Notes to the accounts 2017/18

1. Statement of accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by the council in preparing and presenting these financial statements. These can be reviewed in detail on pages 69 to 84.

2. Expenditure and funding analysis

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

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund Balance £000	Adjustments between the funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
1,705	378	2,083	Client team - 5 Councils Partnership	2,449	374	2,823
710	136	846	Strategic Management Board	703	33	736
1,463	474	1,937	Corporate Services	1,372	345	1,717
714	332	1,046	Development & Housing	730	259	989
50	0	50	Economy Leisure & Property	0	0	0
199	172	371	Finance	223	238	461
1,421	60	1,481	Legal & Democratic	1,239	216	1,455
960	213	1,173	Planning	1,237	300	1,537
4,414	4,179	8,593	Waste Leisure and Environment	4,392	2,121	6,513
11,636	**5,944**	**17,580**	**Net cost of services**	**12,345**	**3,886**	**16,231**
(12,653)	**(2,604)**	**(15,257)**	**Other Income and Expenditure**	**(14,024)**	**(6,571)**	**(20,595)**
(1,017)	**3,340**	**2,323**	**(Surplus) or deficit on provision of services**	**(1,679)**	**(2,685)**	**(4,364)**
(15,503)			Opening General Fund Balance	(16,520)		
(1,017)			(Surplus) or Deficit on General Fund Balance in year	(1,679)		
(16,520)			**Closing General Fund Balance at 31 March**	**(18,199)**		

3. Note to the expenditure and funding analysis

2016/17					2017/18			
Adjustments for Capital Purposes (note 1) £000	Net change for the Pensions Adjustments (Note 2) £000	Other Differences (Note 3) £000	Total Adjustments £000		Adjustments for Capital Purposes (note 1) £000	Net change for the Pensions Adjustments (Note 2) £000	Other Differences (Note 3) £000	Total Adjustments £000
505	(876)	749	378	Client team - 5 Councils Partnership	410	(36)	0	374
124	12	0	136	Strategic Management Board	3	30	0	33
446	28	0	474	Corporate Services	192	153	0	345
3,829	36	0	3,865	Development & Housing	61	198	0	259
0	0	0	0	Economy Leisure & Property	0	0	0	0
157	15	0	172	Finance	174	64	0	238
20	40	0	60	Legal & Democratic	23	193	0	216
15	142	0	157	Planning	(207)	507	0	300
566	80	56	702	Waste Leisure and Environment	1,757	364	0	2,121
5,662	**(523)**	**805**	**5,944**	**Net cost of services**	**2,413**	**1,473**	**0**	**3,886**
(3,136)	**1,281**	**(749)**	**(2,604)**	**Other Income and Expenditure from the Expenditure and Funding Analysis**	**(3,965)**	**(2,606)**	**0**	**(6,571)**
2,526	**758**	**56**	**3,340**	**Difference between general fund surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the provision of Services**	**(1,552)**	**(1,133)**	**0**	**(2,685)**

The adjustments above are for transactions included in the CIES which cannot be charged to the general fund under statute. They include:

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for other operating expenditure, capital grants received in year where there is no repayment condition.

2) Net change for the pension adjustment relates to the removal of pension contributions and the addition of IAS 19 *Employee Benefits pension related expenditure and income*

3) Other differences are for reanalysis of items between services and in other income and expenditure, the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code.

4. Adjustments between accounting basis and funding basis under regulations

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

31 March 2017					31 March 2018			
Usable reserves					Usable reserves			
Gen fund bal & earmarked rev reserves	Capital receipts reserve	Capital grants unapplied	Movement in unusable Reserves		Gen fund bal & earmarked rev reserves	Capital receipts reserve	Capital grants unapplied	Movement in unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the capital adjustment account:				
				Reversal of items debited or credited to the CIES:				
(1,138)	0	0	1,138	Charges for depreciation and impairment of non-current assets	(1,153)	0	0	1,153
140			(140)	Revaluation gains on property, plant and equipment	633			(1,602)
(58)	0	0	58	Amortisation of intangible assets		0	0	0
0	0	0	0	Capital grants and contributions applied	0		820	(820)
(4,697)	0	0	4,697	Revenue expenditure funded from capital under statute	(2,117)	0	0	2,117
(861)	0	0	861	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(7,011)	0	0	7,011
				Adjustments primarily involving the capital grants unapplied account:				
1,782	(35)	(1,783)	36	Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement	1,332	83	(1,415)	0
(56)	0	56	0	Use of capital receipts reserve to finance new capital expenditure	294	0	(294)	0
				Adjustments primarily involving the capital receipts reserve:				
938	(938)	0	0	Transfer of cash sale proceeds credited as part of gain/loss on disposal to the CIES	12,422	(12,422)	0	0
0	3,784	1,240	(5,024)	Use of capital receipts reserve to finance new capital expenditure	0	2,405		(2,405)
				Adjustments primarily involving the deferred capital receipts reserve				
13	0	0	(13)	Transfer of deferred capital receipt relating to equity loan issued in year	49	0	0	(49)
				Adjustments primarily involving the pensions reserve:				
(756)	0	0	756	Pensions costs (transferred to (or from) the Pensions Reserve)	(1,473)	0	0	1,473
				Other adjustments	(21)	(20)		41
				Adjustments primarily involving the collection fund adjustment account:				
1,353	0	0	(1,353)	Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(270)	0	0	270
(3,340)	**2,811**	**(487)**	**1,016**	**Total adjustments**	**2,685**	**(9,954)**	**(889)**	**7,189**

5. Transfers to/from general fund balance and earmarked reserves

This note details all movements in the reserves that comprise the general fund balance and earmarked reserves.

31 March 2017					31 March 2018			
1 Apr 16 balance brought forward	Trans-fers in	Trans-fers out	31 Mar 17 balance carried forward		1 Apr 17 balance brought forward	Trans-fers in	Trans-fers out	31 Mar 18 balance carried forward
£000	£000	£000	£000		£000	£000	£000	£000
(6,166)	(3,629)	3,933	(5,862)	**General fund balance**	(5,862)		186	(5,676)
(6,166)	**(3,629)**	**3,933**	**(5,862)**	**Total general fund balance**	**(5,862)**	**0**	**186**	**(5,676)**
				Earmarked reserves				
(27)	0	0	(27)	Community grants (a)	(27)	0	0	(27)
0	(40)	0	(40)	Election equalisation (b)	(40)	0	(40)	(80)
(153)	0	0	(153)	Local development framework (c)	(153)	0	0	(153)
(10)	0	0	(10)	Reservoir (d)	(10)	0	0	(10)
(69)	(79)	118	(30)	Building regulations (e)	(30)	0	0	(30)
(1)	0	0	(1)	Besselsleigh Wood management (f)	(1)	0	0	(1)
(12)	0	0	(12)	Rent deposit guarantee (g)	(12)	0	0	(12)
(50)	0	0	(50)	Cabinet grants (h)	(50)	0	0	(50)
(7,546)	(3,929)	2,554	(8,921)	Service & infrastructure grants (i)	(8,921)	(4,150)	2,148	(10,923)
(49)	0	0	(49)	Self-insurance (j)	(49)	0	0	(49)
(1,420)	(575)	630	(1,365)	Revenue grants reserve (k)	(1,365)	(61)		(1,426)
(9,337)	**(4,623)**	**3,302**	**(10,658)**	**Total earmarked reserves**	**(10,658)**	**(4,211)**	**2,108**	**(12,761)**

The purpose of each reserve is as follows:

(a) Grants awarded in previous years that have not yet been taken up
(b) District council elections are held every four years and this reserve is used so that all the costs are not met in one year but spread over the term of the council
(c) To meet the cost of any inquiries that have to be set up as a result of the updating of the local development framework
(d) To meet any costs associated with Thames Water's proposal for a new reservoir
(e) The building control trading account
(f) To cover contributions to the management costs of Besselsleigh Wood
(g) To guarantee rent deposits for private tenants
(h) To provide matched funding to organisations
(i) Fund to provide revenue support to service and infrastructure projects
(j) To cover the excess payable on insurance claims
(k) To fund revenue expenditure from grants received in advance

6. Property, plant and equipment

Table 6a Movements in property plant & equipment 2017/18

	Other land & buildings	**Vehicles, plant & equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total PP&E**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or revaluation							
At 1 April 2017	**43,213**	**5,404**	**142**	**654**	**0**	**216**	**49,629**
Additions	0	74	0	0	0	1,007	1,081
Revaluation increases/(decreases) to RR	8,589	0	0	144	0	0	8,733
Revaluation increases/(decreases) to SDPS	533	0	0	99	0	0	632
Disposals	(7,200)	0	0	0	0	0	(7,200)
Write out balances on revalued assets	(1,505)		0	0	0	0	(1,505)
Reclassifications	0	0	0	0		0	0
Other movements in cost or valuation	(2)	0	0	0	0	0	(2)
At 31 March 2018	**43,628**	**5,478**	**142**	**897**	**0**	**1,223**	**51,368**
Depreciation and impairments							
At 1 April 2017	**(1,981)**	**(4,509)**	**(134)**	**0**	**0**	**0**	**(6,624)**
Depreciation charge	(863)	(245)	(1)	0	0	0	**(1,109)**
Impairment losses / reversals to RR	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Impairment losses / reversals to SDPS	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Disposals	**202**		**0**	**0**	**0**	**0**	**202**
Write out balances on revalued assets	**1,505**	**0**	**0**	**0**	**0**	**0**	**1,505**
Other movements	**0**	**0**	**0**	**0**	**0**	**0**	**0**
At 31 March 2018	**(1,137)**	**(4,754)**	**(135)**	**0**	**0**	**0**	**(6,026)**
Balance sheet amount as 31 March 2018	**42,491**	**724**	**7**	**897**	**0**	**1,223**	**45,342**
Balance sheet amount as 31 March 2017	**41,232**	**895**	**8**	**654**	**0**	**216**	**43,005**
RR = Revaluation reserve							
SDPS = Surplus or deficit on the provision of services							

Table 6b Movements in property plant & equipment 2016/17	Other land & buildings	Vehicles, plant & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total PP&E
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or revaluation							
At 1 April 2016	**43,430**	**5,316**	**141**	**654**	**245**	**0**	**49,786**
Additions	0	87	0	0	0	216	303
Revaluation increases/(decreases) to RR	730	0	0	0	0	0	730
Revaluation increases/(decreases) to SDPS	139	0	0	0	0	0	139
Disposals	(930)	0	0	0	0	0	(930)
Write out balances on revalued assets	(156)		0	0	0	0	(156)
Reclassifications	0	0	0	0	(245)	0	(245)
Other movements in cost or valuation	0	1	1	0	0	0	2
At 31 March 2017	**43,213**	**5,404**	**142**	**654**	**0**	**216**	**49,629**
Depreciation and impairments							
At 1 April 2016	**(1,334)**	**(4,250)**	**(129)**	**0**	**0**	**0**	**(5,713)**
Depreciation charge	(872)	(259)	(5)	0	0	0	**(1,136)**
Impairment losses / reversals to RR	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Impairment losses / reversals to SDPS	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Disposals	**69**		**0**	**0**	**0**	**0**	**69**
Write out balances on revalued assets	**156**	**0**	**0**	**0**	**0**	**0**	**156**
Other movements	**0**	**0**	**0**	**0**	**0**	**0**	**0**
At 31 March 2017	**(1,981)**	**(4,509)**	**(134)**	**0**	**0**	**0**	**(6,624)**
Balance sheet amount as 31 March 2017	**41,232**	**895**	**8**	**654**	**0**	**216**	**43,005**
Balance sheet amount as 31 March 2016	**42,096**	**1,066**	**12**	**654**	**245**	**0**	**44,073**
RR = Revaluation reserve							
SDPS = Surplus or deficit on the provision of services							

Depreciation

Where required, assets are depreciated in equal annual amounts over the assumed life of the asset. The following useful lives have been used:

- Buildings – on an individual basis as assessed by the valuer
- Vehicles, equipment, CCTV, computer hardware – 5 years
- Parks equipment, running track, boilers, large plant – 10 years
- Infrastructure assets (sewage treatment works) – 10 years
- Special items individually assessed (including heritage assets)

Capital commitments

As at the end of March 2018 the council had capital commitments on a number of contracts in 2017/18 and future years, budgeted to cost £2.1 million. The commitments are:

- Capital grants awarded - £0.2 million
- Leisure contracts - £1.9 million

Revaluations

The council has a rolling programme that ensures that all property, plant and equipment required to be measured at current value or fair value as appropriate, is revalued every five years. Any assets that may be subject to special conditions will be valued more often, as required.

The council's operational assets have been valued as at 9 March 2018 by Sanderson Weatherall in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS Red Book, UK Appendix 5). The council's contracted estates manager has confirmed that there has been no material change in the value of properties from 31 January 2016 to 9 March 2018.

The significant assumptions applied in estimating the 2017/18 values are that:

- There is no contamination problem nor deleterious/hazardous substance present;
- Good title can be shown and that the properties comply with all legal and statutory requirements regarding either the structure or its existing /past usage,
- There will be an adequate level of expenditure on repairs and maintenance.

Table 6c Revaluations property, plant and equipment					
	Land & buildings	**Vehicles, plant & equipment**	**Infrastructure & community assets**	**Assets under construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Carried at historical cost	474	5,278	141	0	**5,893**
Valued at fair value as at:					
31 January 2014	31,237	0	0	0	**31,237**
31 January 2015	0	0	654	0	**654**
31 January 2016	11,964	38	0	0	**12,002**
31 January 2017	(462)	87	0	216	**(159)**
31 January 2018	415	74	243	1,007	**1,739**
Total value	**43,628**	**5,477**	**1,038**	**1,223**	**51,366**

The council has no surplus assets.

7. Investment properties

Income and expenditure in respect of investment properties is shown on the face of the CIES.

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

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

Investment properties movement in fair value		
2016/17 £000		**2017/18 £000**
8,210	**Balance at 1 April**	**8,455**
0	Disposals	(13)
245	Reclassifications	0
0	Changes in fair value	969
8,455	**Balance at 31 March**	**9,411**

Fair value hierarchy

All the council's investment properties have been value assessed as level 2 on the fair value hierarchy for valuation purposes (see accounting policy xxii for an explanation of fair value levels).

Valuation techniques used to determine level 2 for values for investment property

The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the council's investment asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

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

Highest and best use

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

Valuation process for investment properties

The council's investment property has been valued as at 31 January 2016 by Bruton Knowles in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The council's contracted estates manager has confirmed that there has been no material change in the value of investment properties from 31 January 2016 to 31 March 2018.

8. Financial instruments

The borrowings and investments disclosed in the balance sheet are made up of the following categories of financial instruments:

Table 8a Categories of Financial Instrument

	Long-term		Current	
	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£000	£000	£000	£000
Investments				
Loans and receivables (principal amount)	6,000	8,000	28,008	45,500
Cash equivalents	0	0	7,479	7,540
Plus accrued interest	0	0	116	219
Loans and receivables at amortised cost	**6,000**	**8,000**	**35,603**	**53,259**
Available-for-sale financial assets	2,541	2,661	0	0
Total investments	**8,541**	**10,661**	**35,603**	**53,259**
Debtors				
Financial assets carried at contract amounts	5,947	5,976	4,218	6,335
Total debtors	**5,947**	**5,976**	**4,218**	**6,335**
Creditors				
Financial liabilities carried at contract amount	0	0	6,366	4,743
Total creditors	**0**	**0**	**6,366**	**4,743**

(1) Under accounting requirements, the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs including accrued interest. Accrued interest is shown separately in current assets/liabilities where payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price

(2) Available-for-sale financial assets – the council holds £2.7 million in the CCLA pooled property fund.

Financial instrument gains/losses

The gains and losses recognised in the income and expenditure account in relation to financial instruments are made up as follows:

Table 8b Financial instrument gains and losses		
2016/17 £000	Loans and receivables	2017/18 £000
582	Investment income (interest, dividends, gains/loss on disposal)	610
(40)	Net increase in fair value	120
542	**Net gain/(loss) for the year**	**730**

Fair values of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables, long-term debtors and creditors are carried in the balance sheet at amortised cost (in long term assets / liabilities with accrued interest in current assets / liabilities). 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:

- For loans receivable, prevailing benchmark rates have been used to provide the fair value;
- where an instrument will mature within the next 12 months, the fair value is taken to be the carrying amount;
- no early repayment or impairment is recognised;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Table 8c Fair value of assets and liabilities carried at amortised cost				
31 March 2017			31 March 2018	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
15,841	15,841	Short term creditors	17,260	17,260
15,841	**15,841**	**Total liabilities**	**17,260**	**17,260**
270	270	Cash and cash equivalents	12	12
7,220	7,222	Money market funds	7,540	7,544
28,008	28,051	Short term investments	45,500	45,661
6,000	6,071	Long term investments	8,000	8,054
2,541	2,541	Available for sale investments	2,661	2,661
5,344	5,344	Short term debtors	7,242	7,242
5,947	5,947	Long term debtors	5,977	5,977
55,330	**55,446**	**Total assets**	**76,932**	**77,151**

The fair values for loans and receivables include accrued interest.

The comparator market rates prevailing have been taken from indicative investment rates at the balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is likely to be immaterial.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

9. Debtors

31 March 2017			31 March 2018	
Long term £000	Short term £000		Long term £000	Short term £000
0	549	Central government bodies	0	638
0	2,038	Other local authorities	0	3,380
5,947	2,757	Other entities and individuals	5,977	3,224
5,947	**5,344**	**Total debtors**	**5,977**	**7,242**

10. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

31 March 2017 £000		31 March 2018 £000
1	Cash held by the council	2
676	Bank current and instant access accounts	(1,666)
7,220	Money market funds	7,540
7,897	**Total cash and cash equivalents**	**5,876**

11. Assets held for sale

At the balance sheet date, the council has no material assets held for sale.

12. Short–term creditors

31 March 2017 £000		31 March 2018 £000
(2,338)	Central government bodies	(2,476)
(8,728)	Other local authorities	(11,637)
(4,775)	Other entities and individuals	(3,308)
(15,841)	**Total short-term creditors**	**(17,421)**

13. Provisions

The provision in 2017/18 represents amounts set aside to meet future business rate appeals liabilities.

Provisions	**£000**
Balance at 1 April 2017	**(1,662)**
Business rate appeals - movement in year	(783)
Balance at 31 March 2018	**(2,445)**

14. Unusable reserves

Revaluation reserve

The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment (including intangible assets). The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

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

Table 14a Revaluation reserve

2016/17 £000		2017/18 £000
(5,179)	**Balance at 1 April**	**(5,673)**
(730)	Upward revaluation of assets	(7,997)
0	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	234
(730)	**Surplus or deficit on revaluation of non current assets not posted to the surplus or deficit on the provision of services**	**(7,763)**
101	Difference between fair value depreciation and historical cost depreciation	111
101	**Amount written off to the capital adjustment account**	**111**
135	Other	**434**
(5,673)	**Balance at 31 March**	**(12,891)**

Available for sale financial instruments reserve

The available for sale financial instruments reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- disposed of and the gains are realised.

Table 14b Available for sale financial instruments reserve

2016/17 £000		2017/18 £000
(581)	**Balance at 1 April**	**(541)**
40	Revaluation of investments	(120)
(541)	**Balance at 31 March**	**(661)**

Capital adjustment account

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

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains. Note 4 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

Table 14c Capital adjustment account		
2016/17 £000		**2017/18 £000**
(47,240)	**Balance at 1 April**	**(45,884)**
	Reversal of items relating to capital expenditure debited to or credited to the CIES:	
1,138	Charges for depreciation and impairment of non current assets	998
(140)	Revaluations (gains)/losses on property, plant and equipment	(633)
58	Amortisation of intangible assets	43
4,697	Revenue expenditure funded from capital under statute	2,117
0	Movement in the fair value of investment properties	0
727	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	6,830
(101)	Adjusting amounts written out to the revaluation reserve	0
	Capital financing applied in year:	
(3,784)	Use of the capital receipts reserve to finance new capital expenditure	(2,405)
(1,240)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(820)
1	Other adjustments	(242)
(45,884)	**Balance at 31 March**	**(39,996)**

Pensions reserve

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

Table 14d Pensions reserve		
2016/17 £000		**2017/18 £000**
37,895	**Balance at 1 April**	**45,462**
6,811	Remeasurement of the net defined benefit liability/(asset) actuarial gain/(loss)	(3,837)
2,182	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement	2,850
(1,426)	Employer's pensions contributions and direct payments to pensioners payable in the year	(1,377)
45,462	**Balance at 31 March**	**43,098**

Deferred capital receipts reserve

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

Table 14e Deferred capital receipts reserve

2016/17 £000		2017/18 £000
(5,909)	**Balance at 1 April**	**(5,888)**
(13)	New deferred capital receipts received in year	(49)
34	Transfer to the capital receipts reserve upon receipt of cash	20
(5,888)	**Balance at 31 March**	**(5,917)**

Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax income in the CIES 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.

Table 14f Collection fund adjustment account

2016/17 £000		2017/18 £000
1,548	**Balance at 1 April**	**195**
(1,353)	Amount by which council tax and non-domestic rates income credited to the CIES is different from council tax income and non-domestic rates calculated for the year in accordance with statutory requirements	269
195	**Balance at 31 March**	**464**

15. Interest received and interest paid

16. The cash flow for operating activities includes the following items:

2016/17 £000		2017/18 £000
462	Interest received	485
120	Dividends received	125
582	**Total interest and dividends received**	**610**

17. Expenditure and income analysed by nature

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

2016/17 £000		2017/18 £000
	Expenditure	
9,920	Employee benefits expenses	2,606
46,280	Other services expenses	53,819
1,197	Depreciation and amortisation	0
21,054	Business rates tariff	19,842
3,441	Precepts and levies	3,680
1,281	Net interest on net defined benefit liability or asset	1,231
83,173	**Total expenditure**	**81,178**
	Income	
(39,658)	Fees, charges and other service income	(40,189)
(1,267)	Interest, investment income and income from investment property	(1,229)
(32,851)	Income from council tax and non-domestic rates	(31,979)
(5,069)	Government grants and contributions	(4,756)
(1,782)	Recognised capital grants and contributions	(1,979)
(141)	Gain on revaluation of assets	0
(82)	Gain on the disposal of assets	(5,410)
(80,850)	**Total income**	**(85,542)**
2,323	**(Surplus)/deficit on the provision of services**	**(4,364)**

18. Members' allowances

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

2016/17 £000	Members' allowance	2017/18 £000
176	Basic allowance	176
94	Special responsibility allowance	99
8	Expenses	7
278		**282**

19. Employees benefits

Officers' remuneration

Vale of White Horse District Council and South Oxfordshire District Council share a joint Senior Management Team. The employees detailed below therefore work across the two authorities, the costs are shared with South Oxfordshire DC contributing 50 percent and Vale of White Horse DC contributing 50 percent towards the costs. All senior officers are employed by South Oxfordshire DC.

A senior employee is one who earns a salary in excess of £150,000 (there are none of these in the council), or holds a designated position (with a salary in excess of £50,000) – these are detailed in the table below:

Table 18a Senior officers emoluments statutory						
Post title	**Financial year**	**Salary (including fees & allowances)**	**Expenses**	**Total remuneration excluding pension contributions**	**Pension contributions**	**Total remuneration including pension contributions**
		£	**£**	**£**	**£**	**£**
Head of paid service (1)	2017/18	180,411	300	180,711	12,738	193,449
	2016/17	138,727	583	139,310	17,063	156,373
Chief finance officer (section 151 officer)	2017/18	116,450	2,632	119,082	8,840	127,922
	2016/17	78,579	1,233	79,812	9,665	89,477
Monitoring officer	2017/18	85,400	339	85,739	11,238	96,977
	2016/17	79,623	167	79,790	9,794	89,584

(1) During 2017/18 the Head of Paid Service left. Pending the recruitment for a replacement Head of Service this position was covered by an employee from an agency who was later appointed to the position. The analysis of costs is as follows:

2016/17 Officer 1 £81,667, Officer 2 £57,060.
2017/18 Officer 1 £70,910, Officer 2 £104,999.

The chief finance officer and monitoring officer are also heads of service.

The spot point pay level for heads of service is as follows:

Table 18b Spot pay point - heads of service non statutory			
2016/17 £	**Heads of service**	**Number**	**2017/18 £**
78,579	Heads of service at 1 April 2017	7	79,601
	Heads of service at 1 August 2017	5	89,601
	Interim Heads of service at 1 August 2017	3	79,601
	Heads of service at 1 March 2018	7	89,601
	Interim Heads of service at 1 March 2018	1	89,601

In 2017/18 there was a major re-organisation of the Council's management team and the two strategic director posts were removed. Heads of Service were given additional responsibility and an additional Head of Service post was created. Whilst the restructure was in process interim heads of service were in place, replaced by appointed Heads of Service as the re-organisation progressed. In total the council employs eight heads of service (seven heads of service and one interim head of service). Payment to HAYS of £50,150 was made for a chief operating officer until 30 June 2017. This officer became the Head of Paid Service on 1 July 2017.

The council is also obliged to disclose the numbers of other employees that were paid a salary in excess of £50,000 (these numbers do not include the senior officers detailed above). The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

Table 18c Employee remuneration over £50,000		
Number of VWHDC employees		
2016/17	**Remuneration band £**	**2017/18**
4	50,000 - 54,999	3
1	55,000 - 59,999	0
1	60,000 - 64,999	2

Under the shared working arrangements, the council recharged a total of £1,640,048 of its salary costs to South Oxfordshire District Council, which in turn recharged £3,750,735 of its salary costs to this council. Payment to HAYS of £50,150 was made for a chief operating officer until 30 June 2017. This officer became the Head of Paid Service on 1 July 2017.

Termination benefits

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

Table 18d Exit packages								
Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band £**	
	2016/17	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**
£0 - £20,000	0	0	1	0	1	0	3,282	0
£70,000 - £75,000	0	0	1	0	1	0	72,196	0
Total	**0**	**0**	**2**	**0**	**2**	**0**	**75,478**	**0**

Post-employment benefits – Defined benefit pension schemes

Participation in pension schemes

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

The council participates in The Local Government Pension Scheme (LGPS). The LGPS is a defined statutory scheme administered in accordance with the Local Government Scheme regulations 2013, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

The administering authority for the Fund is Oxfordshire County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March

2019 and sets contributions for the period 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100 per cent using the actuarial valuation assumptions.

On the employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

This is a funded defined benefit career, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The fund has an independent global custodian, BNP Paribas, whose main duties include the safekeeping of the fund's investments, the collection of income and the execution of corporate actions, such as company mergers or takeovers.

In addition, arrangements for the award of discretionary post-retirement benefits are awarded 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 pension liabilities, and cash has to be generated to meet actual pension payments as they fall due

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cash flows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Oxfordshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

These risks are also mitigated to a certain extent by the statutory requirements to charge to the general fund the amounts required by statute.

Transactions relating to retirement benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so 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 CIES and the general fund balance via the movement in reserves statement during the year:

Table 18e Transactions relating to retirement benefits		
2016/17 £000		**2017/18 £000**
	Cost of services:	
868	Service cost	1,619
33	Administrative expenses	0
	Financing and investment income and expenditure	
1,281	Net interest expense	1,231
2,182	**Total post employment benefit charged to the surplus or deficit on the provision of services**	**2,850**
	Other post employment benefit charged to the CIES	
	Remeasurement of the net defined benefit liability comprising:	
(8,581)	Return on plan assets (excluding the amount included in the net interest expense)	(374)
(1,030)	Actual gain and losses arising on changes in demographic assumptions	205
18,492	Actual gain and losses arising on changes in financial assumptions	(3,668)
(2,070)	Other	0
8,993	**Total post employment benefit charges to the comprehensive income and expenditure statement**	**(987)**
	Movement in Reserves Statement	
(2,182)	Reversal of net charges made to the surplus or deficit for the Provision of Services for post employment benefits in accordance with the code	(2,850)
	Actual amount charged against the general fund balance for pensions in the year:	
1,426	Employers' contributions payable to scheme	1,377

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 its defined benefit plans is as follows:

Table 18f Pension assets and liabilities recognised in the balance sheet		
2016/17 £000		**2017/18 £000**
58,075	Fair value of employer assets	58,749
(101,465)	Present value of funded liabilities	(99,678)
(2,072)	Present value of unfunded liabilities	(2,169)
(45,462)	**Net liability arising from defined benefit obligation**	**(43,098)**

Table 18g Reconciliation of the movements in fair value of the scheme asset

LGPS 2016/17 £000		LGPS 2017/18 £000
49,668	**Opening balance at 1 April**	**58,075**
1,668	Interest on assets	1,551
8,581	Return on assets less interest	374
142	Other actuarial gains / (losses)	0
(33)	Administration expenses	0
(382)	Settlement prices received / (paid)	0
1,426	Employer contributions	1,377
294	Contributions by scheme participants	292
(3,289)	Benefits paid	(2,920)
58,075	**Closing present value of scheme assets**	**58,749**

Table 18h Reconciliation of present value of the scheme liabilities

Funded liabilities 2016/17 £000	Unfunded liabilities 2016/17 £000		Funded liabilities 2017/18 £000	Unfunded liabilities 2017/18 £000
(85,556)	**(2,007)**	**Opening balance at 1 April**	**(101,465)**	**(2,072)**
(1,071)	0	Current service cost	(1,619)	0
(2,881)	(68)	Interest cost	(2,728)	(54)
(294)	0	Contributions by scheme participants	(292)	0
993	37	Actual gain and losses arising on changes in demographic assumptions	0	0
(18,280)	(212)	Actual gain and losses on changes in financial assumptions	3,654	14
2,485	28	Other	0	(205)
3,139	150	Benefits paid	2,772	148
(101,465)	**(2,072)**	**Closing present value of liabilities**	**(99,678)**	**(2,169)**

The discretionary benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories.

Table 18i Breakdown of fund assets at fair value

2016/17					2017/18			
Quoted £000	**Non quoted £000**	**Total £000**	**%**		**Quoted £000**	**Non quoted £000**	**Total £000**	**%**
15,960	22,980	38,940	67	Equities	16,005		16,005	27
	3,769	3,769	7	Property				
				Bonds:				
6,294		6,294	11	Government bonds	5,973		5,973	10
1,918		1,918	3	Corporate bonds				
				Other	1,047		1,047	2
				Private equity	549	1,784	2,333	4
	4,561	4,561	8	Other investment funds		30,873	30,873	53
				Foreign exchange	23		23	0
3,593		2,593	4	Cash and cash equivalents	2,495		2,495	4
27,765	**31,310**	**58,075**	**100**	**Total**	**26,092**	**32,657**	**58,749**	**100**

Basis for estimating assets and liabilities

In order to assess the value of the Council's liabilities in the Fund as at 31 March 2018, we have rolled forward the value of the Council's liabilities calculated at the latest formal valuation date of 31 March 2016, allowing for the different financial assumptions required under the Accounting Standard at the reporting date.

In calculating the current service cost, we have allowed for changes in the Council's pensionable payroll as estimated from the contribution information provided. In calculating the asset share, we have rolled forward the Council's share of the assets calculated at the latest formal valuation date allowing for: investment returns, the effect of contributions paid into, and estimated benefits paid from, the Fund by the Council and its employees.

In preparing the balance sheet at 31 March 2018 and the revenue account to 31 March 2018 no allowance is made for the effect of changes in the membership profile since the last formal valuation date. The principal reason for this is that insufficient information is available to allow for any such adjustment. However, the effect is likely to be immaterial in actual terms.

Whilst the liabilities calculated under the Accounting Standard include an allowance for some premature retirements on the grounds of ill-health, there is no allowance for early retirements on grounds of redundancy or efficiency other than those actual cases notified.

It is not possible to assess the accuracy of the estimated rolled-forward liability without conducting a full valuation using updated individual member data. Such a valuation is generally not practical in the time available to meet the council's reporting requirements. The estimated rolled-forward liability as at 31 March 2018 will therefore not reflect differences in demographic experience from that assumed (e.g. pensioner longevity) or the impact of differences between aggregate changes in salary/pension or changes for specific individuals.

We have no reason to believe that the approximations used in rolling forward the valuation to 31 March 2018 will introduce any undue distortion in the results.

The employer currently participates in the South Oxfordshire District Council pool with other employers in order to share experience of risks they are exposed to in the Fund. At the 2016 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their value of liabilities. The next reallocation will be carried out at the 2019 valuation, should the Employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool.

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 90 per cent. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5 per cent per annum.

Table 18j Principal actuarial assumptions		
2016/17		**2017/18**
	Long-term expected rate of return on assets in the scheme:	
2.7%	All assets	2.7%
	Mortality assumptions	
	Longevity at 65 for current pensioners - retiring today:	
23.4yrs	Men	23.4yrs
25.5yrs	Women	25.5yrs
	Longevity at 65 for future pensioners - retiring in 20 years:	
25.6yrs	Men	25.6yrs
27.8yrs	Women	27.8yrs
	Other assumptions	
3.6%	Inflation - RPI	3.4%
2.7%	Inflation - CPI	2.4%
4.2%	Rate of general increase in salaries	3.6%
2.7%	Rate of increase to pensions	2.4%
2.7%	Discount rate	2.6%

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

Other assumptions are that:

- Members will exchange half of their commutable pension for cash at retirement;
- members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- the proportion of members that had taken up the 50:50 option at the previous valuation date will remain the same.

Table 18k Sensitivity analysis		
Change in assumption at 31 March 2018:	**Approximate increase in employer liability**	
	%	**£000**
0.5% decrease in real discount rate	8	8,199
0.5% increase in the salary increase rate	1	877
0.5% increase in the pension increase rate *	7	7,223

* Pension increases and deferred revaluation are linked to inflation (CPI)

In order to quantify the impact of a change in the financial assumptions used we have calculated and compared the value of the scheme liabilities as at 31 March 2018 on varying bases. The approach taken is consistent with that adopted to derive the IAS 19 figures provided.

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

The above figures have been derived based on the membership profile of the employer as at the date of the most recent actuarial valuation.

Impact on the council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible, at a reasonable cost to the scheme employers and taxpayers, whilst ensuring the overall solvency of the fund. There are no minimum funding requirements, but contributions are generally set to target a funding level of 100 per cent. Funding levels are monitored regularly and the next triennial valuation is due to be completed on 31 March 2019.

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

The actuarial estimate of the duration of the council's liabilities is 18 years. The council anticipates paying £1.2 million in contributions to the scheme in 2018/19.

20. External audit costs

The council has incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors.

In 2017/18 external audit services were provided by Ernst & Young LLP (EY).

2016/17 £000		**2017/18 £000**
49	Fees payable with regard to external audit services carried out by the appointed auditor for the year	47
12	Fees payable to the external auditor for the certification of grant claims and returns for the year	12
61		**59**

21. Grant income

The council credited the following grants, contributions and donations to the CIES in 2017/18.

2016/17 £000		2017/18 £000
	Credited to taxation and non-specific grant income	
2,436	Retained business rates	2,093
9,361	Council tax income	10,043
669	Developers and other capital contributions	621
1,113	Disabled facilities grant	1,361
3,935	New homes bonus	4,155
0	Other	37
1,134	Revenue support grant	561
18,648	**Total**	**18,871**
	Credited to Services	
187	Business rates collection allowance	180
510	Didcot Garden Town	166
23	Electoral reform	13
0	Homelessness Support	96
314	Housing benefit - admin	251
27,771	Housing benefit - subsidy	26,798
92	Localising council tax admin subsidy	92
92	New burdens revenue and other grants	105
30	Neighbourhood planning	40
8	Universal credit	27
29,027		**27,768**

22. Related parties

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council. Related parties include:

Central government. Central government has effective control over the general operations of the council – it is responsible for providing the statutory framework, within which the council operates, provides a large proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). Grants received from government are shown in note 20 above.

Precepts. Precept transactions in relation to Oxfordshire County Council, Police and Crime Commissioner for Thames Valley and the various town and parish councils, are shown within a note to the collection fund.

Members of the council. Councillors have direct control over the council's financial and operating policies. During the year no councillors have undertaken any declarable, material transactions with the council. Details of any transactions would be recorded in the register of members' interests, open to public inspection at the council's offices. This is in addition to a specific declaration obtained from all councillors in respect of related party transactions.

The council leader Matthew Barber was appointed Deputy Police & Crime Commissioner for Thames Valley on the 16 December 2016. This body is in receipt of community safety partnership funding which is administered through the council. No other related party transactions have been declared.

As at publication, all members had returned their declarations.

Members represent the council on various organisations. Appointments are reviewed annually, unless a specific termination date for the term of office applies. None of these appointments places the member in a position to exert undue influence or control.

Officers of the council. The senior officers of the council have control over the day to day management of the council and all heads of service and management team members have been asked to declare any related party transactions. For 2017/18 nothing was declared.

Other organisations. The council awards grants to support a number of voluntary or charitable bodies and individuals. It does not attempt to exert control through this.

23. Capital expenditure and capital financing

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

2016/17 £000		2017/18 £000
0	**Opening capital financing requirement**	**0**
	Opening balance adjustment	
	Capital investment	
303	Property, plant and equipment	1,081
0	Other	12
23	Intangible assets	17
4,697	Revenue Expenditure Funded from Capital Under Statute	2,117
	Sources of finance	
(3,783)	Capital receipts	(2,407)
(1,240)	Government grants and other contributions	(820)
0	**Closing capital financing requirement**	**0**
0	**Increase/(decrease) in capital financing requirement**	**0**

24. Leases

Council as lessee

Finance leases – the council has no finance leases.

Operating leases – the council has no material operating leases.

Council as lessor

Finance leases - The council recognised three long term leases in the 2015/16 accounts. The leases are:

- Abbey Shopping Centre, Abingdon – 250 year lease signed in 2012
- Tilsley Park, Abingdon - 125 year lease signed in 2014
- The Upper Reaches Hotel, Abingdon - 125 year lease signed in 1969

The council 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 for 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 council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

Table 23a Interest in finance lease

	2016/17 £000	2017/18 £000
Finance lease debtor (net present value of minimum lease payments):		
Non-current	0	0
Unearned finance income	3,512	3,699
Unguaranteed residual value of property	5,718	5,718
Gross investment in the lease	**9,230**	**9,417**

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

Table 23b Minimum finance lease payments

	Gross investment in the lease		Minimum lease payments	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Not later than 1 year	188	177	188	177
Later than 1 year and not later than 5 years	649	612	649	612
Later than 5 years	8,393	8,628	2,675	2,910
Total	**9,230**	**9,417**	**3,512**	**3,699**

Operating leases – the council leases out property and equipment under operating leases for the following purposes:

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

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

Table 23c Future minimum lease payments receivable		
31 March 2017 £000		**31 March 2018 £000**
1,748	Not later than one year	1,067
3,086	Later than one year and not later than five years	2,829
1,677	Later than five years	1,287

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18, no contingent rents were receivable by the council (2016/17 nil also).

25. Contingent liabilities

At 31 March 2018, the council had identified the following contingent liabilities:

- Compensation claims for injury and or damage. The majority of claims for compensation are individually immaterial. They relate to personal injuries sustained where the Authority is alleged to be at fault (for example, through a failure to repair a pavement properly). Provision has not been made for such claims as the authority's liability is limited to the individual excess on the policy, which in most cases is £5,000. Until claims are settled by the authority's insurers, the cost of the excess cannot be recognised. It is also considered that collectively the sum of these claims in any one year is not material.

- There is a contingent liability relating to NNDR. This is due to an uncertainty around whether the Valuation Office will categorise NHS properties as charitable which could result in backdating of charitable relief.

26. Contingent assets

At 31 March 2018, the council had no contingent assets.

27. Nature and extent of risks arising from financial instruments

The council's activities expose it to a variety of risks. The main risks are:

- **Credit risk** - the possibility that other parties might fail to pay amounts due to the council;

- **Liquidity risk** - the possibility that the council might not have funds available to meet its commitments to make payments;

- **Re-financing risk** - the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- **Market risk** - the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The council's treasury management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services.

The treasury team carry out the procedures for risk management which are set out in the approved policies which cover specific areas such as interest rate risk, credit risk and the investment of surplus cash. The procedures are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the council 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.

Credit risk

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

The risk is managed through the council's Annual Investment Strategy, which requires that deposits are only placed with financial institutions that meet the identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poors credit ratings services. The strategy also sets out the maximum amounts and time limits that an investment can be made with a financial institution within each category.

The credit criteria in respect of financial assets held by the authority at 31 March 2018 are as detailed as follows:

Table 26a Credit criteria

Deposits with banks and other financial institutions	Min. Rating			Other Criteria	Counterparty Limit	Amount at 31 March 2018	Maturity Limit
	Fitch	Moodys	S & P		£000	£000	
Banks							
Close Brothers	F1	P-1			7,500	6,000	2 years
Goldman Sachs International	F1	P-1	A-1		7,500	6,000	2 years
Lloyds	F1	P-1	A-1		10,000	10,000	3 years
Building Societies							
Principality				assets > £5,000m	5,000	3,000	12 months
Skipton				assets > £5,000m	5,000	5,000	12 months
Newcastle				assets > £3,000m	3,500	1,500	12 months
Nottingham				assets > £3,000m	3,500	2,000	12 months
Cumberland				assets > £1,000m	3,000	2,000	12 months
National Counties				assets > £1,000m	3,000	2,000	12 months
Saffron				assets > £1,000m	3,000	3,000	12 months
Money Market Funds							
Goldman Sachs				AAA	20,000	4,540	Liquid
LGIM				AAA	20,000	3,000	Liquid
Local authorities							
Kingston upon Hull					20,000	4,000	25 years
Slough Borough Council					20,000	2,000	25 years
Wirral Council					20,000	3,000	25 years
Housing Associations							
Places for People Homes		P-1			7,500	4,000	2 years
Property funds							
CCLA Property Fund					3,000	2,000	Variable
Total						**63,040**	

The full annual investment strategy for 2017/18 was approved by full council on 15 February 2017 and is available on the council's website.

The council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to repay the principal sum will be specific to each institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recoverability applies to all the councils' deposits but there was no evidence at 31 March 2018 that this was likely to crystallise.

In November 2017, due to the high level of balances held and with the impending sale of West Way shopping centre, the Head of Finance approved an increase in the limit for Lloyds Bank from £7.5 million to £10 million under delegated powers until the end of March 2018. An investment of £10 million was subsequently placed with Lloyds Bank at the end of January 2018 upon completion of the sale of West Way. The limit for Lloyds Bank (and other similarly rated banks) was increased to £10 million on a permanent basis when the Treasury Management Strategy for 2018/19 was approved by Council in February 2018.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

A provision is made for bad debt based on the debtors' information at the year end. The 'past due' amount is analysed below. During the reporting period the council held no collateral as security.

Table 26b below analyses the short-term debt figure by age.

Table 26b Short term debtors aged debt analysis	
	Total £000
Less than three months	3,633
Three months to six months	528
Six months to one year	679
Over one year	2,478
Total	**7,318**

Statutory debts are included in the figures above to enable comparison with the short term debtors total as shown in the balance sheet and in note 9.

Liquidity risk

The council manages its liquidity position through the risk management procedures set out in the treasury management strategy, as well as comprehensive cash management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council is able to access borrowing from the money markets and the Public Works Loans Board.

The council is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Therefore, there is no significant risk that the council will be unable to raise finance to meet its commitments under financial instruments.

The council has no debt and therefore is not exposed to refinancing risk of loans at this time. All trade and other payables are due to be paid in less than one year.

Refinancing and maturity risk

The council maintains an investment portfolio. There is a longer-term risk to the council which relates to managing the exposure to replacing financial instruments as they mature.

Treasury indicator limits placed on investments for over one year in duration are used to manage this risk. The council approved treasury and investment strategies address the main risks and the central treasury team manage the operational risks within the approved limits. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities in relation to longer term cash flow needs.

The maturity analysis of financial assets, excluding sums due from customers is as follows:

Table 26c Refinancing and maturity risk

31 March 2017 £000		31 March 2018 £000
35,220	Less than 1 year	53,040
2,000	Between one and two years	4,000
0	Between two and three years	4,000
6,541	More than three years	2,661

Market risk

a) Interest rate risk. The council is exposed to some risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the council, depending on how variable and fixed interest rates move across differing financial instrument periods. A rise in interest rates would have the following effects:

- 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.

Changes in interest receivable on variable rate investments will be posted to the surplus or deficit on the provision of services and affect the general fund balance.

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together council's prudential and treasury indicators and its expected treasury operations, including forecast interest rate movements.

According to this assessment strategy, at 31 March 2018, if interest rates had been one per cent higher with all other variables held constant, the financial effect would be:

Table 26d Interest rate risk

2016/17 £000		2017/18 £000
(72)	Increase in interest receivable on variable rate investments	(75)
(72)	**Impact on surplus or deficit on the provisions of services**	**(75)**

The impact of a one per cent fall in interest rates would be as above but with the movements being reversed.

b) Price risk. The council holds an investment in a pooled property fund with shares to the value of £2.7 million. Whilst this investment holding is generally for interest earning potential, the council is exposed to losses and gains arising from the movement in prices of the shares held.

The shares are classified as available-for-sale financial assets. This means that all movements in price will impact on gains and losses recognised in the available for sale financial instruments reserve.

A movement of five per cent in the price of shares (positive or negative) would result in a £0.1 million gain or loss being recognised in the available for sale financial instruments reserve.

The council is not in a position to limit its exposure to price movements by further diversifying its portfolio.

28. Critical judgements in applying accounting policies

In applying the accounting policies set out on pages 69 – 84, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

Leases

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

Funding

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Investment Properties

Investment properties have been estimated using the identifiable criteria under IAS 40 of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which is subject to interpretation.

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

Business rates

Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2017/18 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2018. The estimate has been calculated using the Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2018. The council's share of the balance of business rates appeals provision at this date amounted to £2.4 million. This has increased by £0.6 million from the previous year.

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. If the council is unable to sustain its current spending on repairs and maintenance this could bring into doubt the useful lives currently assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual charge for buildings would increase in these circumstances.

Debt impairment

At 31 March 2018 the council had a balance on short-term debtors of £ 9.2 million. A review of significant balances suggested that an impairment of doubtful debts of £1.9 million was appropriate. If collection rates were to deteriorate an increase in the amount of the impairment of the doubtful debts would be required.

Pensions

The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddington) is engaged (through Oxfordshire County Pension Fund) to provide the council with expert advice about the assumptions to be applied. Details of the pension liabilities are in note 18.

30. Material items of income and expenditure

The council's accounts include a material item in respect of the West Way Shopping Centre, which was sold in January 2018 for £12.4 million.

31. Events after the balance sheet date

There are no material events after the balance sheet date.

31. Accounting standards issued but not yet adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cash flows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.

IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.

IAS 7 Statement of Cash Flows (Disclosure Initiative) will potentially require some additional analysis of Cash Flows from Financing Activities in future years. If the standard had applied in 2017/18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure.

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). The council does not anticipate any impact from this change.

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