total DDF / ITS</b>	<b>2,100</b>	<b>2,423</b>	<b>67</b>	<b>(2,033)</b>	<b>(2,356)</b>
<b>Total Net Expenditure</b>	<b>15,209</b>	<b>16,019</b>	<b>12,898</b>	<b>(2,311)</b>	<b>(3,121)</b>

#### Continuing Services Budget (CSB)

CSB expenditure was £1,278,000 below the original estimate and £765,000 lower than the revised estimate. The variances have arisen on both the opening CSB which was £80,000 above the revised estimate, and the in year figures which were £1,082,000 lower than the revised estimate.

Unlike recent years, when measured against the original budget, salaries were overspent by £99,000. Actual salary spending for the authority in total, including agency costs, was some £23.44 million compared against an original estimate of £23.34 million. When comparing to the revised estimate there was an underspend of £301,000 due to additional vacancies, most of which related to the General Fund, although some salary costs are DDF and this showed a small underspend.

The actual opening CSB was £27,000 above the original and £317,000 above the revised position. The main overspend against the revised budget relates to Housing Benefits.

The in-year CSB movements were rather different to the revised estimate, with the actual CSB in year reduction of £1,763,000 being £1,082,000 lower than the revised estimate. The largest individual item was a change in accounting treatment for the rental income from the shopping park to that assumed in the revised estimate. In effect, income relating to the whole period of the leases has been spread over the whole period rather than recognising when income is actually received. The effect is that income originally included in later periods has been accounted for in 2017/18 and there is no change overall once all tenants are paying. The other two more significant items were a reduction in expected savings from the leisure contract of £106,000 due to some additional maintenance costs and Transfer of Undertakings Protection of Employees (TUPE) related costs. Offsetting this was additional interest income of £148,000 as cash balances available for investing did not reduce as quickly as expected.

## **District Development Fund (DDF)**

Net DDF expenditure was £968,000 which was £922,000 below the original estimate and £1,333,000 below the revised estimate. There are requests for carry forwards totalling £1,470,000 and therefore the variation actually equates to a £137,000 net over spend on the DDF items undertaken. These one-off projects are akin to capital, in that there is regular slippage and carry forward of budgetary provision. Therefore, the only reasonable variance analysis that can be done is against the revised position.

The £1,333,000 difference against the revised estimate arose largely in the neighbourhoods directorate with an underspend of £971,000. The main two items relate to £372,000 slippage on Local Plan expenditure and £527,000 relating to additional income and slippage on the Garden Town project. Other significant underspends were, Revenues Staffing (£84,000), Building Maintenance (£83,000), unused Flexible Homeless Grant (£83,000) and Smart Places funding (£70,000).

Carry forwards of £1,470,000 have been requested, with the largest request being £1,026,000 from the Neighbourhoods Directorate. The two largest amounts have already been mentioned above, being the £527,000 for the Garden Towns and the £372,000 for the Local Plan. The directorate with the second highest carry forward is Resources, with a total of £219,000 again, the two major items have been mentioned above. Less significant carry forwards were also seen in the Communities Directorate (£110,000), Governance Directorate (£75,000) and the Office of Chief Executive (£29,000).

The effect of these variances is that there is a balance of £4.22 million on the DDF as at 31 March 2018 after allowing for a £1,000,000 transfer from the General Fund. This transfer was agreed during the budget process to fund future expenditure relating to the people strategy. The carry forward provision of £1,470,000 has been added to the programme for 2018/19. The MTFS set in February 2018 has anticipated that additional top-up funds will be needed for the DDF in 2018/19 and 2019/20.

## **Invest to Save**

Spending from the Invest to Save fund was £99,000, some £23,000 below the revised estimate of £122,000. However, carry forwards of £23,000 have been requested, including £13,000 for new car park set up costs. At the end of 2017/18 the fund had a balance of £307,000. Taking the funds already allocated in 2018/19 and the intention to use the remainder for transformation projects, the fund is expected to be exhausted by the end of 2018/19.

## Housing Revenue Account (HRA)

The table below summarises the revenue outturn for the HRA.

	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
<b>Housing Revenue Account</b>					
Revenue Expenditure	28,293	26,339	27,673	(620)	1,334
Depreciation	16,026	9,786	8,517	(7,509)	(1,269)
<b>Total Expenditure</b>	<b>44,319</b>	<b>36,125</b>	<b>36,190</b>	<b>(8,129)</b>	<b>65</b>
Gross Dwelling Rents	(31,813)	(31,537)	(31,511)	(302)	(26)
Other Rents and Charges	(10,832)	(3,024)	(3,113)	(7,719)	89
<b>Total Income</b>	<b>(42,645)</b>	<b>(34,561)</b>	<b>(34,624)</b>	<b>8,021</b>	<b>(63)</b>
<b>Deficit / (Surplus) for Year</b>	<b>1,674</b>	<b>1,564</b>	<b>1,566</b>	<b>(108)</b>	<b>2</b>
Opening Balance - 01/04/17	(3,853)	(3,853)	(3,853)	-	-
Deficit / (Surplus) for Year	1,674	1,564	1,566	(108)	2
<b>Closing Balance - 31/03/18</b>	<b>(2,179)</b>	<b>(2,289)</b>	<b>(2,287)</b>	<b>(108)</b>	<b>2</b>

A deficit within the HRA of £1,674,000 and of £1,564,000 were expected within its original and revised revenue budgets respectively; the actual outturn was a deficit of £1,566,000. There is therefore a difference of only £2,000 between the revised estimate and the actual.

The major change between the Original and Revised estimates was due to the cessation of the transitional measures regarding depreciation brought in when the Housing Subsidy system was ended. For five years the effect of charging depreciation directly to the HRA balance could be mitigated by a compensatory accounting adjustment equivalent to the Major Repairs Allowance that exists prior to 2012. The effect of this was broadly neutral to the HRA hence the variance in excess of £7,500,000 shown to both income and expenditure in the original estimate. From 1st April 2017 component replacement cycles returned to the Decent Homes standard and as a result a complete review of component lives was carried out. The result was a significant reduction in the depreciation charge. The variance between the actual and revised estimate is due to this lower depreciation charge which has in turn enabled the Council to increase the Contribution to capital by a similar amount.

## Capital Outturn

The table below summarises the capital expenditure outturn and its financing for 2017/18.

	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
<b>Capital Expenditure and Financing</b>					
General Fund	10,747	17,010	17,367	6,620	357
Housing Revenue Account	28,064	23,114	20,454	(7,610)	(2,660)
<b>Total Expenditure</b>	<b>38,811</b>	<b>40,124</b>	<b>37,821</b>	<b>(990)</b>	<b>(2,303)</b>
Grants	1,000	666	812	(188)	146
Internal Borrowing	2,684	16,385	13,105	10,421	(3,280)
Capital Receipts	10,999	5,341	8,350	(2,649)	3,009
Revenue Contributions	24,128	17,732	15,554	(8,574)	(2,178)
<b>Total Financing</b>	<b>38,811</b>	<b>40,124</b>	<b>37,821</b>	<b>(990)</b>	<b>(2,303)</b>

The General Fund capital programme increased at the revised estimate, following the inclusion of the new leisure centre construction at Waltham Abbey, from the original estimate of £10.75 million to £17.01 million. Actual expenditure was a little higher at £17.37 million mainly due to good progress on the aforementioned leisure centre build. There were as always a number of areas of slippage though none particularly significant and carry forward of these budgets will be necessary to complete the schemes.

The HRA capital programme was significantly reduced at the revised stage from the original estimate of £28.06 million to £23.1 million. This reflected the decision to change from the modern homes to the decent homes standard and delays in the new build programme. The underspend on the HRA programme of £2.66 million (16.7%) was made up primarily of £1.9 million on the new house building programme, £351,000 on the heating and rewiring programme and £483,000 on kitchen, bathroom and window replacements. As with to the General Fund, these underspends will need to be carried forward to 2018/19 to allow the programmes to be completed.

The actual financing of the capital programme varied from the revised estimate as the underspend meant no new external borrowing was needed during 2018/19 and more capital receipts were received than originally anticipated.

## Balance Sheet

In 2017/18 the Council's Balance Sheet value has increased by £35.51 million to £634.38 million. The improvement in the Balance Sheet total arises primarily from the increase in the value of the Council's investment properties of £46.05 million which now includes the shopping park. The largest figure relating to Property, Plant and Equipment has hardly moved due to the transfer of the shopping park being counteracted by valuation increases to other assets. It is also worth noting that the Council's cash and short term investments have reduced by £17.00 million due to the investment of surplus cash in the Shopping Park and the new Waltham Abbey Sports Centre.

The growth in the Council's Balance Sheet was also helped to a degree by a reduction in Long Term Liabilities of £7.07 million, particularly in respect of the pension fund. This has reduced in the year from £81.12 million to £74.86 million. The assets of the scheme have increased in value by £9.33 million and the liabilities have increased by £3.07 million. The key to calculating the value of future costs is the discount rate and as this decreases the size of the liability increases. The decrease in the discount rate from 2.70% to 2.55% reflects the decreasing yields in the corporate bond market, which actuaries are required to base discount rates on. However, the reduction is fairly marginal hence the comparatively small change in liabilities. The inclusion of this amount in the Balance Sheet shows the extent of the Council's liability if the pension fund was to close on 31 March 2018. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

## **5. PRINCIPAL RISKS AND UNCERTAINTIES**

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. The risk management process is audited on an annual basis and the Audit & Governance Committee decided that the arrangements for risk management during 2017/18 were effective.

Below are our top risks from the Council's Corporate Risk Register:

Risk - failure to put in place a Local Plan in a timely manner

Impacts - loss of control of Local Plan process, reduced ability to defend decisions on appeal

Mitigation - external project management support, regular Member briefings, engagement with stakeholders

Risk - failure to deliver developments on strategic sites

Impacts - loss of income potential, sub-optimal economic development, reputational damage

Mitigation - external project management support, overseen by dedicated Cabinet Committee

Risk - residents and the Council adversely affected by welfare reforms

Impacts - increases in rent arrears and homelessness, redundancy costs for staff and systems

Mitigation - multi-disciplinary working group regularly review action plan

Risk - Council's finances hit by reductions in income

Impacts - reductions in services, increases in Council Tax and charges, reductions in reserves

Mitigation - monthly income monitoring, increased urgency on Local Plan (see above), pooling to improve rate retention

Risk - failure to achieve strong economic development

Impacts - loss of inward investment, reductions in Non Domestic Rates, reduced employment opportunities for residents

## **6. MITIGATION OF ACCOUNTING STATEMENTS**

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards.

The Core Statements are:

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

Comprehensive Income and Expenditure Statement (CIES) - this records all of the Council income and expenditure for the year. The top half of the statement provides an analysis by service area in line with management reporting so that local authority accounts and spending can be compared. The bottom half of the statement deals with corporate transactions and funding.

Movement in Reserves Statement - this is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "useable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes.

Balance Sheet - this is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date.

Cash Flow Statement - this shows the reasons for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities.

The Supplementary Financial Statements are:

Annual Governance Statement - this sets out the governance structures of the Council and its key internal controls.

Housing Revenue Account (HRA) - this separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

Collection Fund - this summarises the collection of council tax and business rates, and the redistribution of that money to other local authorities and central government.

The other notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.



# Statement of Responsibilities for the Statement of Accounts

## THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Assistant Director of Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts

**COUNCILLOR RICHARD BASSETT**  
**CHAIRMAN OF THE COUNCIL**

## THE ASSISTANT DIRECTOR OF RESOURCES RESPONSIBILITIES

The Assistant Director of Resources is responsible for the preparation of the Authority'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 Assistant Director of Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgments and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Assistant Director of Resources has also:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the accounts set out on pages 3 to 88 give a true and fair view of the financial position of the Council as at 31 March 2018 and the income and expenditure for the year then ended.

**PETER MADDOCK FCCA**  
**ASSISTANT DIRECTOR OF RESOURCES**

**31 July 2018**

# Auditors Report

## Opinion on the Council's financial statements

We have audited the financial statements of Epping Forest District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

This report is made solely to the members of Epping Forest District Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Director of Resources and auditors

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director of Resources; and the overall presentation of the financial statements. In addition, we read the financial and non-financial information included in the document containing the audited financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

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

## **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements is consistent with the financial statements.

## **Matters on which we report by exception**

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework (2016 edition)' published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- 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.

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

### **Respective responsibilities of the Council and the auditor**

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

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the National Audit Office in November 2017, as to whether in all significant respects, the 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 National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, Epping Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

## **Certificate**

We certify that we have completed the audit of the accounts of Epping Forest District 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.

Zoe Thompson  
For and on behalf of BDO LLP, Appointed Auditor

Ipswich, UK

XX July 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# Expenditure and Funding Analysis

Please refer to Note 6 for further details and analysis.

Net Expenditure Chargeable to General Fund & HRA Balances	2016/17			Net Expenditure Chargeable to General Fund & HRA Balances	2017/18		
	Adjustments between the funding & Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement			Adjustments between the funding & Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement	
£000	£000	£000		£000	£000	£000	
1,318	66	<b>1,384</b>	Office of the Chief Executive	1,474	66	<b>1,540</b>	
2,811	269	<b>3,080</b>	Communities	3,190	305	<b>3,495</b>	
2,375	346	<b>2,721</b>	Governance	2,665	538	<b>3,203</b>	
9,904	4,460	<b>14,364</b>	Neighbourhoods	9,439	6,305	<b>15,744</b>	
815	1,771	<b>2,586</b>	Resources	1,989	2,356	<b>4,345</b>	
(12,075)	10,204	<b>(1,871)</b>	Housing Revenue Account	(10,381)	5,580	<b>(4,801)</b>	
<b>5,148</b>	<b>17,116</b>	<b>22,264</b>	<b>Net Cost of Service</b>	<b>8,376</b>	<b>15,150</b>	<b>23,526</b>	
(5,731)	(14,590)	<b>(20,321)</b>	Other Income and Expenditure	(7,347)	(20,322)	<b>(27,669)</b>	
<b>(583)</b>	<b>2,526</b>	<b>1,943</b>	<b>(Surplus) / Deficit</b>	<b>1,029</b>	<b>(5,172)</b>	<b>(4,143)</b>	
30,576			Opening General Fund and HRA Balance	31,159			
583			Surplus / (Deficit) on General Fund & HRA Balance in Year	(1,029)			
<b>31,159</b>			<b>Closing General Fund &amp; HRA Balance at 31 March 2018 (For a split of this balance between the General Fund, HRA and Earmarked Reserves - see the Movement in Reserves Statement)</b>	<b>30,130</b>			

## Comprehensive Income and Expenditure Statement

		2017/18			2016/17		
	Note	Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure £000	Income £000	Net Expenditure £000
<b>Continuing Operations</b>							
Office of the Chief Executive		1,540	-	1,540	1,384	-	1,384
Communities		5,715	(2,220)	3,495	5,014	(1,934)	3,080
Governance		5,129	(1,926)	3,203	4,734	(2,013)	2,721
Neighbourhoods		20,851	(5,107)	15,744	18,971	(4,607)	14,364
Resources		39,260	(34,915)	4,345	38,854	(36,268)	2,586
Housing Revenue Account		29,831	(34,632)	(4,801)	32,843	(34,714)	(1,871)
<b>Net Cost of Services</b>		<b>102,326</b>	<b>(78,800)</b>	<b>23,526</b>	<b>101,800</b>	<b>(79,536)</b>	<b>22,264</b>
Other Operating Expenditure	9			849			1,061
Financing and Investment Income and Expenditure	10			(7,997)			(131)
Taxation and Non-Specific Grant Income	11			(20,521)			(21,251)
<b>(Surplus) / Deficit on Provision of Services</b>				<b>(4,143)</b>			<b>1,943</b>
(Surplus) on Revaluation of Property Plant and Equipment	12			(21,097)			(56,768)
Actuarial (Gains) / Losses on Pension Assets / Liabilities	32			(10,238)			11,900
Other (Gains) / Losses				(33)			(6)
<b>Total Comprehensive Income and Expenditure</b>				<b>(35,511)</b>			<b>(42,931)</b>



## Movement in Reserves Statement

	General Fund Balance	Housing Revenue Account	Earmarked Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Applied	Total Usable Reserves	Total Unusable Reserves	Total Reserves
<i>Movements in 2016/17</i>	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2016	7,272	3,202	20,102	3,788	12,291	208	46,863	509,078	555,941
Surplus / (Deficit) on Provision of Services	(2,008)	65	-	-	-	-	(1,943)	-	(1,943)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	44,874	44,874
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,008)</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,943)</b>	<b>44,874</b>	<b>42,931</b>
Adjustment Between Accounting and Funding Basis Under Regulations	1,631	812		(3,788)	413	(41)	(973)	973	-
<b>Net Increase / (Decrease) before Transfer to Earmarked Reserves</b>	<b>(377)</b>	<b>877</b>	<b>-</b>	<b>(3,788)</b>	<b>413</b>	<b>(41)</b>	<b>(2,916)</b>	<b>45,847</b>	<b>42,931</b>
Transfer to Earmarked Reserves	(687)	(226)	996	-	-	(83)	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>(1,064)</b>	<b>651</b>	<b>996</b>	<b>(3,788)</b>	<b>413</b>	<b>(124)</b>	<b>(2,916)</b>	<b>45,847</b>	<b>42,931</b>
<b>Balance as at 31 March 2017</b>	<b>6,208</b>	<b>3,853</b>	<b>21,098</b>	<b>-</b>	<b>12,704</b>	<b>84</b>	<b>43,947</b>	<b>554,925</b>	<b>598,872</b>

  

<i>Movements in 2017/18</i>	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 31 March 2017	6,208	3,853	21,098	-	12,704	84	43,947	554,925	598,872
Surplus / (Deficit) on Provision of Services	1,182	2,961	-	-	-	-	4,143	-	4,143
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	31,368	31,368
<b>Total Comprehensive Income and Expenditure</b>	<b>1,182</b>	<b>2,961</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,143</b>	<b>31,368</b>	<b>35,511</b>
Adjustment Between Accounting and Funding Basis Under Regulations	(664)	(4,508)	-	-	(1,011)	325	(5,858)	5,858	-
<b>Net Increase / (Decrease) before Transfer to Earmarked Reserves</b>	<b>518</b>	<b>(1,547)</b>	<b>-</b>	<b>-</b>	<b>(1,011)</b>	<b>325</b>	<b>(1,715)</b>	<b>37,226</b>	<b>35,511</b>
Transfer to Earmarked Reserves	-	(19)	19	-	-	-	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>518</b>	<b>(1,566)</b>	<b>19</b>	<b>-</b>	<b>(1,011)</b>	<b>325</b>	<b>(1,715)</b>	<b>37,226</b>	<b>35,511</b>
<b>Balance as at 31 March 2018</b>	<b>6,726</b>	<b>2,287</b>	<b>21,117</b>	<b>-</b>	<b>11,693</b>	<b>409</b>	<b>42,232</b>	<b>592,151</b>	<b>634,383</b>

# Balance Sheet

		31 March 2018		31 March 2017	
	Note	£000	£000	£000	£000
<b>Long Term Assets</b>					
Property, Plant & Equipment	12	758,853		760,725	
Heritage Assets		542		542	
Investment Properties	13	113,793		67,744	
Intangible Assets		820		768	
Long Term Debtors	14	3,695		4,886	
<b>Total Long Term Assets</b>			<b>877,703</b>		<b>834,665</b>
<b>Current Assets</b>					
Inventories		94		151	
Debtors and Prepayments	16	12,272		9,377	
Short Term Temporary Investments	15	8,014		25,017	
Cash & Cash Equivalents	17	14,960		16,258	
			<b>35,340</b>		<b>50,803</b>
<b>Current Liabilities</b>					
Creditors	18	(15,227)		(16,040)	
Provisions	19	(1,356)		(1,404)	
			<b>(16,583)</b>		<b>(17,444)</b>
<b>Long Term Liabilities</b>					
Long Term Loans	15	(185,456)		(185,456)	
Pensions Liability	32	(74,860)		(81,121)	
Leasing liability	15	(1,745)		(2,326)	
Capital Grant Receipts in Advance		(16)		(249)	
			<b>(262,077)</b>		<b>(269,152)</b>
<b>Total Long Term Assets Less Liabilities</b>			<b>634,383</b>		<b>598,872</b>
Usable Reserves		42,232		43,947	
Unusable Reserves	20	592,151		554,925	
			<b>634,383</b>		<b>598,872</b>

# The Cash Flow Statement

	Note	2017/18 £000	2016/17 £000
Net Surplus/(Deficit) on Provision of Services		4,143	(1,943)
Adjustments to net surplus or deficit on the provision of services for non-cash movements		11,691	24,226
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	21	(9,079)	(10,866)
		<b>6,755</b>	<b>11,417</b>
Net cash flows from Operating Activities	21	6,755	11,417
Investing Activities	22	(5,538)	(10,806)
Financing Activities	23	(2,515)	1,678
<b>Net Increase or (Decrease) in cash and cash equivalents</b>		<b>(1,298)</b>	<b>2,289</b>
Cash and Cash Equivalents at the beginning of the reporting period		16,258	13,969
<b>Cash and Cash equivalents at the end of the reporting period</b>	17	<b>14,960</b>	<b>16,258</b>

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## **1. ACCOUNTING POLICIES**

### **1.1 GENERAL PRINCIPLES**

The Statement of Accounts summarises Epping Forrest District Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices.

Proper practices under Section 21 of the Local Government Act 2003 primarily comprise the Code of Practice on Local Authority Accounting in United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

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 accounts have been prepared on an accruals basis and are based on the concept of the Council as a going concern whereby local authorities cannot be created or dissolved without statutory prescription.

The significant accounting policies are set out in alphabetical order (sections 1.2 to 1.18) below:

### **1.2. ACCRUALS OF INCOME AND EXPENDITURE**

Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and its probable that economic benefits or service potential associated with the transaction will flow to the Council.

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 are 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.

### **1.3 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 a specified period of no more than three months 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.

### **1.4 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

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 current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are 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 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 always been applied.

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

### **1.5 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 asset used by the relevant service
- revaluation and impairment losses on assets used by the service where there are not any accumulated gains in the revaluation Reserve against which losses can be written off.
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation, however it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance).

Depreciation, revaluation and impairment losses and amortisation are replaced by the contribution in the General Fund Balance by way of a Capital Adjustment transaction in the Movement in Reserves' Statement for the difference between the two.

Under the Item 8 Credit and Item 8 Debit (General) Determination issued 24th January 2017 depreciation is charged to the Housing Revenue Accounts. From 1 April 2017 impairment charges and revaluation losses on dwelling assets continue to be reversed out of the Housing Revenue Account post the transitional period and for non dwelling assets prospectively only from this date. Revaluation gains which reverse a previous impairment and revaluation losses are adjusted against the Housing Revenue Account Balance.

### **1.6 COUNCIL TAX AND NON DOMESTIC RATES**

The Council as a Billing Authority acts as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including central government for NDR) and as principal, it collects council tax and NDR for its self. 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 is the Council's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.



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

### **1.7 EVENTS AFTER THE REPORTING PERIOD**

Events after the Balance Sheet date, 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 are of two types:

- 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.

### **1.8 FINANCIAL INSTRUMENTS**

Financial assets and liabilities are carried at amortised cost. Credits are made to the CIES for Interest Receivable and are based on the carrying amount multiplied by the effective rate of interest. The amount appearing in the Balance Sheet relates to the principal outstanding plus accrued interest.

### **1.9 GOVERNMENT GRANTS AND CONTRIBUTIONS**

Where a grant or contribution has been received the first consideration is whether there is a condition attached to the receipt of that grant. Where there is no condition, or the condition is met, then the income is recognised in the CIES. This income must then be reversed out within the Movement in Reserves Statement. If the related expenditure has been incurred the reversal is to the Capital Adjustment Account, if the expenditure has not been incurred the reversal is to the Capital Grants Unapplied Account.

Where a condition is not met the income must be recognised in the Capital Grants Received in Advance Account. If in a future accounting period the condition is met, at that point the grant income is recognised in the CIES and reversed out in the Movement in Reserves Statement as before. If there is no prospect of the conditions being met the grant monies are held as a creditor until such time as repayment can be made. Where the only condition attached to a grant is that it must be spent on a particular asset or used for a particular purpose then the condition is assumed to be met only when expenditure actually occurs.

### **1.10 INVESTMENT PROPERTY**

Investment properties are those which are held solely to earn rentals or for capital appreciation purposes and initially these are measured at cost and subsequently fair value (being the price that would be received to sell such an asset in an orderly transaction between market participants at the measured date). Rentals received in relation to investment properties are credited to the Financing and Investment Income line.

Investment properties are measured at highest and best use and are not depreciated but revalued annually at year end according to market conditions. Gains and losses on revaluation and/or disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Under statute revaluation and disposal gains and losses are not permitted to impact on the General Fund Balance and therefore such gains and losses are reversed out of the General Fund Balance in the Movement in Reserves Statement through the Capital Adjustment Account; sale proceeds greater than £10,000 are posted to the Capital Receipts' Reserve.

## **1.11 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**

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

#### **Finance Lease**

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **1.12 OVERHEADS AND SUPPORT SERVICES**

Administrative expenses are allocated over all services and to all users including services to the public, trading undertakings, capital accounts and services provided for other bodies and other support services, on a consistent basis applicable to the service provided, i.e. actual time spent by staff, area occupied, per capita, actual use etc.

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

## **1.13 PROPERTY PLANT AND EQUIPMENT**

Assets that have a 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.

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

### **Measurement**

Council dwellings and garages are revalued every year using the Beacon Properties approach as the basis for valuation. The valuation takes the form of a full revaluation followed by four years of desk top revaluations. Other assets are revalued as part of the Council's rolling programme under which assets are revalued over a five year period.

Within the accounts, Council dwellings and associated land were valued on the basis of Existing Use for Social Housing (EUV-SH) being 38%, (38% 2016/17), of the Vacant Possession value. The components within the dwelling have been valued based on the proportion of the total dwelling to which their value relates.

Revaluations of individual assets are also undertaken when a material change happens. Infrastructure and community assets do not have a value attributed to them and therefore their value is based on the historic cost of providing the asset. Surplus assets, which are identified for sale on the open market, are revalued at market value which reflects any changes in planning permission granted.

Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use. Investment properties are included in the balance sheet at the lower of net current replacement cost and net realisable value (open market value). Community assets are included in the balance sheet at historical cost and Infrastructure assets at depreciated historic cost.

Long term assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes, issued by the Royal Institution of Chartered Surveyors (RICS). Non Current assets (excluding land) are classified as follows:

<b>Type of Asset</b>	<b>Valuation Method</b>
Council Dwellings and Garages	Existing use value for social housing Existing Use Value
Other land and buildings	Existing use value
Infrastructure and Community assets	Depreciated historic cost
Vehicles, plant, furniture and equipment	Depreciated historic cost
Non-operational assets	Existing use 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 Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- 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 in the CIES.

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

### **Impairment**

An impairment is defined as a loss in value due to the consumption of economic benefits. Where a valuation reduction occurs due to a fall in prices generally this is known as a downward revaluation. In both cases the loss is taken to the revaluation reserve to the extent that revaluation gains relating to that particular asset exists within the revaluation reserve in the first place.

If the value of the impairment or downward revaluation exceeds the revaluation amount relating to that asset already residing in the revaluation reserve then the difference is recognised in the year in which it occurs. The valuations are based upon the facts and evidence prevailing at the date of valuation.

### **Depreciation**

In accordance with the provisions of IAS 16, assets are depreciated on a straight-line basis over their useful economic life. Where a unique asset is purchased or constructed the useful life is assessed based on information available concerning that asset. The only general exceptions to this are freehold land, community assets and non-operational investment properties which are not depreciated. Subsequent expenditure on a fixed asset that maintains or enhances the previously assessed standard of performance of the asset does not negate the need to charge depreciation.

### **Disposal and Non Current Assets Held for Sale**

When it becomes probable that the carrying amount 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; the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised up to the amount of any previous losses recognised in the Surplus or Deficit on the 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.

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. 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 capital receipts relating to housing disposals is payable to central government. The balance of receipts remains within the Capital Receipts' Reserve and then can be used for new capital investment (or set aside to reduce the Council's underlying need to borrow). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax as the cost of 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.

## **1.14 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation the existence of which will be confirmed by the occurrence or otherwise of uncertain future events which are not wholly within the control of the Council. Contingent liabilities may arise in circumstances also 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 with sufficient reliability.

Contingent liabilities are not recognised in the Balance Sheet but disclosed by way of a note to the accounts.

### **Contingent Assets**

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

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

### **1.15 RESERVES**

The Council has set aside certain revenue and capital amounts as earmarked reserves. All other fund balances represent working balances for the purpose of the specific fund and are made up of accumulated surpluses and deficits derived over a period of time. All earmarked fund balances and reserves are reviewed periodically as to their size and appropriateness.

Adjustments between accounting and funding bases under regulations ensure that such amounts transferred to and from reserves score against taxation and housing rents respectively in the initial year that the money is set aside and only expenditure financed in year from amounts transferred from reserves is recognised in the surplus or deficit on the Provision of Services in the CIES.

Unusable reserves kept to manage the accounting processes for non current assets, financial instruments, local taxation, retirement and employee benefits are explained in the relevant policies.

### **1.16 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

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

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves' Statement from the General Fund Balance to the Capital Adjustment Account ensures the accounting principle does not impact on the General Fund Balance.

### **1.17 VALUE ADDED TAX (VAT)**

VAT is included in the accounts only to the extent that it is irrecoverable from HM Revenue and Customs. VAT can only be recovered on partially exempt activities where all such activities account for less than 5% of total VAT on all the Council's activities.

### **1.18 FAIR VALUE MEASUREMENT**

The Council measures some of its financial and non financial assets 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 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.



## 2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Council is required to disclose known or reasonably estimated information relevant to assessing the possible impact on the financial statements of an accounting change that will be required by the application of a new standard that has been issued but not yet adopted in the period of application. The most significant standards which apply for this Council are:

- **IFRS 9, Financial Instruments** has introduced new classifications for financial assets and also for earlier recognition of the impairment of financial assets for adoption in the 2018/19 Code.

The main issue which arose under IFRS 9 for local authorities is whether collective investment vehicles would qualify for the election under IFRS 9, for movements in fair value of "investments in an equity instrument" to be chargeable to the financial instrument revaluation reserve." i.e. chargeable to fair value through other comprehensive income (FVOCI). To do so the investment would need to meet the definition of an equity instrument in the Code in accordance with IAS 32 Financial Instruments: Presentation. Local authorities will need to consider all the relevant contractual information to establish whether the holder has the right to demand repurchase or repayment of the principal and should this be the case the financial asset cannot be designated to FVOCI.

The Council does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its assets will retain the same measurement basis. On the 1 April 2018 the Council irrevocably elected with its fund managers to present any changes in the fair value of Strategic Pooled Fund 1 and 2 equity investments in Other Comprehensive Income and Expenditure as permitted by IFRS.

Impairment is immaterial for the Council's treasury management function relating to bank deposits and investments with other local authorities. The Council makes annual provision for doubtful debt on service income (charges, rents and wayleaves) which is reviewed regularly.

- **IFRS 15 Revenue from Contracts with Customers** is adopted for the 2018/19 Code; it addresses inconsistent practices and aims to ensure that revenue is recognised in an amount that reflects the consideration to which an authority expects to be entitled in exchange for those goods or services.

The Council has relatively predictable income streams and therefore IFRS 15 should not have a material effect, however in 2018/19, under the terms of the Council's leisure management contract, the contractor will be paying the Council to manage the leisure facilities. The Council's section 151 officer will ensure that the revenue is measured and recognised in the Statement of Accounts in accordance with the disclosure requirements of IFRS15 to allow an understanding of the nature, amount, timing and uncertainty of revenue and cash flows through the disaggregation of revenue, information on performance objectives, the significant judgements made and contract balances.

The transitional reporting requirements for IFRS 9 and IFRS 15 have not been adopted such that the preceding year is not restated.

- **IFRS 16 Leases** (subject to CIPFA/LASAAC decisions) is anticipated to be adopted in the 2019/20 Code once it has been established how the standard will impact on local authorities. IFRS 16 removes the existing classifications of operating and finance leases for lessees. It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments to the asset.

Some of the impact on local authorities in relation to the capital financing implications has been clarified in the new minimum revenue provision (MRP) guidance. The recommended approach for the MRP for leases where a right of use asset is recognised will be a top up so that the aggregate charge to revenue for the lease will effectively be the annual lease payment.

### **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions in the current economic climate of the high degree of uncertainty about future levels of funding for local government. The Council has determined, however, that this uncertainty is not yet sufficient to provide an indication that the assets of the authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

### **4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Accounts contain a number of figures that are estimated based on historical experience, current trends or other factors that are relevant. As these figures cannot be ascertained with certainty it is possible that actual results could be materially different from those estimated. The items in the Balance Sheet where there is a risk of material adjustment are as follows:

#### **Pensions Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consultant actuaries are engaged to provide advice about assumptions to be applied. The actuary has provided some sensitivity analysis around the assumptions and this is contained within the Pensions note 32. The carrying value of the Pensions Liability is (£72 million).

#### **Fair Value Measurement**

The use of the discounted cash flow model to measure the fair value of some of the Council's investment properties and financial instruments are dependant upon significant assumptions with regard to rent growth, void properties and discount rates adjusted for regional factors. Significant changes in any of the inputs would result in a significantly lower or higher fair value measurement. The Council's fund manager has provided a sensitivity analysis around a 1% increase in the discount rate used for measuring the the fair value of the Councils financial assets and liabilities which is disclosed within the Financial Instrument note 15.

### **5. EVENTS AFTER THE BALANCE SHEET DATE**

The Statement of Accounts was authorised for issue by the Assistant Director of Resources on 31 July 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2018 as they provide information that is relevant to an understanding of the authority's financial position but do not relate to conditions at that date:

The Council is embarking on an ambitious transformation programme which is designed to improve customer service and flexible working. As part of this there will be a staffing restructure that will affect all areas of the Council. This was agreed in principle during December 2017 with indicative amounts for potential one off costs included in future district development fund budgets as well as ongoing savings arising from the restructure. As at 31 March 2018 the shape of the structure itself was not known but by June 2018 a new structure at senior levels had been agreed with further restructures below that level commencing during the Autumn. It is unlikely that this process will be concluded until well into 2019/20 or early 2020/21.

The Council is in the process of selling land it owns at Pyrles Lane for housing development. The land has received planning permission for the development but as at 31 March 2018 was still being used as a plant nursery. The sale price is expected to be in excess of £3 million and the sale will take place once the nursery has relocated to Town Mead Depot. The net book value in its existing use was £446,829. The asset has not been classified as held for sale at year end as it was still operational.

## 6. EXPENDITURE AND FUNDING ANALYSIS

### Adjustments between Funding & Accounting Basis

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total
	£000	£000	£000	£000
<b>2017/18</b>				
Office of the Chief Executive	2	93	(29)	66
Communities	64	234	7	305
Governance	19	534	(15)	538
Neighbourhoods	5,726	575	4	6,305
Resources	1,531	792	33	2,356
Housing Revenue Account	4,667	922	(9)	5,580
<b>Net Cost of Service</b>	<b>12,009</b>	<b>3,150</b>	<b>(9)</b>	<b>15,150</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(20,790)</b>	<b>827</b>	<b>(359)</b>	<b>(20,322)</b>
<b>Difference between General Fund (Surplus) / Deficit and Comprehensive Income and Expenditure</b>	<b>(8,781)</b>	<b>3,977</b>	<b>(368)</b>	<b>(5,172)</b>

	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total
	£000	£000	£000	£000
<b>2016/17</b>				
Office of the Chief Executive	-	32	34	66
Communities	144	126	(1)	269
Governance	8	334	4	346
Neighbourhoods	4,142	311	7	4,460
Resources	1,285	472	14	1,771
Housing Revenue Account	9,669	537	(2)	10,204
<b>Net Cost of Service</b>	<b>15,248</b>	<b>1,812</b>	<b>56</b>	<b>17,116</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>	<b>(14,643)</b>	<b>430</b>	<b>(377)</b>	<b>(14,590)</b>
<b>Difference between General Fund (Surplus) / Deficit and Comprehensive Income and</b>	<b>605</b>	<b>2,242</b>	<b>(321)</b>	<b>2,526</b>

## Expenditure & Income Analysed by Nature

	Office of the Chief Executive	Communities	Governance	Neighbourhoods	Resources	Housing Revenue Account	Total
2017/18	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service	-	(1,243)	(1,881)	(4,357)	(443)	(34,619)	(42,543)
Government Grants	-	(977)	(45)	(750)	(34,472)	(14)	(36,258)
<b>Total Income</b>	<b>-</b>	<b>(2,220)</b>	<b>(1,926)</b>	<b>(5,107)</b>	<b>(34,915)</b>	<b>(34,633)</b>	<b>(78,801)</b>
Employee Expenses	4	2,385	2,022	2,506	2,608	3,794	13,319
Other Service Expenses	(258)	2,059	603	9,722	648	9,127	21,901
Support Service Recharges	1,794	1,148	2,504	2,826	1,679	3,859	13,810
Asset Charges	-	123	-	5,797	956	13,052	19,928
Benefit Payments	-	-	-	-	33,369	-	33,369
<b>Total Expenditure</b>	<b>1,540</b>	<b>5,715</b>	<b>5,129</b>	<b>20,851</b>	<b>39,260</b>	<b>29,832</b>	<b>102,327</b>
<b>Net Cost of Service</b>	<b>1,540</b>	<b>3,495</b>	<b>3,203</b>	<b>15,744</b>	<b>4,345</b>	<b>(4,801)</b>	<b>23,526</b>

	Office of the Chief Executive	Communities	Governance	Neighbourhoods	Resources	Housing Revenue Account	Total
2016/17	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service	-	(1,255)	(1,931)	(3,864)	(497)	(34,705)	(42,252)
Government Grants	-	(679)	(82)	(743)	(35,771)	(9)	(37,284)
<b>Total Income</b>	<b>-</b>	<b>(1,934)</b>	<b>(2,013)</b>	<b>(4,607)</b>	<b>(36,268)</b>	<b>(34,714)</b>	<b>(79,536)</b>
Employee Expenses	12	2,019	1,813	1,968	2,022	3,408	11,242
Other Service Expenses	(324)	1,815	571	10,325	580	8,194	21,161
Support Service Recharges	1,696	1,060	2,350	2,699	1,298	3,495	12,598
Asset Charges	-	120	-	3,979	652	17,746	22,497
Benefit Payments	-	-	-	-	34,302	-	34,302
<b>Total Expenditure</b>	<b>1,384</b>	<b>5,014</b>	<b>4,734</b>	<b>18,971</b>	<b>38,854</b>	<b>32,843</b>	<b>101,800</b>
<b>Net Cost of Service</b>	<b>1,384</b>	<b>3,080</b>	<b>2,721</b>	<b>14,364</b>	<b>2,586</b>	<b>(1,871)</b>	<b>22,264</b>

## 7. 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.

	Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Applied	Movements in Unusable Reserves
	£000	£000	£000	£000	£000	£000
2017/18						
Adjustments Involving the Capital Adjustment Account: Exclusions						
Charges for depreciation and impairment of non-current assets	(2,890)	(8,509)	-	-	-	11,399
Upward/(Downward) revaluation of non-current assets	(2,251)	(4,346)	-	-	-	6,597
Movements in the fair value of Investment Properties	11,301	10	-	-	-	(11,311)
Amortisation of intangible assets	(197)	(9)	-	-	-	206
Capital Grants and contributions applied	28	706	-	-	-	(734)
Revenue expenditure funded from Capital under statute	(3,224)	(5)	-	-	-	3,229
Amounts of non-current assets written off on disposal or sale as part of the gain\loss on disposal to the CIES	(167)	(4,297)	-	-	-	4,464
Capital expenditure charged against the General Fund and HRA balances	47	6,171	-	-	-	(6,218)
Reversal of Notional Lease adjustment	559	23	-	-	-	(582)
Adjustments Primarily Involving the Capital Grants Unapplied	379	-	-	-	(325)	(54)
Adjustments Involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain\loss on disposal to the CIES	-	7,718	(7,718)	-	-	-
Transfer from Deferred Capital receipts on receipt of cash	-	-	(1,264)	-	-	1,264
Used to finance new Capital Expenditure	-	-	8,350	-	-	(8,350)
Contribution towards administrative costs of non-current asset disposals	-	(55)	55	-	-	-
Contribution to finance the payments to the Government capital receipts pool	(577)	-	577	-	-	-
Adjustments Involving the Deferred Capital Receipts Reserve						
Transfer to Deferred Capital Receipts Reserve upon revaluation of rents to mortgaages.	-	42	-	-	-	(42)
Adjustments relating to the Major repairs Reserve						
Depreciation transferred from HRA	-	8,324	-	(8,324)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	9,335	-	(9,335)
Adjustments involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited\credited to the CIES.	(2,704)	(1,272)	-	-	-	3,976
Adjustments involving the Collection Fund Adjustment Account						
Amount by which council tax and business rate income credited to the CIES is different from that calculated in accordance with statutory requirements.	356	-	-	-	-	(356)
Adjustments Involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	4	7	-	-	-	(11)
Total Adjustments	664	4,508	-	1,011	(325)	(5,858)

	Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Applied	Movements in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>2016/17</b>						
<b>Adjustments Involving the Capital Adjustment Account: Exclusions</b>						
Charges for depreciation and impairment of non-current assets	(2,716)	(15,778)	-	-	-	18,494
Upward/(Downward) revaluation of non-current assets	(1,942)	(1,908)	-	-	-	3,850
Movements in the fair value of Investment Properties	5,044	-	-	-	-	(5,044)
Amortisation of intangible assets	(176)	(8)	-	-	-	184
Capital Grants and contributions applied	71	934	-	-	-	(1,005)
Revenue expenditure funded from Capital under statute	(1,686)	-	-	-	-	1,686
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(189)	(4,687)	-	-	-	4,876
Capital expenditure charged against the General Fund and HRA balances	1,072	5,367	-	-	-	(6,439)
Reversal of Notional Lease adjustment	559	23	-	-	-	(582)
<b>Adjustments Primarily Involving the Capital Grants Unapplied</b>	84	-	-	-	41	(125)
<b>Adjustments Involving the Capital Receipts Reserve</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	2,241	7,847	(10,088)	-	-	-
Transfer from Deferred Capital receipts on receipt of cash	-	-	(775)	-	-	775
Used to finance new Capital Expenditure	-	-	11,712	-	-	(11,712)
Contribution towards administrative costs of non-current asset disposals	-	(60)	60	-	-	-
Contribution to finance the payments to the Government capital receipts pool	(2,879)	-	2,879	-	-	-
<b>Adjustments Involving the Deferred Capital Receipts Reserve</b>						
Transfer to Deferred Capital Receipts Reserve upon revaluation of rents to mortgages.	-	170	-	-	-	(170)
<b>Adjustments relating to the Major repairs Reserve</b>						
Depreciation transferred from HRA	-	8,010	-	(8,010)	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,597	-	(7,597)
<b>Adjustments involving the Pensions Reserve</b>						
Reversal of items relating to retirement benefits debited/credited to the CIES.	(1,523)	(717)	-	-	-	2,240
<b>Adjustments involving the Collection Fund Adjustment Account</b>						
Amount by which council tax and business rate income credited to the CIES is different from that calculated in accordance with statutory requirements.	470	-	-	-	-	(470)
<b>Adjustments Involving the Accumulated Absences Account</b>						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(61)	(5)	-	-	-	66
<b>Total Adjustments</b>	<b>(1,631)</b>	<b>(812)</b>	<b>3,788</b>	<b>(413)</b>	<b>41</b>	<b>(973)</b>

## 8. MOVEMENTS IN EARMARKED RESERVES

A summary of balances on earmarked reserves is set out below.

	<i>Balance 31 March 2016</i>	<i>Transfers Out</i>	<i>Transfers In</i>	<i>Balance 31 March 2017</i>	<i>Transfers Out</i>	<i>Transfers In</i>	<i>Balance 31 March 2018</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Housing Repairs Reserves	1,010	(5,574)	5,800	1,236	(5,981)	6,000	1,255
District Development Fund	3,742	(2,308)	2,754	4,188	(2,651)	2,683	4,220
Invest to Save Reserve	425	(219)	200	406	(99)	-	307
Self Financing Reserve	12,720	-	-	12,720	-	-	12,720
Deferred Revenue Income	740	(51)	-	689	(5)	-	684
Insurance Reserve	1,015	(7)	-	1,008	(1)	-	1,007
Building Control	128	(13)	-	115	(4)	-	111
Museum Fund	87	(58)	-	29	-	44	73
All Weather Pitch	32	-	15	47	-	15	62
O2 Mast Fund	35	(13)	14	36	-	1	37
Rental Loans	162	(12)	30	180	(22)	110	268
Small Loans Fund	6	-	-	6	-	-	6
S106 Revenue Contributions	-	-	57	57	(20)	-	37
Community Services Projects	-	-	381	381	(51)	-	330
<b>Total Earmarked Reserves</b>	<b>20,102</b>	<b>(8,255)</b>	<b>9,251</b>	<b>21,098</b>	<b>(8,834)</b>	<b>8,853</b>	<b>21,117</b>



## 9. OTHER OPERATING EXPENDITURE

	31 March	
	2018 £000	2017 £000
Parish Council Precepts	3,361	3,274
Parish Support Grants	134	201
Payments to the Government Housing Pool	577	2,879
(Gains) / losses on the disposal of non-current assets	(3,223)	(5,293)
<b>Total</b>	<b>849</b>	<b>1,061</b>

## 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	31 March	
	2018 £000	2017 £000
Total Net Surplus from Trading Operations (Note 25)	(4,185)	(2,391)
Interest payable and similar charges	5,634	5,572
Pensions interest cost	2,138	2,268
Interest receivable and similar income	(231)	(366)
Changes in Fair Value of Investment Properties	(11,311)	(5,044)
Changes in Value of Deferred Capital Receipts	(42)	(170)
<b>Total</b>	<b>(7,997)</b>	<b>(131)</b>

## 11. TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

	31 March	
	2018 £000	2017 £000
Council Tax Income	(11,935)	(11,780)
Non Domestic Rate Income	(14,131)	(14,341)
Non Domestic Rate Tariff Payment and Levy	10,722	11,013
Non-ring fenced Government Grants	(4,457)	(5,107)
Capital Grants and Other Contributions	(720)	(1,036)
<b>Total</b>	<b>(20,521)</b>	<b>(21,251)</b>

## 12. PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings & Garages	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value 01 April 2017</b>	656,792	42,647	18,557	8,185	1,143	8,895	39,782	776,001
Additions	9,119	1,430	1,029	189	-	-	21,374	33,141
Disposals / Impairments	(3,781)	(182)	(467)	-	-	(550)	(12)	(4,992)
Reclassified in Year	7,608	88	-	-	-	-	(41,338)	(33,642)
Revaluation Applied to the CIES	(4,473)	(1,157)	-	-	-	(956)	-	(6,586)
Revaluation Credited to the Revaluation Reserve	18,314	2,225	-	-	-	-	558	21,097
Accumulated Depreciation and Impairment Written Off on Revaluation	(8,038)	(2,404)	-	-	-	-	-	(10,442)
<b>Gross Book Value 31 March 2018</b>	<b>675,541</b>	<b>42,647</b>	<b>19,119</b>	<b>8,374</b>	<b>1,143</b>	<b>7,389</b>	<b>20,364</b>	<b>774,577</b>
Depreciation 01 April 2017	-	(2,236)	(9,951)	(3,086)	-	-	(3)	(15,276)
Reclassified	8	(2)	-	-	-	-	(2)	4
Depreciation in Year	(8,092)	(1,570)	(1,579)	(158)	-	-	-	(11,399)
Depreciation on Disposed Assets	46	26	433	-	-	-	-	505
Accumulated Depreciation and Impairment Written Off on Revaluation	8,038	2,404	-	-	-	-	-	10,442
<b>Depreciation 31 March 2018</b>	<b>-</b>	<b>(1,378)</b>	<b>(11,097)</b>	<b>(3,244)</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>(15,724)</b>
<b>Net Book Value 31 March 2018</b>	<b>675,541</b>	<b>41,269</b>	<b>8,022</b>	<b>5,130</b>	<b>1,143</b>	<b>7,389</b>	<b>20,359</b>	<b>758,853</b>

  

	Council Dwellings & Garages	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value 01 April 2016</b>	619,114	40,546	18,495	8,504	1,143	1,250	19,546	708,598
Additions	11,262	210	560	231	-	7,095	14,742	34,100
Disposals / Impairments	(4,327)	(1,431)	(498)	(550)	-	-	-	(6,806)
Reclassified in Year	(663)	2,126	-	-	-	550	(1,051)	962
Revaluation Applied to the CIES	(1,364)	(767)	-	-	-	-	(5)	(2,136)
Revaluation Credited to the Revaluation Reserve	48,134	2,071	-	-	-	-	6,563	56,768
Accumulated Depreciation and Impairment Written Off on Revaluation	(15,364)	(108)	-	-	-	-	(13)	(15,485)
<b>Gross Book Value 31 March 2017</b>	<b>656,792</b>	<b>42,647</b>	<b>18,557</b>	<b>8,185</b>	<b>1,143</b>	<b>8,895</b>	<b>39,782</b>	<b>776,001</b>
Depreciation 01 April 2016	-	(1,354)	(8,514)	(3,057)	-	-	(3)	(12,928)
Reclassified	13	1	2	-	-	-	(13)	3
Depreciation in Year	(15,485)	(1,054)	(1,722)	(233)	-	-	-	(18,494)
Depreciation on Disposed Assets	108	63	283	204	-	-	-	658
Accumulated Depreciation and Impairment Written Off on Revaluation	15,364	108	-	-	-	-	13	15,485
<b>Depreciation 31 March 2017</b>	<b>-</b>	<b>(2,236)</b>	<b>(9,951)</b>	<b>(3,086)</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>(15,276)</b>
<b>Net Book Value 31 March 2017</b>	<b>656,792</b>	<b>40,606</b>	<b>8,606</b>	<b>5,099</b>	<b>1,143</b>	<b>8,895</b>	<b>39,779</b>	<b>760,725</b>

	Council Dwellings & Garages	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Carried Historical Cost</b>	-	841	19,119	8,374	1,143	-	18,081	<b>47,558</b>
<b>Valued at Current Value as from:</b>								
28 February 2018	675,541	16,312	-	-	-	6,139	2,392	<b>700,384</b>
28 February 2017	-	5,438	-	-	-	-	-	<b>5,438</b>
28 February 2016	-	2,343	-	-	-	1,250	-	<b>3,593</b>
31 March 2015	-	17,304	-	-	-	-	-	<b>17,304</b>
31 March 2014	-	300	-	-	-	-	-	<b>300</b>
<b>Total Cost or Valuation</b>	<b>675,541</b>	<b>42,538</b>	<b>19,119</b>	<b>8,374</b>	<b>1,143</b>	<b>7,389</b>	<b>20,473</b>	<b>774,577</b>

The Council dwellings and garages valuation has been carried out by District Valuer Thomas Dimmock (MRICS). The valuation date for 2017/18 is 28 February 2018. As part of this years revaluation the valuer has re-assessed the proportion of value in the Land element and concluded that it should remain unchanged at 35%. The valuer has also provided assurance that the valuation has not changed significantly between the valuation date and the year end.

The useful lives of both dwellings and the components within have been reviewed during 2017/18. The average useful life of all components, including the buildings has been assessed from 52 to 55 years. Other property, including investment properties have also been valued as at 28th February 2018 by Charlotte Meyer of Carter Jonas LLP (MRICS FAAV).

<b>Type of Asset</b>	<b>Valuation Method (Years)</b>
Council Dwellings and Garages	15 to 60 years
Other Land and Buildings (buildings element only)	20 to 50 years
Infrastructure Assets	15 to 40 years
Community Assets	Indeterminable
Vehicles, Plant, Furniture and Equipment	5 to 20 years

The main item held within surplus assets is the St Johns Road site. An agreement has been signed with a developer to sell this site for retail and housing development. The intention is for full planning permission to be sought for this development to take place with completion occurring during the next calender year.

### 13. INVESTMENT PROPERTY

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CIES. Income and expenditure relating to the General Fund is recorded under trading operations.

	31 March	
	2018 £000	2017 £000
Rental income from investment property	6,169	4,606
Direct operating expenses arising from investment property	(1,367)	(999)
<b>Net Gain / (Loss)</b>	<b>4,802</b>	<b>3,607</b>

The following table summarises the movement in fair value of investment properties over the year. The biggest movement in fair value relates to the Shopping Park (£33.4m) being transferred from assets under construction. The Shopping Park (£7.2m) and the former Landmark Building (£3.4m) both heavily contribute to revaluation gains; although most other investment properties categories have seen a rise in value. All investment properties have been valued based on Level 3 unobservable inputs using an Income approach and that their current use is their highest and best use. The updated valuations were carried out as at 28 February 2018 by Charlotte Meyer of Carter Jonas LLP (MRICS FAAV).

	31 March	
Properties Categorised within level 3	2018 £000	2017 £000
Balance as at 31 March	67,744	63,070
<b>Balance as at 01 April</b>	<b>67,744</b>	<b>63,070</b>
Reclassified in year	33,637	(406)
Acquisition	1,042	-
Construction	59	36
Net Gains / (Losses) from fair value adjustments	11,311	5,044
<b>Balance at end of the year</b>	<b>113,793</b>	<b>67,744</b>

### 14. LONG TERM DEBTORS

	31 March	
	2018 £000	2017 £000
Capital Advances (B3 Living)	526	526
Rents to Mortgages	2,071	2,029
Other Local Authorities (Transferred Debt)	-	295
Loan to Waste Management Contractor	725	1,723
Home Assist Loans	373	313
<b>Net Carrying Amount at end of the year</b>	<b>3,695</b>	<b>4,886</b>

## 15. FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long Term 31 March		Current 31 March	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>Financial liabilities at amortised cost</b>				
Borrowing	185,456	185,456	-	-
Finance lease liability	1,745	2,326	582	582
Trade creditors	-	-	7,383	9,092
<b>Total financial liabilities</b>	<b>187,201</b>	<b>187,782</b>	<b>7,965</b>	<b>9,674</b>
<b>Loans and receivables</b>				
Investments	-	-	8,014	25,017
Debtors	3,695	4,886	4,328	3,342
<b>Total financial assets</b>	<b>3,695</b>	<b>4,886</b>	<b>12,342</b>	<b>28,359</b>

On 28 March 2012 the Council borrowed £185.456m from the Public Works Loan Board (PWLb) to pay the Department of Communities and Local Government on the cessation of the HRA Subsidy System. Accrued interest for each current year is included in creditors on the Balance Sheet.

### Income and Expense Gains and Losses

	Financial Liabilities		Financial Assets	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Interest expense	(5,510)	(5,536)	-	-
Fee expense	(27)	(26)	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>(5,537)</b>	<b>(5,562)</b>	<b>-</b>	<b>-</b>
Interest Income	-	-	231	366
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>-</b>	<b>231</b>	<b>366</b>
<b>Net Gain / (Loss) for the year</b>	<b>(5,537)</b>	<b>(5,562)</b>	<b>231</b>	<b>366</b>

### Fair Values of Assets and Liabilities

Fair value is the amount for which an asset can be exchanged, or a liability settled. Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost, i.e. the aggregate of principal and accrued interest.

The Council's debt outstanding at 31 March 2018 consists of loans from the Public Works Loan Board (PWLB). The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have to pay to extinguish the loans on these dates and has rated these at a Fair Level Value 2 (i.e. based on significant observable inputs). The fair value of short term financial liabilities held at amortised cost, including trade payables is assumed to approximate to the carrying amount.

Money market funds are rated at Fair Value Level 1 (quoted prices in active markets). The fair value for financial assets 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: a) where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value; b) the fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31 March 2018		31 March 2017	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial liabilities held at amortised</b>				
Long term borrowing	185,502	214,295	185,501	238,613
Finance lease liabilities	2,327	2,473	2,908	3,176
<b>Total Financial Liabilities</b>	<b>187,829</b>	<b>216,768</b>	<b>188,409</b>	<b>241,789</b>
<b>Financial Assets</b>				
Short term investments	8,014	8,014	25,017	25,017
Long Term Debtors	3,695	3,695	4,886	4,886
<b>Total Financial Assets</b>	<b>11,709</b>	<b>11,709</b>	<b>29,903</b>	<b>29,903</b>

The fair value of borrowings is higher 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 current rates available for similar loans as at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March) arising from a commitment to pay interest to lenders above current market rates.

The table below shows the effect of a 1% increase in the discount rate used to measure the fair values of the Council's Finance Lease and PWLB liabilities.

#### Fair Value Sensitivities

Impact of 1% increase on discount rate for fair values

(AA Corporate Bond Yield Curve - Bloomberg  
GBP European AA Composite)

Finance Lease  
PWLB

**Total**

	Fair Values	1% increase
	31 March	
	2018 £000	2017 £000
Finance Lease	2,473	(58)
PWLB	214,295	(26,208)
<b>Total</b>	<b>216,768</b>	<b>(26,266)</b>

## 16. DEBTORS

	31 March	
	2018 £000	2017 £000
Government Departments and Other Local	5,196	4,795
Council Tax Arrears	505	471
NDR Arrears	399	347
Housing Rent Arrears	304	278
Sundry Debtors	5,192	3,272
Prepayments & Deposits	676	214
<b>Total</b>	<b>12,272</b>	<b>9,377</b>

Council Tax and Business Rates arrears shown above and the related bad debt provision relate only to the Council's proportion of the total debt. The remainder is shown as part of an amount due from major preceptors on the basis that the Council has paid over more in precepts than it has received and is net of prepayments. In 2017/18 there was a net creditor for both Council Tax and Business Rates.

## 17. CASH AND CASH EQUIVALENTS

	31 March	
	2018 £000	2017 £000
Cash	57	20
Bank Current Accounts	4,903	6,238
Short-term Deposits with Money Market Funds	10,000	10,000
<b>Total Cash and Cash Equivalents</b>	<b>14,960</b>	<b>16,258</b>

The 'Short-term deposits' relates to £10m deposits made to a number of different Money Market Funds. This has been included within the cash equivalents as funds can be drawn down and used on the day of request. The fund has a constant net asset value, this means that each £1 put in buys 1 unit, which is re-priced back to £1 at the end of each day.

## 18. CREDITORS

	31 March	
	2018 £000	2017 £000
Government Departments and Other Local	4,813	3,685
Council Tax	244	246
Non Domestic Rates	528	526
Housing Rents	324	299
Sundry Creditors	5,323	6,318
Accruals and Deferred Income	3,995	4,966
<b>Total Creditors</b>	<b>15,227</b>	<b>16,040</b>

Council Tax and Business Rates prepayments shown above relate only to the Council's proportion of the total debt. The remainder is shown as being due to Government Departments and Other Local Authorities. This is shown net of arrears, Collection Fund balance and, in the case of Business Rates, Provision for Appeals. There was a net creditor in relation to Council Tax and Business Rates at the end of 2017/18.

## **19. PROVISIONS**

With the retention of Business Rates income the Council has had to take on the liability for settling appeals. It has been necessary to make a provision for those appeals within the Collection Fund the total amount being £3.4 million (£3.5 million 2016/17) of which £1.35 million (£1.4 million 2016/17) relates to this Council.



## 20. USABLE AND UNUSABLE RESERVES

Movements in Usable Reserves are shown in detail on the Movement in Reserves Statement.

	31 March	
	2018 £000	2017 £000
Revaluation Reserve	189,751	178,783
Capital Adjustment Account	472,766	452,299
Pension Reserve	(74,860)	(81,121)
Deferred Capital Receipts Reserve	4,256	5,094
Collection Fund Adjustment Account	530	174
Accumulated Absences Account	(292)	(304)
<b>Total Unusable Reserves</b>	<b>592,151</b>	<b>554,925</b>

### Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and gains are consumed through depreciation, or
- disposed of and the gains are realised

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

	31 March	
	2018 £000	2017 £000
<b>Balance as at 01 April</b>	<b>178,783</b>	<b>126,651</b>
Revaluations During the Year	21,097	56,768
Depreciation Adjustment	(2,159)	(3,077)
Disposals / Reinstatements	(7,970)	(1,559)
<b>Balance as at 31 March</b>	<b>189,751</b>	<b>178,783</b>

### Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 details the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve and Deferred Capital Receipts.

	31 March		
	2018 £000	2018 £000	2017 £000
<b>Balance as at 01 April</b>	<b>452,299</b>		<b>444,103</b>
<b>Reversal of items relating to capital expenditure debited or credited to the CIES</b>			
Charges for depreciation and impairment of non-current assets	(10,834)		(17,933)
Depreciation Leased Assets	(564)		(561)
Amortisation of Intangible Assets	(206)		(185)
Reversal of Notional Lease	582		582
Revaluation Gains / (Losses) on Property, Plant and Equipment	(6,586)		(2,136)
Revenue Expenditure Funded from Capital under Statute	(3,229)		(1,685)
Transfer to Capital Receipts on repayment of loan	(351)		-
Amounts for non-current assets written off on disposal or sale as part of gain / loss on disposal to the CIES	(4,464)	(25,652)	(6,445)
Adjusting Amounts Written Out of the Revaluation Reserve		10,129	4,637
	<b>436,776</b>		<b>420,377</b>
<b>Capital Financing Applied in the Year</b>			
Use of the Capital Receipts Reserve to Finance New Capital Expenditure	8,350		11,712
Use of the Major Repairs Reserve to Finance New Capital Expenditure	9,335		7,597
Capital Grants Credited to the CIES that have been applied to Capital Financing	788		1,130
Capital Expenditure Charged against the General Fund and HRA Balances	6,218	24,691	6,439
Asset Restatements		(12)	-
Movement in the Market Value of Investment Properties Debited		11,311	5,044
<b>Balance as at 31 March</b>	<b>472,766</b>		<b>452,299</b>

The fair value of long term liabilities is higher than the carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

### Pension Reserve

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

	31 March	
	2018 £000	2017 £000
<b>Balance as at 01 April</b>	<b>(81,121)</b>	<b>(66,981)</b>
Remeasurements of the net defined liability / (asset)	10,238	(11,900)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(8,303)	(6,492)
Employers pensions contributions and direct payments to pensioners payable in the year	4,326	4,252
<b>Balance as at 31 March</b>	<b>(74,860)</b>	<b>(81,121)</b>

### Deferred Capital Receipts

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 useable for financing new capital expenditure until they are backed by cash receipts. When the cash is eventually received, amounts are transferred to the Capital Receipts Reserve.

	31 March	
	2018 £000	2017 £000
<b>Balance as at 01 April</b>	<b>5,094</b>	<b>5,839</b>
Repayment of Mortgages	-	(1)
Rents to Mortgages	41	29
B3 Living Loans	-	(58)
Waste Contractor Loan	(879)	(715)
<b>Balance as at 31 March</b>	<b>4,256</b>	<b>5,094</b>

## 21. CASH FLOW STATEMENT - OPERATING ACTIVITIES

Adjust net surplus or deficit on the provision of services for non cash movements

31 March		
	2018	2017
	£000	£000
Depreciation	10,817	17,907
Amortisation	206	184
Impairment and upward revaluations	6,597	2,136
Increase / (decrease) in creditors	594	2,057
Increase / (decrease) in interest and dividend	17	64
Increase / (decrease) in debtors	(3,726)	(1,587)
Increase / (decrease) in inventories	57	3
Pension Liability	3,976	2,240
Carrying amount of Non-Current Assets sold	4,464	6,449
Other Non-Cash Items Charged to the Net Surplus or deficit on the Provision of Services	(11,311)	(5,227)
<b>Total</b>	<b>11,691</b>	<b>24,226</b>

Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities

31 March		
	2018	2017
	£000	£000
Any other items for which the cash effects are investing or financing cash flows	(1,046)	(808)
Proceeds from the sale of property and equipment, investment property and intangible assets	(8,033)	(10,058)
<b>Total</b>	<b>(9,079)</b>	<b>(10,866)</b>

Operating activities within the cashflow statement include the following cash flows relating to interest and other operating activities

31 March		
	2018	2017
	£000	£000
Interest Received	247	431
Interest Charge for the Year	(5,633)	(5,572)
Other Operating Activities	12,141	16,558
<b>Total</b>	<b>6,755</b>	<b>11,417</b>

## 22. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	31 March	
	2018	2017
	£000	£000
Purchase of Property, Plant and Equipment, Investing Property	(33,502)	(34,955)
Purchase of Short-term and Long-term Investments	(33,000)	(84,000)
Other Payments for Investing Activities	-	(238)
Proceeds from Sale of Property, Plant and Equipment, Investment	8,912	10,832
Proceeds from Short-term and Long-term Investments	50,000	96,500
Other Receipts from Investing Activities	2,052	1,055
<b>Total</b>	<b>(5,538)</b>	<b>(10,806)</b>

## 23. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	31 March	
	2018	2017
	£000	£000
Billing Authorities - Council Tax and NDR Adjustments	(2,515)	1,678
<b>Total</b>	<b>(2,515)</b>	<b>1,678</b>

## 24. TRADING OPERATIONS

The trading operations of the Council comprise a number of commercial properties and industrial estates including North Weald Airfield where units are leased to local businesses at market rates, the Fleet Operations Service provides MOT testing and motor servicing to the public. In August 2017 the Epping Forest Shopping Park was opened to the public providing retail services.

	31 March			
	2018	2018	2018	2017
	Expenditure £000	Income £000	(Surplus) / Deficit £000	(Surplus) / Deficit £000
Commercial Properties	625	(2,247)	(1,622)	(1,633)
Fleet Operations	230	(227)	3	53
Industrial Estates	202	(1,692)	(1,490)	(1,350)
North Weald Centre	1,143	(937)	206	539
Shopping Park	189	(1,471)	(1,282)	-
<b>Total (Surplus) / Deficit</b>	<b>2,389</b>	<b>(6,574)</b>	<b>(4,185)</b>	<b>(2,391)</b>

## 25. MEMBER ALLOWANCES

	31 March	
	2018 £000	2017 £000
Allowances	356	352
Expenses	5	5
<b>Total Member Allowances</b>	<b>361</b>	<b>357</b>

## 26. OFFICER REMUNERATION

	2017/18			
	Salary (including fees and allowances)	Benefits in Kind	Pension Contributions	Total Remuneration including Pension Contributions
Chief Executive	115,618	1,351	20,565	137,534
Director of Neighbourhoods/Acting Chief Executive	100,245	1,239	17,910	119,394
Director of Communities	94,861	1,277	16,816	112,954
Director of Resources	86,424	1,135	15,564	103,123
Assistant Director of Resources	1,114	-	201	1,315
Director of Governance	94,216	1,142	16,959	112,317
Assistant Director of Neighbourhoods	136,822	-	24,629	161,451
<b>Total</b>	<b>629,300</b>	<b>6,144</b>	<b>112,644</b>	<b>748,088</b>

The Director of Neighbourhoods took on the role of Acting Chief Executive on 23 February 2018. The remuneration given combines pay for both of these roles in the year.

2016/17

	Salary (including fees and allowances)	Benefits in Kind	Pension Contributions	Total Remuneration including Pension Contributions
Chief Executive	113,120	1,339	17,986	132,445
Director of Neighbourhoods	94,628	1,332	15,046	111,006
Director of Communities	92,910	1,274	14,756	108,940
Director of Resources	93,542	1,933	14,873	110,348
Director of Governance	93,593	1,268	14,881	109,742
<b>Total</b>	<b>487,793</b>	<b>7,146</b>	<b>77,542</b>	<b>572,481</b>

There were no payments relating to bonuses in the year. The emoluments above include all taxable employee payments. Pension Contributions relate to Employer's contributions of 18% (17.1% in 2017/18).

The number of employees whose remuneration, including benefits in kind, but excluding employers pension contributions, was £50,000 or more in bands of £5,000.

	31 March	
	2018 No of Employees	2017 No of Employees
<b>Remuneration Band</b>		
£50,000 - £54,999	4	4
£55,000 - £59,999	3	9
£60,000 - £64,999	8	6
£65,000 - £69,999	3	-
<b>Total</b>	<b>18</b>	<b>19</b>

#### Termination Benefits

2017/18

	No of Compulsory Redundancies	No of Other Departures	Total No of Exist Packages	Total Cost of Exit Packages in Each Band
<b>Exit Package Cost Band (including special payments)</b>				
£0 - £20,000	-	5	5	44,853
£20,001 - £40,000	-	1	1	30,000
£40,001 - £60,000	-	-	-	-
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	2	2	174,432
<b>Total Cost Included in Bandings and in the CIES</b>	<b>-</b>	<b>8</b>	<b>8</b>	<b>249,285</b>

## Termination Benefits

2016/17

	No of Compulsory Redundancies	No of Other Departures	Total No of Exist Packages	Total Cost of Exit Packages in Each Band
<b>Exit Package Cost Band</b> <b>(including special payments)</b> £0 - £20,000	3	-	3	30,138
<b>Total Cost Included in Bandings and in the CIES</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>30,138</b>

## 27. EXTERNAL AUDIT FEES

The following fees have been paid to BDO LLP for services carried out by the public sector appointed auditor for the year.

	31 March	
	2018 £000	2017 £000
External Audit Services	65	65
Certification of Grant Claims & Returns	19	19
Other Services	2	2
<b>Total External Audit Fees</b>	<b>86</b>	<b>86</b>

## 28. GRANTS AND CONTRIBUTIONS

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

	31 March	
	2018 £000	2017 £000
<b>Credited to Taxation and Non-Specific Grant Income</b>		
Revenue Support Grant	744	1,534
New Homes Bonus	1,981	2,684
S31 Small Business Rate Relief	1,658	826
Transitional Grant	53	54
Community Projects	21	8
Other	-	1
<b>Total Grants and Contributions</b>	<b>4,457</b>	<b>5,107</b>



	31 March	
	2018 £000	2017 £000
<b>Credited to Services</b>		
Department for Work and Pensions	34,112	35,268
Department for Communities and Local Government (MHCLG)	1,466	1,110
Essex County Council	1,852	1,353
Arts Council	163	122
Essex Police, Fire & Crime Commissioner	119	112
Town and Parish Councils	31	21
Broxbourne Borough Council	85	85
Cabinet Office	21	74
Lottery Fund	-	47
National Heritage	73	44
Harlow Borough Council	9	44
East Herts District Council	14	43
Uttlesford District Council	9	43
Housing Associations	39	23
Colchester Borough Council	-	18
Action For Children	34	-
Other	21	14
<b>Total Grants and Contributions</b>	<b>38,048</b>	<b>38,421</b>

## 29. RELATED PARTY DECLARATIONS

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. During 2017/18 expenditure of £146,204 (£78,248 in 2016/17) was paid to Fortismere Associates via Bloom Procurement Services Limited for personnel management services. The director of the company was employed to act as an interim Assistant Director of Neighbourhoods but became an employee commencing from 1 July 2017. Fortismere Associates also provided other project management services to the council in support of the local plan process. The cost of these services during 2017/18 amount to £108,526. The Council holds a Register of Interests in which all members are required to declare any interests in accordance with the code of conduct which is open to the public.

### 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 a significant amount 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).

## 30. CAPITAL EXPENDITURE AND 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.

	31 March	
	2018 £000	2017 £000
<b>Opening Capital Financing Requirement</b>	<b>193,972</b>	<b>184,672</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	33,141	34,100
Investment Properties	1,100	36
Revenue Expenditure Funded from Capital Under Statute	3,229	1,685
Private Sector Housing Loans	83	53
Intangible Assets	268	304
<b>Sources of Finance</b>		
Capital Receipts	(8,350)	(11,712)
Government Grants and Other	(813)	(1,130)
Major Repairs Reserve	(9,335)	(7,597)
Direct Revenue Contributions	(6,218)	(6,439)
<b>Closing Capital Financing Requirement</b>	<b>207,077</b>	<b>193,972</b>

### 31. LEASES

The Council has leases with third parties under operating leases with rental income from the lease being credited to trading operations.

		31 March	
		2018 £000	2017 £000
<b>Assets Leased to Third Parties</b>			
The total of future minimum lease payments due within 1 year are:			
<b>Land and Buildings</b>			
Shops (including shopping park)		4,236	1,869
Industrial and Commercial		1,219	1,243
Other		475	329
<b>Total Rental Receivable</b>		<b>5,930</b>	<b>3,441</b>

The total of future minimum lease payments due within 1 year are:

		31 March 2018		31 March 2017	
		Receipts Due between 2 and 5 Years £000	Total Receipts Due Thereafter £000	Receipts Due between 2 and 5 Years £000	Total Receipts Due Thereafter £000
<b>Land and Buildings</b>					
Shops (including shopping park)		14,499	25,922	5,444	6,958
Industrial and Commercial		4,397	53,572	4,515	51,245
Other		813	23,488	831	4,340
<b>Total</b>		<b>19,709</b>	<b>102,982</b>	<b>10,790</b>	<b>62,543</b>

		31 March	
		2018 £000	2017 £000
<b>Gross Amount of Assets Held for Use in Operating Leases</b>			
<b>Land and Buildings</b>			
Shops (including shopping park)		73,500	31,618
Industrial and Commercial		21,919	22,474
Other		18,374	13,652
<b>Total Assets</b>		<b>113,793</b>	<b>67,744</b>

There are no accumulated depreciation charges on the assets held for use in operating leases.

#### Notional Lease with Biffa

Under IFRIC 4 the Waste Collection contract is deemed to contain a finance lease. The contract contains a capital element related to the provision of specialised vehicles. The Council has to recognise these assets in it's own Balance Sheet together with a liability for a Finance Lease.

		31 March	
		2018 £000	2017 £000
The assets are carried as PPE as the following net amounts:			
Vehicle, Plant, Furniture and Equipment		2,327	2,908
<b>Total</b>		<b>2,327</b>	<b>2,908</b>

The Council is committed to making payments under this lease comprising settlement of the long term liability for the interest in the property acquired by the Council, and the finance costs that are payable.

The minimum lease payments are made up of the following amounts:

	31 March	
	2018 £000	2017 £000
<b>Minimum Lease Payments</b>		
Current	582	582
Non Current	1,745	2,327
Finance Costs Payable in Future Years	232	361
<b>Total Minimum Lease Payments</b>	<b>2,559</b>	<b>3,270</b>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2018		31 March 2017	
	Net Expenditure £000	Net Expenditure £000	Net Expenditure £000	Net Expenditure £000
Not Later than 1 Year	682	711	582	582
Later than 1 Year and not later than 5	1,877	2,559	1,745	2,326
<b>Total</b>	<b>2,559</b>	<b>3,270</b>	<b>2,327</b>	<b>2,908</b>

## 32. PENSIONS

Employees of Epping Forest District Council are admitted to the Essex County Council Pension Fund ("the Fund"), which is administered by Essex County Council under the Regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The Fund is a funded scheme meaning that the authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with investment assets.

As part of the terms and conditions of employment of the Council's officers the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire the Council has a commitment to make the payments that need to be disclosed at the time employees earn their future entitlement.

The figures disclosed below have been derived from a re-assessment of the assets and liabilities as a result of an interim actuarial valuation of the Fund carried out by the Fund's Actuary, Barnett Waddingham Public Sector Consulting, as at 31 March 2018. The approach to calculating the IAS19 figures in between full actuarial valuations is approximate in nature. Broadly the approach by the Actuaries assumes that the experience of the Fund will be in line with the actuarial assumptions used for IAS19 purposes. The approach adopted by the Actuary follows "IAS 19 - Calculation Guide for Local Authorities".

The Council recognises cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against Council Tax is based on contributions payable to the fund in respect of 2017/18 so the real cost of retirement benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure.

The transactions below have been made in the CIES during the year.

<b>Comprehensive Income and Expenditure Statement</b>	<b>31 March</b>	
	<b>2018 £000</b>	<b>2017 £000</b>
Service Cost	6,116	4,167
Net Interest Charged	2,132	2,268
Administration Expenses	55	49
<b>Net Charge made to the CIES</b>	<b>8,303</b>	<b>6,484</b>
<b>Re-Measurements in Other Comprehensive Income</b>		
Return on Fund Assets in Excess of		
Interest	6,320	18,445
Other Actuarial Gains / (Losses)	-	(145)
Changes in Financial Assumptions	3,918	(33,807)
Change in Demographic Assumptions	-	3,871
Experience Gain / (Loss) on Defined	-	(272)
Net Settlements Received	-	8
<b>Re-Measurement of the Net Assets /</b>	<b>10,238</b>	<b>(11,900)</b>
<b>Pension Assets and Liabilities Recognised in the Balance Sheet</b>		
Present Value of the Funded Obligation	219,741	216,448
Present Value of the Unfunded Obligation	3,333	3,554
Fair Value of Scheme Assets	(148,214)	(138,881)
<b>Net Liability in the Balance Sheet</b>	<b>74,860</b>	<b>81,121</b>

#### Reconciliation of the fair value of the Scheme Liabilities

	<b>Unfunded Liabilities</b>		<b>All Funded/Unfunded Liabilities</b>	
	<b>2018 £000</b>	<b>2017 £000</b>	<b>Local Government Scheme</b>	
	<b>2018 £000</b>	<b>2017 £000</b>	<b>2018 £000</b>	<b>2017 £000</b>
Net pensions liability at 1 April	(3,554)	(3,733)	(220,002)	(183,640)
Current Service Cost	-	-	(6,115)	(4,164)
Interest Cost	(92)	(125)	(5,873)	(6,350)
Change in Financial Assumptions	25	(282)	3,918	(33,807)
Change in Demographic Assumptions	-	200	-	3,871
Experience Gain	-	80	-	(272)
Liabilities Assumed / (Extinguished) on Settlements	-	-	-	30
Estimated Benefits Paid	-	-	5,824	5,108
Past Service Cost Including Curtailments	-	-	(1)	(11)
Contributions by Scheme Participants	-	-	(1,113)	(1,073)
Unfunded Pension Payments	288	306	288	306
<b>Net Pension Liability at 31 March</b>	<b>(3,333)</b>	<b>(3,554)</b>	<b>(223,074)</b>	<b>(220,002)</b>

<b>Reconciliation of the fair value of the Scheme Assets</b>	<b>31 March</b>	
	<b>2018 £000</b>	<b>2017 £000</b>
Fair Value of the Plan Assets at 1 April	138,881	116,659
Interest on Assets	3,741	4,082
Return on Assets less Interest	6,320	18,445
Other Actuarial Gains / (Losses)	-	(145)
Administration Expenses	(55)	(49)
Employer Contributions including Unfunded	4,326	4,252
Contributions by Scheme Participants	1,113	1,073
Benefits Paid	(6,112)	(5,414)
Settlement Prices Received / (Paid)	-	(22)
<b>Fair Value of the Plan Assets at 31 March</b>	<b>148,214</b>	<b>138,881</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on assets less interest in the year was £9.1 million (£18.4 million for 2016/17). The major factor in the downward trend in investment returns is due to the volatile nature of assets employed being below the discount factor employed by the Actuaries. The weighted average duration of the defined benefit obligation for scheme members is 17 Years (17 years in 2016/17).

#### Scheme History

	2017/18 £000	2016/17 £000	2015/16 £000	2014/15 £000	2014/15 £000
Present Value of Liabilities	(223,074)	(220,002)	(183,640)	(185,018)	(159,515)
Fair Value of Assets	148,214	138,881	116,659	115,089	101,695
<b>Surplus / (Deficit) in the Scheme</b>	<b>(74,860)</b>	<b>(81,121)</b>	<b>(66,981)</b>	<b>(69,929)</b>	<b>(57,820)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £75 million in the balance sheet has decreased the reported net worth of the Council by 12% (14% 2016/17).

However statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be gradually eliminated by increased contributions over the remaining working life of employees, as assessed by the scheme Actuary.

The total employer contributions expected to be made to the scheme by the Council in the year to 31 March 2019 is £4.1 million. The Service Cost is expected to be £5.9 million for the year to 31 March 2019.

#### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, and inflation rates. The District Council fund liabilities have been assessed by Barnett Waddingham, a firm of actuaries who provide the service for the Essex County Council Pension Fund, being based on the full Actuarial Valuation of the scheme as at 31 March 2017.

#### The principal assumptions used by the actuary have been:

##### Mortality Assumptions

Longevity at 65 for current pensioners in years:

Men	22	22
Women	25	25

Longevity at 65 for future pensioners in years:

Men	24	24
Women	27	27

Rate of inflation RPI	2.35%	3.50%
Rate of inflation CPI	1.35%	2.60%
Rate of increase in salaries	3.85%	4.10%
Rate of increase in pensions	2.35%	2.60%
Rate for discounting scheme liabilities	2.55%	2.70%

The Scheme's assets consist of the following categories, by proportion of the total assets held.

	31 March 2018		31 March 2017	
	£000	%	£000	%
Equities	96,733	65.3	94,860	68
Government Bonds	9,860	6.7	5,254	4
Other Bonds	5,506	3.7	5,644	4
Property	14,059	9.5	13,511	10
Cash / Liquidity	5,097	3.4	4,180	3
Alternative Assets	10,948	7.4	9,262	7
Other Managed Funds	6,011	4.0	6,170	4
<b>Total</b>	<b>148,214</b>	<b>100.0</b>	<b>138,881</b>	<b>100</b>

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries in the 2017 actuarial review of the Pension Fund. The anticipated shortfall in the funding of the scheme has determined the future level of pension contributions which will be due in between triennial valuations.

#### Sensitivity Analysis as at 31 March 2018

	Sensitivity 1	Existing Assumptions	Sensitivity 2
	£000	£000	£000
<b>Adjustment to Discount Rate</b>			
Present Value of Total Obligation	+0.1% 219,307	0.00% 223,074	-0.1% 226,909
Projected Service Cost	5,830	5,957	6,087
<b>Adjustment to Long Term Salary Increase</b>			
Present Value of Total Obligation	+0.1% 223,438	0.00% 223,074	-0.1% 222,711
Projected Service Cost	5,957	5,957	5,957
<b>Adjustment to Pension Increases and Deferred Revaluation</b>			
Present Value of Total Obligation	+0.1% 226,549	0.00% 223,074	-0.1% 219,659
Projected Service Cost	6,087	5,957	5,829
<b>Adjustment to Mortality Age Rating Assumptions</b>			
Present Value of Total Obligation	+1 Year 231,505	None 223,074	-1 Year 214,960
Projected Service Cost	6,147	5,957	5,773

### 33. NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Prudential Code of Capital Finance for Local Authorities (both revised in December 2017).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy (for 2017/18 this was agreed at Full Council on 21 February 2017). The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Investment Guidance for local authorities. This guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose it to a variety of financial risks, 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;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

### Credit Risk

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

### Investments

The risk is minimised through the Annual Investment Strategy, which requires that deposits are made with Debt Management Office, other local authorities, AAA rated money market funds or Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. A limit of £10m is placed on the amount of money that can be invested with a single counterparty excepting UK Central Government which is unlimited. The Council also sets a total group investment limit (£10m) for institutions that are part of the same banking group.

The table below summaries the nominal value of the Council's investment portfolio at 31 March 2018, and confirms that all investments were made in line with the Council's approved rating criteria when investment placed:

The amounts below include the money market fund which is included in cash and cash equivalents.

Balances Invested as at 31 March 2018						
	Credit Rating Criteria Met	Up to 1 Month £000	1 - 3 Months £000	4 - 6 Months £000	7 - 12 Months £000	Greater than 12 Months £000
Banks UK	YES	7,045	3,000	-	-	-
Local Authorities	YES	5,000	-	-	-	-
Money Market	YES	10,000	-	-	-	-
<b>Total</b>	<b>-</b>	<b>22,045</b>	<b>3,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
						<b>25,045</b>

### Debtors

The following analysis summaries the Council's potential maximum exposure to credit risk, based on the experience gathered over the last five financial years on the level of default on trade debtors, adjusted for market conditions.

	31 March		
	Amount £000	Default Risk Judged %	Bad Debt Provision £000
Sundry Debtors	8,365	31.5	2,635
Housing Arrears	859	64.6	555
<b>Net Charge made to the CIES</b>	<b>9,224</b>		<b>3,190</b>

The credit risk in relation to counterparty investments is relatively small as the likelihood of default is also small. With regard to sundry debtors, housing and taxation debtors, a risk arises by virtue of the fact that they represent amounts owed to the Council and there will always be a level of default inherent in such debts. A provision for non payment of debts is provided within the overall debtors figure stated in the accounts.

### Liquidity Risk

The Council has access to borrowing facilities via the Public Works Loan Board, commercial banks, bond issues and other local authorities. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.



The maturity analysis of the nominal value of the Council's debt at 31 March 2018 was as follows:

		31 March 2018 £000	% of Total Debt Portfolio	Cash Flows including Interest £000
<b>Short Term Borrowing</b>	<b>Less than 1 Year</b>	-	0%	5,575
Long Term	Over 1 but not Over 2	-	0%	5,575
	Over 2 but not Over 5	31,800	17%	48,229
	Over 5 but not Over 10	-	0%	26,390
	Over 10 but not Over 15	-	0%	26,390
	Over 15 but not Over 20	30,000	16%	56,390
	Over 20 but not Over 25	123,656	67%	134,334
<b>Long Term Borrowing</b>		<b>185,456</b>	<b>100%</b>	<b>297,308</b>

#### Market Risk

##### Interest Rate Risk

The Council is exposed to risks arising from movements in interest rates. The Treasury Strategy aims to mitigate these risks by setting an upper limit of 25% on external debt that can be subject to variable rates. At 31 March 2018, 83% of the debt portfolio was held in fixed rate instruments and 17% in variable rate instruments.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowing	318
Increase in interest receivable on variable rate investments	(176)
<b>Impact on Surplus or Deficit on the</b>	<b>142</b>
<b>Share of overall impact</b>	<b>142</b>

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 Fair Value disclosure note.

#### Price Risk

The Council does not invest in equity holdings or in financial instruments whose capital value is subject to market fluctuations. It therefore has no exposure to losses arising through price variations.

#### 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.

### 34. CAPITAL COMMITMENTS

The Council has entered into a Design Build Operate & Maintain (DBOM) contract with Places For People to construct and operate a new leisure centre in Waltham Abbey. The facility will offer a 25m 8 lane swimming pool, a learner pool, a steam room/sauna, a community room, café, workout studios and a large gym area.

Practical completion is due on 20th November 2018 and the final cost of construction of the park is expected to be in the order of £10 million which includes all construction works, fittings, plant and equipment and associated capital fees. Expenditure to 31 March 2018 was £4.9 million.



### **35. CONTINGENT LIABILITIES**

A pre-demolition survey by a specialist company who are professional experts in their field, was carried out at the House-building phase 3 site at Stewards Green Road. The survey results indicated that asbestos was not present. However, during site clearance and preparation for the final stages of the roadway and external works it was discovered that in fact there was asbestos present at the site, which was from the demolition arisings. The incident is being investigated by the Health and Safety Executive and given the nature of the breach, it is subject to an unlimited fine. The decontamination clear up costs may also be considerable. Given that the Council had the survey carried out by professional experts and was given assurances that asbestos was not present it is unlikely that any liability will be attached to the Council.

# Housing Revenue Account Income and Expenditure Statement

	Note	2017/18 £000	2016/17 £000
<b>Income</b>			
Dwelling Rents	3	(31,511)	(31,925)
Non Dwelling Rents		(855)	(846)
Charges for Services and Facilities		(1,743)	(1,930)
Leaseholder Contributions		(515)	(13)
Revaluation of Fixed Assets	1	(220)	-
<b>Total Income</b>		<b>(34,844)</b>	<b>(34,714)</b>
<b>Expenditure</b>			
Repairs and Maintenance	4	6,157	5,961
Supervision and Management		8,779	7,937
Revaluation of Fixed Assets		4,693	1,917
Rents, Rates, Taxes and Insurance		490	402
Revenue Expenditure funded from Capital under Statute		515	13
Depreciation and Amortisation	8/9	8,517	15,764
Debt Management		61	67
Revenue Expenditure funded from Capital under Statute		33	75
<b>Total Expenditure</b>		<b>29,245</b>	<b>32,136</b>
<b>Net Cost of Services as Included in the Comprehensive Income and Expenditure</b>		<b>(5,599)</b>	<b>(2,578)</b>
HRA services share of Corporate Expenses		680	675
HRA services share of Other Services		118	32
<b>Net Cost (Income) of HRA Services</b>		<b>(4,801)</b>	<b>(1,871)</b>
HRA Share of the Income and Expenditure included in the Comprehensive Income and Expenditure Statement		(4,801)	(1,871)
Capital Grants and Contributions		(706)	(934)
Gain on Sale of HRA Non-Current Assets		(3,378)	(3,110)
Interest Payable and similar charges		5,510	5,538
Interest and Investment Income		(218)	(244)
Valuation increase Rent to Mortgage		(42)	(170)
Changes in Fair Value of Investment Properties		(10)	-
Pensions Interest / Return on Assets		684	726
<b>(Surplus) / Deficit for the Year on HRA Services</b>		<b>(2,961)</b>	<b>(65)</b>

## Movement on Housing Revenue Account Statement

The Housing Revenue Income and Expenditure Statement shows the Council's actual financial performance for the year in managing its housing stock, measured in terms of the resources consumed and generated over the last twelve months. However,

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than from council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits earned.

The Housing Revenue Account Statement compares the Council's spending against the Income that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for the future.

This reconciliation statement summarises the differences between the outturn in the Housing Revenue Income and Expenditure Statement and the Housing Revenue Account balance.

Note 7 details the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve and Deferred Capital Receipts.

<b>Increase / decrease in the Housing Revenue Account Balance</b>	<b>Note</b>	<b>2017/18 £000</b>	<b>2016/17 £000</b>
(Surplus)/ deficit for the year on the Housing Revenue Account Income and Expenditure Statement		(2,961)	(65)
Adjustments between accounting basis and funding basis under statute (including to or from reserves)	<b>10</b>	4,508	(812)
Transfers to Earmarked Reserves	<b>10</b>	19	226
<b>(Increase) / decrease in the Housing Revenue Account</b>		<b>1,566</b>	<b>(651)</b>
Housing Revenue Account Surplus Brought Forward		(3,853)	(3,202)
<b>Housing Revenue Account Surplus Carried Forward</b>		<b>(2,287)</b>	<b>(3,853)</b>

## 1. HOUSING REVENUE ACCOUNT ASSET VALUATION

The valuation of the Council's housing stock and other HRA assets is as follows:

	Operational Assets						Non Operational Assets	Total
	Land	Dwellings	Garages	Vehicles & Equipment	Other Land & Buildings	Other	Investment Properties	
	£000	£000	£000	£000	£000	£000	£000	
<b>Gross Book Value 01 April 2017</b>	<b>230,730</b>	<b>421,368</b>	<b>4,694</b>	<b>3,239</b>	<b>928</b>	<b>16,189</b>	<b>129</b>	<b>677,277</b>
Additions	-	9,119	-	196	-	11,051	-	<b>20,366</b>
Disposals / impairments	(1,323)	(2,458)	-	(118)	-	(550)	-	<b>(4,449)</b>
Reclassified in year	2,631	5,153	(176)	-	-	(7,830)	-	<b>(222)</b>
Revaluations applied to the CIES	(1,565)	(2,908)	-	-	-	-	10	<b>(4,463)</b>
Revaluation credited to the Revaluation Reserve	6,430	11,776	108	-	12	-	-	<b>18,326</b>
Accumulated depreciation and impairment written off on revaluation	-	(7,832)	(206)	-	(2)	-	-	<b>(8,040)</b>
<b>Gross Book Value 31 March 2018</b>	<b>236,903</b>	<b>434,218</b>	<b>4,420</b>	<b>3,317</b>	<b>938</b>	<b>18,860</b>	<b>139</b>	<b>698,795</b>
Depreciation 01 April 2017	-	-	-	(2,207)	(31)	(783)	-	<b>(3,021)</b>
Reclassified	-	-	8	-	-	(2)	-	<b>6</b>
Depreciation in year	-	(7,878)	(214)	(189)	(14)	(79)	-	<b>(8,374)</b>
Depreciation on disposed assets	-	46	-	113	-	-	-	<b>159</b>
Accumulated depreciation and impairment written off on revaluation	-	7,832	206	-	2	-	-	<b>8,040</b>
<b>Depreciation 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,283)</b>	<b>(43)</b>	<b>(864)</b>	<b>-</b>	<b>(3,190)</b>
<b>Net Book Value 31 March 2018</b>	<b>236,903</b>	<b>434,218</b>	<b>4,420</b>	<b>1,034</b>	<b>895</b>	<b>17,996</b>	<b>139</b>	<b>695,605</b>
<b>Net Book Value 01 April 2017</b>	<b>230,730</b>	<b>421,368</b>	<b>4,694</b>	<b>1,032</b>	<b>897</b>	<b>15,407</b>	<b>129</b>	<b>674,257</b>

The dwelling valuation shown in the balance sheet represents the value of the housing stock to the Council in its existing use as social housing occupied on the basis of secured tenancies. The corresponding value of those dwellings if sold on the open market without tenants, i.e. vacant possession is £1,705,420,000 based on stock figures from 31 March 2018 and values as at 1 April 2017. The difference between the two values represents the economic cost of providing council housing at less than open market rents.

## 2. HOUSING STOCK

The Council was responsible for managing on average 6,382 (6,409 in 2016/17) dwellings during 2017/18. Changes in the stock are summarised below. The figures include 48 units for the homeless at Norway House, North Weald, and 6 wardens' and caretakers' dwellings.

		31 March	
		2018 £000	2017 £000
Stock as at 1 April		6,389	6,428
Less: Sales		(42)	(46)
Stock Transfers / Conversions		-	-
Other Movements		(1)	1
New Properties		28	6
<b>Stock as at 31 March</b>		<b>6,374</b>	<b>6,389</b>
Number of: Houses and Bungalows		3,455	3,441
Flats and Maisonettes		2,909	2,938
Other		10	10
<b>Stock as at 31 March</b>		<b>6,374</b>	<b>6,389</b>

## 3. GROSS DWELLING RENT INCOME

During 2017/18 1.46% (1.12% in 2016/17) of all lettable dwellings were vacant. Average rents were £96.66 per week including affordable rents, a reduction of £0.26 or 0.27% on the previous year. 50.6% (52% in 2016/17) of all Council tenants received some help through rent rebates in 2017/18. Rent arrears decreased to £859,096 (£884,461 in 2016/17), which represents 2.73% (2.76% in 2016/17) of gross dwelling rent income. The provision for bad and doubtful debts on these arrears amounted to £554,853 (£606,397 in 2016/17). Amounts written off during the year totalled £84,015 (£84,940 in 2016/17). Dwelling rents are shown after allowing for voids.

## 4. HOUSING REPAIRS FUND

The Council maintains a Housing Repairs Fund that evens out the annual cost to tenants of a cyclical repairs programme. The movement on the Fund is as follows:

	2017/18		2016/17	
	£000	£000	£000	£000
Balance as at 1 April		(1,236)		(1,010)
Contribution from the HRA	(6,000)		(5,800)	
Other Income	(176)		(387)	
<b>Total Income</b>		<b>(6,176)</b>		<b>(6,187)</b>
Responsive and Void Repaired	4,151		3,856	
Planned Maintenance	1,978		2,079	
Other	28		26	
<b>Total Expenditure</b>		<b>6,157</b>		<b>5,961</b>
<b>Balance as at 31 March</b>		<b>(1,255)</b>		<b>(1,236)</b>

The amount shown on the face of the Housing Revenue Income and Expenditure Statement is the actual net expenditure on repairs and maintenance rather than the contribution to the repairs fund. The difference between the two figures forms part of the adjustments between accounting basis and funding basis under regulations (Note 7 page 36).

## 5. PENSIONS

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against the HRA is based on the contributions payable to the fund in respect of 2017/18; the real cost of retirement benefits is therefore reversed out of the Housing Revenue Account after Net Operating Expenditure.

## 6. HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

The Council received £7,718,080 in respect of HRA capital receipts during 2017/18. This arose as a result of the sale of council houses (£6,846,420), sale of other property (£817,750) a sale of Land (£53,910). Of this the Council had £4,242,650 available for house building projects and £54,600 for the administration of the sales which left £2,843,660 to fund other capital projects and pay the central government pool an amount of £577,170.

## 7. CAPITAL EXPENDITURE

The HRA incurred the following capital expenditure:

	£000		£000
Council Dwellings	8,530	Revenue	6,165
House Building and Developments	10,890	Major Repairs Reserve	9,335
Disabled Adaptations	594	Capital Receipts	4,243
Plant, Vehicles and Equipment	264	Other Contributions	706
Environmental Works	171		
<b>Total</b>	<b>20,449</b>		<b>20,449</b>

## 8. MAJOR REPAIRS RESERVE

The Council is required to maintain a Major Repairs Reserve. This was originally funded from the Government via Housing Subsidy but is now funded from the HRA directly. The Housing Revenue Account is charged with the depreciation for the year the opposite entry of which is a credit to the Major Repairs Reserve. This income can then be used to fund repairs of a capital nature. For a transitional period of five years the Council was allowed to transfer back to the HRA a notional sum calculated by the Government in lieu of the Major Repairs Allowance received, however this was discontinued from 1 April 2017. The movement on the reserve is as follows:

	2017/18		2016/17	
	£000	£000	£000	£000
Balance as at 1 April		(12,704)		(12,291)
Depreciation Transferred from the HRA	(8,324)		(15,748)	
Used to Fund Capital Expenditure on Council Dwellings	9,335		7,597	
Transferred to the HRA	-		7,738	
<b>Total Expenditure</b>		<b>1,011</b>		<b>(413)</b>
<b>Balance as at 31 March</b>		<b>(11,693)</b>		<b>(12,704)</b>

## 9. DEPRECIATION AND IMPAIRMENTS

Depreciation is charged on Housing Revenue Account assets in accordance with IAS 16. Depreciation is charged with reference to balance sheet values and the average life remaining on the housing stock and its major components. No depreciation is chargeable on the HRA investment assets. The difference between the figure shown on the face of the HRA and Note 8 above relates to £193,000 amortisation of intangible assets, other non dwellings depreciation, revenue expenditure funded from capital and impairments.

## 10. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON HRA BALANCE

	2017/2018 £000	2016/2017 £000
<b>Amounts to be Excluded</b>		
Transfer from Major Repairs Reserve and Other Depreciation Reversals and Impairments	(194)	(7,776)
Upward Revaluation of Council Dwellings and Garages	(4,346)	(1,908)
Movements in the fair value of investment	10	-
Leaseholder contributions	(515)	(13)
Revenue Expenditure Funded from Capital Under Statute	(5)	-
Reversal of notional lease payment	23	23
Valuation changes rents to mortgages	42	170
Gain / (loss) on disposal of HRA Fixed Assets	3,366	3,100
Flexi / leave accruals	7	(5)
HRA share of contributions to / (from) Pensions Reserve	(2,656)	(2,240)
<b>Total of Amounts to be Excluded</b>	<b>(4,268)</b>	<b>(8,649)</b>
<b>Amounts to be Included</b>		
Leaseholder contributions	515	13
Employers contributions payable to the Pension Fund	1,384	1,523
Capital expenditure funded by the HRA	6,171	5,367
Capital contributions applied	706	934
<b>Total of Amounts to be Included</b>	<b>8,776</b>	<b>7,837</b>
<b>Net increase / (decrease) before transfers to / from Reserve</b>	<b>4,508</b>	<b>(812)</b>
<b>Transfers to /from Earmarked Reserves</b>		
Housing Repairs Fund	19	226
<b>Total Transfers To Earmarked Reserves</b>	<b>19</b>	<b>226</b>
<b>Total</b>	<b>4,527</b>	<b>(586)</b>

## **11. TRANSFER TO SELF FINANCING RESERVE**

A Self Financing Reserve was set up with the purpose of receiving a transfer of £3.18m per annum to accumulate enough funds to repay the £31.8m variable loan. Whilst this is the stated purpose of the fund the decision does not preclude the use of these funds for another HRA purpose. The balance on the Reserve as at 1 April 2017 was £12.72m, however it was agreed that in 2017/18 the contribution would be suspended leaving the year end balance unchanged.



# The Collection Fund

	Note	2017/18			2016/17		
		Council Tax	Non Domestic Rates	Collection Fund Total	Council Tax	Non Domestic Rates	Collection Fund Total
		£000	£000	£000	£000	£000	£000
<b>Income</b>							
Council Tax	1	(86,338)	-	(86,338)	(83,186)	-	(83,186)
Non Domestic Rates	2	-	(36,122)	(36,122)	-	(36,509)	(36,509)
<b>Total Income</b>		<b>(86,338)</b>	<b>(36,122)</b>	<b>(122,460)</b>	<b>(83,186)</b>	<b>(36,509)</b>	<b>(119,695)</b>
<b>Expenditure</b>							
<b>Precepts and Demands</b>							
Essex County Council		61,711	3,124	64,835	59,058	3,210	62,268
Essex Police		8,328	-	8,328	7,948	-	7,948
Essex Fire Authority		3,660	347	4,007	3,537	357	3,894
Epping Forest District Council		11,250	13,885	25,135	11,048	14,294	25,342
<b>Distribution of Estimated Collection Fund Surplus / (Deficit)</b>	3						
Essex County Council		1,122	(45)	1,077	1,420	(122)	1,298
Essex Police		151	-	151	192	-	192
Essex Fire Authority		67	(5)	62	87	(14)	73
Epping Forest District Council		210	(200)	10	275	(544)	(269)
<b>Non Domestic Rate</b>							
Payment to Central Government		-	17,356	17,356	-	17,868	17,868
Repayment of Deficit		-	(250)	(250)	-	(680)	(680)
Transitional Protection		-	(884)	(884)	-	45	45
Cost of Collection Allowance		-	173	173	-	172	172
Provision for Appeals		-	1,179	1,179	-	262	262
Provision for Non Payment		92	90	182	(25)	(62)	(87)
Write Offs		292	237	529	413	290	703
<b>Total Expenditure</b>		<b>86,883</b>	<b>35,007</b>	<b>121,890</b>	<b>83,953</b>	<b>35,082</b>	<b>119,035</b>
<b>Deficit / (Surplus) for the Year</b>		<b>545</b>	<b>(1,115)</b>	<b>(570)</b>	<b>767</b>	<b>(1,427)</b>	<b>(660)</b>
<b>Balance Brought Forward</b>		<b>(1,449)</b>	<b>87</b>	<b>(1,362)</b>	<b>(2,216)</b>	<b>1,514</b>	<b>(702)</b>
<b>Balance Carried Forward</b>		<b>(904)</b>	<b>(1,028)</b>	<b>(1,932)</b>	<b>(1,449)</b>	<b>87</b>	<b>(1,362)</b>

## 1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands, estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Essex County Council, Essex Police, Essex Fire Authority and this Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted discounts: 53,029 for 2017/18, (52,258 for 2016/17). The basic amount of Council Tax for a Band D property £1,538.55 for 2017/18, (£1,498.68 for 2016/17) is multiplied by the proportion specified for the particular band to give an individual amount due.

	Chargeable Dwellings	Chargeable Dwellings after Discount, Exemptions and Disabled Relief	Ratio to Band D	B and D Equivalents
Band A Disabled	2	2	5/9	1
Band A	1,690	1,455	2/3	971
Band B	4,903	4,093	7/9	3,183
Band C	11,365	10,224	8/9	9,088
Band D	13,696	12,720	1	12,720
Band E	9,574	8,991	1 2/9	10,989
Band F	6,748	6,420	1 4/9	9,273
Band G	5,804	5,599	1 2/3	9,332
Band H	1,128	1,087	2	2,174
<b>Total B and D</b>				<b>57,731</b>
Less B and D equivalents entitled to Council Tax Support				3,895
<b>Total B and D Equivalents</b>				<b>53,836</b>
Less Adjustment for Collection Rate				807
<b>Council Tax Base</b>				<b>53,029</b>

Income of £86,338,451 for 2017/18 (£83,118,116 for 2016/17) was receivable from council tax payers. An amount of £8,712 (£22,995 in 2016/17) was clawed back from Council Tax payers and passed to the General Fund.

## 2. NON DOMESTIC RATES

Non Domestic Rates are organised on a national basis. The Government specifies an amount, 46.6p (small business) and 47.9p (others) in 2017/18, (48.4p (small business) 49.7p (others) in 2016/17) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

From 1 April 2013 Business Rates Retention was introduced whereby Local Authorities retain 50% of the Business Rates collected and pay the remainder over to Central government. The amount retained is shared between the Council (40%), Essex County Council (9%) and Essex Fire Authority (1%). In addition, the Government has set a level of Business Rates Funding deemed to be applicable to each area and every Council either receives a top up (where business rates are below this deemed level of funding) or pays a tariff (if business rates collected are above this deemed level of funding). In 2017/18 this Council paid a tariff of £10,161,022 (£10,314,922 in 2016/17).

If the Council increases its business rates base and therefore income it is allowed to retain a proportion of this increased income whilst paying up to 50% to Central Government. This payment is known as a levy payment.

If a reduction of business rates income of more than 7.5% of its funding baseline has occurred then the government will make up any difference between this and the actual loss in the form of a safety net payment.

The Council is part of the Essex Business Rates Pool. A pool is set up in order to minimise the potential levy on business rate growth that an individual authority might need to pay Central Government. A number of Authorities that are paying a tariff to the Government join a pool with an authority receiving a top up. In the case of the Essex Pool the County Council are receiving a top up and the districts are paying a tariff and by pooling their business rates can significantly reduce their levy rates from the 50% they would face if on their own.

The total non-domestic rateable value at the year-end was £95,882,746 (£86,591,046 in 2016/17).

### **3. CONTRIBUTIONS TO COLLECTION FUND SURPLUSES AND DEFICITS**

The surplus or deficit on the Collection Fund arising from council tax and business rates transactions relates to this Council, other Major Precepting Authorities and Central Government. The surplus or deficit on the fund is estimated as at 15 January every year and paid over or recovered from the Council's General fund and major precepting authorities in the following financial year. The balance on the Fund represents the difference between the estimated surplus or deficit and the actual position.

# Annual Governance Statement

## 1. Scope of Responsibility

Epping Forest District Council (EFDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, 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, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Governance (last updated February 2018), which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and forms part of the Council's Constitution. A copy of the Code is on our website at [www.eppingforestdc.gov.uk](http://www.eppingforestdc.gov.uk). The code is aligned to the 2016 edition of the CIPFA/SOLACE framework.

This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 6(1) of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement (AGS).

## 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values for the direction and control of the Council 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, cost effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks 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 on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. It is also responsible for evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016).

The Council's Code of Governance recognises that effective governance is achieved through the following seven CIPFA/SOLACE principles.

- (i) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- (ii) Ensuring openness and comprehensive stakeholder engagement.
- (iii) Defining outcomes in terms of sustainable economic, social and environmental benefits.

- (iv) Determining the interventions necessary to optimise the achievement of intended outcomes.
- (v) Developing the Council's capacity, including the capability of its leadership and the individuals within it.
- (vi) Managing risks and performance through robust internal control and strong public financial management.
- (vii) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

At their February 2017 meeting the Audit and Governance Committee agreed a new Local Code of Corporate Governance, which was updated to reflect the latest CIPFA/SOLACE guidance. The Committee reviewed the code in February 2018 and agreed no changes were required. It is important the Council can demonstrate that its AGS is aligned with its Local Code and this is set out in Appendix 1.

The table on the following page summarises the Council's Governance Framework (which includes the system of internal control) for the year ending 31 March 2018 and up to the date of approval of this Statement and the Statement of Accounts.

<b>No:</b>	<b>The Governance Framework</b>
	The key elements of the Council's governance arrangements for 2017/18 were:
1	A Corporate Plan covering 2015-2020, setting out the Council's priorities and defining the goals to be achieved.
2	The Constitution, which is revised each year:
2.1	Sets out the Council's decision-making framework.
2.2	Gives a clear definition of the roles and responsibilities of Members, Committees, and the statutory officers (Head of the Paid Service, Section 151 Officer and Monitoring Officer);
2.3	Includes a scheme of delegation of responsibility, financial regulations and procurement rules; and
2.4	Defines codes of conduct for Members and officers, and a protocol for how the two work together.
3	The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios. The Council's Local Code of Governance was reviewed during 2017/18.
4	There are four Select Committees to cover the key policy areas of all four directorates, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee.
5	A Standards Committee.
6	An Audit and Governance Committee.
7	A Management Board (MB) consisting of the Chief Executive, Deputy Chief Executive and Directors. At the end of 2017/18 and, pending the introduction of a new senior management structure, MB currently comprises the Acting Chief Executive and the Acting Deputy Head of Paid Service, supported by the Council's Monitoring Officer and Section 151 Officer.
8	A Corporate Governance Group consisting of the Chief Executive, Directors, Section 151 Officer, Monitoring Officer and the Chief Internal Auditor, meeting monthly.
9	A Corporate Risk Strategy managed by a Risk Management Group meeting quarterly.
10	A standard committee report format that includes specific consideration of all legal, financial, professional, technical risk management and equalities implications.
11	A Medium Term Financial Strategy which informs service planning and budget setting and the provision of an annual Financial Issues Paper to the Finance and Performance Management Cabinet Committee.
12	A comments, compliments and complaints procedure.
13	A risk-based approach to internal audit, emphasising the need for sound control and good value.
14	A robust whistle-blowing policy and process (which was reviewed and adopted by Council in December 2017) along with anti-fraud and corruption strategy (which was reviewed and approved by Council in July 2017) outlining the Council's zero tolerance approach to fraud and corruption and include anti bribery and anti-money laundering policies.

### 3. Review of effectiveness

The Council is responsible 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 various sources noted below and concludes that the arrangements continue to be regarded as fit for purpose in accordance with the Council's governance framework

- Director governance statements, which provide appropriate management assurance that the key elements of the system of internal control are operating effectively. These were completed by the Acting Chief Executive and the Director of Communities in conjunction with their Assistant Directors.
- Documentary evidence of processes, procedures and standards:
- A Corporate Fraud Team, which supports the Council's counter fraud and corruption framework in taking action to prevent, detect and investigate fraud.
- The Chief Internal Auditor's annual opinion on the Council's control environment, delivered to the Audit and Governance Committee, as the body charged with governance. Audit reports issued along with the assurance ratings of, substantial, moderate, limited or no assurance, on the adequacy and effectiveness of the Council's control environment, including key financial systems;
- The work undertaken by the External Auditor reported in their annual audit and inspection letter and other review reports;
- Significant governance issues from previous years and from 2017/18.

### 4. Overall opinion of Epping Forest's governance arrangements

This AGS demonstrates that the Council has sound governance arrangements in place which continue to work well in practice for the 2017/18 financial year. However, the Council is not complacent and areas for improvement or development are detailed in section five

### 5. Significant governance issues

This final part of the AGS outlines the actions taken, or proposed, to deal with significant governance issues or risks. The Council's Corporate Governance Group, who monitor and review the corporate governance framework, has ensured that the issues raised in the previous AGS have been addressed as detailed in Table one.

**Table One: Progress on significant governance issues identified in the 2017/18 AGS**

No:	Significant Issues Identified in 2017/18 AGS	Action taken in 2017/18 to address the issue
1	<p><b>General Data Protection Rules (GDPR)</b></p> <p>It is imperative that businesses and public bodies are prepared for the GDPR which will apply in the UK from 25 May 2018. The government has confirmed that the UK's decision to leave the EU will not affect the commencement of GDPR.</p> <p>Work is already in hand to ensure Epping Forest is compliant with the requirements of the GDPR ahead of May 2018 and beyond.</p>	<p>This project is being overseen by the Council's GDPR Working Group and a range of activities identified in the project plan are being delivered including:</p> <ul style="list-style-type: none"> <li>• training sessions for staff and councillors have been delivered, with mandatory e-learning for all staff being rolled out beginning 2018/19</li> <li>• an information asset register has been compiled so that all relevant processing activities have been identified and the legal basis for these</li> <li>• data protection policies, document retention schedules and other associated procedures have been reviewed and updated</li> <li>• The Privacy Notice on the Council's website has been updated and departments are reviewing and updating their own specific ones where required.</li> </ul>
2	<p><b>Corporate Policies</b></p> <p>For the second year, Service Assurance Statements identified a need to raise awareness of, and communicate changes to, corporate policies in particular Officer Code of Conduct, data protection policies, anti-fraud and Whistleblowing.</p> <p>A staff awareness campaign will be devised and implemented to address this and will include use of met compliance to ensure staff have read relevant policies, articles in the monthly staff newsletter District Lines, and reminders at staff briefings.</p>	<p>Data protection policies have been updated as part of the GDPR project described above, and has included the use of met compliance to ensure key ones have been read.</p> <p>The Council's anti-fraud and corruption policy and whistleblowing policy have been updated and accessible on the Council's website and publicised in the staff newsletter.</p> <p>The Corporate Governance Group continues to monitor the need to review/update other related corporate policies.</p>

In preparing this statement and reviewing the effectiveness of the Council's governance arrangements, the following areas have been identified for improvement or require careful monitoring. These are set out in the table below, together with the steps to be taken to address them.



**Table Two: Areas for improvement or monitoring during 2018/19**

<b>No:</b>	<b>Objective</b>	<b>Risk area/action plan for 2018/19</b>
1	<b>General Data protection Regulations (GDPR)</b>	On 25 May 2018, the EU General Data Protection Regulations came into force. It is important the Council not only maintains compliance but ensures there is a continuous process for improvement too. This will be delivered through the GDPR Working Group.
2	<b>Transformation</b>	<p>The Council is embarking on an ambitious transformation programme which involves the delivery of new staff, ICT and accommodation strategies and implementation of new processes, structures and technology.</p> <p>This is being delivered through the Transformation Board and overseen by the Council.</p>
<b>Common themes from the Service Assurance Statements were:</b>		
3	<b>Business Continuity Plan (BCP) Testing</b>	Building on the desk top exercise undertaken 18 months ago, testing regimes to be introduced to verify the effectiveness of business continuity plans, provide training to participants on what to do in a real scenario and identify where the plan needs to be strengthened.
4	<b>Emergency Cover for Staff and Succession Plan</b>	The Council's transformation programme will consider resourcing requirements and service delivery models to ensure an effective and efficient delivery of key Council services in the longer term.

We propose over the coming year to continue to improve matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for any improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**DEREK MACNAB**  
**ACTING CHIEF EXECUTIVE**

**COUNCILLOR CHRIS WHITBREAD**  
**LEADER OF THE COUNCIL**

For the purposes of this Statement of Accounts, the following definitions have been adopted:

## **ACCRUALS**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **BALANCE SHEET**

This statement sets out an authority's financial position at the year-end. It shows the balances and reserves at an authority's disposal and its long-term indebtedness and the fixed and net current assets employed in its operations together with summarised information on the fixed assets held.

## **CAPITAL EXPENDITURE**

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

## **CAPITAL ADJUSTMENT ACCOUNT**

This account records the accumulated amount of set aside receipts and minimum revenue provision together with capital expenditure financed by way of capital receipts and revenue contributions. Set against these amounts are adjustments to the revenue account for depreciation and capital expenditure written off to revenue during the year. This, therefore, ensures that only actual expenses are charged to revenue in year.

## **CAPITAL FINANCING REQUIREMENT**

This measures the change in and the underlying need for the council to borrow to finance Capital expenditure. Where all capital expenditure is financed by resources generated by the council the Capital Financing Requirement will remain unchanged.

## **CASH FLOW STATEMENT**

This statement summarises the cash flows of the authority for capital and revenue spending as well as the cash flows used to finance these activities.

## **COLLECTION FUND**

This account reflects the statutory requirement for billing authorities to maintain a separate collection fund which shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates the way in which these have been distributed to other authorities (preceptors) and the general fund.

## **COMMUNITY ASSETS**

Assets that the local authority 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 historic buildings.

## **CONSISTENCY**

The accounting treatment of like items within an accounting period and from one period to the next is the same.

## **CONTINGENCY**

A condition that exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## **CONTINGENT LIABILITIES**

A contingent liability is either:

(i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the authority's control; or

(ii) a current obligation arising from past events where it is not probable (but not impossible) that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

It is considered that a contingent liability below £50,000 need not be disclosed, as any such amounts would not be significant.

## **CONTINGENT GAINS**

A contingent gain (or asset) is a possible economic gain arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control.

## **INTANGIBLE ASSETS**

Expenditure which may properly be defined as being capital expenditure, but which does not result in a physical asset being created. For expenditure to be recognised as an intangible asset it must yield future economic benefits to the council.

## **REVENUE EXPENDITURE CHARGED TO CAPITAL UNDER STATUTE**

Expenditure of a capital nature that does not result in a fixed asset being created. An example of such an item would be expenditure on a former HRA property held on a long lease by a third party. The expenditure is written off in the year that it is incurred.

## **DEPRECIATION**

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset whether arising from use, passage of time or obsolescence through technological or other changes. The useful life is the period over which the local authority will derive benefit from the use of a fixed asset.

## **FAIR VALUE**

The fair value of an asset is the price at which it could be exchanged in an arms length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.

## **FINANCE LEASE**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## **PROPERTY, PLANT AND EQUIPMENT**

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

## **GENERAL FUND**

This statement records the information of all the authority's activities, excluding those in relation to the Housing Revenue Account and Local Council precepts.

## **GOING CONCERN**

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

## **GOVERNMENT GRANTS**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

## **HOUSING REVENUE ACCOUNT**

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for local authority housing provision, as defined in particular in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of housing revenue expenditure such as maintenance, administration, rent rebates and capital financing costs, and how these are met by rents subsidy and other income.

## **IMPAIRMENT**

An impairment occurs when a fixed asset suffers a loss in value either due to a fall in market values generally, or as a result of use of the asset other than normal wear and tear.

## **INVESTMENTS**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. 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 that do not meet the above criteria should be classified as current assets.

## **INVESTMENT PROPERTIES**

An interest in land and / or buildings:

- (i) in respect of which construction work and development have been completed; and
- (ii) which is held for its investment potential, any rental income being negotiated at arms length.

## **MINIMUM REVENUE PROVISION (MRP)**

Local authorities are required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculation is defined by statute and does not relate to actual external debt outstanding. Statute requires MRP of 2% of the housing credit ceiling and 4% of the non-housing credit ceiling, offset by an adjustment for debts commuted in relation to old improvement grants.

## **NET BOOK VALUE**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

## **NET CURRENT REPLACEMENT COST**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

## **NET REALISABLE VALUE**

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

## **NON-OPERATIONAL ASSETS**

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets that are surplus to requirements pending sale or redevelopment and assets under development or construction.

## **OPERATING LEASES**

Leases other than a finance lease.

## **OPERATIONAL ASSETS**

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility. Operational assets comprise Council dwellings, other land and buildings, vehicles plant and equipment, infrastructure and community assets.

## **POST BALANCE SHEET EVENTS**

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

## **PRIOR YEAR ADJUSTMENTS**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **PROVISIONS**

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are required to be recognised when:

- (i) the local authority has a present obligation (legal or constructive) as a result of a past event;
- (ii) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision should be recognised.

A constructive obligation is an obligation that derives from an authority's actions where;

- (i) by an established pattern of past practice, published policies or sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities; and
- (ii) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## **PRUDENCE**

The concept that revenue is not anticipated until received in the form either of cash or of other assets, or a reliable estimate of the cash realisation can be assessed with reasonable certainty.

## **RELATED PARTY TRANSACTION**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- (i) the purchase, sale, lease, rental or hire of assets between related parties;
- (ii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- (iii) the provision of services to a related party, including the provision of pension fund administration services;
- (iv) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance

## **REVALUATION RESERVE**

This account was created on 31 March 2007. The purpose of which is to hold all revaluations occurring to fixed assets subsequent to that date.

## **STOCKS**

Comprise the following categories:

- (i) Goods or other assets purchased for resale;
- (ii) consumable stores;
- (iii) raw materials and components purchased for incorporation into products for sale;
- (iv) products and services in intermediate stages of completion;
- (v) long-term contract balances; and
- (vi) finished goods.

## **UNAPPORTIONABLE CENTRAL OVERHEADS**

These are overheads for which no user now benefits and should not be apportioned to services.

## **ACTUARIAL GAINS AND LOSSES**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (i) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or
- (ii) the actuarial assumptions have changed

## **CURRENT SERVICE COST**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

## **CURTAILMENT**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (i) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and
- (ii) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

## **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.

## **DISCRETIONARY BENEFITS**

Retirement benefits that the employer has no legal, contractual or constructive obligations to award and which are awarded under the authority's discretionary powers, such as the Local Government (Discretionary Payments) regulations 1996.

## **EXPECTED RATE OF RETURN ON PENSION 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.



## **IAS19**

International Accounting Standard 19 (IAS19) ensures that organisations account for employee retirement benefits when they are committed to pay them, even if the actual payment may be years into the future.

### **INTEREST COST (PENSIONS)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **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 authority. 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, which do not meet the above criteria should be classified as current assets.

### **INVESTMENTS (PENSIONS FUND)**

The investments of the Pensions Fund will be accounted for in the statements of the fund. However authorities (other than town and community councils) are also required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

### **PAST SERVICE COST**

For a defined benefit scheme, 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.

### **PROJECTED UNIT METHOD**

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(i) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and

(ii) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

## **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 redundancy in exchange for those benefits,

because these are not given in exchange for services rendered by employees.

## **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.

## **SETTLEMENT**

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(i) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits

(ii) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and

(iii) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

## **VESTED RIGHTS**

In relation to a defined benefit scheme, these are:

(i) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;

(ii) for deferred pensioners, their preserved benefits, and

(iii) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependents.

# EPHING FOREST DISTRICT COUNCIL

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

25 July 2018

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# WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Governance Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Governance Committee. At the completion stage of the audit it is essential that we engage with the Audit and Governance Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Governance Committee meeting on 30 July 2018, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters, which came to our attention during the conduct of our normal audit procedures, which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Governance Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

# OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Governance Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

## AUDIT SCOPE AND OBJECTIVES

Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section on page 6.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 19 January 2018.
Materiality	Our final materiality is £2,000,000. Our materiality levels have not required reassessment since our audit planning referred to above.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

## KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	<p>Our audit identified the following material misstatements:</p> <ul style="list-style-type: none"> <li>Upon transfer of the Langston Road Retail Park from Assets Under Construction to Investment Properties, the Revaluation Reserve balance was not removed via the Capital Adjustment Account. The revaluation reserve was therefore overstated by £6.503 million and this has been adjusted in the revised financial statements.</li> <li>The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission has not yet been granted on the site and therefore the site should have been classified as a surplus asset within non-current assets. Surplus assets were consequently understated by £6.139m and this has been adjusted in the revised financial statements.</li> <li>The Essex Pension Fund actuary reissued its IAS19 actuarial valuation report in June following publication of the Council's draft financial statements as there had been a significant movement in the estimate used in the actuarial calculation and the actual fund value at the year end of £111 million. The impact for the Council is that the pension scheme liability has increased by £2.859 million to £74.860 million and this has been adjusted in the revised financial statements.</li> </ul>
Unadjusted audit differences	There are no unadjusted audit differences identified from our work to date.

# OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS CONTINUED	
Control environment	Our audit identified no significant deficiencies in internal controls.
Other financial reporting issues	Following the receipt of the draft accounts, the Pension Actuary has issued an updated IAS19 report and our work on this is in progress. A number of presentational changes have been made to the draft financial statements as a result of the audit.
KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Financial Sustainability	Management reported at the end of the year a General Fund balance of £6.7 million. This is an improved position compared to the opening balance of £0.5 million predominantly due to a change in accounting treatment. Management are planning for reserves to be 37% of the Council’s net funding requirement by 2021/22 with the minimum requirement being set by Members at 25%.  The Council has healthy levels of reserves when compared to the minimum requirement and a strong asset base. We have assessed the impact of the Transformation Programme and the commercial strategy the Council has adopted on its finances and we are satisfied that appropriate plans are in place to continue to deliver these strategies.

# OVERVIEW

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.



# OUTSTANDING MATTERS

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Governance Committee meeting at which this report is considered:

Our work is currently on going in the following areas:

- 1
- Valuation of council dwellings, investment properties and other land and buildings,
  - Review of the updated pension disclosures; and
  - Financial instruments.

The key items on the queries tracker currently with management are:

- 2
- Financial instruments working papers
  - Property, plant and equipment valuation source data

3

Completion of Manager, Director and Quality Control review, and clearance of review points

4

Final review and approval by you of the Statement of Accounts

5

Technical clearance

6

Subsequent events review

7

Management letter of representation, as attached in Appendix VI to be approved and signed

## KEY AUDIT AND ACCOUNTING MATTERS

### AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under ISA (UK) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</p> <p>We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud</p> <p>We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</p>	<p>We have used data analytics software, BDO Advantage, to review the Council's general ledger, in order to focus our testing of journals on higher risk areas.</p> <p>Our detailed testing of a sample of journals is substantially complete and work to date has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.</p> <p>We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2 Revenue Recognition	<p>Under ISA (UK) 240 there is a presumption that income recognition presents a fraud risk.</p> <p>We consider that the presumed risk of fraudulent revenue recognition can be rebutted for income received in respect of taxation and non-specific government grants. These items are determined either at the beginning of the year as part of the Authority's budget setting process or by central government. This reduces the opportunity for manipulation.</p> <p>For the remaining revenue streams, specifically fees and charges, we consider that the risk of fraudulent revenue recognition remains in respect of accuracy, existence and completeness.</p>	<p>We carried out audit procedures to update our understanding of the authority's internal control environment for the significant income streams, including how this operates and ensure that income is recognised.</p> <p>We carried audit procedures to gain an understanding of the authority's internal control environment for new income streams, in particular the Shopping Park, including income recognition policies based upon the arrangements and agreements in place.</p> <p>We substantively tested an increased sample of income streams from source document to the general ledger and testing income to supporting documentation.</p>	<p>We have no matters to report.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3 Property, plant and equipment valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The fair value for land and buildings, including Epping Forest Shopping Park, in PPE and Investment Properties is a management estimate based on market values or depreciated replacement cost (DRC). Management use external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The council also use an external valuer for investment properties as well as using internal valuers.</p> <p>There is a risk over the accuracy of the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p>	<p>We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on management's expert.</p> <p>We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage.</p> <p>We confirmed that an instant build modern equivalent asset basis has been used for assets valued at DRC.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p> <p>We gained reasonable assurance that the carrying values of PPE and Investment Properties that were not revalued in the year are not materially different to the fair value at the balance sheet date.</p>	<p>Our work is currently ongoing and a verbal update will be provided to the Committee.</p> <p>We have to date gained sufficient assurance over the independence, objectivity and competence of the Council's external valuers, and therefore, can rely upon their work in valuing the Council's property assets.</p> <p>In relation to the sample of PPE assets and investment properties reviewed, we are satisfied that the basis of the valuation for each asset is appropriate. We have challenged the valuer in respect of a number of property valuation movements, which appeared unusual in comparison to general indices.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES	
Land, buildings, dwellings and investment property valuations	
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT
Land and buildings are valued by reference to existing use market values	<b>Council Dwellings and Garages</b> The Council’s housing stock and garages have increased in value by an average of 3.3%, giving a total revaluation gain of £13.8 million after accounting for stock movements. We have compared this to a Gerald Eve house price index for the Eastern region, which shows increases of approximately 5.8% over the same period and land registry data shows prices within prices in Epping Forest have increased by 2.1%. We have challenged the valuer on anything outside the range but are currently waiting for responses. We will provide a verbal update to the Audit and Governance Committee.
Dwellings are valued by reference to open market value less a social housing discount	<b>Investment Properties</b> Investment properties have increased in value overall by £11.3 million in year. This increase relates to the Langston Road Retail Park (£7.2 million) and the former Landmark Building (£3.4 million). Our review of the investment property valuations and challenge of the assumptions used is ongoing.
Investment properties are valued by reference to highest and best use market value	<b>Other Land and Buildings</b> Other land and buildings have been revalued up by £1.1 million. MCSI regional capital growth indices (for buildings) show regional increases of -0.7% for retail, -0.8% for office, and +7.4% for industrial, for the period Q1 2017 to Q1 2018. We have tested a sample of properties, and are challenging the valuer where individual movements appear unusual. This work is also on-going at the time of drafting this report and a verbal update will be provided to the Committee.
Some specialist buildings are valued at depreciated replacement cost by reference to building indices	

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4 <b>Pension liability assumptions</b>	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We have agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We have contacted the administering authority and requested confirmation of the controls in place for providing accurate membership data to the actuary.</p> <p>We have reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>Subsequent to the Council issuing the draft accounts, the Essex Pension Fund actuary re-issued its IAS19 actuarial valuation report as there had been a significant movement in the estimate and actual fund value in the draft accounts of the Essex Pension Fund of £111 million. This had the consequential impact of increasing the Council's pension scheme liability in the draft financial statements by £2.859 million to £74.860 million.</p> <p>Our review of the work performed by the auditor of the administering body is in progress.</p> <p>We consider that the assumptions and methodology used by the Council's actuary within the report are appropriate, and will result in an estimate of the net pension liability that falls within a reasonable range, subject to us gaining suitable assurance over the accuracy of the membership data used.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on page 12.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES				
Pension liability assumptions				
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value to future pension liability:			
		Actual used	Actuary range	PwC assessment of actuary range to market expectations
	RPI increase	3.35%	3.3-3.35%	Top of expected range
	CPI increase	2.35%	2.3-2.35%	Top of expected range (derived from RPI above)
	Salary increase	3.85%	--	Top of expected range (derived from RPI above)
	Pension increase	2.35%	2.3-2.35%	Top of expected range (derived from RPI above)
	Discount rate	2.55%	2.5-2.6%	Reasonable; sits within expected range
	Mortality - LGPS:			
	- Male current	24.4 years	23.7-26.8	Reasonable
	- Female current	27.0 years	26.6-28.4	Reasonable
	- Male retired	22.2 years	21.5-24.5	Reasonable
	- Female retired	24.7 years	23.7-26.8	Reasonable
	Commutation	50%	50%	Reasonable
The assumptions used fall within the reasonable range for the actuary.				

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Consideration of Related Party Transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	We documented the related party transactions identification procedures in place and reviewed relevant information concerning any identified transactions. We discussed with management and reviewed councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. .	We have not identified any significant matters in connection with related parties.



# KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES		
We comment below on other issues identified in the course of our audit, of which we believe you should be aware:		
AUDIT AREA	AUDIT FINDINGS	
1	Revaluation Reserve	<p>In the prior year, the Langston Road Retail Park was classified within PPE as an Asset Under Construction and the land on which the Retail Park stands was revalued. In the current year, the Retail Park was completed and the asset was transferred to Investment Properties. The incorrect accounting treatment was applied upon transfer and the revaluation reserve amount of £6.503 million was not removed via the Capital Adjustment Account. Consequently, the revaluation reserve was therefore overstated by £6.503 million in the draft accounts.</p> <p>Management has amended this in this in statement of accounts.</p>
2	Asset Held for Sale	<p>In the draft financial statements, the St John’s Road site was classified as an asset held for sale within current assets valued at £6.139 million. Planning permission has not yet been granted on the site and so the site cannot be classified as held for sale until this has happened. Surplus assets were therefore understated by £6.139m in the draft accounts.</p> <p>Management have amended this in this in statement of accounts.</p>
3	Service Accommodation Review	<p>The cost of the service accommodation review of £109k was capitalised, however, it does not meet the criteria of capital expenditure. Revenue expenditure was consequently understated by £109k.</p> <p>Management have amended this in this in statement of accounts.</p>
4	Faster close	<p>The Council provided a set of draft financial statements within the new statutory timeframe. There have been a number of minor amendments made to the financial statements, both by officers, and by us during the audit process to both numbers and the surrounding narratives.</p> <p>The revised financial statements are still being updated.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION		
We comment below on other matters requiring additional consideration:		
AUDIT AREA	AUDIT FINDINGS	
1	Fraud	Whilst Management has ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 19 January 2018.

# OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
1 We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.
2 We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance ‘Delivering Good Governance in Local Government Framework’ (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report in relation to the Annual Governance Statement’s compliance with relevant guidance.

## CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Governance Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
1 Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018.</p> <p>We expect to submit the relevant section of the assurance statement to the National Audit Office (NAO) ahead of the deadline of 31 August 2018.</p>

## USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting 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.*

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued in January 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks. We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk

# USE OF RESOURCES

RISK	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<b>1 SUSTAINABLE FINANCES</b>	<p>With the continued reductions in central government funding for local government and increased pressure on services, the Council faces an increasing financial challenge in relation to General Fund balances.</p> <p>The Council has put in place its Transformation Programme to deliver required savings over the medium term, key pillars of which are the People, IT and Service Accommodation Strategies. The Council requires the successful implementation of these strategies in order to maintain its level of reserves and continue to be financially sustainable in the longer term. Each strategy presents risks and opportunities for the Council which will require robust scrutiny and monitoring, especially given the changing circumstances, such as the potential listing of some of the Council's building that would impact on the accommodation review proposals.</p> <p>Given the financial landscape in which the Council is operating, we consider financial sustainability to be a significant risk.</p> <p>We have reviewed the Council's Medium Term Financial Strategy (MTFS) to assess the reasonableness of assumptions used and how the Council is addressing financial pressures.</p> <p>We have considered the progress made by the Council regarding the exploitation of the commercial opportunities it has identified.</p> <p>We have reviewed the progress it has made with its Transformation Programme.</p>	<p>The General Fund balance at the end of the year was £6.7 million, a £0.5 million increase compared to the opening position predominantly due to a change in accounting treatment relating to the rent-free periods on the Shopping Park. Earmarked reserves have also increased by £0.1 million to £21.2 million providing the Council with a healthy useable reserve balance overall. Net savings of £1.7 million were delivered in the year against a target of £0.5 million, the overachievement of the target resulted from additional savings in relation to the leisure contract and the accounting for rent-free periods on the Shopping Park income.</p> <p>Management have updated the MTFS since our risk assessment and the predicted revenue balance at the end of the period covered by MTFS is expected to be £4.8 million, which represents 37% of the Council's forecast net budget requirement for 2021/22. This is above the minimum 25% approved by members.</p> <p>Both management and Members have recognised that ongoing reductions in central government funding will present significant financial challenges in the medium term. The development of the Langston Road Shopping Park, which is now operational, has provided the Council with a significant new revenue stream to mitigate against declining government funding, however, occupation levels will need to be maintained to ensure the Shopping Park is a success. The Transformation Programme is now in its third year and one strand of this programme is the People Strategy. The costs incurred from redundancies and the savings to be made from the proposed staffing structure have been included in the MTFS, with expected savings to be in the region of £1.7 million (£2.5 million including the housing revenue element). Another strand of the programme is the accommodation strategy and is not currently reflected in the MTFS as this strategy is under review following The Civic Offices being awarded Grade II listed building status.</p> <p>The Council has healthy reserves and a strong asset base and we have reviewed the MTFS which has been based on reasonable assumptions. The Council has demonstrated its commercial appetite through the development of the Shopping Park and progress with the Transformation Programme has continued in the year. No impact on our opinion has been identified from our work.</p>

# APPENDICES



## APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Governance Committee is required to consider. This includes audit differences that have been corrected by management, and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

### ADJUSTED AUDIT DIFFERENCES

Our audit has identified 3 material audit differences.

There were 4 audit differences identified by our audit work that were adjusted by management:

- On the transfer of the Langston Road Retail Park out of assets under construction into investment properties, the revaluation reserve balance was not removed via the capital adjustment accounts. The revaluation reserve was therefore overstated by £6.503 million.
- The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission has not yet been granted on the site and therefore the site should have been classified as a surplus asset. Surplus assets were consequently understated by £6.139m.
- The Essex Pension Fund actuary re-issued its IAS19 actuarial valuation report in June 2018 following publication of the Council's draft financial statements as there had been a significant movement in the estimate and actual fund value of £111 million. The impact for the Council is that the pension scheme liability has increased by £2.859 million to £74.860 million.
- The cost of the service accommodation review of £109k was capitalised, however, it does not meet the criteria of capital expenditure. Revenue expenditure was consequently understated by £109k.

This decreased the surplus on provision of services by £109k, from £23.417 million to £23.308 million.

### UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences identified by our audit work to date.

## APPENDIX II: PRIOR YEAR RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	2017/18 OBSERVATION
ANNUAL REPORT AND ACCOUNTS				
RELATED PARTIES	We noted that four related party declarations had not been returned from councillors.	Require all Councillors to return their related party declarations including positively confirming no related party relationships.	It was proposed to ask those members still to sign to do so at the next Full Council later this month.	We have not noted any issues with the related party declarations.
LATE DELIVERY OF WORKING PAPERS	We encountered difficulties in obtaining working papers for areas of our audit, as these had not been prepared in advance of our onsite visit. These delays were most significant for the payroll information and listings for debtors and creditors to enable audit sampling.	Prepare key working papers and listings in advance of the auditors' onsite visit.	It was proposed to have a meeting with BDO during October to assess the key papers required and make sure these are available from 1 June 2018	We held meetings with the Council and the majority of the working papers on the requested were available from 1 June 2018. However, there have been delays in responding to audit queries.

# APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	2,000,000	2,000,000
Clearly trivial threshold	40,000	40,000
Planning materiality of £2,000,000 was based on 2% of 2017/18 budgeted gross expenditure.		
We had no reason to revise our final materiality level.		

## APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters, which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report were provided in our Audit Plan. These services have been approved by the Assistant Director of Resources.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

## APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	64,672	64,672	64,672	<sup>1</sup>
Fee for reporting on the housing benefits subsidy claim	18,533	18,533	18,533	<sup>1</sup>
<b>TOTAL AUDIT AND CERTIFICATION FEES</b>	<b>83,205</b>	<b>83,205</b>	<b>83,205</b>	
Fees for reporting on other government grants:				
• Pooling of housing capital receipts return	TBC	TBC	TBC	<sup>2</sup>
Fees for other non-audit services	-	-	-	
<b>NON-AUDIT ASSURANCE SERVICES</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>	
<b>TOTAL ASSURANCE SERVICES</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>	

<sup>1</sup> The above fees do not differ from those included in the fee letter that we issued on 9 March 2017.

<sup>2</sup> In 2016/17, we were engaged by management to provide reporting accountant assurance on the pooling of housing capital receipts return. This work is outside of the framework, which governs the Code audit work and certification of the housing benefit subsidy return. Should we be appointed to undertake similar work in 2017/18, we will report the fee to the Audit and Governance Committee once agreed with management.

## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
Suffolk  
IP3 9SJ

[XX] July 2018

Dear Sirs

### Financial statements of Epping Forest District Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Assistant Director of Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended 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).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

## APPENDIX V: DRAFT LETTER OF REPRESENTATION

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

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

## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that as far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Maddock

Assistant Director of Resources

[XX] July 2018

Chair of the Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

[XX] July 2018



# APPENDIX VII: DRAFT AUDIT REPORT

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EPPING FOREST DISTRICT COUNCIL

### Opinion on the financial statements

We have audited the financial statements of Epping Forest District Council ("the Council") for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, related numbered notes and the Expenditure and Funding Analysis note to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

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

### Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

- the Assistant Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council'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.

## APPENDIX VII: DRAFT AUDIT REPORT

### Other information

The Assistant Director of Resources is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Basis for conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2017, as to whether in all significant respects, the 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 National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

## APPENDIX VII: DRAFT AUDIT REPORT

Based on our risk assessment, we undertook such work as we considered necessary. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- 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.

### Responsibilities of the Assistant Director of Resources and the Council

As explained more fully in the Statement of the Assistant Director of Resources Responsibilities, the Assistant Director of Resources is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Assistant Director of Resources is responsible for assessing the Council'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 Council intends to cease operations or has no realistic alternative but to do so.

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

## APPENDIX VII: DRAFT AUDIT REPORT

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

In respect of our 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 at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Certificate of completion of the audit

We certify that we have completed the audit of the accounts of Epping Forest District 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 Epping Forest District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other

## APPENDIX VII: DRAFT AUDIT REPORT

### Use of our report

This report is made solely to the members of Epping Forest District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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Zoe Thompson  
For and on behalf of BDO LLP, Appointed Auditor  
Ipswich, UK

31 July 2018

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## APPENDIX VIII: AUDIT QUALITY

### **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

FOR MORE INFORMATION:

**ZOE THOMPSON**  
Engagement lead

T: +44 (0)1473 320 734  
E: zoe.thompson@bdo.co.uk

**NICK BERNSTEIN**  
Manager

T: +44 (0)20 7034 5810  
E: nick.bernstein@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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