# Royal Borough of Greenwich

# Statement of Accounts

# 2017/18

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# Introduction from Councillor Denise Hyland, Leader, Royal Borough of Greenwich

The past year has seen the Royal Borough Greenwich continue to work hard to improve the lives of residents, so I am pleased to present our annual Statement of Accounts 2017/18.

Our four-year medium term financial strategy is helping ensure that we remain on track despite increased pressure caused by a combination of government cuts and greater demand, inflation and volume on frontline services. These pressures are not stopping us from continuing to deliver on our commitment to protect vital services while continuing to make investments which transform, regenerate and bring substantial economic benefits – both short and long term - to the community as a whole.

At a time when many other local authorities are having to make big cuts, we are making improvements across the Borough which make a difference to residents' lives every day. From investing in better leisure and sports facilities, to building more affordable homes and creating cycle paths, we are helping bring increased opportunities for residents and bring more business and visitors to the Borough. The opening of the much-anticipated high speed Elizabeth line in December will provide a further boost to Woolwich and Abbey Wood. Meanwhile concerns raised by residents have meant that improving our town centres has been a key priority over the 12 months and our actions have helped make our streets noticeably cleaner, tidier and more inviting places to be.

However, the financial situation for local authorities is still extremely challenging with the national adult social care crisis and homelessness putting huge financial pressures on the Council as cuts from Central Government continue.

I am very proud of the progress that we have made in the past 12 months in making the Borough an even better place to live, work and visit. We will be building on this success going forward and ensuring we provide the best possible value services for residents. I believe this year's Annual Accounts, which are independently audited, show that we have maintained the correct management of our finances while continuing to protect valuable frontline services.

The Council will continue to prioritise services as necessary and carefully manage our budgets to best benefit all of our residents. We are confident that our fiscal strategy will allow us to further improve and enrich the Royal Borough of Greenwich while also delivering vital services and managing our income and assets.

**Councillor Denise Hyland**
**Leader of the Royal Borough of Greenwich**

# Narrative Report

The Royal Borough of Greenwich is one of 33 London Boroughs. The borough is home to:

- a World Heritage site
- the O2 arena
- Greenwich Park
- the Cutty Sark
- the Royal Arsenal in Woolwich and
- the Prime Meridian

These are just a few of the world class attractions in the borough.

The Authority operates the Leader / Cabinet system with 51 councillors in total (17 wards comprising 3 members each); the current political balance is 42 Labour and 9 Conservative councillors.

The Authority is grouped into 6 distinct directorates:

- Children's Services
- Health and Adult Services
- Regeneration, Enterprise and Skills
- Housing and Safer Communities
- Communities and Environment
- Finance

## Council Services

The Royal Borough of Greenwich offers services to residents in the following areas:

- **Advice and Benefits** - Welfare Rights, Housing Benefit and debt, as well as what to do in an emergency
- **Business** - Business support services, doing business with the council, and information about licensing and trading standards
- **Community and Living** - births, deaths, marriages and citizenship, community safety and anti-social behaviour, community grant funding and family history research
- **Council and Democracy** – information on councillors, local matters, voting, Council Tax
- **Education and Learning** - schools and colleges, childcare arrangements, adult learning courses, and help with schooling costs
- **Environment and Planning** - recycling, street cleaning, noise and pollution, planning and conservation, building control and parks and open spaces
- **Health and Social Care** - adult care services, support for families and children and people with disabilities
- **Housing** - Exchanging a council home, access services for council tenants, assessing housing options and information for landlords and leaseholders
- **Jobs and careers** - council jobs and other opportunities through Greenwich Local Labour and Business (GLLaB)
- **Leisure and Culture** - local leisure facilities, libraries, entertainment and events, as well as tourist information
- **Transport and streets** - parking and transport information, as well as resources for cyclists and foot tunnel users

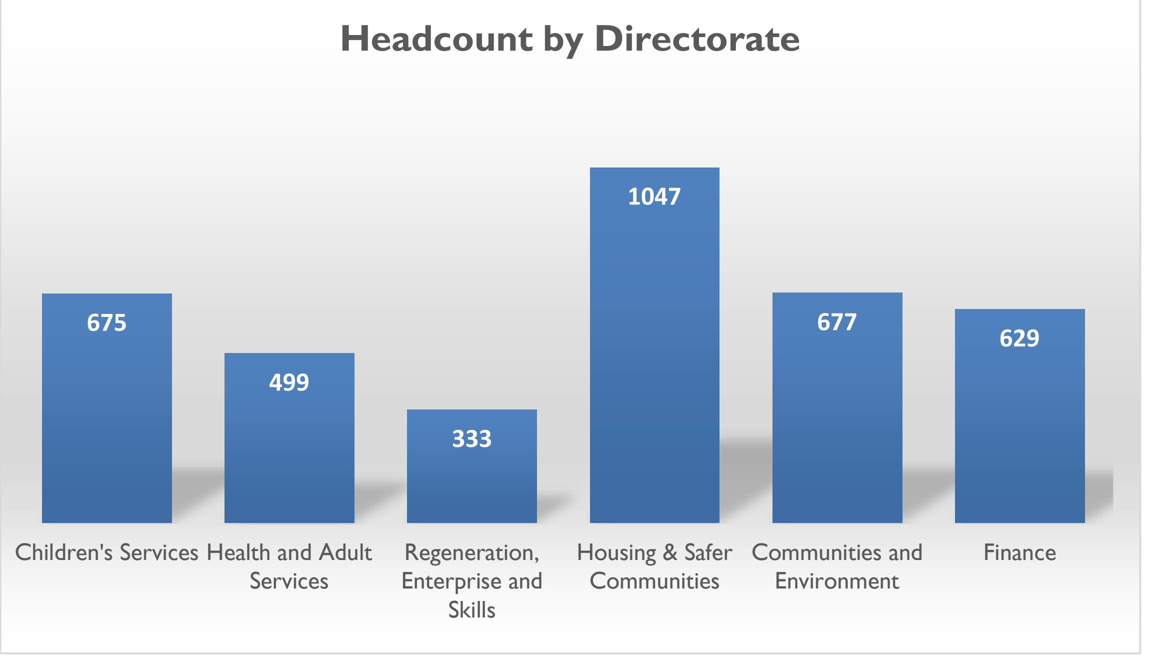
More information on the above services is available on our website www.royalgreenwich.gov.uk

## Staffing

The Royal Borough of Greenwich employs 3,860 staff. The demographic composition of the workforce as at 31 March 2018 was:

- 56% female
- 30% BME
- 5% disabled
- an average age of 46
- the mean gender pay gap = women earn 5% higher than men
- the median gender pay gap = women earn 7% higher than men

The number of staff working in particular Directorates as at 31st March 2018 is illustrated in the chart below:



## Future Challenges

The Council faces a number of overarching challenges in the coming years:

- Central government funding is falling year on year; Local Authorities will need to look to raise alternative sources of income to be able to maintain service delivery.

- Demographic growth and an increasingly ageing population will continue to present challenges on the Council's budget in years to come.

- Brexit will create some uncertainty in 2018/19 and beyond. The financial impacts are not currently quantified and could be positive or negative. The impact on the Council's finances could include:

    - ❖ Interest rates (both for capital borrowing and investments)
    - ❖ General inflation rates
    - ❖ Workforce costs
    - ❖ Property values or rents

## Performance

The Royal Borough of Greenwich has 8 high level objectives and has achieved the following in the reporting period:

1. <u>Education</u>

- Results for primary schools confirm the Authority's top 10 ranking in London and nationally on all headline measures
- Results for key stage 4 (GCSE) show Greenwich children's attainment remains higher than the national average
- The % of pupils achieving the expected standard in RWN at Key Stage 2 was up from 64% to 71% year on year and above the national indicator of 61%
- The % of primary schools in the borough rated as Good or Outstanding was 98% compared to a national average of 94%
- The % of secondary schools in the borough rated as Good or Outstanding was 79% compared to a national average of 89%
- All of the borough's residents were offered a reception place for Sept 2018 on national offer day – with 86.5% offered their first preference school

2. Children and Families in Need

- New Early Help service launched
- 93% of children who have received early help have not been referred to Social Care
- 79.2% of children have significantly improved their school attendance after interaction with the Families First programme
- 374 days between a child entering care and moving in with their adoptive family compared to the national average of 593 days
- The % of cases where a child has been looked after for more than 2 years is 80% compared to a national average of 67%

3. Economic Prosperity and Anti-Poverty

- Jobs growth in the borough has increased by 18,000 jobs over the last 10 years
- Growth in the establishment of businesses is strong with an 8.6% increase since last year
- Notable regeneration projects in the borough at various stages of the project life cycle include Sutcliffe Park, Eltham Cinema, Charlton Riverside, 1,500 news homes in the Abbey Wood/Thamesmead/Plumstead area, Plumstead Library and the Woolwich Creative district
- 77% of participants on the Greenwich Local Labour Programme gained onward employment after the scheme finished
- 5.9% of the unemployed are of working age compared to the London average of 5.6% and the National average of 4.6%

4. Social Care and Health

- Greenwich's Integration Pioneer work has continued and the Council is working closely with partners in the Oxleas Trust, Greenwich CCG and Lewisham and Greenwich NHS trust to develop more integrated systems of support
- The Council has been awarded the top spot in the 'Good Food for London' league table for demonstrating leadership on healthy and sustainable food
- Referrals from the Queen Elizabeth Hospital for patients who smoke (including pregnant smokers and patients with heart disease, stroke, cancer and respiratory disease) to the Council's specialist Stop Smoking Service exceeded its target (640) for 2017/18 at 703

5. Healthy and Safe Living Environment

- There has been a continued decrease in waste going to landfill
- The Council has the most extensive network of real time air quality monitoring stations of all the London Boroughs
- The total number of fly tips has decreased over last 24 months attributed to the creation of the task forces in Woolwich, Plumstead, Abbey Wood and Thamesmead
- There were 1,015 thefts of motor vehicles in 2017 compared to the London average of 969

6. Housing

- 279 extra properties purchased in 2017 in response to the increased rates of homelessness and demand for temporary accommodation
- The Council has innovative licence conditions relating to waste and were the first to do this in the country
- The Council was one of the first LAs to become part of the Greater London Authorities new rogue landlord and letting agent checker
- The London Plan Annual Monitoring Report for 15/16 (published in July 2017) shows that Greenwich has recorded the second highest number of net affordable homes in London over the past three financial years with 1,736
- Additionally Greenwich was also one of only 5 London Boroughs in 15/16 to exceed the 35% affordable homes target, with 40% of net conventional supply over the last three financial years being classed as affordable. This compares to a London average of 24% over the same period.
- There were 598 households in temporary accommodation in Q3 17/18 compared to 520 in 16/17

7. Tourism, Culture and Sport

- Visit Greenwich won the Destination Marketing Company of the Year at the UK inbound Awards for Excellence 2017
- 13m visitors to Greenwich attractions in 2017
- 2.1m visits to the Council's leisure centres in 17/18 (2.2m in 16/17)
- 2.7m visits to the Council's libraries in 17/18 (2.5m in 16/17)

8. Governance and Oversight

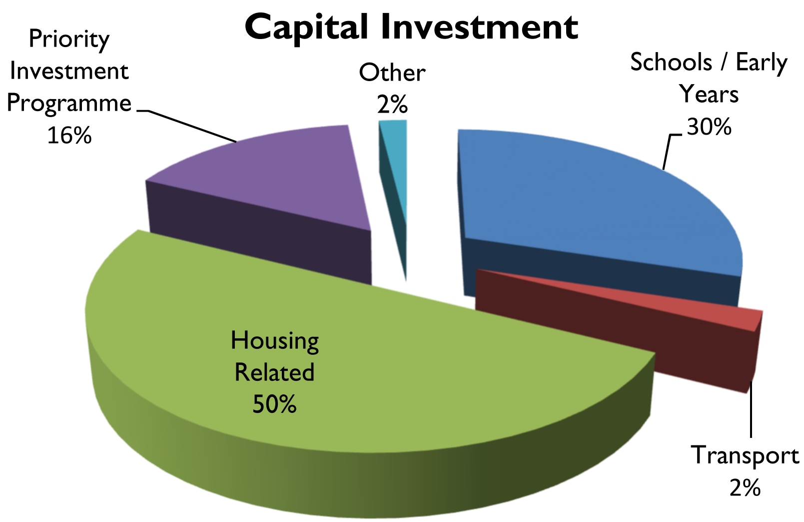
- 94.7% collection rate for Council Tax (94.3% in 16/17)
- 98.4% collection rate for Business Rates (98.2% in 16/17)
- 38 working days to produce draft statement of accounts after the end of the year
- FOI performance above the 80% target set by the ICO for the whole of 2017
- 70 apprentices employed across the Council

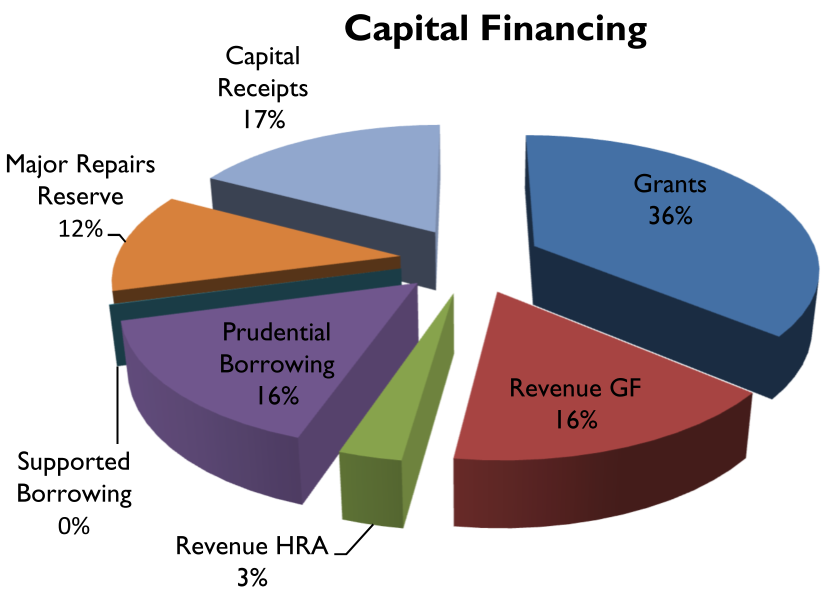
**Financial Performance**

The Council continues to face significant pressures from government policy, alongside local / national demographic and economic trends. Against this backdrop, the borough is well placed to utilise its natural and financial resources in order to counter these pressures. The Council has a medium term financial strategy in place covering the period until the end of the 2019/20 financial year.

## Capital

In total, £119m of capital investment has been made in 2017/18, with the majority of this deployed to housing, education and regeneration based projects. The majority of financing for the above capital investment is derived from revenue and grant streams. All borrowing undertaken is sustainable in that debt servicing costs are supported by identified revenue budgets. Borrowing for Housing purposes is restricted through the Self Financing regime, such that debt cannot rise above a government imposed cap of almost £335m. Total nominal borrowing ended the financial year at £386m - a reduction of £11m.



## Revenue Outturn

The table below shows the final revenue position for the Authority for 2017/18 and the two preceding years for comparison:

| **Actual Spend versus Budget £m** | **Overspend / (Underspend) 2015/16** | **2016/17** | **2017/18** |
|---|---|---|---|
| Health & Adults | 7.3 | 13.1 | 6.5 |
| Children's | 0.6 | 1.2 | 2.7 |
| Communities and Environment [1] | 1.9 | 3.8 | 4.1 |
| Housing & Safer Communities [2] | - | 0.1 | 0.4 |
| Finance | - | (2.4) | (1.2) |
| DRES | 2.2 | 1.7 | 0.9 |
| Treasury Management | (10.2) | (12.2) | (12.4) |
| ***Net Position*** | ***1.8*** | ***5.3*** | ***1.0*** |
| *Corporate Pressures:* | | | |
| No Recourse to Public Funds | 4.2 | 3.7 | 3.3 |
| *Supported by One Off Measures:* | | | |
| Other Capacity | (6.0) | (6.7) | (4.7) |
| General Reserve | - | (2.3) | - |
| **Net GF Position** | **0.0** | **0.0** | **[3](0.4)** |
| | | | |
| **HRA Position** | **0.0** | **0.0** | **0.0** |

[1] (previously "Community")
[2] (previously "Central")
[3] this is the movement on "Amounts Uncommitted" between 2016/17 and 2017/18, found within the Movement in Reserves Statement

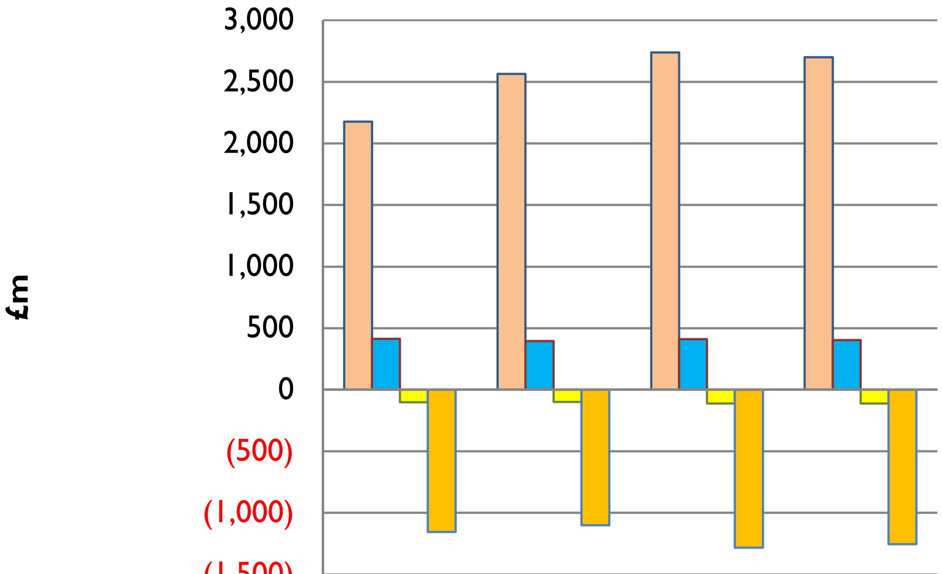
The key budgetary pressures revolve around Health and Adult Services with spend on Learning Disability packages and Care Homes both showing year on year increases. The other main pressure area is Communities and Environment with tonnages and average waste per household having continued to increase, as economic activity and the number of new homes built has increased. These pressures have been largely offset with temporary savings on Treasury Management activities.

**Balance Sheet**

The top half of the balance sheet has seen a slight decrease in long-term asset values. The Council has a consistently strong net current asset position, thereby being able to readily service its debts as they become due.

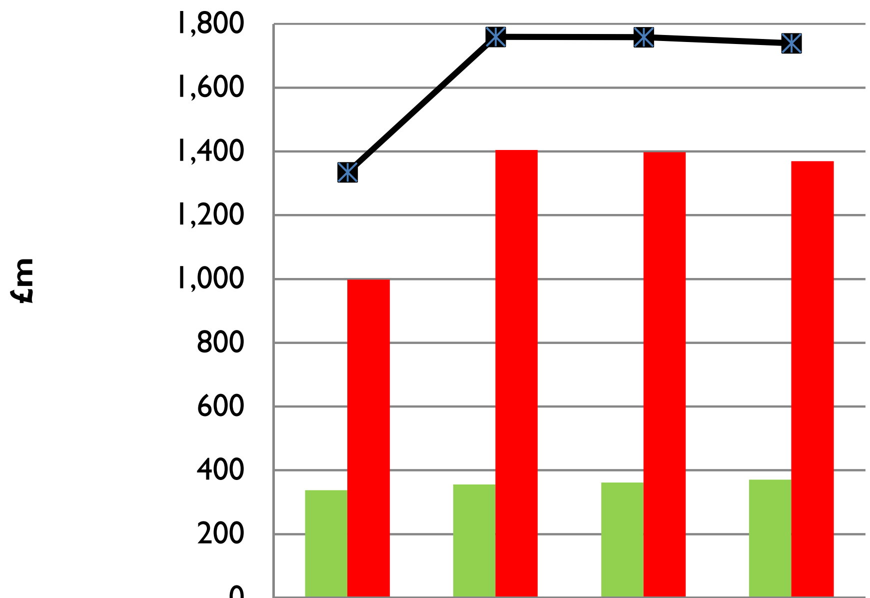
The bottom half of the balance sheet shows total reserves split into those that are usable and those that are unusable (i.e. are not cash backed).

**Net Assets Composition**




| | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|
| Long Term Assets | 2,177 | 2,564 | 2,739 | 2,700 |
| Current Assets | 414 | 395 | 412 | 403 |
| Current Liabilities | (100) | (99) | (111) | (111) |
| Long Term Liabilities | (1,156) | (1,100) | (1,281) | (1,252) |

**Reserves Composition**




| | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|
| Usable | 337 | 356 | 361 | 371 |
| Unusable | 997 | 1,404 | 1,397 | 1,369 |
| Total Reserves | 1,335 | 1,760 | 1,759 | 1,739 |

## Housing Revenue Account

The Council has a stock of 21,500 social rented homes and 4,500 leaseholders. It is planning to spend over £140m in the next 3 years to increase and improve its housing stock. The Council manage our own Housing Stock and collected £98m in dwelling rents and £13m in service charges in 2017/18. This income is held in a ring-fenced account (the Housing Revenue Account) which can only be used for social housing purposes.

## Pension Liabilities

The Royal Borough of Greenwich Pension Fund is independently revalued every three years (triennial valuation). The most recent revaluation, as at 31 March 2016, assessed the funding level at 91% compared with 86% in 2013.

The Council is an employer within the Royal Borough of Greenwich pension fund and plans to achieve a 100% funding level over a 20 year period.

The triennial valuation confirmed that the contribution rate payable would continue to be frozen – such that it will have remained at the same level for a decade.

## Strategic Risks for the coming year

A risk management strategy is in place to identify and evaluate risk. The 2018/19 Council Tax setting report identified a broad range of risks the Council could face. The risks with high likelihood and with the highest potential impact have been included in the table below:

| **Risk** | **Impact** |
|---|---|
| Changes to government funding mechanism | Adverse impact on the Council's Financial position |
| Inflation | Increases could result in upward budget pressure and may not be matched by additional income |
| Market and economic developments | Market movements can affect service take up and income<br>Homelessness and social care affected by supply and demand factors |
| New legislation | The Council could be assigned new responsibilities – not always with additional funding immediately available |
| Demographic and Population | Regeneration and demand shifts in services can have a significant impact on the budget<br>Population is one of the key factors in the formula for funding mechanisms |

## Structure of the Statement of Accounts

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 Main Financial Statements are:*

**Movement in Reserves Statement** - The net of the authority's short/long term assets and liabilities is represented by its reserves – this is also known as its net worth. Reserves are usable or unusable and this note shows how the main usable plus total unusable reserves have changed.

**Comprehensive Income and Expenditure Statement** - This is the income and expenditure for the authority on a financial accounting basis i.e. it reflects the cost to the authority of running services, but does not reflect the cash position.

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

**Cash Flow Statement** - This takes the surplus or deficit from the income and expenditure statement and reconciles it to the actual movement in cash on the balance sheet.

**Expenditure and Funding Analysis** – shows how funding available to the Council has been used in providing services in comparison with those resources used by Authorities in accordance with Generally Accepted Accounting Practices.

*Additional Statements / Other Notes are:*

**Collection Fund Account** - this contains statements that reflect the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government, of council tax and non-domestic rates.

**Housing Revenue Account** - this shows the economic cost in the year of the landlord responsibility for social housing provision in accordance with accounting standards, rather than the amount to be funded from rents and government grants.

**Pension Fund Account** - the Royal Borough of Greenwich Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Greenwich.

**Accounting Policies** - the main underlying accounting policies underpinning the financial statements.

**Annual Governance Statement** - this sets out a framework in relation to risk management and internal control, along with efficiency and effectiveness.

# Statement of Responsibilities

## 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 Section 151 Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

## Approval of Accounts

I certify that the Statement of Accounts was approved by Council at its meeting on 18 July 2018.

**Cllr Christine May**
**Mayor of the Royal Borough of Greenwich** **Dated** **18 July 2018**

## The Section 151 Officer's Responsibilities

The Section 151 Officer 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 Section 151 Officer has:

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

The Section 151 Officer has also:

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

## Certification of the Section 151 Officer

I hereby certify that the Statement of Accounts on pages 20-159 give a true and fair view of the financial position of the Authority at the reporting date and of its expenditure and income for the year ended 31st March 2018.

**Debbie Warren CPFA** **Dated** **18 July 2018**
**CFO - Section 151 Officer**

# Independent Auditor's Report to the Members of the Royal Borough of Greenwich

We have audited the financial statements of the Royal Borough of Greenwich (the "Authority") for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Expenditure and Funding Analysis, the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund Account 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 the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Chief Executive and Section 151 Officer, and auditor

As explained more fully in the Statement of Responsibilities, the Chief Executive and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the the Chief Executive and Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement 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

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended; and

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

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement the financial year for which the financial statements are prepared is consistent with the audited financial statements.

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

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or

- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or

- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or

- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

### Respective responsibilities of the Authority and auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018

**Certificate**

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. Additionally there are matters raised by Local Government electors during 2016/17 that are ongoing. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

*Paul Dossett*

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square

London

EC2A 1RR

*19th July 2018*

# Expenditure and Funding Analysis

| 2016/17 Restated | | | Expenditure and Funding Analysis | 2017/18 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments Between the Funding and Accounting Basis | **Net Expenditure in CIES** | | Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments Between the Funding and Accounting | **Net Expenditure in CIES** |
| £000 | £000 | **£000** | | £000 | £000 | **£000** |
| 41,963 | 439 | 42,402 | Communities & Environment | 45,052 | 2,910 | 47,962 |
| 11,312 | 2,179 | 13,491 | Finance | 9,998 | (7,484) | 2,514 |
| 11,895 | 2,427 | 14,322 | Housing & Safer Communities | 18,229 | 4,737 | 22,966 |
| (17,897) | (43,283) | (61,180) | Housing Revenue Account | (21,238) | 11,530 | (9,708) |
| 84,231 | 1,004 | 85,235 | Health & Adult Services | 75,958 | 2,601 | 78,559 |
| 7,876 | (2,803) | 5,073 | Regeneration, Enterprise and Skills | 6,867 | 5,661 | 12,528 |
| 86,633 | 11,482 | 98,115 | Children's Services | 73,974 | 9,407 | 83,381 |
| **226,013** | **(28,555)** | **197,458** | **Net Cost of Services** | **208,840** | **29,362** | **238,202** |
| | | | | | | |
| 1,542 | (12,395) | (10,853) | Other Operating Expenditure (Note 3) | 1,561 | 4,913 | 6,474 |
| 27,148 | 57,108 | 84,256 | Financing and Investment Income and Expenditure (Note 4) | 25,835 | 136,050 | 161,885 |
| (228,185) | (61,389) | (289,574) | Taxation and Non-Specific Grant Income (Note 5) | (231,670) | (53,353) | (285,023) |
| **(199,495)** | **(16,676)** | **(216,171)** | **Other Income and Expenditure** | **(204,274)** | **87,610** | **(116,664)** |
| | | | | | | |
| **26,518** | **(45,231)** | **(18,713)** | **(Surplus) or Deficit on the Provision of Services** | **4,566** | **116,972** | **121,538** |
| | | | | | | |
| (204,857) | | | Opening General Fund Balance & Housing Revenue Account Balance | (178,339) | | |
| 26,518 | | | (Surplus) or Deficit on General Fund & Housing Revenue Account Balance in Year | 4,567 | | |
| **(178,339)** | | | **Closing General Fund Balance & Housing Revenue Account Balance** | **(173,772)** | | |

# Comprehensive Income and Expenditure Statement

| 2016/17 Restated Gross Expenditure | Gross Income | Net Expenditure | Comprehensive Income and Expenditure Statement | 2017/18 Gross Expenditure | Gross Income | Net Expenditure |
|---|---|---|---|---|---|---|
| £000 | £000 | **£000** | | £000 | £000 | **£000** |
| 50,948 | (8,546) | 42,402 | Communities & Environment | 55,714 | (7,752) | 47,962 |
| 196,042 | (182,551) | 13,491 | Finance | 171,369 | (168,855) | 2,514 |
| 20,437 | (6,115) | 14,322 | Housing & Safer Communities | 24,863 | (1,897) | 22,966 |
| 60,458 | (121,638) | (61,180) | Housing Revenue Account | 109,898 | (119,606) | (9,708) |
| 143,735 | (58,500) | 85,235 | Health & Adult's Services | 143,475 | (64,916) | 78,559 |
| 45,836 | (40,763) | 5,073 | Regeneration, Enterprise & Skills | 51,347 | (38,818) | 12,529 |
| 352,709 | (254,594) | 98,115 | Children's Services | 332,322 | (248,942) | 83,380 |
| **870,165** | **(672,707)** | **197,458** | **Net Cost Of Services** | **888,988** | **(650,786)** | **238,202** |
| 3,942 | (14,795) | (10,853) | Other Operating Expenditure (Note 3) | 6,474 | - | 6,474 |
| 85,426 | (1,170) | 84,256 | Financing and Investment Income and Expenditure (Note 4) | 162,728 | (843) | 161,885 |
| - | (289,574) | (289,574) | Taxation and Non-Specific Grant Income (Note 5) | 0 | (285,023) | (285,023) |
| **89,368** | **(305,539)** | **(216,171)** | **Other Income and Expenditure** | **169,202** | **(285,866)** | **(116,664)** |
| **959,533** | **(978,246)** | **(18,713)** | **(Surplus) or Deficit on Provision of Services** | **1,058.190** | **(936,652)** | **121,538** |
| | | (135,051) | (Surplus) or deficit on revaluation of property, plant & equipment assets | | | (42,863) |
| | | 154,863 | Re-measurement of the net defined benefit liability / (asset) | | | (59,657) |
| | | **19,812** | **Other Comprehensive Income and Expenditure** | | | **(102,520)** |
| | | **1,099** | **Total Comprehensive Income and Expenditure** | | | **19,019** |

2016/17 restated as a result of departmental reorganisation in 2017/18.

# Movement in Reserves Statement

| Movement in Reserves Statement 2017/18 | Revenue Reserves | | Capital Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserves | Capital Grants Unapplied | **Total Usable Reserves** | Unusable Reserves | **Total Authority Reserves** |
| | £000 | £000 | £000 | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2017 carried forward** | **(166,315)** | **(12,024)** | **(107,958)** | **-** | **(74,947)** | **(361,244)** | **(1,397,260)** | **(1,758,504)** |
| **Movement in Reserves During 2017/18** | | | | | | | | |
| Total Comprehensive Income and Expenditure | 126,227 | (4,688) | - | - | - | 121,539 | (102,520) | 19,019 |
| Adj between accounting basis & funding basis under regs (Note 6) | (115,126) | (1,846) | (5,871) | (10,623) | 2,579 | (130,887) | 130,887 | - |
| **(Increase) / Decrease in 2017/18** | **11,101** | **(6,534)** | **(5,871)** | **(10,623)** | **2,579** | **(9,347)** | **28,367** | **19,019** |
| **Balance at 31 March 2018 carried forward** | **(155,214)** | **(18,558)** | **(113,829)** | **(10,623)** | **(72,368)** | **(370,591)** | **(1,368,893)** | **(1,739,485)** |

| **General Fund Analysed Over:** | |
|---|---|
| Amounts Earmarked (Note 7) | (141,945) |
| Amounts Uncommitted | (13,269) |
| **Total General Fund Balance at 31 March 2018** | **(155,214)** |

| Movement in Reserves Statement 2016/17 | Revenue Reserves | | Capital Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserves | Capital Grants Unapplied | **Total Usable Reserves** | Unusable Reserves | **Total Authority Reserves** |
| | £000 | £000 | £000 | £000 | £000 | **£000** | £000 | **£000** |
| **Balance at 31 March 2016 carried forward** | **(195,762)** | **(9,094)** | **(99,553)** | **-** | **(51,181)** | **(355,590)** | **(1,404,013)** | **(1,759,603)** |
| **Movement in Reserves During 2016/17** | | | | | | | | |
| Total Comprehensive Income and Expenditure | 39,336 | (58,049) | - | - | - | (18,713) | 19,812 | 1,099 |
| Adj between accounting basis & funding basis under regs (Note 6) | (9,889) | 55,119 | (8,405) | - | (23,766) | 13,059 | (13,059) | - |
| **(Increase) / Decrease in 2016/17** | **29,447** | **(2,930)** | **(8,405)** | **-** | **(23,766)** | **(5,654)** | **6,753** | **1,099** |
| **Balance at 31 March 2017 carried forward** | **(166,315)** | **(12,024)** | **(107,958)** | **-** | **(74,947)** | **(361,244)** | **(1,397,260)** | **(1,758,504)** |

| General Fund Analysed Over: | |
|---|---|
| Amounts Earmarked (Note 7) | (153,464) |
| Amounts Uncommitted | (12,851) |
| **Total General Fund Balance at 31 March 2017** | **(166,315)** |

# Balance Sheet

| 31 March 2017 £000 | Balance Sheet | Notes | 31 March 2018 £000 |
|---|---|---|---|
| 2,732,614 | Property, Plant & Equipment | 9 | 2,686,737 |
| 770 | Heritage Assets | | 770 |
| 250 | Intangible Assets | | 233 |
| 438 | Long Term Investments | 16 | 1,591 |
| 4,677 | Long Term Debtors | 16 | 10,972 |
| **2,738,749** | **Long Term Assets** | | **2,700,303** |
| 294,090 | Short Term Investments | 16 | 232,101 |
| 21,455 | Assets Held for Sale | 12 | 30,003 |
| 0 | Investment Properties | 10 | 7,000 |
| 197 | Inventories | | 210 |
| 71,897 | Short Term Debtors | 20 | 73,551 |
| 24,549 | Cash and Cash Equivalents | Cashflow | 59,807 |
| **412,188** | **Current Assets** | | **402,672** |
| (339) | Cash and Cash Equivalents | Cashflow | (346) |
| (13,521) | Short Term Borrowing | 16 | (6,485) |
| (440) | Short Term Deferred Income | 14 | (403) |
| (85,431) | Short Term Creditors | 21 | (92,101) |
| (4,878) | Receipts in Advance | 5 | (3,851) |
| (6,741) | Provisions | 22 | (7,888) |
| **(111,350)** | **Current Liabilities** | | **(111,074)** |
| (744,255) | Long Term Creditors | 19 | (719,051) |
| (10,863) | Provisions | 22 | (12,267) |
| (386,400) | Long Term Borrowing | 16 | (382,945) |
| (3,822) | Long Term Deferred Income | 14 | (3,419) |
| (135,743) | Other Long Term Liabilities | 14/16 | (134,734) |
| **(1,281,083)** | **Long Term Liabilities** | | **(1,252,416)** |
| **1,758,504** | **Net Assets** | | **1,739,485** |
| (361,242) | Usable Reserves | MIRS | (370,591) |
| (1,397,262) | Unusable Reserves | 8 | (1,368,894) |
| **(1,758,504)** | **Total Reserves** | | **(1,739,485)** |

# Cash Flow Statement

| 2016/17 £000 | Cash Flow Statement | 2017/18 £000 |
|---|---|---|
| 18,713 | Net surplus or (deficit) on the provision of services | (121,538) |
| 74,032 | Adj to net surplus or deficit on the provision of services for non cash movements | 235,658 |
| (81,568) | Adj for items incl in net surplus / deficit on the provision of services that are investing and financing activities (Cash Flow Note 1) | (69,149) |
| 11,177 | Net cash flows from Operating Activities | 44,971 |
| (35,734) | Investing Activities (Cash Flow Note 2) | (4,072) |
| 1,562 | Financing Activities (Cash Flow Note 3) | (5,648) |
| (22,995) | Net increase or (decrease) in cash and cash equivalents | 35,251 |
| 47,205 | Cash and cash equivalents at the beginning of the reporting period | 24,210 |
| **24,210** | **Cash and cash equivalents at the end of the reporting period (Cash Flow Note 4)** | **59,461** |

## Cash Flow Note 1 - Operating Activities

The cash flows for operating activities include the following items:

| | | |
|---|---|---|
| 1,368 | Interest received | 892 |
| (28,428) | Interest paid | (26,804) |

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

| | | |
|---|---|---|
| 45,006 | Depreciation | 46,109 |
| (42,735) | Impairment and downward valuations | 14,193 |
| 1,910 | Increase / (decrease) in creditors | 2,832 |
| (12,430) | (Increase) / decrease in debtors | (12,557) |
| (46) | (Increase) / decrease in inventories | (13) |
| 1,139 | Increase / (decrease) in receipts in advance | 112 |
| 29,572 | Movement in pension liability | 34,453 |
| (593) | Increase / (decrease) in provisions | 2,552 |
| 52,209 | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 147,977 |
| **74,032** | | **235,658** |

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

| | | |
|---|---|---|
| (26,148) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (28,808) |
| (55,420) | Any other items for which the cash effects are investing or financing cash flows | (40,341) |
| **(81,568)** | | **(69,149)** |

## Cash Flow Note 2 - Investing Activities

| | | |
|---|---|---|
| (103,224) | Purchase of property, plant and equipment, investment property and intangible assets | (137,525) |
| (7,998,793) | Purchase of short-term and long-term investments | (9,703,084) |
| 26,148 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 28,808 |
| 7,989,355 | Proceeds from short-term and long-term investments | 9,763,871 |
| 50,780 | Other receipts from investing activities | 43,858 |
| **(35,734)** | **Net cash flows from investing activities** | **(4,072)** |

## Cash Flow Note 3 - Financing Activities

| | | |
|---|---|---|
| (2,605) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (2,889) |
| (6,910) | Repayments of short-term and long-term borrowing | (10,365) |
| 11,077 | Other payments for financing activities | 7,606 |
| **1,562** | **Net cash flows from financing activities** | **(5,648)** |

## Cash Flow Note 4 - Cash and Cash Equivalents

| | | |
|---|---|---|
| 24,549 | Cash and bank balances | 59,807 |
| (339) | Bank overdraft | (346) |
| **24,210** | **Total cash and cash equivalents** | **59,461** |

## Note 1 – Expenditure and Funding Analysis

**Adjustments from General Fund to arrive at Comprehensive Income & Expenditure Statement amounts 2017/18**

| | Adjustments for Capital Purposes £000 | Net Change in Pension Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Communities & Environment | 528 | 2,430 | (49) | 2,909 |
| Finance | (704) | (6,388) | (392) | (7,484) |
| Housing & Safer Communities | 3,253 | 1,517 | (34) | 4,736 |
| Housing Revenue Account | 7,645 | 3,901 | (16) | 11,530 |
| Health & Adult Services | 67 | 2,606 | (72) | 2,601 |
| Regeneration, Enterprise & Skills | 4,138 | 1,521 | 3 | 5,662 |
| Children's Services | (1,531) | 9,449 | 1,489 | 9,407 |
| **Net Cost of Services** | **13,396** | **15,036** | **929** | **29,361** |
| Other Operating Expenditure | 4,913 | - | - | 4,913 |
| Financing and Investment Income and Expenditure | 116,633 | 19,417 | - | 136,050 |
| Taxation and Non-Specific Grant Income | (53,922) | - | 569 | (53,353) |
| **Other Income and Expenditure** | **67,624** | **19,417** | **569** | **87,610** |
| **Difference Between General Fund (Surplus)/Deficit and Comprehensive Income and Expenditure Statement (Surplus)/Deficit on Provision of Services** | **81,020** | **34,453** | **1,498** | **116,971** |

**Adjustments from General Fund to arrive at Comprehensive Income & Expenditure Statement amounts 2016/17**

| | Adjustments for Capital Purposes £000 | Net Change in Pension Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Communities & Environment | (721) | 1,085 | 74 | 438 |
| Finance | 770 | 1,417 | (7) | 2,180 |
| Housing & Safer Communities | 2,215 | 160 | 51 | 2,426 |
| Housing Revenue Account | (45,631) | 2,354 | (5) | (43,282) |
| Health & Adult's Services | (150) | 814 | 340 | 1,004 |
| Regeneration, Enterprise and Skills | (3,284) | 509 | (28) | (2,803) |
| Children's Services | 8,440 | 3,066 | (24) | 11,482 |
| **Net Cost of Services** | **(38,361)** | **9,405** | **401** | **(28,555)** |
| | | | | |
| Other Operating Expenditure | (12,395) | - | - | (12,395) |
| Financing and Investment Income and Expenditure | 36,940 | 20,168 | - | 57,108 |
| Taxation and Non-Specific Grant Income | (62,487) | - | 1,098 | (61,389) |
| **Other Income and Expenditure** | **(37,942)** | **20,168** | **1,098** | **(16,676)** |
| **Difference Between General Fund (Surplus)/Deficit and Comprehensive Income and Expenditure Statement (Surplus)/Deficit on Provision of Services** | **(76,303)** | **29,573** | **1,499** | **(45,231)** |

## Note 2 – Expenditure and Income Analysed by Nature

| 2016/17 £000 | Expenditure and Income Analysed by Nature | 2017/18 £000 |
|---|---|---|
| | **Expenditure** | |
| 285,056 | Employee Benefits Expenses | 275,984 |
| 603,007 | Other Service Expenditure | 572,118 |
| 2,271 | Depreciation, Amortisation, Impairment | 60,303 |
| 28,318 | Interest Payments | 26,678 |
| 1,541 | Precepts & Levies | 1,561 |
| 2,400 | Payments to Housing Capital Receipts Pool | 2,376 |
| 36,940 | Loss on the disposal of non-current assets | 119,169 |
| **959,533** | **Total Expenditure** | **1,058,189** |
| | **Income** | |
| (219,707) | Fees, Charges and Other Service Income | (209,816) |
| (1,170) | Interest and Investment Income | (843) |
| (154,891) | Income From Council Tax and Business Rates | (163,473) |
| (587,683) | Government Grants & Contributions | (562,519) |
| (14,795) | Gain on the Disposal of Non-Current Assets | - |
| **(978,246)** | **Total Income** | **(936,651)** |
| **(18,713)** | **Surplus or Deficit on the Provision of Services** | **121,538** |

## Note 3 - Other Operating Expenditure

| 2016/17 £000 | Other Operating Expenditure | 2017/18 £000 |
|---|---|---|
| 1,542 | Levies | 1,561 |
| 2,400 | Payments to the Government Housing Capital Receipts Pool | 2,376 |
| (14,795) | (Gains) / losses on the disposal of non current assets | 2,537 |
| **(10,853)** | Total | **6,474** |

## Note 4 - Financing and Investment Income and Expenditure

| 2016/17 £000 | Financing and Investment Income and Expenditure | 2017/18 £000 |
|---|---|---|
| 28,318 | Interest payable and similar charges | 26,678 |
| 20,168 | Pensions interest cost and expected return on pensions assets | 19,417 |
| 36,940 | (Gains) / losses on the disposal of Academies | 116,633 |
| (1,170) | Interest receivable and similar income | (843) |
| **84,256** | **Total** | **161,885** |

## Note 5 – Taxation and Grant Income

Taxation and non-specific grant income

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

| 2016/17 £000 | Taxation and Non Specific Grant Income | 2017/18 £000 |
|---|---|---|
| (70,598) | Council tax income | (81,115) |
| (84,293) | Business Rates | (82,358) |
| (53,122) | Revenue support grant | (41,394) |
| (19,074) | Non-ringfenced government grants | (26,234) |
| (62,487) | Capital grants and contributions | (53,922) |
| **(289,574)** | **Total** | **(285,023)** |

## Specific grant income

| Grant Income | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Dedicated Schools Grant | (216,944) | (209,456) |
| Post 16 Grant | (6,285) | (6,136) |
| Pupil Premium | (13,340) | (11,992) |
| Rent Allowance Subsidy | (98,666) | (97,463) |
| Rent Rebate Subsidy | (61,923) | (58,029) |
| Benefit Administration Grant | (2,313) | (2,166) |
| Public Health Grant | (24,247) | (23,649) |
| Private Finance Initiative – Building Schools for the Future | (12,291) | (12,291) |
| Private Finance Initiative – Neighbourhood Resource | (2,091) | (2,091) |
| Infants Free School Meal Grant | (3,499) | (3,312) |
| Skills Funding Agency | (1,736) | (1,816) |
| Local Implementation and Planning Grant | (2,637) | (2,284) |
| Flexible Homelessness Support Grant | 0 | (1,533) |
| Other Miscellaneous Grants | (7,028) | (8,752) |
| **Total** | **(453,000)** | **(440,970)** |

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

| Capital Grant Receipts in Advance | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| New Homes Bonus Top Slice | (1,783) | (1,783) |
| Early Years Capital Fund | (1,139) | 0 |
| **Total** | **(2,922)** | **(1,783)** |

| Revenue Grant Receipts in Advance | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Eltham Regeneration Project | (1,199) | (1,199) |
| Devolved Formula Grant | (474) | (454) |
| Skills Funding Agency | (283) | (414) |
| **Total** | **(1,956)** | **(2,067)** |

# Note 6 - 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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

| **Adjustments between Accounting Basis and Funding Basis under Regulations 2017/18** | **Usable Reserves** | | | | |
|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Major Repairs Reserve** | **Capital Grants Unapplied** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Adjustments to the Revenue Resources** | | | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pensions costs (transferred to (or from) the Pensions Reserve) | (24,345) | (10,108) | - | - | - |
| Financial Instruments (transferred to the Financial Instruments Adjustments Account) | 235 | 0 | - | - | - |
| Council Tax and Business Rates (transfers to or from Collection Fund Adjustment Account) | (569) | 0 | - | - | - |
| Holiday pay (transferred to the Accumulated Absences Reserve) | (1,181) | 16 | - | - | - |
| Equal pay settlements (transferred to the Unequal Pay/Back Pay Account) | - | - | - | - | - |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | (113,610) | (47,661) | (70) | - | (34,069) |
| **Total Adjustments to Revenue Resources** | **(139,470)** | **(57,753)** | **(70)** | **-** | **(34,069)** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 1,172 | 28,154 | (29,257) | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | (9) | (580) | 589 | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | (2,376) | - | 2,376 | - | - |
| Posting of Housing Revenue Account resources from revenue to the Major Repairs Reserve | - | 24,804 | - | (24,804) | - |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 6,359 | - | - | - | - |
| Capital expenditure financed from the revenue balances (transfer to the Capital Adjustment Account) | 19,197 | 3,529 | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **24,343** | **55,907** | **(26,292)** | **(24,804)** | **-** |

| **Adjustments between Accounting Basis and Funding Basis under Regulations 2017/18** | **Usable Reserves** | | | | |
|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Major Repairs Reserve** | **Capital Grants Unapplied** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | 20,491 | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 14,181 | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | 36,647 |
| Cash payments in relation to deferred capital receipts | - | - | - | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **20,491** | **14,181** | **36,647** |
| **Total Adjustments** | **(115,127)** | **(1,846)** | **(5,871)** | **(10,623)** | **2,578** |

**Adjustments between Accounting Basis and Funding Basis under Regulations 2016/17**

| | Usable Reserves | | | | |
|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Major Repairs Reserve** | **Capital Grants Unapplied** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Adjustments to the Revenue Resources** | | | | | |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pensions costs (transferred to (or from) the Pensions Reserve) | (24,282) | (5,293) | - | - | - |
| Financial Instruments (transferred to the Financial Instruments Adjustments Account) | 266 | (460) | - | - | - |
| Council Tax and Business Rates (transfers to or from Collection Fund Adjustment Account) | (1,098) | - | - | - | - |
| Holiday pay (transferred to the Accumulated Absences Reserve) | (672) | 465 | - | - | - |
| Equal pay settlements (transferred to the Unequal Pay/Back Pay Account) | - | - | - | - | - |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | (5,550) | 21,543 | (58) | - | (40,773) |
| **Total Adjustments to Revenue Resources** | **(31,336)** | **16,255** | **(58)** | **-** | **(40,773)** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 119 | 30,587 | (26,789) | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | - | (641) | 641 | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | (2,400) | - | 2,400 | - | - |
| Posting of Housing Revenue Account resources from revenue to the Major Repairs Reserve | - | - | - | (23,910) | - |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 5,969 | - | - | - | - |
| Capital expenditure financed from the revenue balances (transfer to the Capital Adjustment Account) | 17,759 | 8,917 | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **21,447** | **38,863** | **(23,748)** | **(23,910)** | **-** |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | 15,401 | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 23,910 | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | 17,007 |
| Cash payments in relation to deferred capital receipts | - | - | - | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **15,401** | **23,910** | **17,007** |
| **Total Adjustments** | **(9,889)** | **55,118** | **(8,405)** | **-** | **(23,766)** |

# Note 7 – Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2017/18.

| Earmarked Reserves | 31/03/16 Restated £000 | Transfers Out Restated £000 | Transfers In Restated £000 | 31/03/17 Restated £000 | Transfers Out £000 | Transfers In £000 | 31/03/18 £000 |
|---|---|---|---|---|---|---|---|
| Corporate Capacity | **(25,170)** | 7,035 | (4,886) | **(23,021)** | 2,404 | (11,846) | **(32,463)** |
| Corporate Strategy | **(13,467)** | 7,900 | (14,589) | **(20,156)** | 10,253 | (11,562) | **(21,465)** |
| Council Tax & Business Rates | **(11,353)** | 2,077 | 0 | **(9,276)** | 219 | 0 | **(9,057)** |
| Schools | **(41,469)** | 12,096 | (4,417) | **(33,790)** | 6,261 | (10,404) | **(37,933)** |
| Social Care | **(5,582)** | 3,828 | (391) | **(2,145)** | 576 | (248) | **(1,817)** |
| Other Earmarked Reserves | **(14,508)** | 4,089 | (2,829) | **(13,248)** | 5,183 | (5,247) | **(13,312)** |
| **Total (Excluding Capital specific reserves)** | **(111,549)** | **37,025** | **(27,112)** | **(101,636)** | **24,896** | **(39,307)** | **(116,047)** |
| | | | | | | | |
| **Reserves specifically held for Capital purposes** | | | | | | | |
| Priority Investment Programme | **(41,772)** | 13,369 | (923) | **(29,326)** | 28,747 | (912) | **(1,490)** |
| Revenue Support for Capital Programme | **(14,106)** | 6,709 | (3,913) | **(11,310)** | 2,628 | (2,369) | **(11,053)** |
| Other Capital Reserves | **(13,077)** | 5,302 | (3,417) | **(11,192)** | 922 | (3,084) | **(13,355)** |
| **Total Reserves held specifically for Capital purposes** | **(68,955)** | **25,380** | **(8,253)** | **(51,828)** | **32,297** | **(6,366)** | **(25,898)** |
| **Total Reserves** | **(180,504)** | **62,405** | **(35,365)** | **(153,464)** | **57,193** | **(45,674)** | **(141,945)** |

## Note 8 – Unusable Reserves

| 2016/17 £000 | Unusable Reserves | 2017/18 £000 |
|---|---|---|
| (637,210) | Revaluation Reserve | (598,533) |
| (1,494,783) | Capital Adjustment Account | (1,481,387) |
| 2,643 | Financial Instruments Adjustment Account | 2,408 |
| 744,255 | Pensions Reserve | 719,051 |
| (11,070) | Council Taxpayers Adjustment Account | (8,963) |
| (4,404) | Deferred Capital Receipts Reserve | (4,403) |
| (3,183) | Business Ratepayers Adjustment Account | (4,722) |
| 6,490 | Accumulated Absences Account | 7,655 |
| **(1,397,262)** | **Total Unusable Reserves** | **(1,368,894)** |

Revaluation Reserve

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

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

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

| 2016/17 £000 | Revaluation Reserve | 2017/18 £000 | |
|---|---|---|---|
| **(544,421)** | **Balance at 1 April** | | **(637,210)** |
| 0 | Adjustment to balance b/fwd. | | (5,433) |
| **(544,421)** | **Balance at 1 April** | | **(642,643)** |
| (195,114) | Upward revaluation of assets | (47,120) | |
| 60,063 | Downward revaluation of assets & impairment losses not charged to the Surplus or Deficit on the Provision of Services | 9,131 | |
| (135,051) | Surplus / deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | | (37,989) |
| 17,180 | Difference between fair value depreciation and historical cost depreciation | 18,092 | |
| 25,082 | Accumulated gains on assets sold or scrapped | 64,007 | |
| 42,262 | Amount written off to the Capital Adjustment Account | | 82,099 |
| **(637,210)** | **Balance at 31 March** | | **(598,533)** |

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account:

- is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).
- is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement
- contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Authority
- 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 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2016/17 £000 | Capital Adjustment Account | 2017/18 £000 | 2017/18 £000 |
|---|---|---|---|
| **(1,412,305)** | **Balance at 1 April** | | **(1,494,783)** |
| | Adjustment to balance b/fwd | | 560 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive I&E Statement | | |
| 27,994 | Charges for depreciation and impairment of non current assets | 28,018 | |
| (42,903) | Revaluation losses on property, plant and equipment | 14,193 | |
| 15,923 | Revenue expenditure funded from capital under statute | 6,982 | |
| 52,209 | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive I&E Statement | 147,977 | |
| 53,223 | | 197,170 | |
| (25,082) | Adjusting amounts written out of the Revaluation Reserve | (64,007) | |
| **28,141** | **Net written out amount of the cost of non current assets consumed in the year** | | **133,163** |
| | Capital financing applied in the year | | |
| (15,401) | Use of the Capital Receipts Reserve to finance new capital expenditure | (20,491) | |
| (23,910) | Use of the Major Repairs Reserve to finance new capital expenditure | (14,181) | |
| (17,007) | Capital grants and contributions credited to the Comprehensive I&E Statement that have been applied to capital financing | (6,273) | |
| (14,647) | Application of grants to capital financing from the Capital Grants Unapplied Account | (36,647) | |
| (5,969) | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | (6,359) | |
| (26,676) | Capital expenditure charged against the General Fund and HRA balances | (22,726) | |
| 58 | Reserved capital receipts | (70) | |
| **(103,552)** | | | **(106,747)** |
| (7,067) | Movement in the Donated Assets Account credited to the Comprehensive I&E Statement | (13,580) | |
| **(7,067)** | | | **(13,580)** |
| **(1,494,783)** | **Balance at 31 March** | | **(1,481,387)** |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2018 will be charged to the General Fund until extinguished in 2031/32.

| **2016/17** | **Financial Instruments Adjustment Account** | **2017/18** | |
|---|---|---|---|
| **£000** | | **£000** | **£000** |
| **2,449** | **Balance at 1 April** | | **2,643** |
| 194 | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (235) | |
| 194 | Amount by which finance costs charged to the Comprehensive I&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | (235) |
| **2,643** | **Balance at 31 March** | | **2,408** |

## Pensions Reserve

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

| **2016/17** | **Pensions Reserve** | **2017/18** |
|---|---|---|
| **£000** | | **£000** |
| **559,820** | **Balance at 1 April** | **744,255** |
| 154,863 | Actuarial gains or losses on pensions assets and liabilities | (59,657) |
| 62,769 | Reversal of retirement benefit items debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive I&E Statement | 65,509 |
| (33,197) | Employer's pensions contributions and direct payments to pensioners payable in the year | (31,056) |
| **744,255** | **Balance at 31 March** | **719,051** |

Deferred Capital Receipts Reserve

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

| 2016/17 £000 | Deferred Capital Receipts Reserve | 2017/18 £000 |
|---|---|---|
| **(488)** | **Balance at 1 April** | **(4,404)** |
| (3,917) | Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive I&E Statement | 0 |
| 1 | Transfer to the Capital Receipts Reserve upon receipt of cash | 1 |
| **(4,404)** | **Balance at 31 March** | **(4,403)** |

Council Taxpayers Adjustment Account

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

| 2016/17 £000 | Council Taxpayers Adjustment Account | 2017/18 £000 |
|---|---|---|
| **(16,310)** | **Balance at 1 April** | **(11,070)** |
| 5,240 | Amount by which council tax income credited to the Comprehensive I&E Statement is different from council tax income calculated for the year in accordance with statutory requirements | 2,107 |
| **(11,070)** | **Balance at 31 March** | **(8,963)** |

Business Ratepayers Adjustment Account

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

| 2016/17 £000 | Business Ratepayers Adjustment Account | 2017/18 £000 |
|---|---|---|
| **959** | **Balance at 1 April** | **(3,183)** |
| (4,142) | Amount by which business rates income credited to the Comprehensive I&E Statement is different from business rates income calculated for the year in accordance with statutory requirements | (1,539) |
| **(3,183)** | **Balance at 31 March** | **(4,722)** |

## Accumulated Absences Account

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

| 2016/17 £000 | Accumulated Absences Account | 2017/18 £000 | 2017/18 £000 |
|---|---|---|---|
| **6,283** | **Balance at 1 April** | | **6,490** |
| (6,283) | Settlement or cancellation of accrual made at the end of the preceding year | (6,490) | |
| 6,490 | Amounts accrued at the end of the current year | 7,655 | |
| 207 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | | 1,165 |
| **6,490** | **Balance at 31 March** | | **7,655** |

# Note 9 - Property, Plant and Equipment

| Movements 2017/18 | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles Plant Furniture and Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Surplus assets £000 | Assets under Construction £000 | Total Property Plant and Equipment £000 | PFI assets within PPE £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | |
| At 1 April 2017 | 1,521,929 | 1,085,709 | 23,869 | 165,873 | 6,023 | 18,794 | 13,567 | 2,835,764 | 96,412 |
| Adjustment to Balance b/bwd | 4,876 | 0 | 0 | 0 | 0 | 0 | 0 | 4,876 | 0 |
| Additions | 29,157 | 65,607 | 678 | 3,551 | 335 | 0 | 35,759 | 135,087 | 0 |
| Revaluation increases / (decreases) recognised in Revaluation Reserve | (13,144) | 17,342 | 0 | 0 | 0 | 4,229 | 0 | 8,427 | 390 |
| Revaluation increases / (decreases) recognised in SoDoPS | (12,693) | (11,799) | 0 | 0 | 0 | (542) | 0 | (25,034) | 0 |
| Derecognise – Disposals | (12,431) | (136,955) | (238) | 0 | 0 | 0 | 0 | (149,624) | 0 |
| Derecognise – Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets reclassified (to) / from Held for Sale | 0 | (883) | 0 | 0 | 0 | (6,750) | 0 | (7,633) | 0 |
| Other movements in cost or valuation | (1,390) | (6,178) | 0 | 0 | 0 | 6,156 | (5,588) | (7,000) | 0 |
| **At 31 March 2018** | **1,516,304** | **1,012,843** | **24,309** | **169,424** | **6,358** | **21,887** | **43,738** | **2,794,863** | **96,802** |
| **Accumulated depreciation and Impairment** | | | | | | | | | |
| At 1 April 2017 | (51,725) | (5,967) | (11,571) | (33,497) | 0 | (390) | 0 | (103,150) | 0 |
| Depreciation charge | (23,971) | (16,571) | (2,637) | (2,687) | 0 | (244) | 0 | (46,110) | (1,554) |
| Depreciation written out to the Revaluation Reserve | 23,769 | 14,749 | 0 | 0 | 0 | 263 | 0 | 38,781 | 1,554 |
| Derecognise – Disposals | 202 | 1,936 | 216 | 0 | 0 | 0 | 0 | 2,354 | 0 |
| Other movements in depreciation and Impairment | 0 | 11 | 0 | 0 | 0 | (11) | 0 | 0 | 0 |
| **At 31 March 2018** | **(51,725)** | **(5,842)** | **(13,992)** | **(36,184)** | **0** | **(382)** | **0** | **(108,125)** | **0** |
| **Net Book Value:** | | | | | | | | | |
| At 31 March 2017 | 1,470,204 | 1,079,742 | 12,298 | 132,376 | 6,023 | 18,404 | 13,567 | 2,732,614 | 96,412 |
| **At 31 March 2018** | **1,464,579** | **1,007,001** | **10,317** | **133,240** | **6,358** | **21,505** | **43,738** | **2,686,738** | **96,802** |
| **Revaluations:** | | | | | | | | | |
| Historic Cost | 0 | 0 | 10,317 | 133,240 | 6,358 | 0 | 43,738 | 193,653 | 0 |
| At 31 March 2018 | 1,464,579 | 989,962 | 0 | 0 | 0 | 21,505 | 0 | 2,476,046 | 96,802 |
| At 31 March 2017 | 0 | 325 | 0 | 0 | 0 | 0 | 0 | 325 | 0 |
| At 31 March 2016 | 0 | 16,714 | 0 | 0 | 0 | 0 | 0 | 16,714 | 0 |

| Movements 2016/17 | Council Dwellings | Other Land and Buildings | Vehicles Plant Furniture and Equipment | Infrastructure Assets | Community Assets | Surplus assets | Assets under Construction | Total Property Plant and Equipment | PFI assets within PPE |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | | | | | |
| At 1 April 2016 | 1,412,513 | 1,048,814 | 21,362 | 149,538 | 5,968 | 12,773 | 3,339 | 2,654,307 | 91,613 |
| Additions | 35,109 | 40,741 | 2,731 | 16,341 | 55 | 0 | 10,228 | 105,205 | 0 |
| Revaluation increases / (decreases) recognised in Revaluation Reserve | 91,864 | 58,225 | 0 | 0 | 0 | (304) | 0 | 149,785 | 4,799 |
| Revaluation increases / (decreases) recognised in SoDoPS | (3,722) | (2,153) | 0 | 0 | 0 | 0 | 0 | (5,875) | 0 |
| Derecognise – Disposals | (11,502) | (37,444) | (224) | 0 | 0 | 0 | 0 | (49,170) | 0 |
| Derecognise – Other | 0 | 0 | 0 | (6) | 0 | 0 | 0 | (6) | 0 |
| Assets reclassified (to) / from Held for Sale | 0 | (17,922) | 0 | 0 | 0 | (560) | 0 | (18,482) | 0 |
| Other movements in cost or valuation | (2,333) | (4,552) | 0 | 0 | 0 | 6,885 | 0 | 0 | 0 |
| **At 31 March 2017** | **1,521,929** | **1,085,709** | **23,869** | **165,873** | **6,023** | **18,794** | **13,567** | **2,835,764** | **96,412** |
| **Accumulated depreciation and Impairment** | | | | | | | | | |
| At 1 April 2016 | (51,725) | (289) | (8,989) | (31,078) | 0 | (382) | 0 | (92,463) | 0 |
| Depreciation charge | (22,079) | (16,509) | (2,775) | (2,419) | 0 | (1,224) | 0 | (45,006) | (1,537) |
| Depreciation written out to the Revaluation Reserve | 21,892 | 15,754 | 0 | 0 | 0 | 1,231 | 0 | 38,877 | 1,537 |
| Impairment losses reversals recognised in the Revaluation Reserve | 0 | (5,274) | 0 | 0 | 0 | 0 | 0 | (5,274) | 0 |
| Derecognise – Disposals | 187 | 504 | 193 | 0 | 0 | 0 | 0 | 884 | 0 |
| Other movements in depreciation and Impairment | 0 | (153) | 0 | 0 | 0 | (15) | 0 | (168) | 0 |
| **At 31 March 2017** | **(51,725)** | **(5,967)** | **(11,571)** | **(33,497)** | **0** | **(390)** | **0** | **(103,150)** | **0** |
| **Net Book Value:** | | | | | | | | | |
| At 31 March 2016 | 1,360,788 | 1,048,525 | 12,373 | 118,460 | 5,968 | 12,391 | 3,339 | 2,561,844 | 91,613 |
| **At 31 March 2017** | **1,470,204** | **1,079,742** | **12,298** | **132,376** | **6,023** | **18,404** | **13,567** | **2,732,614** | **96,412** |
| **Revaluations:** | | | | | | | | | |
| Historic Cost | 0 | 0 | 12,298 | 132,376 | 6,023 | 0 | 13,567 | 164,264 | 0 |
| At 31 March 2016 | 0 | 19,958 | 0 | 0 | 0 | 490 | 0 | 20,448 | 0 |
| At 31 March 2017 | 1,470,204 | 1,059,784 | 0 | 0 | 0 | 17,914 | 0 | 2,547,902 | 96,412 |

## Depreciation

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

- Council Dwellings: 40 years
- Other Land and Buildings: 5 – 125 years
- Vehicles, Plant, Furniture and Equipment: 4 - 10 years
- Infrastructure: 30 – 120 years
- Surplus: 1 – 40 years
- Community Assets: The majority of these assets are not depreciated as they have an indeterminable life. Where a community asset is being used as an operational building, then it has been depreciated in line with the policy relating to that category of asset.

## Capital Commitments

As at 31 March 2018, the Authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to cost £72.6m. Similar commitments at 31 March 2017 were £39.8m. The major commitments are:

- Housing Projects - £20.5m
- Transportation Capital Programme - £3.6m
- Schools Capital Programme - £29.8m
- Regeneration projects - £16.3m

## Non Current Assets – Schools

As at 31 March 2018 the following schools converted to academy status during the year:

- Alderwood Primary
- Brantridge School
- Deansfield  Primary
- Foxfield Primary
- Greenacres Primary
- Halstow Primary
- Horn Park Primary
- Nightingale Primary
- Rockcliffe Manor Primary

- Southrise Primary
- Willowdene
- Woodhill Primary

This resulted in the sum of £116m being written out of the Royal Borough's Balance Sheet to reflect the granting of 125 year leases.

Revaluations

The Authority carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimations set out in the professional standards of the Royal Institution of Chartered Surveyors. In estimating fair value, regard has been given to the nature of the property by reference to its use, location, size, method of construction, age, all other relevant matters, and the prevailing market forces.
All Held for Sale assets, Surplus assets and Investment Properties are measured at fair value and have been categorised as having a level 3 input level in the fair value hierarchy, except for these valued at £1. Further information on fair value measurement can be found under accounting policies.

## Note 10 – Investment Properties

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

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| Rental income from investment property | 0 | 200 |
| **Net gain/(loss)** | **0** | **200** |

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

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

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Balance at start of the year | **0** | **0** |
| Transfers: | | |
| to/from property, plant and equipment | 0 | 7,000 |
| **Balance at end of the year** | **0** | **7,000** |

## Note 11 – Impairment Losses

The Authority's Valuer has assessed there has been no impairment with regards to the overall asset portfolio.

## Note 12 – Assets Held for Sale

| **Assets Held for Sale** | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| **Balance outstanding at start of year** | **6,451** | **21,455** |
| Assets newly classified as held for sale – Property, Plant and Equipment | 18,482 | 9,833 |
| Revaluation gains | 940 | 1,622 |
| Revaluation losses | (500) | 0 |
| Assets declassified as held for sale – Property, Plant and Equipment | 0 | (2,200) |
| Assets sold | (3,918) | (707) |
| **Balance outstanding at year-end** | **21,455** | **30,003** |

## Note 13 – Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The Capital Financing Requirement is analysed in the second part of the note.

| 2016/17 £000 | Capital Expenditure and Capital Financing | 2017/18 £000 |
|---|---|---|
| **612,339** | **Opening Capital Financing Requirement** | **622,847** |
| | **Capital Investment** | |
| 98,138 | Property, Plant and Equipment | 121,508 |
| 15,922 | Revenue expenditure funded from capital under statute | 6,982 |
| | **Sources of Finance** | |
| (15,402) | Capital receipts | (20,490) |
| (55,563) | Government grants and other contributions | (57,101) |
| (26,676) | Direct revenue contributions | (22,726) |
| (5,969) | MRP / loans fund principal | (6,359) |
| 58 | Reserved capital receipts | (70) |
| **622,847** | **Closing Capital Financing Requirement** | **644,591** |
| | | |
| | **Explanation of Movement in Year** | |
| (1,500) | Increase in underlying need to borrow (supported by government financial assistance) | (1,790) |
| 12,008 | Increase in underlying need to borrow (unsupported by government financial assistance) | 13,987 |
| 0 | Assets acquired under finance leases | 9,547 |
| **10,508** | **Increase / (decrease) in Capital Financing Requirement** | **21,744** |

## Note 14 – Private Finance Initiatives and Similar Contracts

The Authority has two PFI contracts.

**Provision of Neighbourhood Resource Centres (NRCs)**

A PFI agreement was signed in 2002 for the provision of three Centres. The three NRCs were designed to replace the Authority's four Homes for Elderly People and deliver a range of high quality services for older people. The NRCs opened between May and August 2004 and the contract is for 30 years. The Authority is leasing the sites to the Provider for 30 years at nil value and will be returned to the Authority for nil consideration at the end of the contract.

**Provision of two secondary schools**

The Authority entered into an agreement in 2009 for the provision of two schools, Crown Woods and Thomas Tallis. The schools came into operation during 2011/12 and the contract runs for 25 years. The sites were made available to the operator at nil value for the duration of the contract. In September 2014, Crown Woods converted to academy status. The Authority undertook a refinancing exercise of the PFI contract in 2016/17.

In accordance with the Code of Practice on Local Authority Accounting the assets provided under the PFI contracts and the sites provided by the Authority are recognised on the authority's Balance Sheet. Movements in value are detailed in the analysis movement on Property, Plant and Equipment.

Under these contracts the Authority paid £10.592m (NRCs) and £15.488m (secondary schools) in 2017/18. The Authority is required to make the following payments to the Providers of these contracts:

| | NRCs | | | Secondary Schools | | |
|---|---|---|---|---|---|---|
| **Year** | **Services £000** | **Interest £000** | **Capital £000** | **Services £000** | **Interest £000** | **Capital £000** |
| 2018/19 | 8,679 | 1,517 | 453 | 3,441 | 8,692 | 2,736 |
| 2019/20 to 2022/23 | 36,661 | 5,594 | 2,526 | 19,279 | 31,416 | 9,900 |
| 2023/24 to 2027/28 | 53,677 | 4,526 | 3,118 | 29,132 | 31,546 | 17,803 |
| 2028/29 to 2032/33 | 56,892 | 3,750 | 7,345 | 41,004 | 17,831 | 23,061 |
| 2033/34 to 2036/37 | 19,126 | 22 | 2,715 | 19,656 | 8,865 | 32,571 |
| **Total** | **175,035** | **15,409** | **16,157** | **112,512** | **98,350** | **86,071** |

Although the payments made to the contractors are described as unitary payments, they have been calculated to compensate the contractors for the fair value of the services delivered, the capital expenditure incurred in providing the facilities and interest payable. The payments under these PFI agreements are partially linked to Retail Price Index, adjusted for on an annual basis, and can be reduced if the contractor fails to meet the service or availability standards set-out in the contracts. The liability outstanding to pay the contractors for the capital expenditure incurred is as follows:

| | NRCs | | Secondary Schools | |
|---|---|---|---|---|
| **Outstanding Liability** | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| | **£000** | **£000** | **£000** | **£000** |
| **Balance outstanding at start of year** | **16,892** | **16,572** | **90,829** | **88,545** |
| Payments during the year | (320) | (415) | (2,284) | (2,473) |
| **Balance outstanding at year-end** | **16,572** | **16,157** | **88,545** | **86,072** |

The Authority has the right to terminate the contracts provided it compensates the contractors in full for all costs incurred, including the repayment of outstanding debt. In accordance with the contracts, the Authority may opt to refinance the PFIs through the contractors. During 2016/17 the Authority authorised the refinancing of its Secondary School PFI with the gain shared with the contractor. The savings realised by the Authority during 2017/18 and applied as a reduction in the interest charge was £0.440m (£0.235m 2016/17). The amounts held as deferred income in respect of this transaction at 31 March 2018 is:

| **PFI Deferred Income** | **2016/17** | **2017/18** |
|---|---|---|
| | **£000** | **£000** |
| Not later than one year | 440 | 403 |
| Later than one year and not later than five years | 1,417 | 1,297 |
| Late than five years | 2,405 | 2,122 |
| **Total** | **4,262** | **3,822** |

## S106 Liabilities

Section 106 receipts are monies paid to the Council by developers in relation to the granting of planning permission and typically detail works that are required to be carried out or relate to the provision of new facilities as a result of that permission (e.g. affordable homes, early years provision). These sums are ring-fenced and can only be spent as part of an agreement with the developer. As at 31st March 2018, the Council held £34.022m of S106 liabilities (£31.840m 2016/17).

# Note 15 – Leases

## Authority as Lessee

### Finance Leases

The Authority has an industrial estate and four premises held under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| **Finance Lease (Lessee)** | **2016/17** | **2017/18** |
|---|---|---|
| | **£000** | **£000** |
| Vehicles, Plant , Furniture and Equipment | 5,979 | 15,169 |

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the asset acquired and finance costs payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| **Finance Lease Liabilities (net present value of minimum lease payments)** | **2016/17** | **2017/18** |
|---|---|---|
| | **£000** | **£000** |
| Current | 1 | 1 |
| Non Current | 1,674 | 1,673 |
| Finance costs payable in future years | 5,416 | 5,335 |
| **Minimum lease payments** | **7,091** | **7,009** |

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

| **Finance Lease Liabilities** | **Minimum Lease Payments** | | **Finance Lease Liabilities** | |
|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| | **£000** | **£000** | **£000** | **£000** |
| Not later than one year | 82 | 82 | 82 | 82 |
| Later than one year and not later than five years | 326 | 326 | 326 | 326 |
| Late than five years | 6,683 | 6,601 | 7,009 | 6,928 |
| **Total** | **7,091** | **7,010** | **7,417** | **7,336** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 contingent rents payable by the Authority were £240,972 (2016/17: £211,687).

The Authority has sub-let some units of the industrial estate held under the finance lease. At 31 March 2018 the minimum payments expected to be received under non-cancellable sub-leases was £1,128,376 (£135,222 at 31 March 2017).

### Operating Leases

Property

The Authority has acquired some land and a number of buildings to assist with service provision throughout the Borough. The future minimum lease payments due under non-cancellable leases in future years are:

| Operating Leases | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Not later than one year | 1,018 | 977 |
| Later than one year and not later than five years | 2,302 | 1,601 |
| Later than five years | 10,298 | 10,058 |
| **Minimum Lease payments** | **13,618** | **12,636** |

The leases are held for a variety of reasons and are charged to their relevant service line in the Comprehensive Income & Expenditure Statement. The lease payments recognised as an expense in the period total £1,062,500 (£1,033,334 in 2016/17). The Authority has sub-let some of the assets held under the above operating leases. At 31 March 2018 the minimum payments expected to be received under non-cancellable sub-leases was £1,557,102 (£1,746,125 at 31 March 2017).

### Internal Leasing

The Authority operates an internal leasing fund for the acquisition of vehicles used principally in the provision of waste collection, building maintenance, street cleansing and passenger services. In 2017/18 the Authorities' accounts include expenditure to the value of £678,032 (£427,647 in 2016/17), which was funded by the internal leasing fund. Repayments were made to the fund in 2017/18 totalling £2,631,696 (£2,438,759 in 2016/17). The repayments are made to the fund to enable future replacement and are based on the expected primary life of the vehicle.

## Authority as Lessor

### Finance Leases

The Authority has leased out part of a Car Park (Calderwood Street) to a Building Management company on a finance lease with a remaining term of 110 years. The Authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated of the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| Finance Lease Debtor (net present value of minimum lease payments) | 2016/17 | 2017/18 |
|---|---|---|
| | £000 | £000 |
| Non-current | 307 | 307 |
| Unearned finance income | 7,923 | 7,848 |
| **Gross Investment in the Lease** | **8,230** | **8,155** |

The gross investment in the lease and the minimum lease payments will be received in the following periods:

| Finance Lease Debtor | Gross Investment in the Lease | | Minimum Lease Payments | |
|---|---|---|---|---|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| | £000 | £000 | £000 | £000 |
| Not later than one year | 75 | 75 | 75 | 75 |
| Later than one year and not later than five years | 299 | 299 | 299 | 299 |
| Later than five years | 7,856 | 7,781 | 7,856 | 7,781 |
| **Minimum Lease Payments** | **8,230** | **8,155** | **8,230** | **8,155** |

There have been no contingent rents received in respect of the Calderwood Street Car Park lease in 2017/18 (£nil in 2016/17).

## Operating Leases

The Authority leases out property and equipment under operating leases for the following purposes:

- For the provision of community services, such as sports facilities and community centres.
- For economic development purposes to provide suitable affordable accommodation for local businesses.

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

| Future Minimum Lease Payments | 2016/17 | 2017/18 |
|---|---|---|
| | £000 | £000 |
| Not later than one year | 3,397 | 3,866 |
| Later than one year and not later than five years | 10,104 | 11,069 |
| Later than five years | 20,665 | 20,561 |
| **Minimum Lease Payments** | **34,166** | **35,496** |

There have been no contingent rents received under operating lease agreements in 2017/18 (£nil in 2016/17).

# Note 16 - Financial Instruments

Categories of Financial Instruments

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

| | Carrying Value | | | |
|---|---|---|---|---|
| | Long Term | | Short Term | |
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| | £000 | £000 | £000 | £000 |
| Investments | | | | |
| Loans and Receivables | 438 | 1,591 | 179,118 | 212,101 |
| Available for Sale Financial Assets | 0 | 0 | 114,972 | 20,000 |
| **Total Investments** | **438** | **1,591** | **294,090** | **232,101** |
| Debtors* | | | | |
| Loans and Receivables | 4,677 | 10,150 | 51,831 | 55,394 |
| **Total Debtors** | **4,677** | **10,150** | **51,831** | **55,394** |
| **Cash & Cash Equivalents** | **0** | **0** | **24,549** | **59,807** |
| **Cash Overdrawn** | **0** | **0** | **(339)** | **(346)** |
| Borrowings | | | | |
| Financial Liabilities at amortised cost | (386,400) | (382,945) | (13,521) | (6,485) |
| **Total Borrowings** | **(386,400)** | **(382,945)** | **(13,521)** | **(6,485)** |
| Other Long Term Liabilities | | | | |
| PFI and Finance Lease Liabilities | (103,903) | (100,712) | (2,889) | (3,190) |
| **Total Other Long Term Liabilities** | **(103,903)** | **(100,712)** | **(2,889)** | **(3,190)** |
| Creditors** | | | | |
| Financial Liabilities at amortised cost | 0 | 0 | (36,817) | (32,811) |
| **Total Creditors** | **0** | **0** | **(36,817)** | **(32,811)** |

** The figure for short-term debtors (net of bad debts provision) excludes prepayments of £2.690m (2016/17 £1.509m) and also excludes Collection Fund and Government entries of £15.467m (2016/17 £18.557m). The figure for long-term debtors excludes Collection Fund entries of £0.822m.*

*** The figure for creditors excludes prepaid income of £5.043m (2016/17 £4.486m) and also excludes Collection Fund and Government entries of £54.247m (2016/17 £44.128m).*

Income, Expense, Gains and Losses

| Income, Expense, Gain and Loss | 2016/17 Financial Liabilities measured at amortised cost | 2016/17 Financial Assets: Loans and Receivables | 2016/17 Financial Assets: Available for Sale | 2017/18 Financial Liabilities measured at amortised cost | 2017/18 Financial Assets: Loans and Receivables | 2017/18 Financial Assets: Available for Sale |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest Expense | (28,318) | 0 | 0 | (26,678) | 0 | 0 |
| Interest Income | 0 | 154 | 1,016 | 0 | 0 | 843 |

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables, long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- based on rates for equivalent loans at that date (premature redemption rates for PWLB)
- no impairment is recognised
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

Except for the financial assets carried at fair value (described below), all other financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on Balance Sheet date (which could be viewed as a proxy for transfer value);
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Link Asset Services. This valuation applies the net present value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. The accounting policy uses early repayment rates to discount the future cash flows.

The fair values calculated are as follows:

| Liabilities | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Financial Liabilities | (533,042) | (854,498) | (493,678) | (830,212) |
| Creditors | (36,817) | (36,817) | (32,811) | (32,811) |

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

| Assets | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Loans and Receivables | 204,105 | 204,077 | 273,499 | 273,350 |
| Available for Sale | 114,972 | 114,987 | 20,000 | 20,000 |
| Short Term Debtors | 51,831 | 51,831 | 55,394 | 55,394 |
| Long Term Debtors | 4,677 | 4,677 | 10,150 | 10,150 |

The fair value of the assets is lower than the carrying amount where the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions as at 31 March 2018) attributable to the commitment to receive interest above current market rates. Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

## Note 17 - Nature and Extent of Risks Arising from Financial Instruments

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

### Overall Procedures for Managing Risk

The Authority's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. This requires the Authority to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Authority to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations.
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - the Authority's overall borrowing
  - its maximum and minimum exposures to fixed and variable rates
  - its maximum and minimum exposures to the maturity structure of its debt
  - its maximum annual exposures to investments maturing beyond a year.
- by the adoption of a Treasury Policy Statement and treasury management by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update. These policies are implemented by a central treasury team.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, investment securities and as credit exposures to the Authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- credit default swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries
- share prices
- UK institutions provided with support from the UK Government
- a £30m credit limit (with the exception of the UK Government)
- news and information from the City via Bloomberg and other sources.

The Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and securities. There has been no occurrence of a default with regard to the investments held at the Balance Sheet date. The S151 Officer has reviewed the portfolio and determined that no allowance is required for such within these accounts. The Authority does not generally allow credit for customers. The past due but not impaired amount (forming part of the Authority's debtors) can be analysed by age as follows (all sums owing are due to be settled within one year):

| **Debtor Age** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| Less than three months | 21,641 | 23,790 |
| Three to six months | 2,209 | 6,657 |
| Six months to one year | 3,911 | 3,201 |
| More than one year | 6,767 | 7,429 |
| **Total** | **34,528** | **41,077** |

Liquidity Risk

The Authority manages its liquidity position through the risk management procedures above, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed. The Authority has investments in Treasury Bills, which are classified as "Available for Sale", which are readily tradable in a liquid market. The Authority has ready access to borrowings from the money markets to cover any day- to-day cash flow need and the PWLB and money markets for access to longer-term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates (see Refinancing Risk).

## Refinancing Risk

The Authority maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Authority approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The Authority sets limits on the proportion of its fixed rate borrowing during specified periods. Interest rates on loans varied between 3.520% -11.625% (2016/17: 3.480% - 11.625%). The principal maturity analysis of financial liabilities is as follows:

| Principal Debt Maturity Profile | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Less than one year | 10,365 | 3,455 |
| Between one and five years | 15,201 | 13,128 |
| Between five and ten years | 15,201 | 13,819 |
| Between ten and twenty years | 67,370 | 67,370 |
| More than twenty years | 288,628 | 288,628 |
| **Total** | **396,765** | **386,400** |

Within the "more than twenty years" category, are £129m of market loans, many of which have options built into them whereby after a period of time, the lender may ask for the rate payable to be changed. The Authority has the option to either accept this increase or repay the loan in full, without penalty. The risk to the Authority is that these options are exercised at a time of unfavourable interest rates. The Authority keeps under review its long-term borrowing that can be undertaken on this basis. The option dates have been spread over several years to ensure that the risk of this scenario occurring is reduced. All trade and other payables are due to be paid in less than one year.

## Market Risk

Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs. The treasury management team has an active strategy for assessing interest rate exposure. The long-term borrowing of the Authority is held at a fixed rate and thus there would be no effect on the Comprehensive Income and Expenditure Statement, or the debit to the Housing Revenue Account, if interest rates were different from those that prevailed on the Balance Sheet date. Investments are also held at fixed rate.

Price Risk

The Authority does not generally invest in equity shares but does have holdings of Treasury Bills. The Authority is consequently exposed to gains or losses arising from movements in the prices of these instruments should it wish to sell them before their maturity date. The Treasury Bills are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. There has been no major change in interest rate expectation between the date on which the securities were acquired and the Balance Sheet date, the carrying value thus equates to the fair value of the Treasury Bills. It is the Authority's current policy not to trade the securities before their maturity date unless there are exceptional circumstances.

Foreign Exchange Risk

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

## Note 18 - Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are eligible to be members of the Teachers' Pension Scheme, administered by the Department for Education. Certain Public Health employees who transferred to the Authority on 1 April 2013 are eligible to be members of the NHS Pension Scheme. The Schemes provide relevant employees with specified benefits upon their retirement and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Schemes are technically defined benefit schemes. However, the Schemes are unfunded and use notional funds as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Schemes with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, they are accounted for on the same basis as defined contribution schemes.
In respect of Teacher's Pensions, the Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and included within Note 19.

| **Scheme** | **Year ending 31 March 2017** | | **Year ending 31 March 2018** | |
|---|---|---|---|---|
| | **Contributions paid** | **Percentage of pensionable pay** | **Contributions paid** | **Percentage of pensionable pay** |
| | **£000** | % | **£000** | % |
| Teacher's Pensions | 12,404 | 16.48 | 10,824 | 16.48 |
| NHS Pension scheme | 189 | 14.30 | 119 | 14.38 |
| **Total** | **12,593** | **-** | **10,943** | **-** |

**Total contributions paid into the Teachers' Pension Scheme in 2017/18 was £17.331m (£19.488m in 2016/17).*

# Note 19 - Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post- employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by the Royal Borough of Greenwich (RBG) – this is a funded defined benefit career average re-valued earnings 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. The Authority is an employer within the London Pension Fund Authority (LPFA), which is also a LGPS fund.
- Discretionary post- retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities and cash has to be generated to meet actual pensions payments as they eventually fall due. No further awards have been made since 2008 in respect of the LGPS. However, this facility remains as part of the Teachers' Pension Scheme.

The policy for recognising actuarial gains and losses is that actuarial gains and losses are recognised in the reserves i.e. in Other Comprehensive Income and Expenditure.

Transactions Relating to Post-employment Benefits

The costs of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions (in accordance with IAS 19). However, the charge required to be made against council tax is based on the cash payable in the year (derived from the employer contribution rates of 18.5% for RBG and 24.2% for LPFA, plus lump sums as required), therefore, the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| Total Expense Recognised in the Comprehensive I&E Statement for Post-Employment Benefits | LGPS (Funded) | | | | Discretionary Benefits (Unfunded) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016/17 | 2017/18 | | | 2016/17 | 2017/18 | | |
| | Total | RBG | LPFA | Total | Total | RBG | LPFA | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Comprehensive I&E Statement** | | | | | | | | |
| Cost of Services | | | | | | | | |
| Service cost comprising | | | | | | | | |
| Current service cost including admin expenses | **41,216** | 55,779 | 484 | **56,263** | - | - | - | **-** |
| Settlements and curtailments | **1,385** | (10,171) | - | **(10,171)** | - | - | - | **-** |
| Financing and Investment Income and Expenditure | | | | | | | | |
| Net interest expense | **18,160** | 17,739 | 142 | **17,881** | **2,008** | 1,466 | 70 | **1,536** |
| **Total Post Employment Benefit Charged to SoDoPS** | **60,761** | **63,347** | **626** | **63,973** | **2,008** | **1,466** | **70** | **1,536** |
| Other Post Employment benefit Charged to the Comprehensive I&E Statement | | | | | | | | |
| Re-measurement of the net defined benefit liability comprising: | | | | | | | | |
| Return on plan assets | **(149,797)** | 9,944 | (2,670) | 7,274 | - | - | - | **-** |
| Actuarial (gains) or losses arising on changes in demographic assumptions | **(27,252)** | - | - | - | - | - | - | **-** |
| Actuarial (gains) or losses arising on changes in financial assumptions | **404,981** | (63,136) | (2,687) | (65,823) | **6,754** | (1,039) | (69) | **(1,108)** |
| Other | **(79,823)** | - | - | - | - | - | - | **-** |
| **Total Post Employment Benefit Charged to the Comprehensive I&E** | **208,870** | **10,155** | **(4,731)** | **5,424** | **8,762** | **427** | **1** | **428** |
| **Movement in Reserves Statement** | | | | | | | | |
| Reversal of net charges made to SoDoPS for post- employment benefits (per Code) | **(60,761)** | (63,347) | (626) | **(63,973)** | **(2,008)** | (1,466) | (70) | **(1,536)** |
| **Actual amount charged against the General Fund Balance for Pensions in the Year** | | | | | | | | |
| Employer's contributions payable to the scheme | **29,164** | **26,544** | **218** | **26,762** | | | | |
| Retirement benefits payable to pensioners | | | | | **4,033** | **4,084** | **210** | **4,294** |

Pensions Assets and Liabilities recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of it defined benefits plans is as follows:

| **Pensions Assets and Liabilities recognised in the Balance Sheet** | **LGPS (Funded)** | | | |
|---|---|---|---|---|
| | **2016/17** | **2017/18** | | |
| | **Total** | **RBG** | **LPFA** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| Present value of defined benefit obligation | **(1,867,753)** | (1,766,701) | (85,240) | **(1,851,941)** |
| Fair value of plan assets | **1,182,934** | 1,104,562 | 83,898 | **1,188,460** |
| **Net liability arising from Defined Benefit Obligation** | **(684,819)** | **(662,139)** | **(1,342)** | **(663,481)** |

| **Pensions Assets and Liabilities recognised in the Balance Sheet** | **Discretionary Benefits (Unfunded)** | | | |
|---|---|---|---|---|
| | **2016/17** | **2017/18** | | |
| | **Total** | **RBG** | **LPFA** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| **Net liability arising from Defined Benefit Obligation** | **(59,436)** | **(52,650)** | **(2,920)** | **(55,570)** |

Reconciliation of the movements in the Fair Value of Scheme (Plan) Assets

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. However, from 2013/14 the expected return and the interest cost has been replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

| **Reconciliation of movements in the Fair Value of the scheme (plan) assets** | **Local Government Pension Scheme** | | | |
|---|---|---|---|---|
| | **2016/17** | | **2017/18** | |
| | **Total** | **RBG** | **LPFA** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| **Opening balance 1 April** | **1,020,639** | **1,099,327** | **83,607** | **1,182,934** |
| Interest on scheme assets | **37,327** | 29,461 | 1,876 | **31,337** |
| Re-measurement gain/ loss: | | | | |
| Return on assets less interest | **149,797** | (9,944) | 2,670 | **(7,274)** |
| Other | **(360)** | - | - | **-** |
| Administration expenses | **(914)** | (817) | (109) | **(926)** |
| Employer contributions | **33,197** | 30,628 | 428 | **31,056** |
| Contributions by scheme participants | **10,309** | 9,896 | 62 | **9,958** |
| Benefits paid | **(65,548)** | (48,766) | (4,636) | **(53,402)** |
| Settlements | **(1,513)** | (5,223) | - | **(5,223)** |
| **Closing balance 31 March** | **1,182,934** | **1,104,562** | **83,898** | **1,188,460** |

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

| **Reconciliation of present value of the Scheme Liabilities (Defined Benefit Obligation)** | **LGPS (Funded)** | | | | **Discretionary (Unfunded)** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2016/17** | | **2017/18** | | **2016/17** | | **2017/18** | |
| | **Total** | **RBG** | **LPFA** | **Total** | **Total** | **RBG** | **LPFA** | **Total** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Opening balance 1 April** | **(1,524,196)** | **(1,777,855)** | **(89,898)** | **(1,867,753)** | **(56,263)** | **(56,307)** | **(3,129)** | **(59,436)** |
| Current service cost | **(40,302)** | (54,962) | (375) | **(55,337)** | **-** | - | - | **-** |
| Interest cost | **(55,487)** | (47,200) | (2,018) | **(49,218)** | **(2,008)** | (1,466) | (70) | **(1,536)** |
| Contributions by scheme participants | **(10,309)** | (9,896) | (62) | **(9,958)** | **-** | - | - | **-** |
| Remeasurement gains and losses | **(326,192)** | 63,136 | 2,687 | **65,823** | **(7,564)** | 1,039 | 69 | **1,108** |
| Change in demographic assumptions | **24,886** | - | - | **-** | **2,366** | - | - | **-** |
| Experience loss/(gain) on defined benefit obligation | **2,204** | - | - | **-** | **-** | - | - | **-** |
| Benefits paid | **61,515** | 44,682 | 4,426 | **49,108** | **4,033** | 4,084 | 210 | **4,294** |
| Settlements | **(5,368)** | (1,262) | - | **(1,262)** | **-** | - | - | **-** |
| Curtailments | **5,496** | 16,656 | - | **16,656** | **-** | - | - | **-** |
| **Closing balance 31 March** | **(1,867,753)** | **(1,766,701)** | **(85,240)** | **(1,851,941)** | **(59,436)** | **(52,650)** | **(2,920)** | **(55,570)** |

Local Government Pension Scheme Assets

The Discretionary Benefits arrangement has no assets to cover its liabilities. The LGPS assets consist of the following categories, by amount and proportion of the total assets held:

| RBG Pension Fund | 2016/17 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| | Quoted price in active markets £000 | Not quoted price in active markets £000 | Total £000 | Quoted price in active markets £000 | Not quoted price in active markets £000 | Total £000 |
| UK and Overseas Unit Trusts | - | 357,169 | **357,169** | - | 389,938 | **389,938** |
| Unitised insurance policies | - | 291,362 | **291,362** | - | 299,013 | **299,013** |
| Equity investments | 48,979 | 62,823 | **111,802** | 1 | 98,291 | **98,292** |
| Bonds | - | 194,771 | **194,771** | - | 193,535 | **193,535** |
| Property | - | 110,910 | **110,910** | - | 112,144 | **112,144** |
| Cash | - | 33,313 | **33,313** | - | 11,640 | **11,640** |
| **Closing balance 31 March** | **48,979** | **1,050,348** | **1,099,327** | **1** | **1,104,561** | **1,104,562** |

| LPFA | 2016/17 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| | Quoted price in active markets £000 | Not quoted price in active markets £000 | Total £000 | Quoted price in active markets £000 | Not quoted price in active markets £000 | Total £000 |
| Equity investments | 49,541 | - | **49,541** | 51,301 | - | **51,301** |
| Property | - | 4,262 | **4,262** | - | 6,037 | **6,037** |
| Infrastructure | - | 4,402 | **4,402** | - | 3,670 | **3,670** |
| Target Return Portfolio | 17,666 | - | **17,666** | 18,803 | - | **18,803** |
| Cash | - | 7,736 | **7,736** | - | 4,087 | **4,087** |
| **Closing balance 31 March** | **67,207** | **16,400** | **83,607** | **70,104** | **13,794** | **83,898** |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels, etc. Both the LGPS and Discretionary Benefits liabilities have been assessed by Barnett-

Waddingham, an independent firm of actuaries, using data from the full triennial valuation as at 31 March 2016. The principal assumptions used by the actuary have been:

| **Assumptions** | **RBG** | | **LPFA** | |
|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| **Mortality assumptions (yrs)** | | | | |
| Longevity at 65 for current pensioners | | | | |
| Men | 22.5 | 22.6 | 20.8 | 20.9 |
| Women | 24.6 | 24.7 | 24.1 | 24.2 |
| Longevity at 65 for future pensioners | | | | |
| Men | 24.7 | 24.8 | 23.2 | 23.3 |
| Women | 26.9 | 27.0 | 26.3 | 26.4 |
| **Other assumptions (%)** | | | | |
| Rate of inflation (RPI) | 3.6 | 3.4 | 3.3 | 3.4 |
| Rate of inflation (CPI) | 2.7 | 2.4 | 2.4 | 2.4 |
| Rate of increase in salaries | 4.2 | 3.9 | 3.9 | 3.9 |
| Rate of increase in pensions | 2.7 | 2.4 | 2.4 | 2.4 |
| Rate for discounting scheme liabilities* | 2.7 | 2.6 | 2.3 | 2.5 |
| Take up of option to convert annual pensions into retirement lump sum | 50.0 | 50.0 | 50.0 | 50.0 |
| 50/50 take up | 10.0 | 10.0 | 10.0 | 10.0 |

*effectively also equal to the expected return.

RBG and LPFA assume all members will retire at one age for all tranches of benefit, which will be the weighted average tranche retirement age.

There have been marginal changes in the rate for discounting scheme liabilities between 2016/17 and 2017/18 for RBG and the LPFA scheme. RBG decreased by 0.15% and LPFA increased by 0.2%. Had the discount rate remained at 2016/17 levels, the defined benefits obligation for RBG would have decreased by £49m and LPFA would have increased by £2m.

| Change in Assumptions | Increase in assumption | | | Decrease in assumption | | |
|---|---|---|---|---|---|---|
| | RBG | LPFA | Total | RBG | LPFA | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Rate for discounting scheme liabilities (increase or decrease by 0.1 %) | (31,783) | (1,107) | **(32,890)** | 32,380 | 1,121 | **33,501** |
| Rate of increase in salaries (increase or decrease by 0.1 %) | 2,532 | 27 | **2,559** | (2,519) | (27) | **(2,546)** |
| Rate of increase in pensions (increase or decrease by 0.1 %) | 29,880 | 1,095 | **30,975** | (29,357) | (1,083) | **(30,440)** |
| Longevity (increase or decrease in 1 year) | 69,898 | 3,759 | **73,657** | (67,231) | (3,603) | **(70,834)** |

Asset and Liability Matching Strategy

Previously, synthetic equities, swaps and other Liability Driven Investment were included in the LDI/Cashflow matching category with any cash collateral included in the Cash category. This year, to reflect the way that the LPFA show this in their asset allocation, the synthetic equities have been grouped with traditional equities and the swaps and other Liability Driven Investment are grouped as Cash.

Impact on the authority's cash flows

The liabilities show the underlying commitments that the Authority has in the long run to pay post- employment (retirement) benefits. The total liability of £719.051m (2016/17: £744.255m) has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet resulting in an overall balance of £1.739bn (2016/17: £1.759bn). However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the LGPS will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The objective of the scheme is to achieve 100% funding. Funding levels are monitored on an annual basis. A triennial valuation was carried out as at 31 March 2016, utilising three pools of employers within the scheme. The valuation has taken account of the national changes to the scheme under the Public Pensions Services Act 2013. The Act provides for scheme regulations to be made within a common framework, to establish new career average re-valued earnings to pay pensions and other benefits to certain public servants. The next valuation will be calculated as at 31 March 2019, effective from 1 April 2020. The total contributions expected to be made in respect of funded defined benefits by the Authority in the year to 31 March 2019 are £26.430m. The weighted average duration of the defined benefit obligation for RBG scheme members is 18 years and LPFA scheme members 13 years.

## Note 20 - Short Term Debtors

| 31 March 2017 £000 | Short Term Debtors | 31 March 2018 £000 |
|---|---|---|
| 10,051 | Central government bodies | 6,638 |
| 10,262 | Other local authorities | 3,901 |
| 12,643 | NHS bodies | 12,039 |
| 38,941 | Other entities and individuals | 50,973 |
| **71,897** | **Total** | **73,551** |

Debtors are shown net of bad debts provision of £38.336m at 31st March 2018 and £38.401m at 31st March 2017.

## Note 21 - Short Term Creditors

| 31 March 2017 £000 | Short Term Creditors | 31 March 2018 £000 |
|---|---|---|
| (18,895) | Central government bodies | (21,227) |
| (14,092) | Other local authorities | (17,140) |
| (4,399) | NHS bodies | (2,409) |
| (48,045) | Other entities and individuals | (51,325) |
| **(85,431)** | **Total** | **(92,101)** |

## Note 22 – Provisions

| Provisions | 1 April 2017 £000 | Amounts Used/Reversed £000 | Additional Provisions £000 | 31 March 2018 £000 |
|---|---|---|---|---|
| Accumulated Absence | (6,491) | 6,491 | (7,655) | (7,655) |
| CRC Allowances | (250) | 483 | (466) | (233) |
| **Total (Short Term)** | **(6,741)** | **6,974** | **(8,121)** | **(7,888)** |
| Insurance | (7,968) | 0 | (53) | (8,021) |
| Business Rates Appeals | (2,895) | 0 | (1,351) | (4,246) |
| **Total (Long Term)** | **(10,863)** | **0** | **(1,404)** | **(12,267)** |

The Accumulated Absences provision represents the accrual for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March.

The Authority's internal insurance fund account is used to cover the cost of insurance. The fund is used to meet the insurance premiums, meet the cost of the insurance claims beneath the insurance excess and provide for insurance claims that have yet to be settled. Through the fund a wide range of insurance risks are covered. These include public liability, employer's liability, vehicles and fire. Claimants have up to three years to bring and injury claim and six years for a property damage claim. The council estimates those claims based on past experience and current trends and a provision is included. The costs within the Authority's internal insurance fund are met through contributions from departmental services towards the cost of insurance, through central support charges. The Authority previously used Municipal Mutual Insurance Limited to provide insurance cover, until its demise in the 1990s. MMI has continued to meet claims covering the period up until it ceased providing further cover. However, under the administration arrangements, there was provision for scheme creditors (of which the Authority is one) to be called upon to contribute to future scheme liability.

The Business Rates Appeals provision represents the Authority's share of contributions made to the Collection Fund Income and Expenditure Account for a provision in relation to business rate appeals.
The Authority is required to participate in the CRC Energy Efficiency Scheme. The Authority is required to purchase and surrender allowances, on the basis of emissions i.e. carbon dioxide produced as energy is used. A provision arises at the point at which the energy is consumed and carbon dioxide emitted. As at 31st March a balance of 1,000 credits was held with a cash value of £17,200.

## Note 23 - Agency Services

Mayoral CIL

The Authority acts as an Agent for Transport for London in respect of Mayoral (CIL) raised to support strategic infrastructure projects across the Capital, and is able to retain up to 4% for administration and collection purposes. During 2017/18 £0.267m was retained and as at 31 March 2018 £4.783m was held on behalf of Transport for London.

| **Mayoral (CIL)** | | |
|---|---|---|
| | **2016/17** | **2017/18** |
| | **£000** | **£000** |
| Balance at start of the year | **1,595** | **4,464** |
| Contributions | 6,678 | 6,938 |
| Recognised administration fee | (181) | (267) |
| Transfers to TfL | (3,628) | (6,352) |
| **Balance at end of the year** | **4,464** | **4,783** |

Thames Water

The council charges its Housing tenants for water rates on behalf of Thames Water. The amount repayable to Thames Water is reduced by a commission, void rate, arrears and impairment allowance for doubtful debt, all at fixed percentages based on the total water charge.

Water Rate receipts at the end of 2017/18 amounted to £6.985m, of which £5.927m was transferred to Thames Water. The commission element is £0.935m.

Council Tax and NDR
The collection of Council Tax and Business Rates income is in substance also an agency arrangement.

## Note 24 - Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

| **Dedicated Schools Grant** | **Central Expenditure £000** | **Individual Schools Budget £000** | **Total £000** |
|---|---|---|---|
| Final DSG for 2017/18 before academy recoupment | | | **277,145** |
| Academy figure recouped for 2017/18 | | | **(67,689)** |
| Total DSG after academy recoupment for 2017/18 | | | **209,456** |
| Brought forward from 2016/17 | | | **5,386** |
| Carry forward to 2018/19 agreed in advance | | | **(1,075)** |
| Agreed initial budgeted distribution in 2017/18 | 40,674 | 173,093 | **213,767** |
| In year adjustments | - | - | **-** |
| Final budgeted distribution for 2017/18 | 40,674 | 173,093 | **213,767** |
| Less actual central expenditure | (39,374) | - | **(39,374)** |
| Less actual ISB deployed to schools | - | (167,004) | **(167,004)** |
| **Carry forward to 2018/19** | 1,300 | 6,089 | **7,389** |

The total amount of reserves held by schools at 31 March 2018 was £12.671m (£9.981m at 31 March 2017)

## Note 25 - Pooled Budgets

Under the terms of a Section 75 Agreement (National Health Service Act 2006), a partnership arrangement exists between the Authority and Oxleas National Health Service Foundation Trust in respect of mental health. The pooled budgets meet the cost of providing all services for people from this client group.

| **Greenwich Integrated Mental Health Service** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| Funding provided to the pooled budget by | | |
| the Authority | (2,215) | (2,215) |
| the Trust | (23,803) | (23,789) |
| **Sub Total** | **(26,018)** | **(26,004)** |
| Expenditure met from the pooled budget by | | |
| the Authority | 2,288 | 2,311 |
| the Trust | 24,158 | 25,653 |
| **Sub Total** | **26,446** | **27,964** |
| **Net (surplus) / deficit arising on the pooled budget during the year** | **428** | **1,960** |

The national £3.8bn Better Care Fund (BCF) was announced by the Government in the June 2013 spending round as a mechanism for the transformation of integrated health and social care. From 2015/16, there was a national requirement to operate the BCF as a pooled budget. Resources would be transferred to individual Clinical Commissioning Groups (CCG's) from NHS England, and from the CCG's to the pooled budgets. Royal Greenwich and Greenwich CCG have entered into such an arrangement and an agreed level has been entered into a single pot that has then been used to commission or deliver health and social care services. The total BCF pot for Greenwich in 2017/18 (CCG and Greenwich) was £20.878m.

| **Better Care Fund** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| Pooled Budget Funding | | |
| the Authority | (14,371) | (13,070) |
| the Greenwich CCG | (5,981) | (7,808) |
| **Sub Total** | **(20,352)** | **(20,878)** |
| Expenditure incurred from pooled budget | | |
| the Authority | 13,749 | 12,913 |
| the Greenwich CCG | 4,200 | 7,808 |
| **Sub Total** | **17,949** | **20,721** |
| **Net (surplus) / deficit arising on the pooled budget during the year** | **(2,403)** | **(157)** |

## Note 26 - External Audit Costs

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

| External Audit Costs | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year | 203 | 195 |
| Fees payable to external auditors for the certification of grant claims and returns for the year. | 101 | 96 |
| Fees payable in respect of other services provided by external auditors during the year | 0 | 10 |
| Public Sector Audit Appointments (PSAA) Rebate | 0 | (29) |
| **Total** | **304** | **272** |

## Note 27 - Related Parties

The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. The UK Government exerts significant control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides a significant amount of its funding in the form of grants and prescribes the terms of many transactions that the Authority has with other parties (e.g. housing benefits). Grants received from government departments are set out in Note 5 Taxation and Grant Income.

**Officers**

- P Denney, an employee of the Authority, was a non-financial director of Jamma Umoja Family Residential Assessment Services and is also married to an employee of the company (who is not a manager, has shares or any financial interest). An amount of £59,815 was paid to the organisation from the Authority during the year, prior to her commencing employment with the Authority on 01/03/2018.
- T Dorling, an employee of the Authority, is a director of D G Cities Limited. See note below.
- K Gibbs, an employee of the Authority, is a director of GSP and GSS. See note below.
- I Tasker, an employee of the Authority, was a director of GSP and GSS between September and December 2017, and is now seconded to both companies as Interim Chief Operations Officer. See note below.

**Members**

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 28.

- Councillor Austen, acting in a personal capacity - chair of Shrewsbury House Community Centre. An amount of £30,662 was paid to the organisation from the Authority during the year.
- Councillor Hartley, acting in a personal capacity - director of Greenwich & Bexley Credit Union. An amount of £17,500 was paid to the organisation for support costs from the Authority during the year. Further payments for investments on behalf of members were paid over from the Authority to the amount of £1,567,729 during the year.
- Councillor Khan, acting in a personal capacity - member of the London Fire and Emergency Planning Authority. An amount of £26,716 was paid to the organisation from the Authority during the year.
- Councillor MacCarthy, acting in a personal capacity - member of the board of the Greenwich Dance Agency. An amount of £148,910 was paid to the organisation from the Authority during the year. An amount of £30,300 was outstanding at year-end.
- Councillor May, a member of the Authority, is married to an employee of Bikeworks CIC. An amount of £201,016 was paid to the organisation from the Authority during the year. An amount of £30,303 was outstanding at year-end.
- Councillor Offord, acting in a personal capacity, is on the management committee of the Greenwich Toy and Leisure Library Association. An amount of £171,959 was paid to the organisation from the Authority during the year. An amount of £35,634 was outstanding at year-end.
- Councillor C Parker, acting in a personal capacity - trustee of the Age Exchange, Blackheath. An amount of £9,430 was paid to the organisation from the Authority during the year.
- Councillor G Parker, acting in a personal capacity, holds a general management position in SE London Chamber of Commerce. An amount of £28,839 was paid to the organisation during the year, with £2,450 outstanding at year-end.

Some Members of the Authority are nominated to the board of local organisations as Authority Appointed Members and have declarable transactions not listed above, as follows:

| Name of Organisation | Councillor(s) | Value of Transactions £ | Outstanding Balances £ |
|---|---|---|---|
| **The Archway Project** | Councillor S James | 18,634 | 0 |
| **The Bridge** | Councillor S Brain | 490,974 | 0 |
| **Charlton Triangle Homes** | Councillor N Adams<br>Councillor A Hisbani<br>Councillor C Kirby<br>Councillor A MacCarthy<br>Councillor S Offord | 35,873 | 0 |
| **Children's Trust Board (The)** | Councillor D Hyland<br>Councillor S James<br>Councillor J Smith | 252,806 | 0 |
| **Royal Borough of Greenwich Destination Tourism Management Company** | Councillor D Hyland<br>Councillor D Scott McDonald | See note below | See note below |
| **DG Cities Limited** | Councillor A Hisbani<br>Councillor S James | See note below | See note below |
| **Greenwich & Docklands International Festival** | Councillor B Barwick | 204,249 | 11,093 |
| **Greenwich Academy Trust** | Councillor J Fahy | 10,841 | 0 |
| **Greenwich Co-operative Development Agency** | Councillor H Singh<br>Councillor A Hisbani | 380,608 | 71,984 |
| **Greenwich Dance Agency** | Councillor N Adams | 148,910 | 30,000 |
| **Greenwich Housing Rights** | Councillor M Khan | 129,700 | 1,493 |
| **Greenwich Leisure Ltd** | Councillor L Bird<br>Councillor P Brooks<br>Councillor H Singh<br>Councillor J Smith<br>Councillor D Stanley<br>Councillor M Williams | 8,732,765 | 1,859 |
| **Greenwich Peninsula Estate Management Co.** | Councillor D Scott McDonald | 5,255 | 0 |
| **Greenwich Services Plus** | Councillor P Brooks | See note below | See note below |
| **Greenwich Service Solutions** | Councillor P Brooks | See note below | See note below |
| **Greenwich Theatre Board** | Councillor N Adams<br>Councillor S Brain | 116,108 | 25,000 |

| | | | |
|---|---|---|---|
| **Greenwich Young People's Theatre** | Councillor J Smith | 80,717 | 16,250 |
| **London Councils (Grants Committee)**<br><br><br>**London Councils (Greater London Employment Forum)**<br><br>**London Councils (Leaders Committee)**<br><br><br><br><br>**London Councils (Pensions Collective Investment Vehicle)**<br>**London Councils (Transport & Environment Committee)** | Councillor M O'Mara<br>Councillor D Scott McDonald<br><br>Councillor C Kirby<br><br>Councillor J Fahy (Deputy)<br>Councillor D Hyland<br>Councillor M O'Mara (Deputy)<br>Councillor D Thorpe (Deputy)<br><br>Councillor D Austen<br>Councillor J Smith<br>Councillor D Thorpe | 8,751,019 | 0 |
| **Long Lane Football Club** | Councillor D Stanley | 180,994 | 0 |
| **Middle Park Community Centre** | Councillor C May<br>Councillor C Morris | 76,224 | 0 |
| **MIND Management Committee (Greenwich Mind)** | Councillor M Morrow | 329,468 | 43,900 |
| **New Charlton Community Centre** | Councillor B Barwick | 38,098 | 0 |
| **Oxleas Foundation Trust** | Councillor D Gardner | 14,634,782 | 129,958 |
| **Royal Greenwich Heritage Trust** | Councillor G Parker<br>Councillor D Scott McDonald | See note below | See note below |
| **South East Enterprise** | Councillor S James | 165,625 | 0 |
| **Twinkle Park Trust** | Councillor A Smith | 5,000 | 0 |
| **Wide Horizons Outdoor Education Trust** | Councillor C May<br>Councillor P Brooks | 5,386 | 0 |
| **Woolwich Carnival Committee** | Councillor J Fahy | 13,000 | 0 |

## Other Public Bodies

The Authority has entered into a pooled budget agreement with Oxleas NHS Foundation Trust as outlined in Note 25.

### Eltham Crematorium

The Authority runs the Eltham Crematorium under a joint committee arrangement with the London Borough of Bexley and Dartford Borough Council.

| 2016/17 £000 | Eltham Crematorium Transactions | 2017/18 £000 |
|---|---|---|
| 1,108 | Amounts held in Royal Borough of Greenwich bank account | 1,003 |
| 195 | Annual Support Service Cost | 184 |
| 435 | Surplus Distribution | 512 |

### Pension Fund

The Royal Borough of Greenwich is the Administering Authority for the Royal Borough of Greenwich Pension Fund.

| 2016/17 £000 | Pension Fund Transactions | 2017/18 £000 |
|---|---|---|
| 759 | Annual Support Service Cost | 851 |
| 28,218 | Employer Contributions into the Fund | 27,233 |

## Entities Controlled or Significantly Influenced by the Authority

### Greenwich Service Solutions Limited (GSS) – subsidiary

Established in 2008 with a share capital of one hundred £1 shares, GSS activities include:

- Catering
- Cleaning
- Facilities Management.

Greenwich Service Plus Limited (GSP) – subsidiary

Established in 2009, limited by guarantee, GSP is a Teckal company undertaking activities including:

- Catering
- Fleet Management and Maintenance
- Passenger Services
- Building Cleaning
- Facilities Management.

D G Cities Limited. – subsidiary

Formed in 2015 with a share capital of one hundred £1 shares, DG Cities Ltd is a wholly owned Council company. The company was established to advance the Council's work on the digital economy, smart city innovation, and secure innovation funding for the Borough.

Transactions during the year included payments to DG Cities Ltd from RBG for reimbursement of costs in delivery of various Projects. The cost to RBG will be negated with funding provided by Government bodies.

Royal Borough of Greenwich Destination Management Company (RBGDMC) – associate

Established in 2013, RBGDMC is a community interest company, which was formed between six parties:

- Royal Borough of Greenwich
- Greenwich Hospital
- Ansco Arena Limited
- Enderby Wharf Limited
- Greenwich Trading Company Limited
- National Maritime Museum.

The Board has capacity for thirteen directors, with the authority appointing two, each other member appointing one and six to be appointed by those seven directors.

Its main objectives are to promote tourism and investment into the Royal Borough, and contribute to enhancing perceptions of the Royal Borough of Greenwich as a place to visit, live, work and study.

Royal Greenwich Heritage Trust (RGHT) - associate

Established in 2014, RGHT is a Charitable Incorporated Organisation. The Board has capacity for thirteen trustees, with the authority appointing two. A formal Transfer Agreement between the authority and RGHT included Charlton House, the Greenwich Heritage Centre & the Tudor Barn in Eltham.

RGHT will act in the role of custodian for certain borough memorials and includes as its key charitable objectives:

- Care and conservation of assets
- Education concerning the history of the Royal Borough.

**Related Party Transactions of Entities Controlled or Significantly Influenced by the Authority**

| 2016/17 | | | | Transactions | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| Payable £000 | Creditor £000 | Receivable £000 | Debtor £000 | | Payable £000 | Creditor £000 | Receivable £000 | Debtor £000 |
| (154) | 0 | 0 | 0 | GSS | (3) | 0 | 0 | 0 |
| (28,167) | (3,231) | 3927 | 3356 | GSP | (31,570) | (4,321) | 3,998 | 3,575 |
| (189) | 0 | 43 | 0 | D G CITIES | (317) | (6) | 47 | 0 |
| (389) | 0 | 19 | 0 | RBGDMC | (322) | 0 | 20 | 10 |
| (680) | 0 | 66 | 0 | RGHT | (719) | (8) | 54 | 12 |

## Note 28 - Members' Allowances

The Authority paid the following amounts to members of the Authority during the year.

| Members Allowances | 2016/17 £ | 2017/18 £ |
|---|---|---|
| Allowances | 948,434 | 949,060 |

## Note 29 - Officers' Remuneration

### Senior Employees

The remuneration paid to the Authority's senior employees is as follows:

| Post Title | Note | Name | Year | Salary, Fees and Allowances £ | Compensation for loss of office £ | Pension Contributions £ | Totals £ |
|---|---|---|---|---|---|---|---|
| Chief Executive (Section 151 Officer) | 1 | D Warren | 2017/18 | 188,379 | | 34,850 | 223,229 |
| | 2 | J Comber | 2017/18 | 79,483 | | 14,704 | 94,187 |
| | | | 2016/17 | 188,870 | | 34,941 | 223,811 |
| Director of Finance | 3 | | 2017/18 | 138,054 | | 25,540 | 163,594 |
| | | D Warren | 2016/17 | 175,908 | | 32,543 | 208,451 |
| Director of Children's Services | | | 2017/18 | 132,613 | | 24,533 | 157,146 |
| | | | 2016/17 | 75.132 | | 13,900 | 89,032 |
| | | | 2016/17 | 75,189 | | - | 75,189 |
| Director of Regeneration, Enterprise and Skills | | | 2017/18 | 148,110 | | 27,364 | 175,474 |
| | | | 2016/17 | 146,467 | | 27,093 | 173,560 |
| Director of Housing & Safer Communities | 4 | | 2017/18 | 33,153 | | 6,133 | 39,287 |
| | 5 | J O'Malley | 2017/18 | 154,338 | | 23,643 | 177,981 |
| | | | 2016/17 | 139,357 | 67,407 | 19,009 | 225,773 |
| Director of Communities & Environment (Deputy Chief Exec) | 6 | K Delaney | 2017/18 | 159,816 | | 29,566 | 189,382 |
| | | | 2016/17 | 126,249 | | 23,356 | 149,605 |
| Head of Legal | | | 2017/18 | 102,129 | | 18,872 | 121,000 |
| Head of Legal | | | 2016/17 | 49,992 | | 9,242 | 59,234 |
| Head of Law and Governance | | | 2016/17 | - | 133,480 | - | 133,480 |
| Director of Health and Adult's Services | | S Pearce | 2017/18 | 150,656 | | 27,836 | 178,492 |
| | | | 2016/17 | 126,250 | | 23,356 | 149,606 |

1. D Warren began acting up into the Chief Exec role from her substantive role of Director of Finance and Deputy Chief Exec on 01.08.17
2. Previous post holder last day of service 31.08.2017
3. Post holder began acting up into Director of Finance role from substantive role of Senior Assistant Director of Finance on 01.08.17
4. Post holder commenced service on 01.01.2018
5. Substantive role of Senior Assistant Director
6. K Delaney assumed the additional responsibility of Deputy Chief Exec from 01.08.17

## Officer Bandings

The Authority's employees receiving more than £50,000 remuneration for the year, including the senior officers listed above (but excluding employer's pension contributions) were paid the following amounts:

| Remuneration Band | 2016/17<br>No of employees | 2017/18<br>No of employees |
|---|---|---|
| £50,000 - £54,999 | 251* | 236* |
| £55,000 - £59,999 | 156* | 134* |
| £60,000 - £64,999 | 74* | 73* |
| £65,000 - £69,999 | 63* | 46 |
| £70,000 - £74,999 | 40* | 37* |
| £75,000 - £79,999 | 26* | 25* |
| £80,000 - £84,999 | 17* | 9* |
| £85,000 - £89,999 | 13* | 17 |
| £90,000 - £94,999 | 13* | 8 |
| £95,000 - £99,999 | 7* | 7 |
| £100,000 - £104,999 | 7* | 5 |
| £105,000 - £109,999 | 6* | 0 |
| £110,000 - £114,999 | 4* | 5 |
| £115,000 - £119,999 | 3* | 1 |
| £120,000 - £124,999 | 1* | 0 |
| £125,000 - £129,999 | 3* | 0 |
| £130,000 - £134,999 | 3* | 1 |
| £135,000 - £139,999 | 0 | 2 |
| £140,000 - £144,999 | 1* | 2 |
| £145,000 - £149,999 | 2 | 1 |
| £150,000 - £154,999 | 0 | 2 |
| £155,000 - £159,999 | 0 | 1 |
| £160,000 - £164,999 | 0 | 0 |
| £165,000 - £169,999 | 1* | 0 |
| £170,000 - £174,999 | 0 | 0 |
| £175,000 - £179,999 | 1 | 0 |
| £180,000 - £184,999 | 0 | 0 |
| £185,000 - £189,999 | 1 | 1 |
| £190,000+ | 1* | 0 |

* includes amounts payable in respect of compensation for loss of office

### Termination Benefits

A number of employee contracts have been terminated. Amounts contained within the Accounts relating to their remuneration by way of redundancy / other payments made are shown below. An element relating to pension fund strain is also recorded within the figures. The strain is calculated under IAS19, but the amounts actually payable by the Authority to the relevant pension fund are calculated separately and are on a different basis. The vast majority of the strain is taken into account at each triennial valuation - totals within the bandings below for the year include £0.632m relating to pension strain (£1.996m in 2016/17). The numbers of exit packages with total value per band and total cost of the compulsory and other redundancies are set out in the table below:

| **Exit Package Cost Band** | **Compulsory Redundancies** | | **Other Departures Agreed** | | **Total Exit Packages by Cost Band** | | **Total Cost of Exit Packages in each Band*** | |
|---|---|---|---|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| | **No** | **No** | **No** | **No** | **No** | **No** | **£** | **£** |
| £0 - £20,000 | 2 | 0 | 132 | 58 | 134 | 58 | £1,476,596 | £446,248 |
| £20,001 - £40,000 | 0 | 0 | 65 | 32 | 65 | 32 | £1,729,364 | £958,097 |
| £40,001 - £60,000 | 1 | 0 | 30 | 8 | 31 | 8 | £1,765,025 | £380,088 |
| £60,001 - £80,000 | 0 | 0 | 22 | 6 | 22 | 6 | £1,521,645 | £421,406 |
| £80,001 - £400,000 | 0 | 0 | 6 | 2 | 6 | 2 | £623,958 | £286,699 |
| **Total** | **3** | **0** | **255** | **106** | **258** | **106** | **£7,116,588** | **£2,492,538** |
| Creditors | | | | | | | **£94,412** | **£143,413** |
| **Cost Charged to the Comprehensive I&E Statement** | | | | | | | **£7,211,000** | **£2,635,951** |

## Note 30 - Contingent Liabilities

As at 31 March 2018, the Authority had no material contingent liabilities.

## Note 31 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The accounts contain estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's balance sheet at 31 March 2018 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainty | Effect if actual results differ from assumptions |
|---|---|---|
| Arrears | At 31 March 2018, the Authority had a general fund balance of sundry debtors totalling £51.8m. A review of significant balances suggested that an impairment of doubtful debts of 8.7% (£4.5m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient. | If collection rates attributable to collecting aged general fund debt were to deteriorate by 5%, the allowance would need to increase by £2.6m. |
| Business Rates | The Authority must meet its relevant share of backdated business rate appeals. A provision has been made within the accounts, utilising Valuation Office data, previous experience, facts and intelligence gathered, as at the end of the reporting period. | It is possible that the estimate provided may not be sufficient to meet claims arising e.g. through greater success rates than previously experienced. |
| Fair Value Estimations | When the fair values of surplus assets, investment properties and assets held for sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Authority's assets.<br>Where Level 1 inputs are not available, the Authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value. | The Authority primarily uses evidence of property transactions and market interest in properties not yet transacted to measure the fair value of its surplus assets, investment properties and assets held for sale. The significant unobservable inputs used in the fair value measurement include judgements made by valuers on how to apply such evidence.<br><br>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for surplus assets and assets held for sale. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements, including those relating to:<br><br>• the discount rate used<br>• the rate at which salaries are projected to increase<br>• the rate at which pensions are projected to increase<br>• longevity rates.<br><br>A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied. | The effect upon the net pensions liability of changes in individual assumptions can be measured and these are disclosed within note 19. If their longevity was actually more representative of someone that was one year older, liabilities would increase by £74m (and decrease by £71m if one year younger). If discount rates had maintained their 2016/17 levels, then the net pensions liability would have decreased by £46m compared to that calculated herein. However, the assumptions interact in complex ways and during 2017/18, the actuaries advised that, overall, the net pensions liability had decreased by £25m as a result of updating estimates to reflect current market conditions. |
| PFI / Finance Leases | These arrangements have an implied finance lease within the agreement which (on a constant basis) has been used to calculate future payments disclosed within the accounts. | The PFI arrangements are inherently long term in nature. Fluctuations in the inflation indexation could result in future payments being higher than presented. |
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic environment makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.1m for every year that useful lives had to be reduced. |

## Note 32 - Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the new or amended standards within the 2018/19 Code.  New standards contained in the 2018/19 code that will apply from 1st April 2018 are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- IFRS 16 Leases

**IFRS 9** includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model. The full impact is still currently being assessed but it is anticipated that, due to the classification and security of the majority of our financial instruments, it is unlikely to have a material impact on the financial statements.

**IFRS 15** introduces a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards. This new approach is not expected to have a material impact on the financial statements.

Amendments to **IAS 12** clarify how to account for deferred tax assets related to debt instruments measured at fair value and only apply to group accounts. Amendments to **IAS 7** may require additional disclosures around changes in liabilities arising from financing activities. Neither of these amendments is considered to have a material impact on the financial statements.

# Note 33 - Critical Judgements in Applying Accounting Policies

Significant judgements are made by management in applying accounting policies, which could have a material effect upon the accounts.

<u>Group Boundaries</u>

The group boundaries have been estimated using the criteria associated with the Code. In line with this, the Authority has identified three subsidiaries and two associates. The authority has deemed that the activities of these entities are not sufficient to produce full group accounts.

<u>Leases</u>

The Authority classifies these as either operational or finance leases. It is not always clear which type may be the correct one to use and as such, the Authority uses judgement to determine whether the lease is a finance lease (i.e. it transfers substantially the risks and rewards relating to ownership) or not (in which case it is an operating lease).

<u>PFI and Similar Contracts</u>

The Authority has made judgements as to whether PFI and similar contracts require to be accounted for on the Balance Sheet. These judgements are based on whether the Authority controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price and whether the Authority controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement.

<u>Asset Classifications</u>

The Authority has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the Authority is holding the asset. If the asset is used in the delivery of services or is occupied by third parties that are subsidised by the Authority it is deemed to be a Property, Plant and Equipment asset. If there were no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.

<u>Schools</u>

There are several types of school within the borough. The Code in relation to their recognition on the balance sheet is an area that has been supplemented by Technical Guidance and the authority has undertaken a review of schools on a case by case basis. The Authority recognises schools' assets on the balance sheet where future economic benefits or service potential associated with the school will flow to the authority. Control over service potential is based on control over use of assets over their useful life. The table outlines the types of school within the borough and whether they appear on the authority's balance sheet. Furthermore, schools held on the balance sheet are disposed for nil consideration when they transfer to Academy status.

| School Type | On Balance Sheet |
|---|---|
| Community | ✓ |
| Voluntary Controlled (VC) | ✓ |
| Voluntary Aided (VA) | ✗ |
| Trust | ✗ |
| Foundation | ✗ |
| Academies | ✗ |
| Independent | ✗ |
| Free schools | ✗ |

## Note 34 - Material Items of Income and Expense

The Authority recognises that materiality has both quantitative and qualitative characteristics and for the purposes of this note, considers that level to be £20m. There are no material items that have not been disclosed on the face of the Comprehensive Income and Expenditure Statement or elsewhere within the Accounts

## Note 35 - Events after the Reporting Period

The Statement of Accounts was authorised for issue by the S151 Officer on 18 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. There were no adjusting events taking place between the reporting period end and the authorised for issue date.

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:

### Schools Transferring to Academy Status

Wingfield Primary School is seeking to convert to academy status in 2018/19 and has received approval to convert from the Department of Education. This asset is classed as Other Land & Buildings within Property, Plant and Equipment at a value of £18m.

Academy Order received in June 2018, in respect of John Roan School, for conversion during 2018/19.

# Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statements show the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates.

| Income and Expenditure Account | Note | Council Tax £000 | Business Rates £000 | Total 31/03/17 £000 | Council Tax £000 | Business Rates £000 | Total 31/03/18 £000 |
|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | |
| Council Tax Income | 4 | (104,901) | 0 | **(104,901)** | (112,027) | 0 | **(112,027)** |
| Business Rates Receivable | 5 | 0 | (82,711) | **(82,711)** | 0 | (88,349) | **(88,349)** |
| Business Rates Supplement | 6 | 0 | (2,515) | **(2,515)** | 0 | (2,720) | **(2,720)** |
| Business Rates Transitional Payments | | 0 | (108) | **(108)** | 0 | 5,013 | **5013** |
| **Total Income** | | **(104,901)** | **(85,334)** | **(190,235)** | **(112,027)** | **(86,056)** | **(198,083)** |
| **Expenditure** | | | | | | | |
| **Precepts and Demands** | | | | | | | |
| Council Tax | | | | | | | |
| Royal Borough of Greenwich | | 75,838 | 0 | **75,838** | 83,223 | 0 | **83,223** |
| Greater London Authority | | 20,517 | 0 | **20,517** | 21,757 | 0 | **21,757** |
| Business Rates | | | | | | | |
| Royal Borough of Greenwich | | 0 | 20,668 | **20,668** | 0 | 21,389 | **21,389** |
| Greater London Authority | | 0 | 13,778 | **13,778** | 0 | 26,380 | **26,380** |
| Central Government | | 0 | 34,446 | **34,446** | 0 | 23,528 | **23,528** |
| Business Rates Supplement | 6 | 0 | 2,510 | **2,510** | 0 | 2,713 | **2,713** |
| **Previous Year's Surplus/(Deficit)** | | | | | | | |
| Council Tax | 7 | 13,114 | 0 | **13,114** | 8,975 | 0 | **8,975** |
| Business Rates | 7 | 0 | (3,269) | **(3,269)** | 0 | 6,767 | **6,767** |
| **Collection Fund Charges** | | | | | | | |
| Council Tax bad debts | 8 | 2,430 | 0 | **2,430** | 807 | 0 | **807** |
| Business Rates bad debts | 9 | 0 | 930 | **930** | 0 | 360 | **360** |
| Business Rates appeals | 10 | 0 | 2,074 | **2,074** | 0 | 4,505 | **4,505** |
| Business Rates cost of collection | | 0 | 277 | **277** | 0 | 290 | **290** |
| Business Rates Supplement cost of collection | 6 | 0 | 5 | **5** | 0 | 8 | **8** |
| Business Rates transitional payments | | 0 | 108 | **108** | 0 | (5,013) | **(5,013)** |
| Interest | | 0 | 1 | **1** | 0 | 0 | **0** |
| **Total Expenditure** | | **111,899** | **71,528** | **183,427** | **114,762** | **80,927** | **195,689** |
| **(Surplus) / Deficit for Year** | | **6,998** | **(13,806)** | **(6,808)** | **2,735** | **(5,129)** | **(2,394)** |

| Fund Statement (£000) | Note | Council Tax £ | Business Rates £ | Total 31/03/17 £ | Council Tax £ | Business Rates £ | Total 31/03/18 £ |
|---|---|---|---|---|---|---|---|
| **Fund Balance B/F** | | **(21,028)** | **3,196** | **(17,832)** | **(14,030)** | **(10,610)** | **(24,640)** |
| (Surplus) / Deficit for Year | | 6,998 | (13,806) | (6,808) | 2,735 | (5,129) | (2,394) |
| **Fund Balance C/F** | 11 | **(14,030)** | **(10,610)** | **(24,640)** | **(11,295)** | **(15,739)** | **(27,034)** |

## Note 1 - The Council Tax System

The council tax is the means of raising income from local residents to pay for services within the Royal Borough. The council tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The Valuation Office has appointed a Listing Officer for the Royal Borough who is responsible for property valuations, valuation registers and appeals. Council tax collected in the Borough is split between relevant preceptors, the Borough (79%) and the GLA (21%).

## Note 2 - The Business Rates System

The business rate is the means of raising income from local businesses to pay for services within the Royal Borough. The business rate is levied on non-domestic properties and the charge is based on the valuation band assessed for each premise. The Valuation Office has appointed a Listing Officer for the Royal Borough who is responsible for property valuations, valuation registers and appeals. Business rates collected in the Borough is split between relevant preceptors, the Borough (30%), the GLA (37%) and Central Government (33%).

## Note 3 - Accounting Policies

The Collection Fund Income and Expenditure Account is prepared on an accruals basis and complies with appropriate regulations and the Code of Practice on Local Authority Accounting. The transactions of the Collection Fund are wholly prescribed by legislation. The year-end surplus or deficit on the Collection Fund is apportioned between the relevant interested parties.

## Note 4 - Council Tax Income

In 2017/18 the Royal Borough set a band D tax of £1,350.97 (£1,296.05 in 2016/17). These charges are before any appropriate discounts. The charge for each band is a ratio of band D. The 2017/18 charges were:

| Band | Ratio to Band D | Council Tax 2016/17 £ | Council Tax 2017/18 £ |
|---|---|---|---|
| A | 6/9 | 864.03 | 900.65 |
| B | 7/9 | 1,008.04 | 1,050.75 |
| C | 8/9 | 1,152.04 | 1,200.87 |
| D | 1 | 1,296.05 | 1,350.97 |
| E | 11/9 | 1,584.06 | 1,651.19 |
| F | 13/9 | 1,872.08 | 1,951.40 |
| G | 15/9 | 2,160.08 | 2,251.62 |
| H | 18/9 | 2,592.10 | 2,701.94 |

The Royal Borough's taxbase, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The taxbase estimate for 2017/18 was 77,700 (74,338 in 2016/17) as calculated below.

| 2016/17 | | 2017/18 | | | | |
|---|---|---|---|---|---|---|
| **Band D Equivalent** | **Band** | **Dwellings Per Valuation List** | **Adjustment For Disabled Banding Appeals, Discounts and Exemptions** | **Revised Dwellings** | **Ratio to Band D** | **Band D Equivalent** |
| 2 | A (Disabled) | 0 | 0 | 0 | 5/9 | 0 |
| 3,958 | A | 10,860 | (4,446) | 6,414 | 6/9 | 4,276 |
| 10,079 | B | 21,419 | (7,713) | 13,706 | 7/9 | 10,660 |
| 27,458 | C | 41,461 | (9,065) | 32,396 | 8/9 | 28,797 |
| 18,010 | D | 22,430 | (3,709) | 18,721 | 1 | 18,721 |
| 11,432 | E | 10,927 | (1,357) | 9,570 | 11/9 | 11,696 |
| 4,349 | F | 3,237 | (228) | 3,009 | 13/9 | 4,347 |
| 3,329 | G | 2,088 | (112) | 1,976 | 15/9 | 3,293 |
| 623 | H | 341 | (40) | 301 | 18/9 | 601 |
| **79,240** | **Total** | **112,763** | **(26,670)** | **86,093** | | **82,391** |
| (5,150) | less Allowance for Non Collection | | | | | (4,944) |
| 248 | plus Adjustment for Armed Forces Dwellings | | | | | 253 |
| **74,338** | **Royal Borough Tax Base** | | | | | **77,700** |

Based on the estimated tax base of 77,700 an income yield for 2017/18 of £105.0m (£96.3m in 2016/17) was anticipated. The actual taxbase was equivalent to 82,923 (80,939 in 2016/17) including backdated transactions and the equivalent yield was £112.0m (£104.9m in 2016/17).

## Note 5 - Business Rate Income

| Business Rate Income | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Debits Raised | 101,562 | 105,971 |
| Relief and Exemption granted | (16,228) | (19,915) |
| **Total Collectable** | **85,334** | **86,056** |

The Business Rate Multiplier is set nationally and for 2017/18 was 47.9p (49.7p in 2016/17). The total rateable value for non-domestic rated property in the Royal Borough for 2017/18 was £233.6m (£189.9m in 2016/17).

## Note 6 - Business Rates Supplement

In April 2010, a levy of 2p on non-domestic properties with a rateable value of over £55,000 in London was introduced. From April 2017, the threshold applicable to the levy was increased to properties with a rateable value of over £70,000. This is paid to the GLA and helps to finance Crossrail.

## Note 7 - Collection Fund apportionment of surplus

A council tax surplus of £8.975m was distributed in 2017/18 to the Royal Borough (£7.064m) and the GLA (£1.911m). There was a business rate surplus of £6.766m distributed in 2017/18 (Central Government £3.383m / RBG £2.030m / GLA £1.353m).

## Note 8 - Provision for Irrecoverable Council Tax Debts

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2017/18 £0.807m (£2.430m in 2016/17) was contributed to the council tax bad debt provision and no irrecoverable debts were written off in year (£0.138m in 2016/17).

## Note 9 - Provision for Irrecoverable Business Rates Debts

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2017/18 £0.360m (£0.930m in 2016/17) was contributed to the business rates bad debt provision and £1.101m (£0.580m in 2016/17) of irrecoverable debts were written off.

## Note 10 - Provision for Business Rates Appeals

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for business rate appeals. The provision was calculated on the basis of outstanding appeals at 31 March 2018 as supplied by the Valuation Office. The percentage of appeals that are likely to be successful and the percentage reduction in rateable value on successful appeals were estimated based on historical trends. During 2017/18 a net contribution of £4.505m (£2.074m in 2016/17) was made to the provision.

## Note 11 - Collection Fund Position

Council Tax Surplus

The balance on the Fund for council tax at 31 March 2018 is £11.295m. Of this sum, £2.331m is the GLA's share of the Collection Fund and is shown as a creditor in the Authority's Balance Sheet. The balance of £8.963m is the Royal Borough's share of the Collection Fund. A distribution of the balance on the Fund will be made in 2018/19. The GLA will receive £0.933m in 2018/19. The remaining council tax balance will be taken into account in future budget setting processes.

## Business Rates Surplus

The balance on the Fund for Business Rates at 31 March 2018 is £15.739m. Of this sum £5.170m is the GLA's share and £5.847m is the Government share. Both of these items are shown as a creditor in the Authority's Balance Sheet. The balance of £4.722m is the Royal Borough's share of the Collection Fund. A distribution of the balance on the Fund will be made in 2018/19. Central Government will receive £5.206m and the GLA will receive £4.451m. The remaining Business Rate balance will be taken into account in future budget setting processes.

# Housing Revenue Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

| 2016/17 £000 | HRA Income and Expenditure Statement | 2017/18 £000 |
|---|---|---|
| | Expenditure | |
| 22,537 | Repairs and Maintenance | 23,772 |
| 47,638 | Supervision and Management | 48,207 |
| 1,519 | Rent, Rates, Taxes and Other Charges | 1,572 |
| (12,804) | Depreciation, Impairments and Revaluation Losses in relation to Non-current Assets | 35,977 |
| 124 | Debt Management Costs | 125 |
| 1,442 | Movement in the allowance for bad debts (not specified by code) | 246 |
| **60,456** | **Total Expenditure** | **109,899** |
| | Income | |
| (111,987) | Dwelling Rents | (98,432) |
| (2,667) | Non Dwelling Rents | (2,499) |
| (5,350) | Charges for services and facilities | (17,968) |
| (1,634) | Contribution towards expenditure | (707) |
| **(121,638)** | **Total Income** | **(119,606)** |
| **(61,182)** | **Net Income of HRA Services** | **(9,707)** |
| | HRA share of the operating income and expenditure included in the whole Authority Comprehensive I&E Statement | |
| (14,713) | (Gain) or Loss on sale of HRA non-current Assets | (10,005) |
| 14,967 | Interest Payable and Similar Charges | 14,704 |
| (61) | Capital Grants and contributions receivable | (5,886) |
| 2,939 | Net interest on the net defined benefit liability / (asset) | 6,204 |
| **(58,050)** | **(Surplus) / Deficit for the Year on HRA Services** | **(4,690)** |

| 2016/17 £000 | Movement on the HRA Statement | 2017/18 £000 |
|---|---|---|
| **(9,094)** | **Balance on the HRA as at the end of the previous reporting period** | **(12,025)** |
| (58,050) | (Surplus) or deficit for the year on the HRA Income and Expenditure Statement | (4,690) |
| 55,119 | Adjustment between accounting basis and funding basis under statute | (1,844) |
| **(2,931)** | **(Increase) or decrease in year on the HRA** | **(6,534)** |
| **(12,025)** | **Balance on the HRA at the end of the current reporting period** | **(18,559)** |

## Note 1 - Depreciation and Impairment

| HRA Depreciation and Impairment | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Dwellings | 22,079 | 23,971 |
| Other Land & Buildings | 724 | 670 |
| Vehicles | 55 | 42 |
| Surplus | 1,052 | 121 |
| **Total Depreciation** | **23,910** | **24,804** |
| **Impairment and Revaluation Losses** | **6,056** | **28,965** |

HRA valuations were reviewed at 1 April 2017. The valuations are based on Stock Valuation for Resource Accounting, a guide issued by CLG. This guide incorporates a factor to recognise the specific nature of valuing social housing. This factor, which reduces the assessed value, has remained at 25%.

## Note 2 - Housing Stock

The Council was responsible for managing 21,438 dwellings as at 31 March 2018. The property is analysed below:

| Analysis of HRA Dwellings at 31 March 2018 | 1 Bed | 2 Beds | 3 & more | Total |
|---|---|---|---|---|
| Low rise flats in blocks up to 2 storeys | 1,368 | 1,006 | 345 | 2,719 |
| Medium rise flats in blocks of 3-5 storeys | 3,776 | 3,227 | 1,554 | 8,557 |
| High rise flats in blocks of 6 or more storeys | 1,534 | 1,721 | 229 | 3,484 |
| Houses and bungalows | 248 | 1,188 | 5,235 | 6,671 |
| Multi occupied dwellings | | | | 7 |
| **Total** | | | | **21,438** |

The HRA valuations were reviewed as at 1 April 2017. These figures represent the valuation less disposals and depreciation.

| 31 March 2017 £000 | Balance Sheet Valuation of HRA Assets | 31 March 2018 £000 |
|---|---|---|
| 1,470,206 | Dwellings | 1,464,579 |
| 49,702 | Property Plant and Equipment Assets – Other | 48,601 |
| 688 | Assets held for Sale | 4,489 |
| **1,520,596** | **Total** | **1,517,669** |

The Vacant Possession Value is the Authority's estimate of the total sum that it would receive if all the assets were sold on the open market. The balance sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market, and the balance sheet value is therefore lower than the Vacant Possession Valuation. The difference between the two values therefore shows the economic cost of providing housing at less than market value.

| 1 April 2016 £000 | Vacant Possession Value | 1 April 2017 £000 |
|---|---|---|
| 5,423,643 | HRA Dwellings | 5,900,532 |

The Royal Borough has provided grant funding to three Registered Providers and one Community Benefit Society which has resulted in the provision of 69 affordable rented homes, under the Right to Buy Retention Agreement funded from Right to Buy 1-4-1 receipts.

| 2016/17 £000 | HRA Revenue Expenditure Funded From Capital Under Statute | 2017/18 £000 |
|---|---|---|
| 3,790 | Houses | 2,847 |
| **3,790** | **Total** | **2,847** |
| | **Financed by:** | |
| 3,790 | Capital Receipts | 2,847 |
| **3,790** | **Total** | **2,847** |

## Note 3 - Major Repairs Reserve

| 2016/17 £000 | Major Repairs Reserve | 2017/18 £000 |
|---|---|---|
| **0** | **Balance as at 1 April** | **0** |
| 23,910 | Financing of Capital Expenditure for year | 14,181 |
| (23,910) | Depreciation for the year | (24,804) |
| **0** | **Balance as at 31 March** | **(10,623)** |

## Note 4 - HRA Capital Financing

| 2016/17 £000 | HRA Capital Expenditure | 2017/18 £000 |
|---|---|---|
| 39,511 | Houses | 32,173 |
| 183 | Other Property | 108 |
| **39,694** | **Total** | **32,281** |
| | | |
| | **Financed by:** | |
| 6,684 | Capital Receipts | 11,677 |
| 23,910 | Major Repairs Reserve | 14,181 |
| 183 | Other Grants | 2,895 |
| 8,917 | Revenue | 3,528 |
| **39,694** | **Total** | **32,281** |

## Summary of HRA Capital Receipts

| 2016/17 £000 | Capital Receipts | 2017/18 £000 |
|---|---|---|
| 36 | Land | 154 |
| 25,993 | Houses | 27,491 |
| **26,029** | **Total** | **27,645** |

## Note 5 - Rent and Service Charge Arrears

HRA rent and service charge arrears at 31 March 2018 totalled £10.382m. These arrears are charges due from tenants i.e. rent, service charges, heating and other charges. The HRA has been setting aside funds to meet irrecoverable debts in respect of such arrears. At 31st March 2018 the provision totaled £8.009m.

| 2016/17 £000 | Arrears | 2017/18 £000 |
|---|---|---|
| 6,905 | Due from Current Tenants | 6,323 |
| 4,104 | Due from Former Tenants | 4,059 |
| **11,009** | **Total** | **10,382** |

## Note 6 - Pension Costs - IAS 19

IAS19 has been incorporated in the HRA. Entries have been calculated on the basis of the HRA's apportioned share of pension costs during the financial year.

## Note 7 – Tenants Service Charges

From February 2017 the Authority agreed to introduce service charges for tenant's services and facilities that were previously pooled in the HRA.

# Independent Auditor's Report to the Members of Royal Borough of Greenwich on the Pension Fund Financial Statements

## Opinion

We have audited the pension fund financial statements of Royal Borough of Greenwich Pension Fund (the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund 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.

## Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## 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 Chief Executive and Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Chief Executive and Section 151 Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

**Other information**

The Chief Executive and Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts[1] set out in the Narrative Report, the Annual Governance Statement and the Annual Report, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund 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 pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work 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 pension fund 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.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

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

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters**.**

**Responsibilities of the Authority, the Chief Executive and Section 151 Officer, and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of 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 Chief Executive and Section 151 Officer. The Chief Executive and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Executive and Section 151 Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Chief Executive and Section 151 Officer is responsible for assessing the pension fund'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 pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Pension Fund Investment & Administration Panel is Those Charged with Governance.

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

Our objectives are to obtain reasonable assurance about whether the pension fund 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 pension fund financial statements.

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

*Paul Dossett*

Paul Dossett
30 Finsbury Square
London
EC2P 2YU

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

*19th July 2018*

# Royal Borough of Greenwich Pension Fund

| 2016/17 £000 | Fund Account | Notes | 2017/18 £000 |
|---|---|---|---|
| | Dealings with Members, Employers and Others directly involved in the Scheme | | |
| | Contributions Receivable: | | |
| (33,336) | Employer Contributions | 6 | (33,890) |
| (12,304) | Member Contributions | 6 | (12,624) |
| (1,471) | Transfers in from Other Pension Funds | 7 | (5,975) |
| | Benefits: | | |
| 40,877 | Pensions | 8 | 42,066 |
| 18,440 | Lump Sum & Death Benefits | 8 | 8,273 |
| 1,447 | Payments to and on account of Leavers | 9 | 4,134 |
| **13,653** | **Subtotal: Net (additions) / withdrawals from Dealings with Members** | | **1,984** |
| 3,856 | Management Expenses | 10 | 5,771 |
| | Returns on Investment | | |
| (10,059) | Investment Income | 11 | (5,488) |
| (190,006) | (Profit) and Losses on disposal of Investments and Changes in Value of Investments | | (43,565) |
| 154 | Taxes on Income | 12a | 0 |
| **(199,911)** | **Net Returns on Investment** | | **(49,053)** |
| **(182,402)** | **Net (increase) / decrease in the Net Assets available for Benefits during the year** | | **(41,298)** |

| 31 March 2017 £000 | Net Asset Statement | Notes | 31 March 2018 £000 |
|---|---|---|---|
| | <u>Investment assets</u> | | |
| 4 | Equities | 14 | 0 |
| | Pooled Investment Vehicles: | | |
| 224,690 | Fixed Interest | 14 | 228,012 |
| 119,763 | Property Unit Trusts | 14 | 128,065 |
| 330,814 | Unitised Insurance Policies | 14 | 460,317 |
| 426,871 | Other Unit Trusts | 14 | 322,859 |
| 1,850 | Property – Freehold | 3&14 | 2,200 |
| 14,409* | Private Equity | 14&22 | 9,070 |
| 102,983 | Diversified Alternative | 14 | 106,108 |
| 780 | Cash Deposits | 19 | 367 |
| 3,742 | Cash Equivalents | 15&19 | 7,226 |
| 232 | Other Investment Balances | 18 | 243 |
| | <u>Investment Liabilities</u> | | |
| (976) | Other Investment Balances | 18 | (1,097) |
| **1,225,162** | **Net Investment Assets / (Liabilities)** | | **1,263,370** |
| | <u>Current Assets</u> | | |
| 373 | Contributions Due | 18 | 347 |
| 76 | Other Current Assets | 18 | 220 |
| 9,376 | Cash Balances | 19 | 12,355 |
| | <u>Current Liabilities</u> | | |
| (129) | Unpaid Benefits | 18 | (193) |
| (826) | Other Current Liabilities | 18 | (769) |
| **8,870** | **Net Current Assets / (Liabilities)** | | **11,960** |
| **1,234,032** | **Net Assets of the Scheme available to fund Benefits at the Period End** | | **1,275,330** |

*Restated Private Equity 16/17 figure of £117,392 between Private Equity and Diversified Alternative

The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31 March 2018. The actuarial present value of promised retirement benefits is disclosed in note 16.

## Note 1 – Description of The Fund

The following description of the Fund is a summary only. For more detail, reference should be made to the Royal Borough of Greenwich Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

General

The Royal Borough of Greenwich Pension Fund (the "Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Greenwich. It is a defined benefit pension scheme providing pensions and other benefits for employees of the Royal Borough of Greenwich and those organisations with admitted or scheduled body status within the Fund. The Fund is overseen by the Royal Borough of Greenwich Pension Investment and Administration Panel. The Fund is governed and administered in accordance with the Public Service Pensions Act 2013 and the following Local Government Pension Scheme Regulations:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The LGPS (Management and Investment of Funds and Amendment) Regulations 2016

Membership

All employees are able to join the pension scheme (except teachers). Those with a contract of employment of at least 3 months are contractually enrolled into the pension scheme on commence of employment. Membership of the Fund is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Fund include:

- Administering Authority: This is the Royal Borough of Greenwich (the "Authority")
- Scheduled Bodies: Local authorities and similar bodies whose staff are automatically entitled to be members of the Fund. The scheduled bodies of the Fund are Eltham Crematorium, St Paul's Academy, Greenwich Service Solutions Limited, Greenwich Service Plus Limited, The Halley Academy**, Greenwich Free School, Charlton Park Academy, Harris Academy, Shooters Hill Sixth Form College, Royal Greenwich Trust School, Woolwich Polytechnic School, Stationers' Crown Woods Academy, St Thomas More Academy, Charlton Athletic, Endeavour Partnership Trust, International Academy of Greenwich, Maritime Academy Trust, Oxleas NHS Foundation, Inspire Partnership Trust*, Compass Partnership of Schools* and Greenwich Catholic School Trust*.
- Admitted Bodies: Other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. These include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

* New Scheduled Bodies.
**Halley Academy (previously known as Corelli College)

There were 54 active employer organisations within the Fund as at 31 March 2018 (49 as at 31 March 2017). The following table summarises the composition of the registered membership of the Fund as at 31 March 2018.

| **Membership** | **Administering Authority** | | **Admitted Bodies** | | **Scheduled Bodies** | |
|---|---|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| Employees contributing into Fund | 7,090 | 7,193 | 384 | 371 | 1,354 | 2,099 |
| Pensioners / Dependents | 6,296 | 6,420 | 169 | 185 | 176 | 217 |
| Former Members entitled to Deferred Benefits | 6,477 | 7,110 | 229 | 259 | 492 | 695 |
| Totals | 19,863 | 20,723 | 782 | 815 | 2,022 | 3,011 |

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year end 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits.

## Note 2 – Basis of Preparation

The Statement of Accounts (the "Accounts") summarise the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the "Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 17 of these accounts. Many values throughout the Pension Fund accounts are rounded to the nearest £000, as such tables and notes may not appear to cross-cast or exactly match the sum of the individual items.

# Note 3 – Summary of Significant Accounting Policies

Accounts

The Accounts summarise the transactions and net assets of the Fund and comply in all material respects with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is IFRS compliant.

Basis of Preparation

The most recent actuarial valuation was carried out 31 March 2016 and determines the contribution rates for the next three years from 1 April 2017 with an aim to maintain the solvency of the Fund. Therefore, these Accounts have been produced on a going concern basis.

Investment Valuations and their effects

Investments are shown in the Net Asset Statement at either their market or fair value, which has been determined as follows:

a) Listed securities are shown by reference to bid-market price at the close of business on 31 March 2018.
b) Unit trusts are priced as follows:
i. Unit trust and managed fund investments are stated at bid price quoted by their respective managers prior to the close of business on 31 March 2018
ii. Single priced funds, closed ended property funds, and fixed interest Open Ended Investment Companies (OEICs) which are valued on a Net Asset Value basis.
c) Unitised insurance policies are valued at mid-price and are calculated on each business day at noon.
d) Property unit trusts and other similar property funds valuations are based upon the underlying investments within each portfolio, the majority of which are based upon the latest available valuations (ranging from as at 31 December 2017 to 31 March 2018).
e) Private Equity valuations are based upon the underlying investments within each portfolio, the majority of which are based upon figures as at 31 December 2017, reflecting the nature of valuing those investments. The cash flows are adjusted up to 31 March 2018 using the same accounting policies. It is less easy to trade private equity than it is for quoted investments. Therefore, when the assets are realised the amount received may not necessarily be the amount that they are valued at and any differences could be significant.
f) Diversified Alternative valuations of financial instruments whose principal markets are actively traded exchange markets are based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the program is the price within the bid-ask spread which is considered most representative of fair value at the end of the reporting period. For Non-traded financial instruments the program uses a variety of market and income methods.

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 investments that mature in no more than a three-month period from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Accounts are authorised for issue. Events taking place after the date of authorisation for issue are not reflected in the Accounts. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Accounts are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Accounts are 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.

Financial Instruments

Financial assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- fair value through profit or loss - assets that are held for trading.

Financial liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

## Debtors and Creditors

Except where otherwise stated, the Accounts have been prepared on an accruals basis i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The main exception to this is transfers in and out of the Fund which are accounted for on a cash basis.

## Contingent Liabilities

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

## VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Any recoverable amounts outstanding at the reporting period end will be classified as a debtor.

## Property

The Fund owns the freehold of one investment property – New Lydenburg Industrial Estate. The property was revalued as at 31 March 2018 at a value of £2.2m by a Valuer, RICS member and member of the Fund employed by the Royal Borough of Greenwich. The property was valued utilising the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuation was based on the open market value of the freehold interest, having regard to the actual lease terms and evidence of current levels of rent and yields for the class of property, adjusted to reflect age, condition and characteristics of the particular locality. Any surplus / deficit on valuation is reflected in the Fund Account and is shown as a change in market value of investments. The Fund receives £0.115m rental income per year in respect of this property.

## Fees

Investment management fees are calculated by reference to the market value of portfolio assets under management at the end of each quarter. The exceptions to this are Fidelity, where market value based fees are charged on a daily basis and Private Equity fees, which are based upon amounts committed to each manager.

## Foreign Currency

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into Sterling at the rate ruling on 31 March 2018.

Income

a) Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the reporting period is reflected within the net assets statement as "Other Investment Balances" and disclosed within the note on Debtors and Creditors.
b) Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within the net assets statement as "Other Investment Balances" and disclosed within the note on Debtors and Creditors.
c) Some pooled investment vehicles within the portfolio are accumulation funds and as such, the change in market value also includes income, which is re-invested in the Fund. The market price for those units reflects this re-invested income. Non accumulating units give rise to dividends.
d) Other than unitised holdings (above), freehold property gives rise to rental income. These amounts are recognised on a straight line basis over the life of the operating lease.
e) Private Equity distributions are split between their constituent elements i.e. dividend, interest, gain / loss or return of capital, as advised by the Fund manager.
f) The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments.

## Note 4 - Critical Judgements in Applying Accounting Policies and Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the Authority about the future or that are otherwise uncertain. The following items have a significant risk of material adjustment in the forthcoming financial year:

Private Equity

- The management of LGT uses its judgement to select a variety of methods and makes assumptions that are not always supported by observable market prices or rates. The majority of the Company's investments use either U.S. GAAP or utilise a combination of IFRS and International Private Equity and Venture Capital valuation guidelines to value their underlying investments. The predominant methodology adopted by the general partners for the buyout investments in LGT is a market approach which takes market multiples using a specified financial measure (e.g. EBITDA), recent public market and private transactions and other available measures for valuing comparable companies.
- Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Wilshire generally use the capital balance reported by the investee fund manager of the limited partnership investment as the primary input to its valuation; however adjustments to the reported capital balance (net asset value) may be made based on various factors, including, but not limited to, the attribute of the interest held, including the rights and obligations and any restrictions or illiquidity on such interests and the fair value of such investment partnership's investment portfolio or other assets and liabilities. The manager generally holds interests in such funds for which there is no active market, although, in some situations a transaction may occur in the 'secondary market' where an investor purchases a limited partner's existing interest and remaining commitment. To the extent these transactions become known to Wilshire, they may be considered as a data point in Wilshire's determination of an investment's fair value.

Pension Fund Liability

It is a statutory requirement that the funding level is calculated every three years by the appointed actuary in order to determine employer contribution rates for the forthcoming three years. However, the methodology used within the accounts is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. These estimates are subject to significant variances based upon changes to the underlying assumptions.

## Note 5 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

## Note 6 - Contributions Receivable

Contributions represent the total amounts receivable from employers within the scheme in respect of their own contributions and any of their employees who are members of the scheme. The employer's contributions are made at a rate determined by the Fund's Actuary as necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during 2017/18 was 18.5%. Member contribution rates are determined by a banding mechanism linked to pensionable pay. Contributions shown in the revenue statement can be broken down as follows:

| 2016/17 £000 | By Category | 2017/18 £000 |
|---|---|---|
| (12,304) | Employee's Contributions | (12,624) |
| **(12,304)** | **Total Employees' Contributions** | **(12,624)** |
| | Employer's Contributions: | |
| (24,511) | Normal Contributions | (27,296) |
| (8,162) | Deficit Recovery Contributions | (6,545) |
| (663) | Augmentation Contributions | (49) |
| **(33,336)** | **Total Employers' Contributions** | **(33,890)** |
| **(45,640)** | | **(46,514)** |

| 2016/17<br>£000 | By Authority | 2017/18<br>£000 |
|---|---|---|
| (38,305) | Administering Authority | (37,211) |
| (3,060) | Scheduled Bodies | (2,957) |
| (4,275) | Admitted Bodies | (6,346) |
| **(45,640)** | | **(46,514)** |

## Note 7 - Transfers in from Other Pension Funds

| 2016/2017<br>£000 | Transfers in from other Pension Funds | 2017/2018<br>£000 |
|---|---|---|
| **(1,471)** | Individual Transfers | **(5,975)** |

## Note 8 - Benefits

Benefits payable are made up of pension payments and lump sums payable upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

| 2016/2017 £000 | Benefits | 2017/2018 £000 |
|---|---|---|
| | **Pensions** | |
| 39,666 | Administering Authority | 40,657 |
| 664 | Admitted Bodies | 738 |
| 547 | Scheduled Bodies | 671 |
| **40,877** | **Total Pensions Payable** | **42,066** |
| | **Lump Sums** | |
| 16,642 | Administering Authority | 5,567 |
| 394 | Admitted Bodies | 844 |
| 396 | Scheduled Bodies | 914 |
| **17,432** | **Total Lump Sums and Commutation** | **7,325** |
| | **Death Benefits:** | |
| 895 | Administering Authority | 928 |
| 0 | Admitted Bodies | 3 |
| 113 | Scheduled Bodies | 17 |
| **1,008** | **Total Death Benefits** | **948** |
| | | |
| **59,317** | **Total Benefits Payable** | **50,339** |

## Note 9 - Payments to and on Account of Leavers

| 2016/17 £000 | Payments to and on Account Of Leavers | 2017/18 £000 |
|---|---|---|
| 176 | Refunds to Members leaving Service | 175 |
| 51 | Payments for Members joining State Scheme | 18 |
| 1,220 | Individual Transfers | 3,941 |
| **1,447** | **Total Payments to and on Account of Leavers** | **4,134** |

## Note 10a – Management Expenses

| 2016/17 £000 | Management Expenses | 2017/18 £000 |
|---|---|---|
| 768 | Administration Expenses | 861 |
| 183* | Oversight and Governance | 121 |
| 2,905* | Investment management Expenses | 4,789 |
| **3,856** | **Total Administration Expenses** | **5,771** |

* 2016/17 Figures have been restated to re-classify London Collection Investment Vehicle (CIV) Fees of £0.025m from Oversight and Governance costs to Investment Management Expenses. Investment Advisory Fees have also been reclassified from Investment Management Expenses to Oversight and Governance Costs.

Investment management expenses are further analysed below in line with the CIPFA Guidance on Accounting for Management Costs in the LGPS.

## Note 10b Investment Management Expenses

| 2016/17 £000 | Management Expenses | 2017/18 £000 |
|---|---|---|
| 2,614 | Management Expenses | 4,148 |
| 147 | Performance Fees | 612 |
| 12 | Custody Fees | 16 |
| 132 | Transaction Costs | 13 |
| **2,905** | **Total Management Expenses** | **4,789** |

# Note 11 - Investment Income

| 2016/17 £000 | Investment Income | 2017/18 £000 |
|---|---|---|
| (115) | Rental Income from Property | (115) |
| (3,748) | Dividends from Equities | 4 |
| (192) | Dividend from Unit Trusts | (25) |
| | Income from Pooled Investment Vehicles: | |
| (5,883) | Property Unit Trusts | (5,302) |
| (12) | Withholding Tax Reclaimed | (24) |
| (47) | Interest | (6) |
| (62) | Other Income | (20) |
| **(10,059)** | **Total Investment Income** | **(5,488)** |

# Note 12a - Taxes on Income

UK Income Tax

The Fund is exempt and approved under the Finance Act 1970. It is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

Value Added Tax

By virtue of the Royal Borough of Greenwich being the Administrating Authority, VAT input tax is recoverable on Fund activities.

Overseas Tax

Taxation agreements exist between the UK and certain EU and other countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved vary from country to country.

| 2016/17 £000 | Withholding Tax | 2017/18 £000 |
|---|---|---|
| 142 | Withholding Tax Non Reclaimable – Equities | 0 |
| 12 | Withholding Tax Non reclaimable – Property Unit Trusts | 0 |
| **154** | **Total Taxes on Income** | **0** |

## Note 12b - External Audit Costs

| 2016/2017 £000 | | 2017/2018 £000 |
|---|---|---|
| 21 | Payable in respect of external audit | 21 |
| **21** | **Total External Audit Costs** | **21** |

## Note 13 - Investments

The investment managers and their mandates are as follows:

| Manager | Mandate |
|---|---|
| Blackrock | Passive Global Equity |
| CBRE Global Investors | Property |
| Fidelity International | Bond/GMAC/GEME |
| LGT Capital Partners | Private Equity |
| State Street Global Markets | Passive Global Equity |
| Wilshire | Private Equity |
| Partners Group | Diversified Alternative |
| Invesco | Multi Asset Strategy |

The market value and proportion of investments managed by each fund manager at 31 March 2018 was as follows:

| | 2016/17 Market Value £000 | 2016/17 Market Value % | 2017/18 Market Value £000 | 2017/18 Market Value % |
|---|---|---|---|---|
| Blackrock | 529,404 | 43 | 537,962 | 42 |
| CBRE Global Investors | 123,082 | 10 | 135,235 | 10 |
| Fidelity | 120,357 | 10 | 122,697 | 11 |
| Fidelity GMAC | 104,135 | 8 | 105,271 | 8 |
| LGT Capital Partners | 5,321 | 0 | 2,343 | 0 |
| Royal Borough of Greenwich | 11,732 | 1 | 14,414 | 1 |
| State Street Global Markets | 337 | 0 | 333 | 0 |
| Wilshire | 9,088 | 1 | 6,728 | 1 |
| London CIV | 150 | 0 | 150 | 0 |
| Partners Group | 102,623 | 8 | 105,575 | 8 |
| Fidelity GEME | 105,319 | 9 | 121,450 | 9 |
| Invesco | 122,484 | 10 | 123,172 | 10 |
| **Total** | **1,234,032** | **100** | **1,275,330** | **100** |

The change in market value of the Fund during the year is represented as follows:

| Manager | Market Value 31 March 2017 £000 | Purchases £000 | Sales £000 | Change in Market Value Of Investments £000 | Change in Working Capital £000 | Market Value 31 March 2018 £000 |
|---|---|---|---|---|---|---|
| Blackrock | 529,404 | 25 | (375) | 8,763 | 145 | 537,962 |
| CBRE Global Investors | 123,082 | 4,424 | (2,927) | 6,805 | 3,851 | 135,235 |
| Fidelity AGG | 120,357 | (179)[a] | 0 | 2,365 | 154 | 122,697 |
| LGT[b] | 5,321 | (59)[a] | (3,457) | 538 | 0 | 2,343 |
| Royal Borough of Greenwich | 11,732 | 0 | (38) | 340 | 2,380 | 14,414 |
| State Street Global Markets | 337 | 0 | (7) | 3 | 0 | 333 |
| Wilshire[b] | 9,088 | 0 | (2,613) | 253 | 0 | 6,728 |
| Fidelity GMAC | 104,135 | (294)[a] | 0 | 1,500 | (70) | 105,271 |
| London CIV | 150 | 0 | 0 | 0 | 0 | 150 |
| Partners Group | 102,623 | 0 | (2,194) | 5,319 | (173) | 105,575 |
| Fidelity GEME | 105,319 | (671)[a] | 0 | 16,977 | (175) | 121,450 |
| Invesco | 122,484 | 0 | 0 | 702 | (14) | 123,172 |
| **Total** | **1,234,032** | **3,246** | **(11,611)** | **43,565** | **6,098** | **1,275,330** |

The prior year comparator is as follows:

| Manager | Market Value 31 March 2016 £000 | Purchases £000 | Sales £000 | Change in Market Value Of Investments £000 | Change in Working Capital £000 | Market Value 31 March 2017 £000 |
|---|---|---|---|---|---|---|
| Blackrock | 458,495 | 480,946 | (523,558) | 113,541 | (30) | 529,393 |
| CBRE Global Investors | 119,218 | 9,627 | (4,852) | (2,351) | 1,440 | 123,082 |
| Fidelity AGG | 99,781 | 9,830 | 52 | 10,830 | (138) | 120,355 |
| LGT[b] | 8,347 | (2)[a] | (5,322) | 2,299 | 0 | 5,321 |
| Royal Borough of Greenwich | 18,715 | 0 | 9 | 38 | (7,017) | 11,745 |
| State Street Global Markets | 239,439 | 6,173 | (289,216) | 45,269 | (1,328) | 337 |
| Wilshire[b] | 10,462 | 19 | (2,967) | 1,574 | 0 | 9,087 |
| Fidelity GMAC | 97,023 | (284)[a] | 0 | 7,345 | 52 | 104,136 |
| London CIV | 150 | 0 | 0 | 0 | 0 | 150 |
| Partners Group | 0 | 100,000 | (359) | 3,342 | (360) | 102,623 |
| Fidelity GEME | 0 | 99,860 | 0 | 5,459 | 0 | 105,319 |
| Invesco | 0 | 120,000 | 0 | 2,660 | (176) | 122,484 |
| **Total** | **1,051,629** | **826,169** | **(826,215)** | **190,006** | **(7,557)** | **1,234,032** |

a. The negative Fidelity and LGT purchase relates to management fees which are charged by reducing the market value of the holdings by the amount of the fee.
b. Distributions have been split into income (dividends, interest and gains) and distributions of capital reducing the book cost.

The change in market value of investments during the year is comprised of new money invested and the realised and unrealised profits or losses for the year:

| 2016/17 £000 | Change Market Value | 2017/18 £000 |
|---|---|---|
| 1,051,629 | Opening Market Value | 1,234,032 |
| (7,604) | Net Revenue Cash in / (out) flow | (2,267) |
| 218,811 | Realised profit / (loss) | 2,054 |
| (28,804) | Unrealised profit / (loss) | 41,511 |
| **1,234,032** | **Closing Market Value** | **1,275,330** |

The value of quoted and unquoted securities is broken down as follows:

| 2016/17 £000 | Change Market Value | 2017/18 £000 |
|---|---|---|
| 4 | Quoted | 0 |
| | Unquoted | |
| 117,392 | Private Equity | 9,070 |
| 1,104,035 | Other | 1,247,561 |
| 12,601 | Working Capital | 18,699 |
| **1,234,032** | **Total** | **1,275,330** |

Included in the total amount classified as "unquoted – other" is £887.7m, relating to investment vehicles where the underlying investments are themselves quoted (£859.6m in 2016/17).

The following table analyses the investment assets between UK and overseas:

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 656,629 | UK | 761,895 |
| 564,802 | Non UK | 494,736 |
| 12,601 | Working capital | 18,699 |
| **1,234,032** | **Total** | **1,275,330** |

Individual investment assets with a market value of greater than 5% of the total fund value are as follows:

| Investment Assets | Manager | 2017/18 £000 | 2017/18 % |
|---|---|---|---|
| Aquila Life MGM World EX UK Equity | Blackrock | 201,099 | 16% |
| Blackrock ISHARES UK Equity | Blackrock | 193,866 | 15% |
| Aquila Life | Blackrock | 135,856 | 11% |
| Fidelity UK Aggregate | Fidelity | 122,741 | 10% |
| Invesco Perpetual Mutual Fund | Invesco | 123,362 | 10% |
| Fidelity Institutional Funds Emerging Markets ACC | Fidelity | 121,625 | 10% |
| Fidelity Qualifying Investor | Fidelity | 105,270 | 8% |
| Partners IC RBG LTD | Partners | 106,108 | 8% |

The prior year comparator is as follows:

| Investment Assets | Manager | 2016/17 000 | 2016/17 % |
|---|---|---|---|
| Aquila Life MGM World EX UK Equity | Blackrock | 196,589 | 16 |
| Blackrock Collective Investment UK Equity | Blackrock | 191,173 | 15 |
| Aquila Life | Blackrock | 134,225 | 11 |
| Invesco Perpetual Mutual Fund | Invesco | 122,660 | 10 |
| Fidelity UK Aggregate | Fidelity | 120,555 | 10 |
| Fidelity Institutional Funds Emerging Markets ACC | Fidelity | 105,319 | 9 |
| Fidelity Qualifying Investor | Fidelity | 104,135 | 8 |
| Partners IC RBG LTD | Partners | 102,983 | 8 |

## Stock Lending / Derivatives

The Fund has a policy of not entering into stock lending arrangements - there were no stock lending arrangements in place during 2016/17 or 2017/18. The following investment products are classed as derivatives and may be used by the Fund managers (none held on 31 March 2018):

- Stock index futures – used for the purposes of efficient portfolio management.
- Short currency forwards – used for defensively hedging non UK exposure back to sterling.
- Local access products – used to gain exposure to stocks where the manager is unable to purchase them directly.

- Property Holdings

The Fund has a directly owned property which is leased commercially to various tenants. Details of this are as follows:

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 1,850 | Opening balance | 1,850 |
| 0 | Net increase in market value | 350 |
| **1,850** | **Closing balance** | **2,200** |

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 115 | Within one year | 115 |
| 460 | Between one and five years | 460 |
| **575** | **Total future lease payments due under existing contracts** | **575** |

# Note 14 - Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

| 31 March 2017 | | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| **Fair Value through Profit and Loss £000** | **Loans And Receivables £000** | **Financial Liabilities at Amortised Cost £000** | | **Fair Value through Profit and Loss £000** | **Loans And Receivables £000** | **Financial Liabilities at Amortised Cost £000** |
| | | | Financial Assets | | | |
| 4 | | | Equities | 0 | | |
| | | | Pooled Investment Vehicles: | | | |
| 224,690 | | | Fixed Interest OEIC | 228,012 | | |
| 119,763 | | | Property Unit Trusts | 128,065 | | |
| 330,814 | | | Unitised Insurance Policies | 460,317 | | |
| 426,871 | | | Other Unit Trusts | 322,859 | | |
| 14,409 | | | Private Equity | 9,070 | | |
| 102,983 | | | Diversified Alternative | 106,108 | | |
| | 780 | | Cash Deposits | | 367 | |
| | 3,742 | | Cash Equivalents | | 7,226 | |
| | 232 | | Other investment balances | | 243 | |
| | 373 | | Contributions Due | | 347 | |
| | 20 | | Other Current Assets | | 220 | |
| | 9,376 | | Cash Balances | | 12,355 | |
| **1,219,534** | **14,523** | **0** | **Total Financial Assets** | **1,254,431** | **20,758** | **0** |
| | | | Financial Liabilities | | | |
| | | (976) | Other Investment Balances | | | (1,097) |
| | | (129) | Unpaid Benefits | | | (193) |
| | | (383) | Other Current Liabilities | | | (324) |
| **0** | **0** | **(1,488)** | **Total Financial Liabilities** | **0** | **0** | **(1,614)** |
| **1,219,534** | **14,523** | **(1,488)** | **Net Financial Assets** | **1,254,431** | **20,758** | **(1,614)** |

The net gains and losses on financial instruments are as follows:

| 2016/17 £000 | Gains and Losses | 2017/18 £000 |
|---|---|---|
| | Financial Assets | |
| 189,756 | Fair Value Through Profit and Loss | 43,215 |
| 47 | Loans and Receivables | 6 |
| | Financial Liabilities | |
| 0 | Fair Value Through Profit and Loss | 0 |
| **189,803** | **Total** | **43,221** |

Valuation of Financial Instruments carried at Fair Value

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

Level 1 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and unit trusts.

Level 2 – Where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Included in this level are the Fund's private equity investments, the valuations of which are provided by the private equity managers. A breakdown of the opening market value to closing market value for Private Equity investments can be found in Note 13. This shows Private Equity movements in year for Wilshire and LGT.

Reconciliation of Fair Value Measurement within Level 3*

Transfers between level 2 and 3 due to reappraisal of property valuation techniques.

| Asset | Market Value at 31/03/2017 | Transfer into Level 3 | Transfer out of Level 3 | Purchases at cost | Sales | Unrealised Gain/(Loss) | Realised Gains/(Loss) | Market Value At 31/03/2018 |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| UT - Property UK | 61,593 | 6,952 | (15,605) | 0 | (2,345) | (2,401) | 0 | 48,194 |
| Freehold Property | 1,850 | 0 | 0 | 0 | 0 | 350 | 0 | 2,200 |
| Diversified Alternative | 102,983 | 0 | 0 | 0 | (2,194) | 5,319 | 0 | 106,108 |
| Private Equity | 14,408 | 0 | 0 | (59) | (4,432) | 791 | (1,638) | 9,070 |
| **Total** | **180,834** | **6,952** | **(15,605)** | **(59)** | **(8,971)** | **4,059** | **(1,638)** | **165,572** |

*As per CIPFA recommendation for further disclosure

Sensitivity of assets value at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that valuation methods described above are likely to be accurate to within the following ranges, and set out below the consequent potential impact on the closing value of investment as at 31 March 2018.

| Asset | Value as at 31 March 2018 £000 | Percentage Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| UT - Property UK | 48,194 | 2.1 | 49,206 | 47,182 |
| Freehold Property | 2,200 | 2.1 | 2,246 | 2,154 |
| Private Equity | 9,070 | 2.5 | 9,297 | 8,843 |
| Diversified Alternative | 106,108 | 2.5 | 108,761 | 103,455 |
| **Total Assets available to Pay Benefits** | **165,572** | | **169,510** | **161,634** |

The prior year comparator is as follows:

| Asset | Value as at 31 March 2017 £000 | Percentage Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Pooled Investment- Multi Asset | 122,660 | 6.32 | 130,412 | 114,908 |
| Freehold Property | 1,850 | 2.65 | 1,899 | 1,801 |
| Private Equity | 14,409 | 2.7 | 14,798 | 14,020 |
| Partner Group | 102,984 | 2.7 | 105,764 | 100,203 |
| Pooled Investment-Property | 61,593 | 2.65 | 63,256 | 59,930 |
| **Total Assets available to Pay Benefits** | **303,496** | | **316,129** | **290,862** |

The following table provides an analysis of the Financial Assets and Liabilities of the Fund and are grouped, based upon the level at which the fair value is observable.

| Values as at 31 March 2018 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Financial Assets | | | | |
| Financial Assets at Fair Value through profit and loss | 0 | 1,091,060 | 163,372 | 1,254,432 |
| Non-Financial assets at Fair Value through profit and loss | 0 | 0 | 2,200 | 2,200 |
| | **0** | **1,091,060** | **165,572** | **1,256,632** |

The prior year comparator is as follows:

| Values as at 31 March 2017 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Financial Assets | | | | |
| Financial Assets at Fair Value through profit and loss | 4 | 917,884 | 301,645 | 1,219,533 |
| Non-Financial assets at Fair Value through profit and loss | 0 | 0 | 1,850 | 1,850 |
| | **4** | **917,884** | **303,495** | **1,221,383** |

## Note 15 - Nature and Extent of Risks arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall risk management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Investment and Administration Panel. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset risk. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

- The exposure of the Fund to market risk is monitored through risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contacts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk – Sensitivity Analysis

Having analysed historical data and expected investment return movement during the financial year, and consultation with the Fund's performance management advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the reporting period.

| Asset | Potential Market Movements (+/-) |
|---|---|
| UK Equities | 7.17% |
| Overseas Equities | 10.77% |
| Bonds | 3.93% |
| Property | 2.10% |
| Cash | 0.21% |
| Private Equity | 2.50% |
| Diversified Alternative | 2.50% |
| Multi Asset | 6.22% |

This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments moved in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

| Asset | Value as at 31 March 2018 £000 | Percentage Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Cash and Cash Equivalents | 27,166 | 0.21 | 27,223 | 27,109 |
| UK Equities | 193,866 | 7.17 | 207,766 | 179,966 |
| Overseas Equities | 458,580 | 10.77 | 507,969 | 409,191 |
| Bonds | 228,012 | 3.93 | 236,973 | 219,051 |
| Property | 130,265 | 2.10 | 133,001 | 127,530 |
| Private Equity | 9,070 | 2.50 | 9,297 | 8,844 |
| Diversified Alternative | 106,108 | 2.50 | 108,760 | 103,455 |
| Multi Asset | 123,362 | 6.22 | 131,036 | 115,689 |
| Other Investment Balances | (704) | 0 | (704) | (704) |
| **Total Assets available to Pay Benefits** | **1,275,725** | | **1,361,321** | **1,190,131** |

The prior year comparator is as follows:

| Asset | Value as at 31 March 2017 £000 | Percentage Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Cash and Cash Equivalents | 21,467 | 0.01 | 20,031 | 21,465 |
| UK Equities | 296,492 | 7.66 | 377,121 | 273,781 |
| Overseas Equities | 330,819 | 10.45 | 384,996 | 296,248 |
| Bonds | 224,690 | 5.35 | 207,988 | 212,669 |
| Property | 121,613 | 2.65 | 131,601 | 118,390 |
| Private Equity* | 14,408 | 2.70 | 14,798 | 14,020 |
| Diversified Alternative* | 102,983 | 2.70 | 105,764 | 100,202 |
| Multi Asset | 122,660 | 6.32 | 130,412 | 114,908 |
| Other Investment Balances | (1,100) | 0 | (1,100) | (1,100) |
| **Total Assets available to Pay Benefits** | **1,234,032** | | **1,371,610** | **1,150,582** |

*Restated private equity 16/17. Split between private equity and diversified alternative.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's direct exposure to interest rate movements is through its cash and fixed interest security holdings.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. It is currently felt that interest rates are unlikely to move up or down by more than 50 basis points (bps) over the course of the next year. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant and shows the effect in the year on the net assets available to pay benefits of a +/- 50 bps change in interest rates.

| **Asset** | **Carrying Amount as at 31 March 2018** | **Change in Year in the Net Assets available to Pay Benefits** | |
|---|---|---|---|
| | | **+ 50 bps** | **-50 bps** |
| | **£000** | **£000** | **£000** |
| Cash Balances | 12,355 | 12,417 | 12,293 |
| Cash on Deposit | 367 | 369 | 365 |
| Cash Equivalents | 7,226 | 7,263 | 7,190 |
| Blackrock Institutional Series | 7,218 | 7,254 | 7,182 |
| **Total Interest Rate Risk Assets** | **27,166** | **27,303** | **27,030** |

| **Asset** | **Carrying Amount as at 31 March 2018** | **Change in Year in the Net Assets available to Pay Benefits** | |
|---|---|---|---|
| | | **+ 50 bps** | **-50 bps** |
| | **£000** | **£000** | **£000** |
| Fidelity GMAC | 105,270 | 104,134 | 106,492 |
| Fidelity UK Aggregate Bond Fund | 122,741 | 116,825 | 129,259 |
| **Total Interest Rate Risk Assets** | **228,011** | **220,959** | **235,751** |

The prior year comparator is as follows:

| **Asset** | **Carrying Amount as at 31 March 2017** | **Change in Year in the Net Assets available to Pay Benefits** | |
|---|---|---|---|
| | | **+ 25 bps** | **-25 bps** |
| | **£000** | **£000** | **£000** |
| Cash Balances | 9,376 | 9,399 | 9,353 |
| Cash on Deposit | 780 | 782 | 778 |
| Cash Equivalents | 3,742 | 3,751 | 3,733 |
| Blackrock Institutional Series | 7,568 | 7,587 | 7,549 |
| **Total Interest Rate Risk Assets** | **21,466** | **21,519** | **21,413** |

| Asset | Carrying Amount as at 31 March 2017 | Change in Year in the Net Assets available to Pay Benefits | |
|---|---|---|---|
| | | + 25 bps | -25 bps |
| | £000 | £000 | £000 |
| Fidelity GMAC* | 104,135 | 103,250 | 105,051 |
| Fidelity UK Aggregate Bond Fund* | 120,555 | 117,625 | 123,629 |
| **Total Interest Rate Risk Assets** | **224,690** | **220,875** | **228,680** |

*Restated Fidelity GMAC and Fidelity UK Aggregate Bond Fund

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than Sterling.

Currency Risk – Sensitivity Analysis

Following consultation with the Fund's performance management advisors, the following table shows the potential impact of foreign exchange rate movements on the overseas holdings within the Fund (the analysis assumes that all other variables, in particular interest rates, remain constant):

| Asset | Asset Value as at 31 March 2018 | Potential Change in Foreign Exchange Rate | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| Private Equity | 9,070 | 8.83 | 9,871 | 8,269 |
| Overseas Unitised Insurance Policies | 364,042 | 10.25 | 401,354 | 326,730 |
| Overseas Unit Trust Other | 121,625 | 16.55 | 141,755 | 101,494 |
| Cash held in Foreign Currencies | 18 | 9.10 | 19 | 16 |
| **Total Currency Risk Assets** | **494,755** | | **552,999** | **436,509** |

The prior year comparator is as follows:

| Asset | Asset Value as at 31 March 2017 £000 | Potential Change in Foreign Exchange Rate % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Private Equity | 14,409 | 8.11 | 15,579 | 13,241 |
| Overseas Unitised Insurance Policies | 330,814 | 9.02 | 360,651 | 300,978 |
| Overseas Unit Trust Other | 219,528 | 9.27 | 239,887 | 199,169 |
| Overseas Equities | 4 | 7.25 | 4 | 3 |
| Cash held in Foreign Currencies | 475 | 8.92 | 517 | 432 |
| **Total Currency Risk Assets** | **565,230** | | **616,638** | **513,823** |

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions held in year where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Contractual credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency. The Fund has a private equity portfolio where there is a higher credit risk. At the reporting date 0.71% of the Fund was in private equity thereby capping exposure to this asset class. Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £12.4m (£9.4m at 31 March 2017). This was held as follows:

| Counterparty Type | 31 March 2017 £000 | 31 March 2018 £000 |
|---|---|---|
| UK Banks | 9,376 | 12,355 |

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The cash position of the Fund is monitored to ensure that the Fund has adequate cash resources to meet its commitments. The Fund has immediate access to monies held in its current account. Monies on deposit are also highly liquid and are available to the Fund if needed. If the Fund found itself in a position where it did not have the monies to meet its immediate commitments, it is able to borrow for up to 90 days. If there was a longer term shortfall, then investments could be sold to provide additional cash. Financial liabilities of £2.060m are all due to be settled within 12 months of the net asset statement date.

Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## Note 16 – Funding Arrangements

The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Fund. This actuarial valuation also assesses the contribution rate required to meet the future liabilities of the Fund by considering the benefits that accrue over the course of the three years to the next full valuation.

In line with the regulations that funds should be re-valued every three years, the actuarial valuation applicable for 2017/18 was carried out as at 31 March 2016 (effective from 1 April 2017).

The method of calculating the employer's contribution rate is derived from the cost of the benefits building up over the year following the valuation date. This method is known as the 'Projected Unit Method'. It is a method considered appropriate by the Actuary for a fund open to new members. As the Fund remains open to new members, its age profile is not currently rising significantly. If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement.

Assets have been valued at a 6 month smoothed market value straddling the valuation date. The assumptions used in the calculation and applied during the inter-valuation period are summarised as follows:

| Financial Assumptions | March 2016 | |
|---|---|---|
| | % p.a. | Real % p.a. |
| Investment Return | | |
| Equities | 7.4 | 5.0 |
| Gilts | 2.4 | 0 |
| Bonds | 3.3 | 0.9 |
| Property | 5.9 | 3.5 |
| Discount Rate | 5.5 | 3.1 |
| Pay Increases | 3.9 | 1.5 |
| Price Inflation | 2.4 | 0 |
| Pension Increases | 2.4 | 0 |

| Demographic assumptions – Life expectancy from age 65 | 31 March 2016 £000 | 31 March 2017 £000 |
|---|---|---|
| Retiring Today | | |
| Males | 22.5 | 22.6 |
| Females | 24.6 | 24.7 |
| Retiring in 20 years | | |
| Males | 24.7 | 24.8 |
| Females | 26.9 | 27.0 |

The difference between the assumptions applied and actual performance in the inter-valuation (01/04/2013 - 31/03/2016) period are as follows:

| Financial Experience | Actual % | Assumed % | Difference % |
|---|---|---|---|
| Pay Increases | 2.3 | 2.0 | 0.3 |
| Pension Increases | 1.1 | 2.7 | (1.6) |
| Investment Returns | 5.9 | 6.0 | (0.1) |

The market value of the Fund at the 2016 review date was £1,052m (£885m in 2013) and results showed that assets represented 91% of the liabilities (86% in 2013). The Fund deficit arising from the valuation was £105m as at 31 March 2016 (£141m as at 31 March 2013), which is to be spread and recovered over a 20-year period. The reconciliation of the primary contribution rate is as shown below:

| Contribution Rate Analysis | March 2016 % |
|---|---|
| Future Service Total | 14.6 |
| Deficit Contribution | 3.9 |
| **Total Employer Contribution Rate** | **18.5** |

The agreed contribution rates in accordance with the results of the actuarial valuation are as follows (new employers admitted to the Fund after 31 March 2016 have been actuarially assessed to determine their individual employer contribution rates):

| Year | Royal Borough of Greenwich | Other Bodies |
|---|---|---|
| 2015/16 | 18.5% | 16.0% - 18.5% |
| 2016/17 | 18.5% | 16.0% - 18.5% |
| 2017/18 | 18.5% | 12.0% - 18.5% |

## Note 17 - Actuarial Present Value of Promised Retirement Benefits (IAS 19 basis)

To assess the value of the Fund's liabilities at 31 March 2018, the values calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions that comply with IAS19. The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits is:

| Net Present Value | 31 March 2017 £000 | 31 March 2018 £000 |
|---|---|---|
| Present Value of Funded Obligation | | |
| Vested Obligation | (1,937,254) | (1,962,234) |
| Non-Vested Obligation | (66,478) | (59,217) |
| Total Present Value of Funded Obligation | (2,003,732) | (2,021,451) |
| Fair Value of Scheme Assets | 1,233,985 | 1,275,735 |
| **Net Liability** | **(769,747)** | **(745,716)** |

## Note 18 - Debtors and Creditors

The following material amounts were due to, or payable from, the Fund as at 31 March 2018:

| 2016/17 £000 | Debtors | 2017/18 £000 |
|---|---|---|
| | Investment Debtors | |
| 205 | Tax Refunds Due | 147 |
| 27 | Dividends Due | 96 |
| **232** | **Total Investment Debtors** | **243** |
| | Member Debtors | |
| 373 | Contributions | 347 |
| 76 | Other | 220 |
| **449** | **Total Member Debtors** | **567** |
| **681** | **Total Debtors** | **810** |
| | Analysed By | |
| 625 | Other Entities and Individuals | 807 |
| 56 | Central Government Bodies | 3 |
| **681** | **Total Debtors** | **810** |

| 2016/17 £000 | Creditors | 2017/18 £000 |
|---|---|---|
| | Investment Creditors | |
| (783) | Management Fees | (1,081) |
| 0 | Purchase of Investments | 0 |
| (4) | Custody Fees | (5) |
| (189) | Other | (11) |
| **(976)** | **Total Investment Creditors** | **(1,097)** |
| | Member Creditors | |
| (129) | Benefits Unpaid | (193) |
| (826) | Other | (769) |
| **(955)** | **Total Member Creditors** | **(962)** |
| **(1,931)** | **Total Creditors** | **(2,059)** |

| | Analysed By | |
|---|---|---|
| (432) | Central Government Bodies | (444) |
| (70) | Local Authorities | 0 |
| (1,429) | Other entities and individuals | (1,615) |
| **(1,931)** | **Total Creditors** | **(2,059)** |

## Note 19 – Cash and Cash Equivalents

The cash balance can be further analysed as follows:

| **Cash** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| Royal Borough of Greenwich Pension Fund | 9,376 | 12,355 |
| CBRE Cash at Hand | 205 | 170 |
| State Street Global Markets | 150 | 192 |
| Others | 425 | 5 |
| **Total Cash** | **10,156** | 12,722 |

| ***Cash Equivalents** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|
| Royal Borough of Greenwich Pension Fund | 574 | 235 |
| Blackrock | 1 | 4 |
| CBRE | 3,167 | 6,987 |
| **Total Cash** | **3,742** | 7,226 |

*restated 2016/17 to breakdown Cash Equivalents

## Note 20 - Additional Voluntary Contributions

Contributing members have the right to make Additional Voluntary Contributions (AVCs) to enhance their pension. The Authority made such a scheme available to staff through Equitable Life. During 2000/01, Equitable Life announced itself closed to new business. On 23 December 2010, the Government passed an Equitable Life Bill to enable it to compensate Equitable Life policyholders who lost money due to the near collapse of the insurer in 2000. Since then, employees have had the option to pay current contributions into a Clerical Medical Fund. In accordance with section 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, AVCs are prohibited from being credited to the Local Government Pension Scheme and are thus not consolidated within the Fund accounts. However, a summary of the contributions made by members during the year and the total value of the AVC funds, at 31 March 2018, are shown below:

| 2016/17 £000 | AVC Contributions | 2017/18 £000 |
|---|---|---|
| 125 | AVC Contributions to Clerical Medical | 80 |
| 1 | AVC Contributions to Equitable Life | 0 |
| **126** | **Total Contributions** | **80** |

| 31 March 2017 £000 | AVC Market Values | 31 March 2018 £000 |
|---|---|---|
| 766 | Clerical Medical Market Value | 837 |
| 357* | Equitable Life Market Value | 366 |
| **1,123** | **Total Market Value** | **1,203** |

*Re-stated. Prior year figure was best estimate

## Note 21 - Related Party Transactions

The UK Government exerts a significant influence over the Fund through enacting the various Regulations (mentioned herein). It is a major source of funding for the Royal Borough of Greenwich (the Administering Authority and largest employer within the Fund). During the year, no trustees or Key Management Personnel of the Authority with direct responsibility for pension fund issues have undertaken any material transactions with the Pension Fund, other than the following:

a) Administrative services were undertaken by the Authority on behalf of the Fund, under the SLA, valued at £0.851m (2016/17: £0.759m).
b) The Royal Borough of Greenwich is the single largest employer of members of the pension fund and contributed £27.233m to the Fund in 2017/18 (2016/17: £28.218m).
c) With respect to other Scheduled Bodies, an amount of £0.067m was owed to the Fund by Academies at year-end for contributions due.
d) The Royal Borough of Greenwich Pension Fund is a Member of the London Councils Collective investment vehicle. Councillor Austen - Fund's representative on the Board. In 2017/18, an administration fee of £0.120m was paid to this organisation.

Key Management Personnel Remuneration

The Key Management personnel of the Fund are the Assistant Director of Corporate Finance & Deputy s151 Officer, the Chair of the Pension Fund Investment and Administration Panel and the Pension Investment Manager. The total remuneration payable to key management personnel is set out below:

| **2016/17 £000** | | **2017/18 £000** |
|---|---|---|
| 67 | Short-term benefits | 86 |
| 32 | Post-employment benefits | 51 |
| **99** | | **137** |

## Note 22 - Commitments

The Fund has commitments in relation to its private equity holdings. These commitments are drawn down in tranches over time, as and when the private equity managers request them. As at 31 March 2018, the Fund had £1.952m of private equity commitments outstanding (31 March 2017: £2.072m). These are not required to be included in the Accounts.

# Accounting Policies

## General

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which states that the Accounts are to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the "Code") based upon International Financial Reporting Standards (IFRS), supported by policies 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. Many values throughout the accounts are rounded to the nearest £000, as such tables and notes may not appear to cross-cast or exactly match the sum of the individual items.

## Accruals of Income and Expenditure

- Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:
- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

## 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 investments that mature in no more than a three month period 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 Authority's cash management.

## Acquired Operations

Acquired operations are those that the Authority has acquired during the reporting period as a result of the reorganisation of local government, or the transfer of services acquired as a consequence of legislation. The Authority will account for these in accordance with IAS 1 if material, and disclose any comparative amounts, if applicable.

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

### Change in Accounting Policy

Policies are the principles used to prepare the financial statements. A change in policy generally originates from the accounting standards although it could come from being able to provide more relevant and reliable information. These are normally processed retrospectively, although in some cases can be prospective, where stated.

### Change in Accounting Estimate

This is an adjustment of the carrying amount of an asset or liability resulting from new information. These are processed prospectively in the current and future reporting periods.

### Prior Period Adjustment

This is a material omission or misstatement that could reasonably have been accounted for in the preparation of the accounts for the previous reporting period. This is processed through retrospective restatement of the accounts by amending the opening balances and comparative amounts for the prior period. A note to the accounts will be included for prior period adjustments where necessary.

## Charges to Revenue for Non-Current Assets

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

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

The Authority 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 (the Minimum Revenue Provision) towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are, therefore, replaced by the contribution from the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## Employee Benefits

<u>Benefits Payable during Employment</u>

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

<u>Termination Benefits</u>

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service in the Statements at the earlier of the following dates:

- when the Authority can no longer withdraw the offer of those benefits
- when the Authority recognises costs of a restructuring and involves the payment of termination benefits.

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

Post Employment Benefits

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

- The NHS Pension Scheme
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pension Scheme, administered by the Royal Borough of Greenwich or the London Pension Fund Authority (LPFA).

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the NHS and Teachers Schemes' means that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant cost of services line in the Statements is charged with the employer's contributions payable to the NHS and Teachers' Pensions schemes in the year.

The Local Government Pension Scheme

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

- The liabilities of the Royal Borough of Greenwich and LPFA pension funds attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices based on the annualised yield at the point on the Merrill Lynch AA rated corporate bond curve that equates to the estimated duration of the liabilities, for the respective fund of which the Borough is an employer.
- The assets of the Royal Borough of Greenwich and LPFA pension funds attributable to the Authority are included in the Balance Sheet at their fair value:
  - for quoted securities – current bid price
  - for unquoted securities – professional estimate
  - for unitised securities – current bid price, except where only a single price is available in which case, net asset value
  - for property – market value.

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

Discretionary Benefits

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

## Events after the Reporting Period

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

Adjusting

Those events that provide evidence of conditions that existed at the end of the reporting period. Where material, the financial statements and notes are amended to reflect the impact of the events.

Non-Adjusting

Those events that are indicative of conditions that arose after the reporting period. The financial statements are not amended to reflect the events, but additional explanatory notes are provided.

## Income from Taxation and Social Housing Rents

Revenue relating to social Housing Rents, Council Tax and Business Rates is measured at the full amount receivable (net of any impairment losses). Council Tax and Business Rates are accounted for in accordance with IPSAS 23 (i.e. non-contractual, non-exchange transactions). Housing rental income is shown within the Statements but local taxes collected as part of an agency arrangement (Council Tax and Business Rates) are not.

## Material Items of Income and Expenditure

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

## Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
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 Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority 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 Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability

## Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Statements for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged within the Statements is the amount payable for the year according to the loan agreement. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Statements in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down in the Statements are spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Statements, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Statements to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Guarantees

These will be assessed at fair value at their inception and will be kept under review.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Statements for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited is the amount receivable for the year in the loan agreement. When soft loans are made and are material, a loss is recorded in the Statements for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Statements at a marginally higher effective rate of interest than the rate receivable from the organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited snd credited to the Statements to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

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

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

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

## Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Realised gains or losses are recognised in the Financing and Investment Income and Expenditure line.

## Government Grants and Contributions

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

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

Amounts recognised as due to the Authority are not credited until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions are shown as liabilities on the Balance Sheet until outstanding conditions are satisfied. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants). Where capital grants are credited, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## Heritage Assets

Where an asset is primarily retained for its contribution to knowledge and culture, it is designated as a heritage asset. However, where an asset is in operational use then it is classified accordingly, rather than as a heritage asset. Heritage Assets are recognised and measured in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The collection, as a whole, is relatively static and acquisitions and donations are infrequent. Where they do occur, acquisitions are initially recognised at cost and donations are recognised at valuation, ascertained by the museum's staff, utilising professional valuation organisations where appropriate. Where material, these items are reported in the Balance Sheet, with items in excess of £10,000 being individually disclosed. In relation to the Authority's overall asset base, values are relatively low and, as such, revaluations are not undertaken frequently due to the high cost of the process involved in valuing a diverse set of assets and the lack of comparative values. The items themselves are enduring in nature and, therefore, are not depreciated. The carrying amounts of heritage assets are reviewed when there is evidence of impairment. Any impairment is recognised and measured in accordance with the Authority's general policy on impairment. The proceeds of any disposals are disclosed separately in the notes to the financial statements and are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

## Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. Intangible assets are measured initially at cost and are carried thereafter at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s). An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s). Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## Interests in Companies & Collaborative / Joint Arrangements

In accordance with IFRS 10, 11 and 12 the Authority has assessed the level of control it exerts with those organisations deemed to be within the group boundaries and categorised them accordingly and where appropriate, interests shown at book cost. This process has led to the conclusion that entries in relation to the preparation of Group Accounts are not material and therefore not required. Details of the categorisation of entities, with further description relating to their composition and activities, are provided in note 25. Those activities in relation to joint committee activities are deemed to be outside of joint arrangement accounting.

## Inventories

Inventories are included in the Balance Sheet at cost.

## Investment Properties

Investment Properties are held solely for rental income and capital appreciation and are initially measured at cost. Investment Properties are not depreciated but subsequently revalued at the reporting date and held at the highest fair value achievable via an arm's length transaction. Gains and losses arising from revaluations or disposals are posted to the Financing and Investment Income and Expenditure Line in the Comprehensive Income and Expenditure Statement along with rental incomes.

Gains and losses arising from the revaluations and disposals are not permitted by statutory arrangements to have an impact on the General Fund Balance, and are therefore reversed out in the Movement in Reserves Statement and posted to the Capital Adjustment Account and Capital Receipts Reserve (where proceeds are greater than £10,000).

Property classifications are reviewed annually to ensure the definition of an Investment Property is met.

## 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 will be accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Authority as Lessee</u>

<u>Finance Leases</u>

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets. The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged 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, unless another systematic basis is more representative of the benefits received by the Authority.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line as part of the gain or loss on disposal. The sale proceeds, representing the Authority's net investment in the lease, are credited to the same line in the as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet. 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).

The gain or loss presented on disposal is not permitted by statute to increase or decrease the General Fund Balance. The net investment in the lease is required to be treated as a capital receipt and the carrying value of the asset is posted to the Capital Adjustment Account. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. 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 or the General Fund where the lease was entered into on or before 31 March 2010. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line. Credits are made on a straight-line basis over the life of the lease, unless another systematic basis is more representative of the time pattern in which the benefit derived from the leased asset is diminished.

## Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

The following overhead items are included in the revenue costs of Finance and Central Services:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, and impairment losses chargeable on assets under construction and other surplus assets.

## Property, Plant and Equipment

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

<u>Recognition</u>

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority 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. A de minimis level of £10,000 has been adopted for the inclusion of Property, Plant and Equipment.

<u>Measurement</u>

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority. Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. The valuations are undertaken by Mr Simon Marsh M.R.I.C.S and are made in accordance with the guidance from the Department of Communities and Local Government and the RICS Valuation-Professional Standards published by the Royal Institution of Chartered Surveyors. Valuations for use within the Accounts are sought by the Director of Finance from the Director of Regeneration, Enterprise and Skills. The relevant staff work in separate directorates, are professionally qualified and abide by their respective institute's ethical and other requirements. Assets, including HRA assets are valued as at 01 April. If the Valuer advises that there has been significant movement in the value of assets during the year, then a further revaluation may take place to ensure that their carrying amounts are not materially different from their values. Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and community assets– depreciated historical cost
- assets under construction- historic cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). The Beacon method has been applied to arrive at the vacant possession value of dwellings before adjusting to 25% for EUV-SH. Both those parts of the valuations are as recommended by the Department for Communities and Local Government in their Stock Valuation for Resource Accounting – Guidance for Values 2016.
- surplus assets and assets held for sale – fair value, determined by the measurement of the highest and best use value of the asset.
- all other operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. Assets included in the Balance Sheet at fair value are revalued to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains (exceptionally, gains might be credited where they arise from the reversal of a loss previously charged to a service). Where decreases in value are identified, they are accounted for by:

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

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

<u>Componentisation</u>

In accordance with the Code, land and buildings are separated, however, further componentisation has not taken place. Depreciation is charged on the opening carrying value and the amounts charged would not be materially different had further componentisation been undertaken. Items of Property, Plant and Equipment are revalued at the end of the reporting period.

Depreciation

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

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation over the useful life as estimated by a suitably qualified officer
- infrastructure – straight-line allocation over 40 years.

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

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

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

Disposals and Non-current Assets Held for Sale

Assets held for sale are assets:

- immediately available for sale;
- where the sale is highly probable;
- actively marketed;
- expected to be sold within 12 months.

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Schools held on the balance sheet are disposed for nil consideration when they transfer to Academy status. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of 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 as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment (or set aside to reduce the Authority's underlying need to borrow, as represented by the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Private Finance Initiative

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Authority has two PFI schemes (the provision of three Neighbourhood Resource Centres and two schools) where the assets are carried in its Balance Sheet (excluding one school which converted to academy status 2014/15). The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority. The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service
- finance cost – an interest charge on the outstanding Balance Sheet liability, which is reduced by the applied refinancing gain and debited to the Financing and Investment Income and Expenditure line
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – these are charged against the unitary payment as incurred

## Provisions, Contingent Assets and Liabilities

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Assets

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

Contingent Liabilities

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

## Reserves

The Authority’s reserves are reflected in the Movement in Reserves Statement. They include reserves the Authority sets aside for earmarked purposes. An analysis of earmarked reserves is contained within Note 7.

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

## Revenue Expenditure Funded from Capital under Statute

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

## VAT

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

# Annual Governance Statement

## 1..Scope of responsibility

The Royal Borough of Greenwich is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Royal Borough 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 Royal Borough is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Royal Borough has approved and adopted a code of corporate governance based on the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government: Framework (2016)*. A copy of the code can be obtained from the Assistant Director of Finance (Governance and Audit). In accordance with this framework the Royal Borough has to undertake a review of its systems of internal control at least annually. This statement explains how the Royal Borough has complied with the code and also meets the requirements of regulation 6(1)(a) of the Accounts and Audit Regulations 2015 in relation to the effectiveness of its system of internal control.

CIPFA and SOLACE reviewed the Framework in 2015 to ensure it remains 'fit for purpose' and published a revised edition in April 2016. This new guidance took affect from 2016/17 accounts.

## 2..What is Governance?

Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- leadership and management;
- performance and risk management;
- stewardship of public money; and
- public engagement and outcomes for our citizens and service users.

## 3..The governance framework

The core principles of good governance are set out in the CIPFA/SOLACE Framework and the first two are expected to permeate the other core principles:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Royal Borough's governance framework is summarised in its Local Code of Corporate Governance. The following paragraphs outline the key elements of the systems and processes that comprise the Royal Borough's governance framework and arrangements, in place in 2017/18 and summarises how the principles of good governance have been met.

## 4.. What is the purpose of a Governance Framework?

The governance framework comprises the culture, values, systems and processes by which an organisation is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It assures that in conducting its business, the Council:

- operates in a lawful, open, inclusive and honest manner;
- makes sure that public money and assets are safeguarded from inappropriate use, or from loss and fraud, properly accounted for and used economically, efficiently and effectively;
- has effective arrangements for the management of risk;
- secures continuous improvement in the way that it operates;
- enables human, financial, environmental and other resources to be managed efficiently and effectively;
- properly maintains records and information; and
- ensures its values and ethical standards are met.

The governance framework has been in place during the year ended 31 March 2018.

## 5.. Annual Governance Statement

A governance assurance process is in place to provide a framework for the annual assessment of the effectiveness of the governance arrangements operating within the Council. This includes Cabinet Member overview and oversight and robust challenge by the Council's Statutory Officers i.e. the Chief Executive, Monitoring Officer and Chief Financial Officer.

In addition, 'an assurance model' is in place which helps Members and Senior Management to understand where assurances are being obtained from, what level of reliance they are able to place on that assurance and what potential gaps are identified in that assurance.

Effective risk management and control assurance can come from many sources within the Council:-

- functions that own and manage risks e.g. management and supervisory controls;
- functions that oversee risks e.g. Governance structures and processes such as ARM Panel, Scrutiny, and Boards; and
- functions that provide independent assurance on the management of risks e.g. OFSTED and Internal/External Audit.

These help the Council understand how each contributes to the overall level of assurance and how best they can be integrated and supported. This summarises the Council's governance assurance framework.

## 6.. How does the Council monitor and evaluate the effectiveness of its governance arrangements?

The Council annually reviews the effectiveness of its governance arrangements. The key sources of assurance that inform this review are outlined below:

- The continued development and implementation of a Member / Management governance assurance framework, which enables the Council to gain assurance that good governance actions and behaviours are operating within the Council;
- Internal Audit's independent review of the effectiveness of the Local Government Pension Scheme's governance arrangements, which includes the administration of the pension fund;
- The Head of Internal Audit's annual report 2017/2018, which provides the independent assurance that key risks (financial and non-financial) are being adequately controlled and provides an opinion on the effectiveness of these arrangements;
- The outcome of risk management activity during 2017/2018 and any critical risks identified; and
- Any comments made by the Council's External Auditors and any other review agencies and inspectorates.

A Corporate Assurance Checklist is prepared which sets out how the Council believes that its arrangements have met the CIPFA Principles of Good Governance.

## 7..Review of effectiveness

The Royal Borough has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, i.e. the Head of Internal Audit's annual report, and by comments made by external auditors.

Within the Royal Borough's governance framework, there are various levels of assurance, in particular the level of internal control exerted by the management of the Royal Borough summarised in the Corporate Assurance Checklist for 2017/18.

The Royal Borough's risk management arrangements are maintained by regular periodic review with a robust and clearly documented risk strategy. The council has also used its insurer to provide independent input into aspects of its risk management arrangements. A key part of the risk strategy is the requirement for an up to date and clearly owned Strategic Risk Register consisting of the key strategic risks facing the organisation and details of how they are being effectively managed.

The Strategic Risk Register, in its entirety, is owned by the Greenwich Management Team with the individual Directors having responsibility for each specific risk and nominated individuals in Directorates undertaking a key role in managing the specific actions in order to mitigate and monitor each risk.

Overall, from the review of effectiveness of the governance arrangements it is concluded that the governance arrangements have been in place for the financial year ended 31 March 2018 and with the exception of the governance issues detailed in the following section, these arrangements were operating effectively and in accordance with good practice.

The review process has considered the evidence of how governance operated during the year and determined its effectiveness. The process included reviewing:-

- The Council's constitution;
- Arrangements for communicating with the citizens of Royal Greenwich and other stakeholders;
- Performance management arrangements;
- Roles, responsibilities and training of members and officers responsible for governance;
- The process for making financially and legally prudent risk assessed decisions;
- Internal control arrangements to ensure compliance with policies and procedures;
- Overall risk management arrangements and the process for reporting concerns and complaints;

- Activities of the relevant member committees and panels;
- Governance control self-assessments undertaken by departmental chief officers;
- The Head of Internal Audit report on the Royal Borough's internal control arrangements based on internal audit's work programme during the year;
- Arrangements for following up actions identified from the previous Annual Governance Review process; and
- The findings of the Royal Borough's external auditors on the work undertaken on the governance of the Royal Borough.

### 8..Significant governance issues

The 2016/17 Annual Governance Statement included three areas that represented significant governance issues from 2015/16.

- IT Disaster Recovery and Business Continuity;
- Freedom of Information Act responses; and
- No Recourse to Public Funds.

The council's disaster recovery systems have now become embedded and therefore have demonstrated that the actions from the 2017/18 plans have been achieved. The new facility is a significant upgrade of the council data protection processes and systems. Dedicated resources have been contracted to the management of the centre and the primary risk, being the linking of the data centre and the administrative centre, has been removed. This along with a major upgrade of the technology itself. It is proposed that this issue be removed.

There is a process in place to manage and monitor Freedom of Information Act responses and it was resolved to remove this as a governance issue last year.

Both IT disaster recovery and Freedom of Information Act responses continue to be reviewed by the Corporate Finance and Performance Scrutiny Panel.

In relation to no recourse to public funds this has been retained as a significant governance issue. Internal Audit have conduced ad hoc follow up work further to a previous audit review in this area and has been unable to gain the required level of assurance that controls have improved sufficiently. Internal Audit are currently undertaking a further review to assess progress.

Although the council has prepared for the new General Data Protection Regulations, it is proposed to include this issue at this stage, given the financial and reputational risk associated with this change and to closely monitor progress.

Although there are continued risks in maintaining a balanced Medium Team Financial Strategy (MTFS) for the period 2017/18 onwards, it is felt that any risks in achieving the required financial savings contained within the strategy have been assessed. Other factors could impact on the Council's ability to deliver the plan and therefore the delivery of the MTFS is considered to be a significant governance issue and has consequently been included within this Annual Governance Statement. This has been confirmed in the Annual Audit Letter of the council's external auditors published in December 2017.

There continues to be uncertainty around the decision of the UK to leave the European Union. The additional risks faced by the Council and the rationale that supports the MTFS will need to be assessed as the risks become clearer.

During 2018/19 Members of the Audit and Risk Management Panel will be kept abreast of on-going progress achieved in these areas with a view to removing each area as a significant governance issue in the next Annual Governance Statement.

| Governance Area | Governance Control Issue | Action Required | Responsible Officer |
|---|---|---|---|
| IT - Disaster Recovery /Business Continuity | The Council's IT Disaster Recovery / Business Continuity system remains a strategic risk to the Council, due to the pivotal nature of the service to the Council's operations.<br><br>Having completed the move to our new Data Centre in Slough, the geographical risks have been replaced with contractor failure, network linkage and a new physical location.<br><br>The Council's user estate is now operated in a hybrid mode, with some users on the core environment, while other work with cloud services. Loss of access to the cloud services is now a new strategic risk, along with the hacking of our cloud tenancy. | Having completed the upgrading of the core environment in April 2017, the primary risk around the TWC Data Centre has been mitigated. Servers have now been transferred to Slough, a new backup system is in place and contractual arrangement cover the people management issues implemented as part of the new data centre contract. However, management of the primary risk must now be done via good Council contract management of our data centre provider, good life-cycle management of the live servers in the estate and active capacity / performance management of the systems.<br><br>High risk and vulnerable users have been moved to Office 365. This cloud-based solution has mitigated the total loss of the estate but introduced a new risk of the tenancy being accessed / compromised. Mitigation will be via software locks on the cloud tenancy and contract management of our cloud providers. | Director of Finance |

| Governance Area | Governance Control Issue | Action Required | Responsible Officer |
|---|---|---|---|
| No Recourse to Public Funds<br><br>(NRPF) | No Recourse to Public Funds (NRPF) is an immigration condition restricting access to public funds, including many mainstream benefits such as Income Support and Housing Benefit. Families and individuals may have a right to financial support (accommodation and subsistence) from social services to avoid destitution or because of complex health needs.<br><br>In these cases, the Royal Borough has a duty to support the accommodation and subsistence costs of residents with NRPF. | Since September 2014 Adults and Older People Services has provided a dedicated NRPF team to provide accommodation, subsistence and to liaise with the Home Office.<br><br>Members were briefed in 2016 agreed to a joint NRPF Council wide strategy, which includes Adults, Children's and Housing.<br><br>In 2017 there has been a Council Scrutiny process to oversee development of a joint approach. | Director of Health and Adult Services |

| | | | |
|---|---|---|---|
| | These cases are often complex to assess and unpredictable as to how much they cost or how long they last. Expenditure in this area has steadily increased and as the Royal Borough receives no funding to support this work represents a significant budget pressure.<br><br>There are also increasing legal costs and legal challenges. As Case Law expands there is a significant risk that the Council's duties and responsibilities also expand.<br><br>The issue remains as a significant governance control issue going forward and the position is under regular review. | Numbers of supported adults continues to decrease | |

| Governance Area | Governance Control Issue | Action Required | Responsible Officer |
|---|---|---|---|
| Data Breaches | The new General Data Protection Regulation (GDPR) - fines from any breach will increase significantly.<br><br>While the council has experienced data breaches in recent years they have been minor.<br><br>There is now a risk that a breach, if significant, could result in a material fine. | The council is in a strong position as its implementation programme has achieved an appropriate level of compliance. Standards to ensuring the 'accountability principle' have been met and have been confirmed by the SIRO. This meets the minimum standard for the council to provide a good defence to mitigate against ICO enforcement. There is evidence of awareness amongst staff, department leads are strong, and good audit trails have been established in response to this new legislation.<br><br>Having delivered the "day one" milestone in compliance, the council will continue to implement new systems and ways of working to address the on-going risk of weaknesses in information governance.<br><br>The HR and Housing Services' unstructured data is being transferred into a new EDRMS system, given a great assurance around areas that have been the | Director of Finance |

| | | | |
|---|---|---|---|
| | | focus of risk management for 2018/19. | |

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

**Cllr Hyland**
**Leader of the Council**

**Dated: 23 May 2018**

**Debbie Warren**
**Chief Executive**

**Dated: 23 May 2018**

# Glossary

## Accounting Policies
Rules and Practices are adopted by the Authority that dictate how transactions and events are shown.

## Accruals
Income and expenditure are recognised as they are earned or incurred not as money is received or paid.

## Actuary
An independent professional who advises on the position of the Pension Fund.

## Actuarial Valuation
The Actuary reviews the assets & liabilities of the Pension Fund every three years.

## Amortisation
A measure of the cost of economic benefits derived from intangible fixed assets that are consumed during the period.

## Appropriation
The assignment of revenue for a specific purpose.

## Balance Sheet
A statement of recorded assets, liabilities and other balances at the end of an accounting period.

## Better Care Fund
A pooled budget between the Authority and the Clinical Commissioning Group.

## Business Rates
A tax on non-domestic properties.

## BSF
Building Schools for the Future.

## Capital Expenditure
Expenditure on new assets such as land and buildings or on the enhancement of existing assets so as to significantly prolong their useful life or increase their market value.

## Capital Receipts
Income received from the disposal of land, buildings & other capital assets.

## Carrying Amount
The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

## CIPFA
Chartered Institute of Public Finance and Accounting

## Code
The Accounting Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

### Collection Fund Account
A Fund operated by the billing authority into which all receipts of council tax and national non- domestic rates are paid.

### Community Assets
Assets that the Authority intends to hold in perpetuity, which have no determinable useful life and which may have restrictions on their disposal e.g. parks and historic buildings.

### Comprehensive Income and Expenditure Statement (CSIE)
Statement of net cost for the year of all the Authority's services, and how this cost is financed from government grant and local taxpayers.

### Council Tax
A tax on domestic properties introduced 1$^{st}$ April 1993 to replace the Community Charge.

### CPI
Consumer Prices Index – a measure of inflation.

### Creditors
Amounts owed by the Authority for goods and services received where payment has not been made at the date of the Balance Sheet.

### Debtors
Amounts owed to the Authority for goods and services provided but not received at the Balance Sheet date.

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

### Earmarked Reserves
Amounts set aside for a specific purpose or a particular service or type of expenditure.

### Fair Value
Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

### Finance Lease
A lease that transfers substantially all the risks and rewards of ownership to the lessee. Assets under such leases are recognised as the lessee's property.

### Financial Instruments Adjustment Account (FIAA)
Provides a balancing mechanism between the different rates at which gains and losses are recognised under the Code and are required by statute to be met from the General Fund.

### General Fund
The account that summarises the revenue costs of providing services that are met by the Authority's demand on the collection fund, specific government grants and other income.

### Gross Expenditure
Total expenditure before deducting income.

### Heritage Asset
An asset with, historical, artistic, scientific, technological, geophysical, environmental or cultural significance.

### Highways Network Asset
A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include carriageways, footways and cycletracks, structures, street lighting, street furniture, traffic management systems and land.

### HRA
This is the Housing Revenue Account, which includes the expenditure and income for the provision of rented dwelling. Items to be included are prescribed by the Local Government and Housing Act 1989.

### IAS19
IAS19 is a complex accounting standard, but is based upon a simple principle – that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. Following the adoption of IAS19, the net pensions asset/liability to be recognised is made up of two main elements:

- Liabilities – the retirement benefits that have been promised
- Assets – the attributable share of investments held to cover the liabilities.

### IFRS
International Financial Reporting Standards.

### Impairment
A reduction in the value of a fixed asset, as shown in the balance sheet, to reflect its true value.

### Infrastructure Assets
Non-current assets that cannot be easily disposed of, expenditure on which is only recovered by continued use of the asset e.g. highways and footpaths.

### Investment Property
A property which is held solely to earn rentals or for capital appreciation.

### Liability Driven Investment (LDI)
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent with defined-benefit pension plans.

### MTFS
Medium Term Financial Strategy.

### Minimum Revenue Provision
Amount that the Authority has determined to set aside each year as a provision for the repayment of debt.

### Net Book Value
The amount at which Property Plant and Equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### Net Expenditure
Gross expenditure less income.

### Non-Current Assets
(In)tangible assets that result in benefits to the Authority and the services it provides for more than one year.

### Non-Operational Assets
Non-current assets held by the Authority but not used or consumed in the delivery of services e.g. investment properties and assets that are surplus to requirements.

### NRC
Neighbourhood Resource Centre.

### Operating Lease
A lease under which the asset can never become the property of the lessee.

### Outturn
Actual income and expenditure for a financial year.

### Precept
The charge made by one authority on another to finance its net expenditure.

### Private Finance Initiative (PFI)
Government initiative under which the Authority buys the services of a private sector supplier to design build finance and operate a public facility.

### Provision
Amounts set aside for any liability or loss that is likely to be incurred, but where the exact amount and date is uncertain.

### PWLB
Public Works Loans Board (advances loans to local authorities).

### Rateable Value
The value of a property for rating purposes set by the Valuation Office Agency, an executive agency of HM Revenue and Customs. Business rates payable are calculated by multiplying the rateable value of the property by the rate in the pound set by the government.

### Reserves
The net worth of the authority (the sum of its net assets).

### Revenue Expenditure
Regular day-to-day running costs incurred in providing services e.g. employee costs and purchase of materials.

### Revenue Expenditure Funded from Capital under Statute
Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation or enhancement of Authority owned assets.

### Revenue Support Grant
The main grant paid by central government to the Authority towards the costs of all its services.

### RPI
Retail Prices Index – a measure of inflation.

### Section 151 Officer
The Chief Finance Officer as set out under Section 151 of the Local Government Act 1972.

### SoDoPS
Surplus or Deficit on the Provision of Services.

### Soft Loans
Funds advanced or taken on at less than market rates.

### Support Services
Activities of a professional, technical and administrative nature, which support front line services.

### Teckal
A company that carries out the essential part of its activities and in any case, more than 80% of its work, for the Authority, whereby the local authority exercises control over it which is similar to that which it exercises over its own departments.

### Unusable Reserves
Element of the net worth of the authority that is not generally cash backed i.e. they are not available to be used (e.g. Revaluation Reserve).

### Usable Reserves
Element of the net worth of the authority that is generally cash backed and set aside for specific purposes.