

# Public Document Pack



## AUDIT COMMITTEE

(MEETING TO BE HELD – IN PART – JOINTLY WITH THAT OF THE STATEMENT OF ACCOUNTS COMMITTEE)

**Date: Thursday, 26 July 2018**

**Time: 6.00pm,**

**Location: Shimkent Room - Shimkent Room - Daneshill House, Danestrete**

**Contact: Guy Moody 01438 242703**

**committees@stevenage.gov.uk**

**Members:** Councillors: M McKay (Chair), J Gardner (Vice-Chair), H Burrell, L Chester, D Cullen, G Lawrence, J Lloyd and G Snell.

**Independent:** Vacancy - to be appointed.

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## AGENDA

### **PART 1**

#### **1. APPOINTMENT OF PERSON TO PRESIDE**

To appoint a person to preside over the element of the meeting which will be held jointly with the Statement of Accounts Committee.

#### **2. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

#### **3. 2017/18 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT**

The Committee is requested to receive a presentation from the Assistant Director Finance on the External Auditor's Annual Report for consideration and approval and the audited 2017/18 Financial Report including the Statement of Accounts (SOA).

Following the presentation, Members will be invited to ask questions of clarification.

After questions the Statement of Accounts Committee will adjourn to allow the Audit Committee to consider the report and to agree to any recommendations.  
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#### **4. URGENT PART 1 BUSINESS**

To consider any Part 1 business accepted by the Chair as urgent.

**5. EXCLUSION OF PUBLIC AND PRESS**

To consider the following motions –

1. That under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as described in paragraphs 1 – 7 of Part 1 of Schedule 12A of the Act as amended by Local Government (Access to Information) (Variation) Order 2006.

2. That Members consider the reasons for the following reports being in Part II and determine whether or not maintaining the exemption from disclosure of the information contained therein outweighs the public interest in disclosure.

**6. URGENT PART II BUSINESS**

To consider any Part II business accepted by the Chair as urgent.

Agenda Published 18 July 2018

**Meeting:**           **Audit Committee/Statement of  
Accounts Committee**

**Agenda Item: 3**

**Portfolio Area:**   Resources

**Date:**               **26 July 2018**

## **2017/18 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT**

Author – Anita Thomas / Neil Harris Ext No. 2430

Contributors – Anita Thomas / Kay Storey

Lead Officer - Clare Fletcher       Ext No. 2933

Contact Officer – Anita Thomas   Ext No. 2430

### **1       PURPOSE**

- 1.1       To present the External Auditor – Ernst & Young LLP’s Annual Report for consideration and approval and the audited 2017/18 Financial Report including the Statement of Accounts (SOA).

### **2       RECOMMENDATIONS**

- 2.1       That the Annual Report to those charged with Governance for 2017/18 be approved (appendix 1).
- 2.2       That the Council's Letter of Representation be approved (appendix 2 to follow).
- 2.3       That the Financial Report including the Statement of Accounts 2017/18 be approved (appendix 3).
- 2.4       That the Annual Governance Statement is approved (appendix 4)

### **3       BACKGROUND**

- 3.1       This report is presented to the Audit Committee in its capacity as the body charged with Governance. The Auditor's report will be produced by the Council's External Auditors, Ernst & Young (appendix 1).
- 3.2       The 2017/18 fourth quarter outturn position for the General Fund and the Housing Revenue Account was presented to the Executive on 11 July 2018. That report showed that the General Fund had a net over spend of £11,789:
- of which £992,203 related to service underspend of which £338,100 was requested to be carried forward,
  - £353,992 related to NDR related budget pressures, and

- £650,000 was transferred to allocated reserves for Capital and Regeneration projects.

The HRA had an increase in surplus of £1,344,973 of which £1,241,000 related to a budgeted debt repayment which was physically paid on 3 April 2018 and £103,973 of service related underspends of which £82,270 was requested to be carried forward. Following the external audit the outturn positions for the General Fund and HRA remains unchanged.

### 3.3 Changes affecting the 2017/18 Statement of Accounts

- 3.3.1 The Statement of Accounts (SOA) has to be compiled in accordance with current International Financial Accounting Standards, statutory requirements, and CIPFA published guidance. The standards and guidance may change year on year.
- 3.3.2 In 2017/18, there were **no new disclosure requirements**, however to aid the reader and to reduce the size of the document a number of disclosure notes were incorporated into the core statements and/or other notes to remove duplication of information. The disclosure note regarding inventories (stock held by the council) was removed from the document with the agreement of the external auditors as the value of stock held is not considered material (£139,000).
- 3.3.3 The last triennial valuation of the **pension fund** was carried out as at 31 March 2016 and the results are incorporated into the SOA. The pension fund is subject to its own independent external audit and following the conclusion of their audit assets valuations were revised upwards. It should be noted that the pension figures for Stevenage (increase in asset valuation and hence net liability reduced) have been revised since the publication of the pre-audit accounts (31 May 2018).
- 3.3.4 The pension fund liability decreased this year to £50.0 Million. The value of assets held by the fund increased in year by £7.9 Million to £157.5 Million, while liabilities increased by £2.9 Million to £207.5 Million.
- 3.3.5 Movements in the pension fund liability are not taken to the General Fund/HRA balances as both funds are only charged with the actual pension contributions paid over to the fund in year in accordance with statutory provision. The pension fund liability reflects the outlook using assumptions which cover the very long term and are subject to wide fluctuations over that term. The Council continues to fund the scheme at the rate recommended by the actuary to ensure the scheme is able to meet its obligations.
- 3.4 The **Annual Governance Statement** is no longer included within the Financial Report. This is now shown as a separate document and is included at Appendix 1 to this report. This Committee is required to approve the SOA and the Annual Governance Statement.
- 3.5 Members were offered training prior to this committee to aid their understanding of the Statement of Accounts and issues raised by the external auditor.
- 3.6 The Council is required to send to the Council's External Auditors a Letter of Representation (Appendix 2 to follow on completion of the audit).



## 4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

### 4.1 Statement of Accounts

4.1.1 At the time of writing this report the audit of the 2017/18 Statement of Accounts had yet to be completed. As such the latest “in audit” version of the accounts, the 2017/18 Financial Report including the Statement of Accounts is Appendix 3 to this report. Any subsequent audit changes will be notified at the meeting on 26 July 2018.

4.1.2 Officers have agreed that one misstatement relating to the revised pension asset valuation (para 3.3.3) be adjusted.

4.1.3 One misstatement regarding the valuation of the swimming pool has not been corrected. Ernst Young consider the valuation of the swimming pool should be in the region of £5.2M-£6.2M). The asset has been valued at £5.1M and discounted (down to £3.66M) to reflect that the swimming pool is managed by a third party and the Council does not have direct control of the asset. This is consistent with the valuation treatment in prior years and consistent with other assets of this type. As such, officers believe that the valuation should not be adjusted and that the approach taken by its external valuer is reasonable. The impact of this unadjusted misstatement is shown in the table below.

Un-adjusted Misstatement	Effect on Balance sheet	
	£'000's	£'000's
Swimming Pool	1,608	
<b>Other land and building valuations</b>		<b>1,608</b>
<b>Total Impact on Net Assets</b>		<b>1,608</b>
Unusable reserves		(1,608)
<b>Total Impact on Reserves</b>		<b>(1,608)</b>

### 4.2 Balance Sheet

4.2.1 The Council's Balance Sheet as at the 31 March 2018 showed total reserves of £562.7 Million, an increase of £37 Million over the Balance Sheet as at 31 March 2017. The increase in the Council's net worth can be assessed by reviewing the Useable and Non Useable Reserves.

#### 4.2.2 Useable Reserves

4.2.3 Useable reserves are cash reserves that are available for the Council to spend on revenue and/or capital. As at the 31 March 2018 the Council's useable reserves decreased by £48,765 to £58.846Million. Of the £15.4M capital receipts reserve, £10.1million relates to Right To Buy "one for one receipts" which have a restricted use.

4.2.4 Table 1 below details the movement in useable reserves.

<b>TABLE 1:</b>	<b>Balance at 31 March 2017</b>	<b>Increase/ (Decrease) in year</b>	<b>Balance at 31 March 2018</b>
<b>Revenue Reserves:</b>			
General Fund Balance	6,426,983	(961,866)	5,465,117
Earmarked General Fund Reserves	2,549,819	299,763	2,849,582
Housing Revenue Account	19,749,571	4,365,093	24,114,664
<b>Total Revenue Reserves</b>	<b>28,726,373</b>	<b>3,702,990</b>	<b>32,429,363</b>
<b>Capital Reserves:</b>			
Major repairs reserve	4,507,777	4,756,603	9,264,380
Capital Receipts Reserve	25,517,495	(10,095,170)	15,422,325
Government Capital Grants Unapplied	143,670	1,586,812	1,730,482
<b>Total Capital Reserves</b>	<b>30,168,942</b>	<b>(3,751,755)</b>	<b>26,417,187</b>
<b>TOTAL REVENUE AND CAPITAL RESERVES</b>	<b>58,895,315</b>	<b>(48,765)</b>	<b>58,846,550</b>

#### 4.2.5 Unusable Reserves

4.2.6 Non useable or unusable reserves are non-cash reserves and include (but not exhaustively) the value of:

- Gains and losses from changes to the value of the Council's assets shown in the **Revaluation Reserve**.
- Timing differences between the purchase and use/or consumption of non-current assets (formerly known as fixed assets) shown in the **Capital Adjustment Account**.
- The calculated liability owed by the council at the Balance Sheet date for staff pensions shown in the **Pension Reserve**.
- The amount of money that would have to be paid to staff if all holiday entitlement due, but not taken was paid at the Balance Sheet date shown in the **Accumulated Absences Account**.

- The **Collection Fund Adjustment Account** which holds the timing difference between the recognition of Council Tax and Non Domestic Rates (NDR) income in the Income and Expenditure Statement as it falls due from council tax payers and business rate payers, compared with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund (Council Tax and NDR), to match those calculated and approved at budget setting for that financial year.

4.2.7 The Council's unusable reserves increased by £37.0Million to £503.9Million as at 31 March 2018. Included within unusable reserves is the Council's **pension reserve** (deficit). The pension deficit decreased by £4.9Million compared to 31 March 2017.

4.2.8 The **Revaluation Reserve** has increased by £22.8Million largely due to the in-year net revaluation gains on Council House stock.

4.2.9 A summary of the movement in unusable reserves is shown in Table 2 below:

<b>Table 2:</b>	<b>Balance at 31 March 2017</b>	<b>Increase/ (Decrease) in Year</b>	<b>Balance at 31 March 2018</b>
	£	£	£
<b>Un-usable Reserves:</b>			
Revaluation Reserve	95,781,582	22,812,114	118,593,696
Capital Adjustment Account	425,607,289	9,424,751	435,032,040
Deferred capital receipt reserve	191,100	(2,758)	188,342
Pensions Reserve	(55,008,000)	4,956,000	(50,052,000)
Collection Fund Adjustment Account	678,752	(156,555)	522,197
Accumulated Absences Account	(358,653)	(29,733)	(388,386)
<b>Total Un-usable Reserves:</b>	<b>466,892,070</b>	<b>37,003,820</b>	<b>503,895,890</b>

### 4.3 External Auditor's Conclusions

4.3.1 As the Council's appointed Auditor, Ernst & Young LLP is required to review and report on the Council's financial statements and provide a value for money conclusion. Their draft findings and ISA 260 report are included at Appendix 1.

4.3.2 At the time the time of writing the report, no objections were received by electors to the 2017/18 accounts.

4.3.3 No requests were received for any further details on the Council's financial records.

## 5 IMPLICATIONS

### 5.1 Financial Implications

The updated Accounts for 2017/18 are financial in nature. As this document is finance related, the financial implications are contained therein.

## 5.2 Legal Implications

- 5.2.1 The requirement under the Accounts and Audit Regulations England (2015) is for the Audit Committee and Council, (or a Committee delegated this function by Council), to consider and approve the accounts before 31<sup>st</sup> July after they have been audited. This report and subsequent recommendations by the Statement of Accounts committee meets this requirement.

## **BACKGROUND PAPERS**

4th Quarter General Fund and HRA report 11 July 2018 Executive

4th Quarter Capital monitoring report 11 July 2018 Executive

## APPENDICES

Appendix 1 – Annual Report to those charged with Governance (draft)

Appendix 2 - Letter of Representation (TO FOLLOW)

Appendix 3 – In- Audit Statement of Accounts 2017/18 (Final Post audit to follow)

Appendix 4 – Annual Governance Statement

Appendix 5 – Glossary of Audit Phrases

**Stevenage Borough  
Council**  
**Audit results report**  
Year ended 31 March 2018

13 July 2018

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Private and Confidential

13 July 2018



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Stevenage Borough Council for 2017/18.

We have substantially completed our audit of Stevenage Borough Council for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26 July 2018.

Yours faithfully

Neil Harris

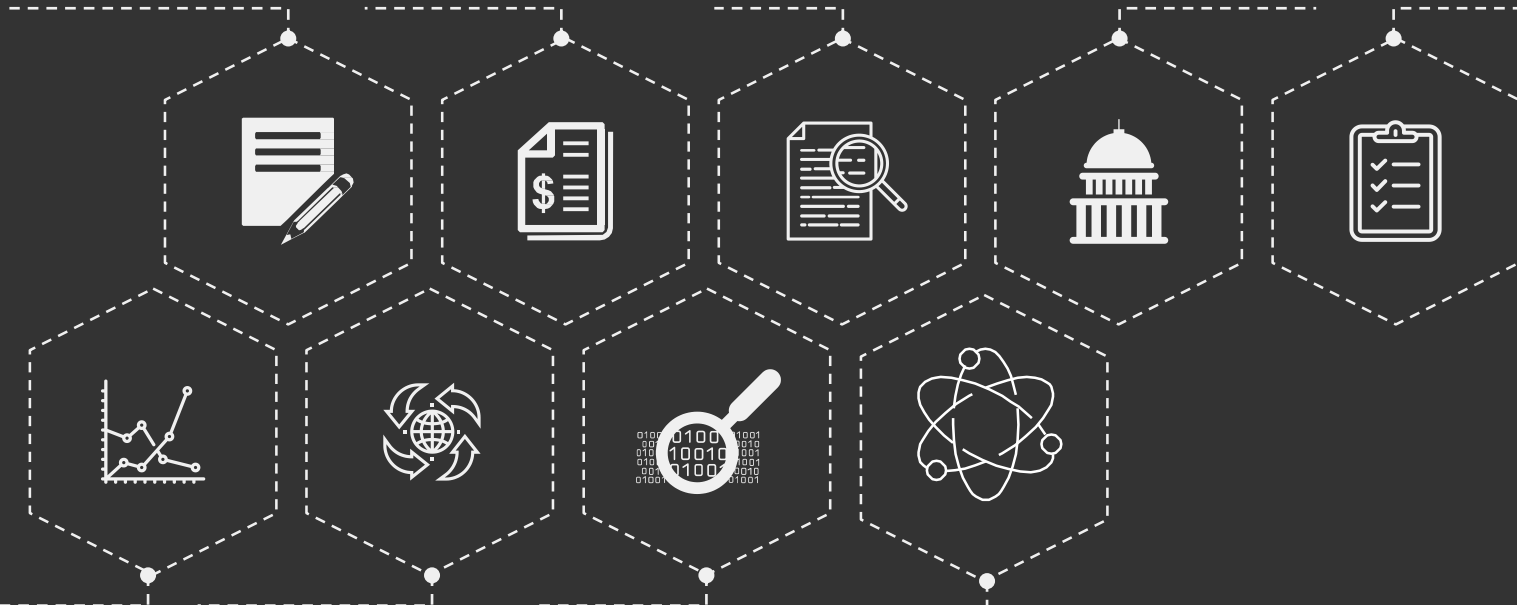
Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Stevenage Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Stevenage Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Stevenage Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Executive Summary





# Executive Summary

## Scope update

In our audit planning report tabled at the 26 March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- ▶ Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.103m, but that we would update this at year end. Our materiality has slightly increased to £2.104m. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund is £0.106m.
- ▶ Changes in risks: In our Audit Committee Planning Report, we communicated our significant risk in relation to the accounts and VFM conclusion. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

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## Status of the audit

We have substantially completed our audit of Stevenage Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Review of EFA and updated accounts for IAS 19 pension liability changes
- Completion of our work on the pension reserve, pension liability
- Final review by director of file and clearance of any remaining queries
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

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

## Executive Summary

### Audit differences

There is one unadjusted audit differences arising from our audit. This relates to the valuation of the swimming pool in Stevenage. When reviewed at our prior year audit by EY Real Estate they suggested that in their view it was below the range that they would expect for the accounting estimate. However there were other offsetting differences that year, this year these offsets have been removed.

There has been one material adjustment to the accounts during the audit this is following receipt of a letter from the auditor to Herts Pension Fund which highlighted that due to an improved position from the time the IAS 19 reporting information was provided to Stevenage Borough Council the share of the net assets in the fund as at 31 March 2018 has increased by £2.342m. Details can be found in Section 4 Audit Differences.

There were some other minor changes to disclosures.

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

### Value for money

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

- The Council faces significant financial challenges over the next three to four years, with a forecast savings of £2.5 million required by 2021/22. In addition there are further savings required of approximately £0.2 million a year for the Housing Revenue Account. Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable. This was identified as a significant risk at our 2016/17 audit.

We also identified the following other risks in respect of value for money:

- The Council has ambitious plans for the regeneration of the town centre and the first scheme being carried out as part of this (SG1) involves redevelopment focused on the Town Square and surrounding area including provision of a new civic hub. A competitive dialogue process has been followed in order to appoint a developer partner. Significant resources including senior officer time are invested in the project. We needed to be assured that suitable arrangements have been put in place for the scheme.
- The Council has approved a strategy for 2017/18 to 2019/20 which would see £15 million being invested in property being funded from prudential borrowing. The objective is to obtain income of £0.2 million a year to the general fund (£0.1 million in 2017/18) and a target rate of return of no less than 6%. The strategy is one of the ways in which the Council is aiming to reduce its budget gap and we wanted to review the arrangements for the monitoring of the achievement of the strategy.



## Executive Summary

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### Value for money (continued)

The Council is ambitious in its plans for the regeneration of the town centre and its neighbourhood areas. Like many councils it is seeking to develop new revenue streams in order to help close its budget gap. There is significant investment of officer time in these developments. From the work undertaken we consider that the Chief Financial Officer is aware of the risks associated with the developments planned. Based on current information it would require multiple failure in delivery of both increases to fees and charges, and the revenue stream from new investment property strategy in combination with a failure to develop alternative options, to push the Council's reserves below the minimum level identified as necessary. Based on the Council's previous track record of delivering savings and managing its budget we consider that this is not a high risk but it will remain an area of focus for both the Authority and the audit team.



# Executive Summary

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## Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

## Independence

Please refer to Section 10 for our update on Independence.



# 02

## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Risk of Management Override

##### What is the risk?

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

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



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##### What did we do?

In response to the risk, we:

- Enquired of management about risks of fraud and the controls in place to address those risks;
- Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias;
- Evaluated the business rationale for any significant unusual transactions;
- Reviewed and tested revenue and expenditure cut-off at the period end date;
- Tested a sample of capital expenditure to verify that revenue costs have not been inappropriately capitalised;
- Tested a sample of revenue expenditure funded from capital under statute to ensure only used for appropriate items;
- Verified that adjustments between the accounting basis and funding basis in the movement in reserves have been correctly made in accordance with the Code.



## Areas of Audit Focus

# Significant risk

### Risk of Management Override

#### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates, including the provision for business rates appeals.
- Cash income, cash expenditure and payables cut-off.
- Journal entries.
- Unusual transactions.

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#### What are our conclusions?

- We obtained the responses we requested from management and those charged with governance to our enquiries and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, and risk management, were in place.
- Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are in large part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.
- We did not identify inappropriate use of journal entries.
- Our work on the testing of accounting estimates has been completed, and we report in the next section on our work on these estimates in detail for PPE and pensions. There is a difference of view between the Council's valuer and our own specialist on the value of the swimming pool in Stevenage. There are no indications of management override as such. Our work on the business rates provision for appeals found that this was appropriately supported.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.
- We did not identify any material cut-off issues at the period end date.
- Our testing of capital and revenue expenditure funded from capital under statute found that the items were appropriately treated.
- The adjustments between the accounting basis and funding basis in the movement in reserves have been correctly made in accordance with the Code.

Overall, our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Authority's financial position, or that management has overridden control.



## Areas of Audit Focus

# Other Areas of Audit Focus

### Property, Plant and Equipment and Investment Property Valuations

#### What is the risk?

Property, plant and equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Council's asset base is significant, and the outputs from valuers are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates.

#### What judgements are we focused on?

We are focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

#### What did we do?

The Council obtained a full update of the valuation undertaken in 2016/17 by Wilks Head Eve LLP. In response, we completed the following procedures:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. This was done by our in house specialists reviewing responses to enquiries they made of the valuer. We also followed up any issues arising by checking the position against a sample of assets reviewed in detail by our EY Real Estate specialists in 2016/17;
- We checked that the Council had communicated to the valuer changes in assets;
- We reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base was not materially misstated;
- We considered changes to useful economic lives as a result of the most recent valuation in our depreciation testing; and
- We tested that the accounting entries had been correctly processed in the financial statements.

#### What are our conclusions?

Our work on the valuation of land and buildings and investment property exercise is complete.

Upon following up the position on the sample of assets revalued in 2016/17 we found that assets were either within range or not materially outside of the range. There was one asset, the swimming pool in Stevenage town centre, where the value whilst having increased from £3.1m to £3.7m was still under the range that the EY specialist considered would be appropriate for this asset (£5.2m to £6.2m). The Council's valuer has reduced the valuation to reflect the fact that whilst the pool is the Council's asset it is managed by a third party until 2023 which means that the Council does not directly receive income from the asset. The EY specialist considers that given the asset is not held as an investment property but rather for operational/utility purposes that this consideration is not relevant.

We have included this difference in view in our errors schedule at section 5.





# Areas of Audit Focus

## Other Areas of Audit Focus

### Pension Liability Valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

#### What judgements are we focused on?

We are focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC and the EY actuarial team.

#### What did we do?

- ▶ Liaised with the auditors of the Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Stevenage Borough and completed our programme of work;
- ▶ Assessed the work of the Pension Fund actuary Hymans Robertson including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

#### What are our conclusions?

Our work is in progress in this area and we will update the committee of our findings.

The Council has amended the draft statement of accounts to reflect an up to date estimate from the actuary of its share of the Hertfordshire Pension Fund asset value as at 31<sup>st</sup> March 2018. The statement of accounts has been prepared based on IAS19 data and assumptions taken as at December 2017, with a forecast of the 31 March 2018 position. The Hertfordshire Pension Fund accounts include an up to date estimate of the fund asset value as at 31<sup>st</sup> March 2018, and this was £67million higher reflecting improvements in market conditions. Stevenage Borough Council's share of this difference in estimate is £2.342million. Although the change in estimate of the fair value of the fund is within a reasonable range, as this difference is above our audit materiality, the Council have agreed to adjust its financial statements and disclosures to reflect this up to date estimate. The Council have obtained from its actuary up to date IAS19 disclosures and we will check the completeness and accuracy of the adjustments to the accounts.



# Areas of Audit Focus



## Other matters

The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.

The CIPFA/LASAAC Local Authority Accounting Code Board met on 6th June 2017. This board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.

The minutes of this meeting corroborate our view that Local Authority income streams from contracts with customers are immaterial "income streams .... for local authorities [are] very substantially less material than income from taxation." (CIPFA/LASAAC Local Authority Code Board meeting - 6th June 2017 - para 11.5). Income from taxation and grants does not fall within the scope of IFRS 15 as it is not contractually based revenue from customers.

Page 12  
It is our view, that IFRS 15 will not have a material impact on this Council's single entity financial statements. The vast majority of the Council's income streams are taxation or grant based.

The following income streams which are within the scope of IFRS 15 are immaterial to the Council:

- fees and charges for services under statutory requirements - e.g. application fees for taxi licenses or planning fees;
- sale of goods provided by the authority - e.g. retail sales at leisure centres, concessionary sale at local authority theatres; and
- charges for services provided by a local authority - e.g. home care services, maintenance for council dwellings or transport fares.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements of Stevenage Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

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

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

##### Basis for opinion

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

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



# Audit Report

## Our opinion on the financial statements

### Other information

The other information comprises the information included in the Financial Report including Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Stevenage Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Assistant Director (Finance and Estates)(Chief Financial Officer) Responsibilities set out on pages X, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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



# Audit Report

## Our opinion on the financial statements

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

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

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to

consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

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

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Certificate**

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



# Audit Report

## Our opinion on the financial statements

### Use of our report

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

Neil Harris (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Luton  
X July 2018

The maintenance and integrity of the Stevenage Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





# 04 Audit Differences







# Audit Differences

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

## Summary of adjusted differences

We highlight the following misstatements greater than £0.106m which have been corrected by management:

- £2.342m adjustment for Stevenage Borough Council share of the up to date estimate of the net assets of the Hertfordshire Pension Fund which results in a reduction of the pension liability and pension reserve.
- other minor disclosure amendments.

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## Summary of unadjusted differences

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

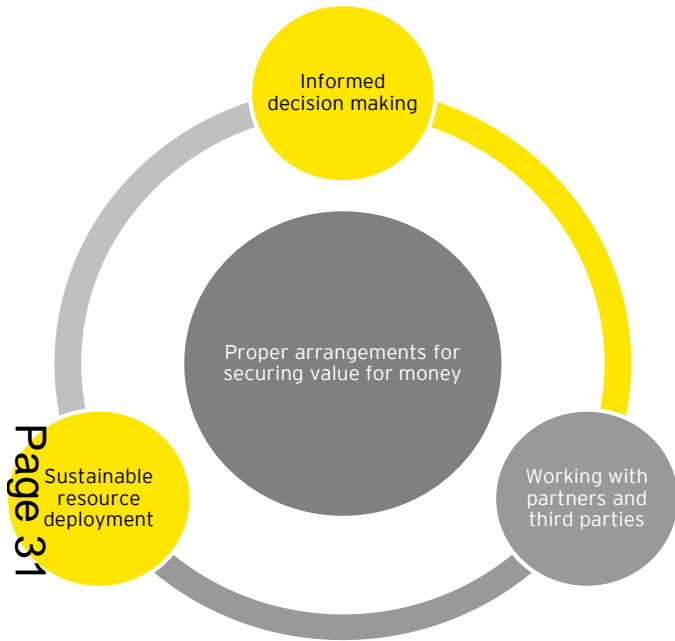
Uncorrected misstatements 31 March 2018 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				Reserves
		Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Revaluation Reserve
Errors						
Judgemental differences:						
▶ Stevenage swimming pool valuation			1,608			-1,608



05

# Value for Money Risks





## Background

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

For 2017/18 this is based on the overall evaluation criterion:

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

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

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

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

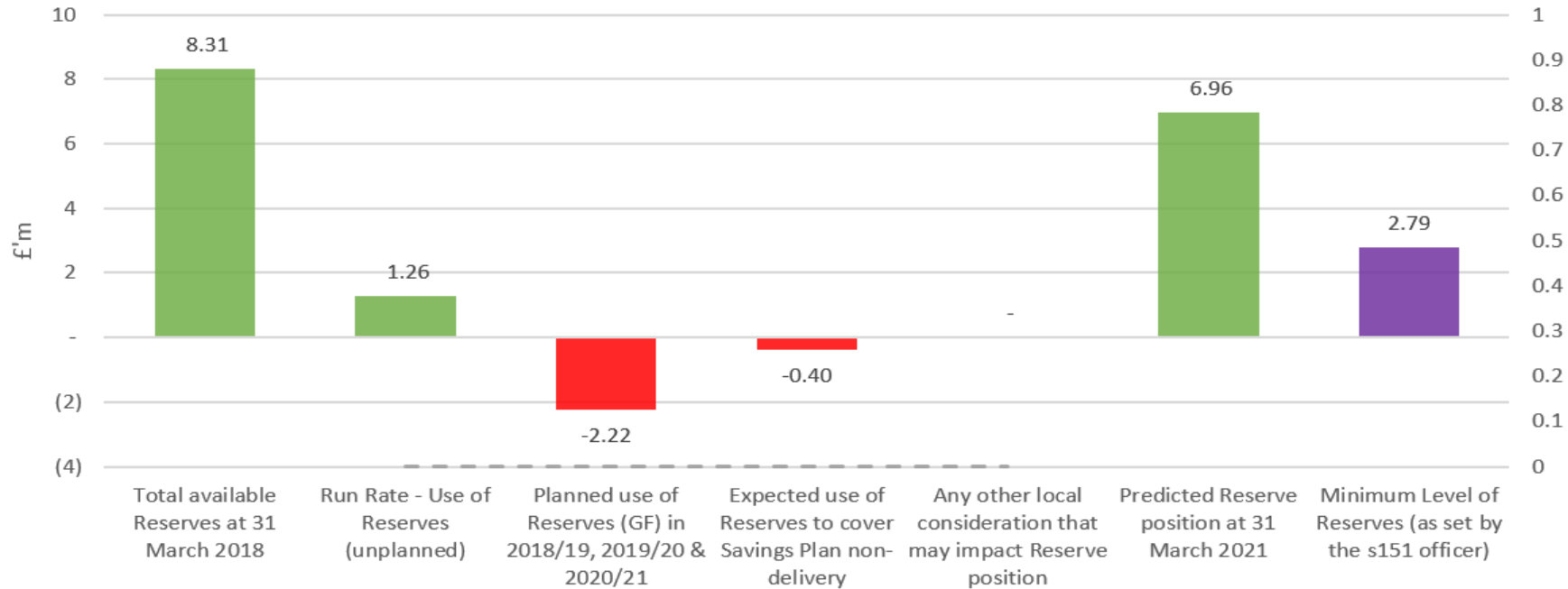
## Overall conclusion

We identified one significant risk and two other risks around these arrangements. The tables below present our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



### Assessment of Reserves Position to 2021



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## Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Authority's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that the Authority's General Fund reserve balance at the 31 March 2021 will remain above the Authority's approved minimum level.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

### What arrangements did the risk affect?

### Conclusion

#### Achievement of Savings Needed over the Medium Term

The Council faces significant financial challenges over the next three to four years, with a forecast savings of £2.5 million required by 2021/22. In addition there are further savings required of approximately £0.2 million a year for the housing revenue account.

Given the scale of the savings needed, there is a risk that saving plans to bridge this gap are not robust and/or achievable. This was identified as a significant risk at our 2016/17 audit.

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

We concluded that arrangements are appropriate overall given:

- The Council’s level of reserves at £6m which is above the minimum level identified by the Chief Financial Officer of £2.5m
- The identification of schemes to deliver the bulk of the savings required. Those for 2018/19 were well developed at the time of our review.
- The track record of delivering against budget
- The assumptions used in the medium term financial plan are what we would expect

There is however very little scenario planning/sensitivity reporting, other than impact of different council tax increases. The Council has had to scale back its increase in fees and charges for 2018/19, whilst if a similar scaling back is required for later years of the strategy this would still leave the Council with its minimum balance it may have to reconsider its strategy in this area.



## Value for Money Risks (continued)

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	Conclusion
<p>The Council has ambitious plans for the regeneration of the town centre. The first scheme being carried out as part of this (SG1) involves redevelopment focused on the Town Square and surrounding area including provision of a new civic hub. A competitive dialogue process has been followed in order to appoint a developer partner. Significant resources including senior officer time are invested in the project. We needed to be assured that suitable arrangements have been put in place for the scheme.</p>	<ul style="list-style-type: none"> <li>Take informed decisions;</li> <li>Deploy resources in a sustainable manner; and</li> <li>Work with partners and other third parties.</li> </ul>	<p>The review suggests that the Council has followed proper processes to date although this is a long term project with major funding from third parties and one that we will need to continue to review as the governance arrangements emerge. Currently the capital programme recognises the projects that will be LEP funded but there are likely to be further projects linked to SG1 which SBC will wish to fund from its own resources. It has already done public realm works in the town centre ahead of SG1. The capital strategy that went to Members in February 2018 recognises that the Council will need to build up resources for works that will be linked to SG1.</p>
<p>The Council has approved a strategy for 2017/18 to 2019/20 which would see £15 million being invested in property being funded from prudential borrowing. The objective is to obtain income of £0.2 million a year to the general fund (£0.1 million in 2017/18) and a target rate of return of no less than 6%. The strategy is one of the ways in which the Council is aiming to reduce its budget gap and we reviewed the arrangements for the monitoring of the achievement of the strategy.</p>	<ul style="list-style-type: none"> <li>Take informed decisions;</li> <li>Deploy resources in a sustainable manner</li> </ul>	<p>The strategy got off to a slow start in 2017/18 with the acquisition of one property (Essex House) which is due to deliver a net revenue stream of £44k per year. This meant the Council did not meet its target for this revenue stream in 2017/18 and the Chief Financial Officer has flagged the delivery of this saving option as a risk area on the risk register.</p>



## Value for Money Risks (continued)

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### Overall Conclusion

The Council is ambitious in its plans for the regeneration of the town centre and its neighbourhood areas. Like many councils it is seeking to develop new revenue streams in order to help close its budget gap. There is significant investment of officer time in these developments. From the work undertaken we consider that the Chief Financial Officer is aware of the risks associated with the developments planned. Based on current information it would require multiple failure in delivery of both increases to fees and charges, and the revenue stream from new investment property strategy in combination with a failure to develop alternative options, to push the Council’s reserves below the minimum level identified as necessary. Based on the Council’s previous track record of delivering savings and managing its budget we consider that this is not a high risk but it will remain an area of focus for both the Authority and the audit team.





# 06 Other reporting issues





## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

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

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

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

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### Whole of Government Accounts

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

We have no issues to raise.

# Other reporting issues

### Other powers and duties

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

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

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### Other matters

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

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

We have no matters to report in respect of the above. Our draft letter of representation is at Appendix B.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

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

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

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





# 08 Data Analytics





# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

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

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

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

#### Journal Entry Analysis

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

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain information on all payroll transactions posted in the year from the general ledger so that we can perform further analysis for example on average value of transactions.





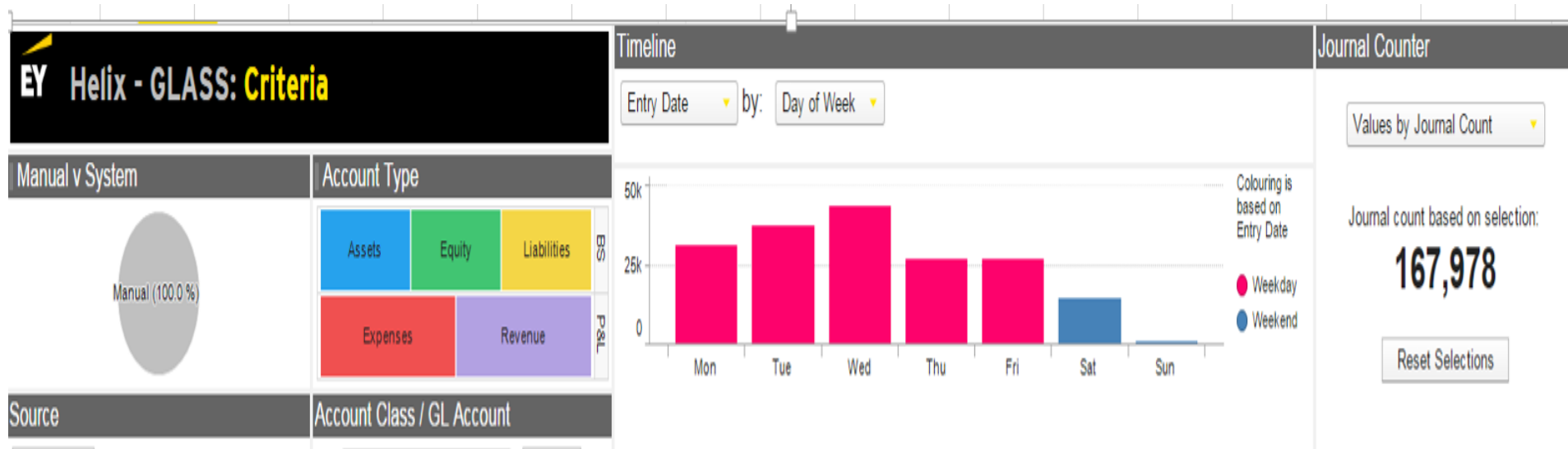
# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the Integra journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

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## Journal Entry Testing

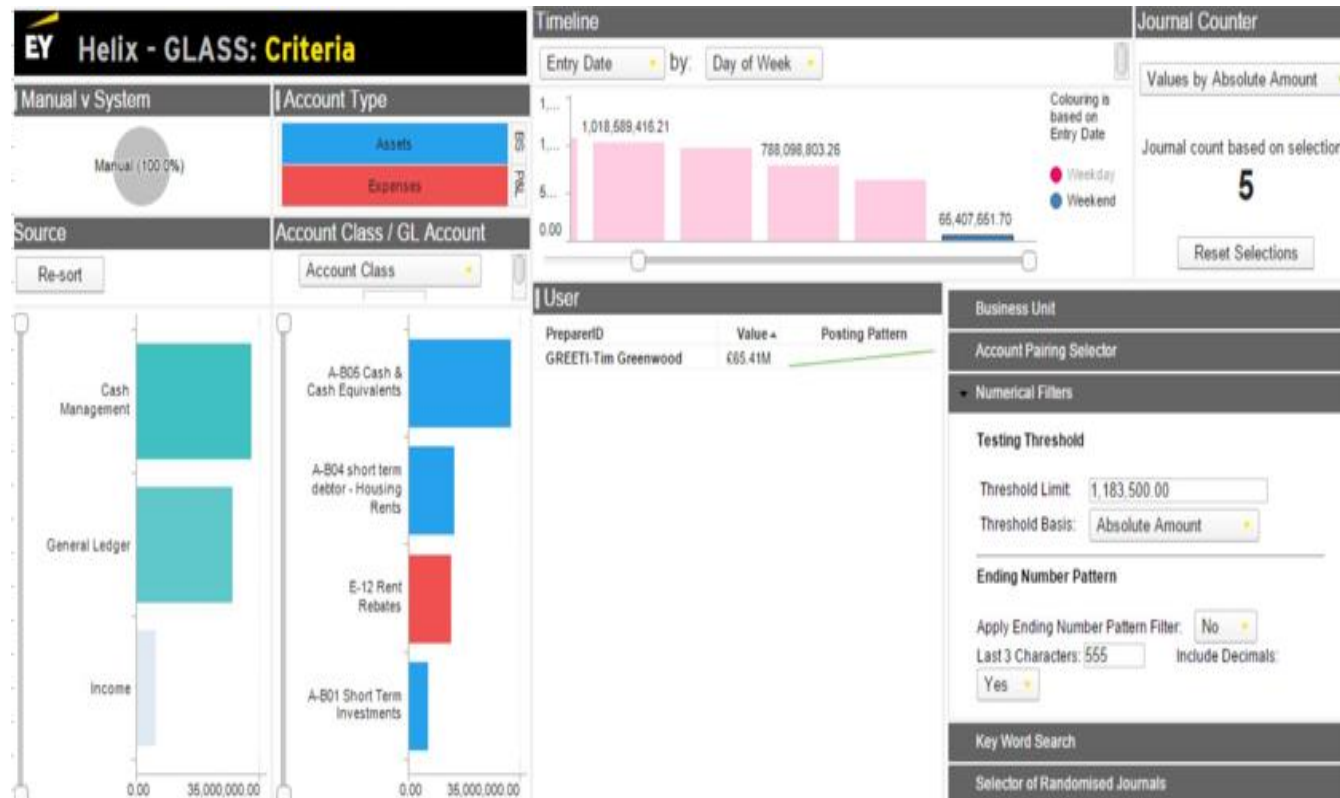
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – LG – 31 March 2018

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable for example journals above a certain value that have been posted at the weekend.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



## Payroll Testing

### What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

### Payroll Data – 31 March 2018

**4.1 Monthly summary: Gross pay**  
Please select from bar or line graph in 4.0 to limit data shown.

Year	Month	Total Gross pay	Avg Per Transaction	Number of transactions	% of Gross Pay	Nil Payments / Total	Monthly % Change
2017	abr	1.547.762,43	2.269	682	100,00 %	25/682	
	may	1.471.953,81	2.174	677	100,00 %	41/677	-4,90 %
	jun	1.470.484,17	2.178	675	100,00 %	29/675	-0,10 %
	jul	1.475.404,28	2.176	678	100,00 %	27/678	0,33 %
	ago	1.663.837,93	2.450	679	100,00 %	24/679	12,77 %
	sep	1.614.911,84	2.351	687	100,00 %	27/687	-2,94 %
	oct	1.545.636,96	2.253	686	100,00 %	48/686	-4,29 %
	nov	1.479.150,50	2.166	683	100,00 %	38/683	-4,30 %
	dic	1.456.172,23	2.132	683	100,00 %	48/683	-1,55 %
	2018	ene	1.450.199,13	2.123	683	100,00 %	43/683
feb		1.451.603,26	2.125	683	100,00 %	27/683	0,10 %
mar		1.488.308,08	2.179	683	100,00 %	42/683	2,53 %
<b>Grand total</b>		<b>18.115.424,62</b>	<b>2.215</b>	<b>8.179</b>	<b>100,00 %</b>	<b>419/8179</b>	<b>0,00 %</b>

### What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay.

### What are our conclusions?

We reviewed the information at our interim and final accounts visits. We reviewed anomalies in light of known additional costs arising from exit packages. We concluded from our work on employee costs that they were fairly stated.



9

Independence

## Confirmation, relationships, services, related threats and safeguards



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 26 March 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 26 July 2018.

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

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018. We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC	64,004	64,004	73,513
Total Non-audit work - Grants	TBC	10,911	10,911	10,344

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We have undertaken additional work in relation to the Value For Money Conclusion significant risk, we are not yet in a position to quantify the costs associated with this work. We have yet to conclude our 2017/18 audit and are therefore not in a position to conclude on the final fee for 2017/18. We will discuss with the Chief Financial Officer our final fee at the conclusion of the audit. Where we propose any variation, we will discuss this with the Audit Committee and also is subject to PSAA approval.









# 10 Appendices

## Appendix A

# Required communications with the Audit Committee

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

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Terms of engagement	Confirmation by the Audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report March 2018
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report July 2018

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Audit results report July 2018</p> <p>No conditions or events were identified, either individually or together to raise any doubt about Stevenage Borough's ability to continue for the 12 months from the date of our report.</p>
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Audit results report July 2018</p>
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	<p>Audit results report July 2018</p>
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	<p>Audit results report July 2018</p>

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report March 2018 Audit results report July 2018

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit results report July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit results report July 2018 We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report July 2018

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# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report July 2018
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report July 2018
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report March 2018 Audit results report July 2018
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report To Follow - November

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# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

*Ernst & Young  
400 Capability Green  
Luton LU1 3LU*

This letter of representations is provided in connection with your audit of the financial statements of Stevenage Borough Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Stevenage Borough Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

# Management representation letter

## Management Rep Letter

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material

- penalties;
- involving management, or employees who have significant roles in internal controls, or others; or

in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
1. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
2. We have made available to you all minutes of the meetings of the Council and Executive and Audit committee or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:

# Management representation letter

## Management Rep Letter

- a. Council 23 May
- b. Executive 11 July
- c. Audit Committee 12 June.

1. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
2. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
3. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

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

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 28 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than as described in Note 6 to the financial statements, there have beenWe have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Financial Report including Statement of Accounts.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial

# Management representation letter

## Management Rep Letter

statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 18 to the financial statements, we have no other line of credit arrangements.

### H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the value of property, plant and equipment, investment properties, the Council's pension liability and the business rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Property Valuation and Business Rates Appeals Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the property valuation appropriately reflect our intent and ability to utilize these assets on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### K. Retirement benefits

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

Yours faithfully,

---

(Chief Financial Officer)

---

(Chairman of the Audit Committee)

## EY | Assurance | Tax | Transactions | Advisory

### About EY

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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**Clare Fletcher**  
**Assistant Director Finance & Estates**

Daneshill House, Danestrete, Stevenage, Herts SG1 1HN. Tel: 01438 242242 Textphone: 01438 242330 [stevenage.gov.uk](http://stevenage.gov.uk)

26<sup>th</sup> July 2018

Ernst & Young  
400 Capability Green  
Luton  
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Stevenage Borough Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Stevenage Borough Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit difference, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, individually to the financial statements taken as a whole. We have not corrected this difference identified by and brought to the attention from the auditor because we have taken the view that our external valuer's approach is reasonable and consistent with other valuations included within the balance sheet. We do not consider the difference in the published valuation and that expected by Ernst Young's valuer to be materially different.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Executive and Audit committee or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:
  - a. Council 23 May
  - b. Executive 11 July
  - c. Audit Committee 12 June
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation



and claims, both actual and contingent, and have disclosed in Note 28 to the financial statements all guarantees that we have given to third parties.

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

1. Other than as described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

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

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Financial Report including Statement of Accounts.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### **G. Ownership of Assets**

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 18 to the financial statements, we have no other line of credit arrangements.

#### **H. Reserves**

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

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

1. We agree with the findings of the specialists that we engaged to evaluate the value of property, plant and equipment, investment properties, the Council's pension liability and the business rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **J. Property Valuation and Business Rates Appeals Estimates**

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied

and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

1. We confirm that the significant assumptions used in making the property valuation appropriately reflect our intent and ability to utilize these assets on behalf of the entity.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

**K. Retirement benefits**

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

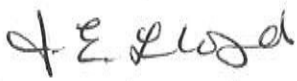
Yours faithfully,



(Chief Financial Officer)



(Chair of the Audit Committee)

  
Chair of Statement of Accounts



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2017/18  
Financial Report including  
Statement of Accounts

IN AUDIT

**Ste****venage**  
**BOROUGH COUNCIL**



The 2017/18 Pre Audit Statement of Accounts was certified as presenting a true and fair view of the financial position of Stevenage Borough Council by the Chief Financial Officer on 31 May 2018.



This document is part of the Council's policy of providing full information about the Council's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the Appointed Auditor completes the annual audit. The availability of the accounts for inspection is advertised on the Council's web site.

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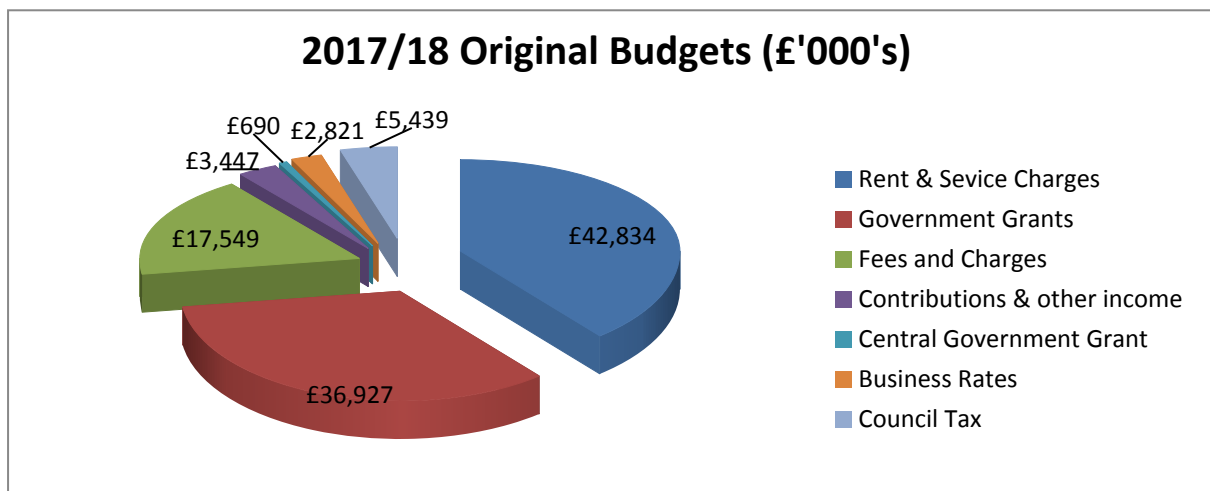
## Foreword by Chief Executive

Welcome to Stevenage Borough Council's Statement of Accounts for 2017/18. As a co-operative council we aim to work alongside residents and partners to improve the lives of all those people that live and work in the town. To enable this, it's important that we maintain a high degree of openness around our spending and our decision making. The timely publication of our accounts is a key part of our commitment to this transparency.

Stevenage Borough Council provides some 120 different services, most of which we provide ourselves, which includes our council housing. However the Council's leisure facilities are currently under contract to Stevenage Leisure Services and we do share some services with other Councils which are:

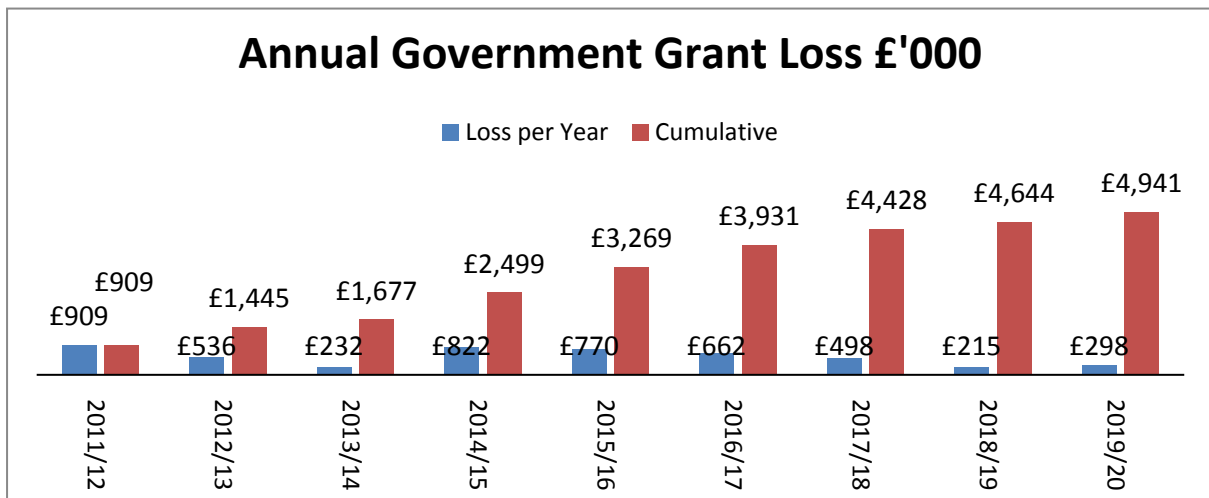
- Shared Revenues and Benefits service (hosted by East Hertfordshire Council)
- Shared ICT service with East Hertfordshire District Council (EHC) hosted by Stevenage Borough Council.
- Shared Internal Audit Service (SIAS) and Shared Anti-Fraud Service (SAFS) with other Hertfordshire Councils hosted by Hertfordshire County Council
- Shared CCTV service (partnership and company) with EHC and Hertsmere Borough Council, hosted by Stevenage Borough Council.
- Shared Legal service hosted by Hertfordshire County Council (implemented 2017).
- Shareholder in Building Control company with six other Hertfordshire Councils

The Council directly employs circa 650 employees across our many services and how we fund those services is shown below.

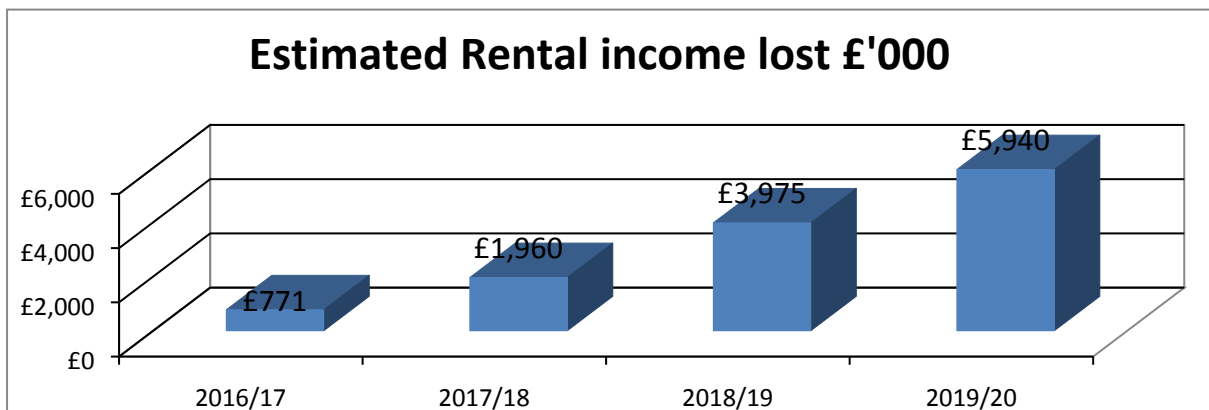


The financial environment in which the Council is operating has been challenging for a number of years. Since 2011/12 government funding for our services has been cut. This has meant our General Fund services will have seen £5Million of government grant removed between 2011/12-2019/20. We will have had to absorb an estimated £4.8Million of inflation increases and pressures in addition to the cuts while at the same time limited by legislation on the amount of council tax that can be raised, (without a local referendum vote).

## Foreword by Chief Executive



Our funding and income to provide our services has also been affected by the impact of government policy and no more so than government legislation on council house rents. The government's Welfare Reform and Work Act made changes to the rent we can charge for our council homes which has resulted an estimated reduction in income of £225Million over 30 years, with an estimated loss of income from 2016/17 to 2019/20 of £5.9Million by 2019/20. We use this income to manage our council homes, fund improvements and to build new homes.



We continue to face tough economic choices but we are all working hard in Stevenage to continue to deliver effective services despite the financial challenges we face. We all have fewer resources and must find creative ways to ensure that front line service quality for those who need us is not compromised.

The impact of grant reductions and legislation changes has meant that we have needed a plan to fund our services and at the same time ensure that any scarce funding is directed to our top priorities. But we are an ambitious council and in addition to our 120 services we have set out our top or key priorities which are encompassed within the 'Future Town Future Council' (FTFC) work programme. There are six themes, which includes the Council's and our residents' top priority (Residents survey 2017) regeneration of the town centre. Other priorities include Housing Development and Excellent Council Homes for Life and Financial Security. Members approved the programme at the March 2016 Executive.

## Foreword by Chief Executive



But how we do we deliver all this with the financial challenges we face? The Council’s Financial Strategies (MTFS)\*1, highlighted the need for on-going savings to fund inflation and service pressures. We aim to ensure we can deliver our priorities even though our resources are reducing through our ‘Financial Security’ work stream. The Council’s priority ‘Financial Security’ helps us to deliver this through, efficiencies, procurement, smarter ways

of working, income options and new and innovative transformation of our services, prioritising where we spend our money before reductions in services. This will help us maintain our priority services while still meeting our ‘Future Town Future Council’ ambitions for Regeneration, Housing delivery and Co-operative Neighbourhood Management in Stevenage.



The five strands of the financial security priority are set out in the Council’s Medium Term, Financial Strategy (MTFS)\*1 and is the enabler to delivering the MTFS objectives which includes:

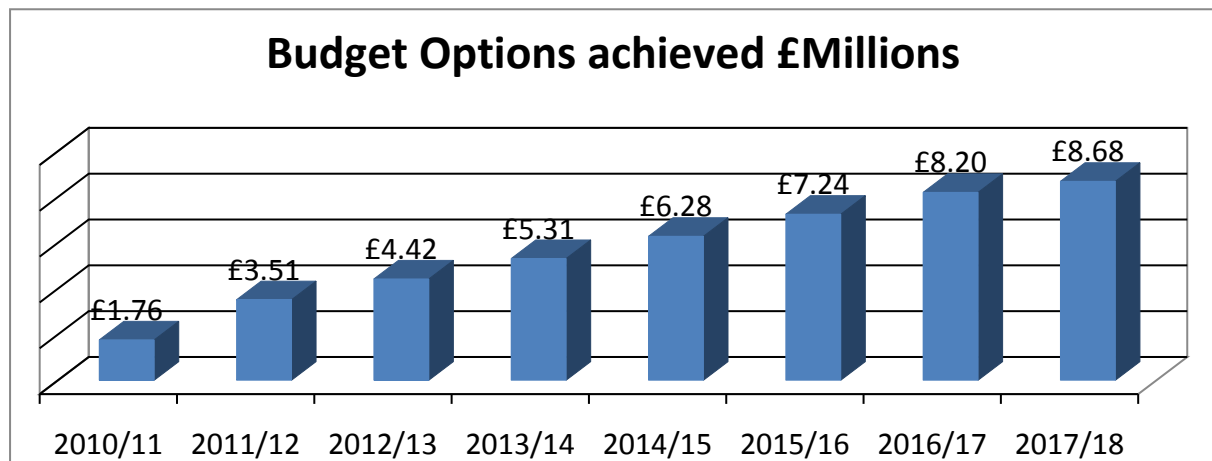
*‘To remove the General Fund’s reliance on RSG by 2019/20 when the funding is removed and achieve an on-going balanced budget by 2021/22 by ensuring inflationary pressures are matched by increases in fees and income or reductions in expenditure’.*

## Foreword by Chief Executive

The delivery of FTFC priorities against a backdrop of funding cuts will necessitate that growth should only be to approved which meet the outcomes of the FTFC priorities.

Resources spent on services that are not considered a priority need to re-directed, which is the fifth strand of the financial security work programme. In addition a minimum three year view of savings options is taken to avoid us having to make budget cuts which impact on priority services.

In determining how much we need to find through 'Financial Security', the Council's MTFs takes a five year view of future inflation, pressures, spend and income based on forecasts using government and independent data. Since 2010/11 this has identified a gap between income and expenditure, requiring Financial Security targets to be set and implemented. But we do have a track record in achieving savings and during the period 2010/11-2017/18 Members have approved a total £8.68Million net cost reductions for General Fund services.



Specifically for 2017/18, Members approved a total of £901,500 options for the General Fund and HRA. Looking to the future, the Financial Security Target for the General Fund and HRA for 2019/20-2021/23 is estimated to be £2.72Million (including £1.12Million fees and charges increases) and £977,000 respectively<sup>2</sup>.

In addition to the Financial Security options identified in the Council's annual budget reports, Members have also approved the first major 'targeted commercialisation' option in 2017<sup>3</sup>. This was a £15Million investment in commercial property predominately in Stevenage to promote economic investment for the town and give an estimated net £200,000 contribution to the General Fund for 2018/19 onwards. In 2017/18 one property has been acquired which is estimated to give a £44,000 contribution to the General Fund and other opportunities are currently being explored.



## Foreword by Chief Executive

The Council's top priority "Town Centre regeneration" has been progressing during 2017/18 and in January 2018 the Council appointed Mace the international development and construction company behind some of the world's landmark developments to undertake the first phase of town centre regeneration, called SG1. This ambitious scheme will bring £350million of private investment into our town centre and will see the area covering our offices here at Daneshill House, the Plaza, bus station and some of the adjacent car parks redeveloped with new shops, bars and restaurants, homes, new public spaces, and a central public sector hub accommodating our offices, a library, exhibition space, and health services.

We're hopeful that, following the planning process, construction work will start during next year, and it will then take several years to complete. Of course, this is just the start. But since 2017 we have had a programme of improving our public realm in the town centre, making it a better place to come to.

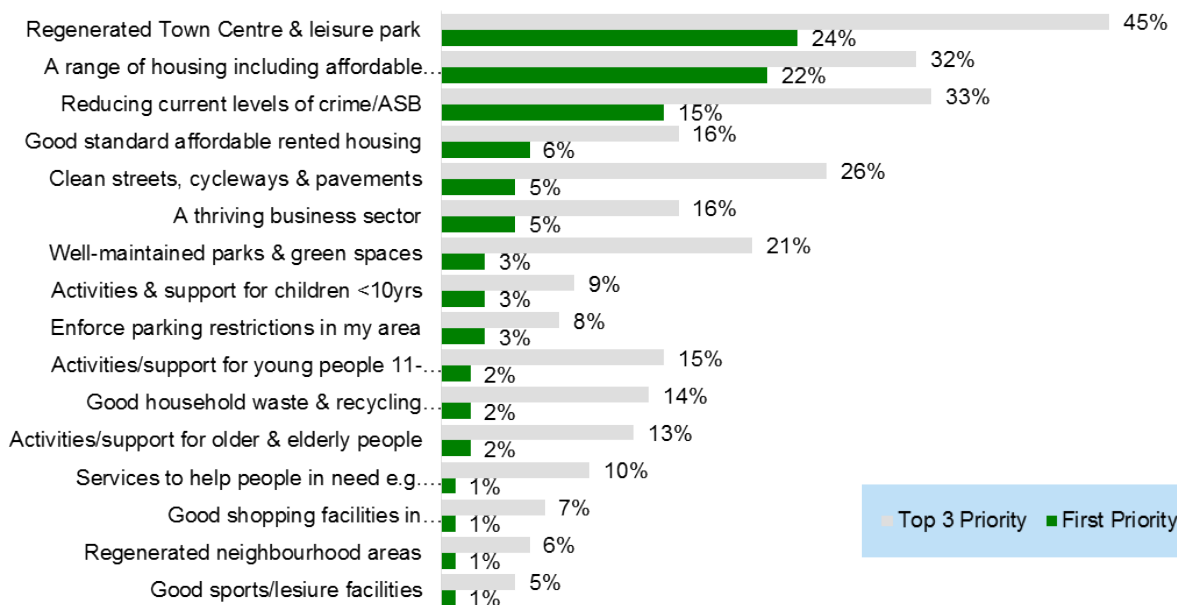


SG1 redevelopment site.

## Foreword by Chief Executive

We are a co-operative council and as such we take decisions with our residents and one of our top priorities is the Co-operative Neighbourhood programme. This includes neighbourhood garage and play refurbishments, improvements to public realm and landscaping as well as employing our neighbourhood wardens to work with residents in the town to improve our Town. In 2017/18 we allocated £590,700 from New Homes Bonus to help fund this programme with a further £531,600 in 2018/19. This funding is in addition to the capital funding we have already approved.

When we asked our residents what their top priorities were in 2017/18 \*4 they said their top priorities were regenerating the town centre and affordable housing, these match the council's top FTFC priorities.



The FTFC programme is an ambitious programme for Stevenage and this brings a level of risk for the Council. The Council maintains a Strategic Risk register which is reported to the Senior Management Team (SMT), Corporate Risk Group and our Audit Committee on a quarterly basis. This register includes all the top perceived risks for the Council and includes actions to mitigate risk. In addition any decisions taken by our Members are considered taking into account financial, legal and identified risks.

We ensure that we deliver the services and priorities our Members have approved by reporting quarterly using some key measures to see how we are doing. Some of the measures relate to the FTFC programme and the remainder to key performance indicators that check how well we are providing our services and meeting our targets. These are reviewed by the senior management team and we look at any mitigation we can implement if our targets are not being met. The performance measures are then approved by our Members with any additional action we are recommending we take. At the time the Statement of Accounts was published the 4<sup>th</sup> quarter results had not been published (July 2018 Executive). Not all our measures are on target and we have put plans in place to achieve them and we recognise we can always improve.

## Foreword by Chief Executive

Not all our measures are on target and we have put plans in place to achieve them and we recognise we can always improve.

Our focus, as always, is on delivering the most efficient services which offer the best value for money for Council Tax and rent payers across the borough. However, we need to acknowledge that we cannot make the level of savings we require without making some difficult decisions about how we spend our money and the services we continue to provide our 'Future Town Future Council' priorities.

We have started to implement our Business Unit Reviews in 2017/18 and continuing in 2018/19, to enhance our workforce capacity and skills to meet the increasing and changing demand for services over the next 5 years. This will strengthen our organisation, so that we deliver the changes we need to make, meet our challenges and realise our ambitions as a Council and as a Town.

We have attempted to prepare these accounts in a style to enable readers to understand and interpret the various financial statements. I aim to give electors, local residents, Council Members, partners, and other interested parties confidence that public money which has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

The Accounts of Stevenage Borough Council for the year ended 31 March 2018 are set out on the following pages. The various statements include where relevant, comparative figures relating to the previous financial year and supporting notes. These Accounts are prepared in accordance with the 2017/18 Code of Practice on Local Authority Accounting.

Scott Crudgington  
Chief Executive



## About Stevenage Borough Council

### Background



Stevenage was designated Britain's first new town in 1946 and in 2016 Stevenage celebrated its 70<sup>th</sup> anniversary year with a number of community events.

The town was planned and developed by the Government-appointed Development Corporation that was responsible for a series of master plans detailing the way the town would grow. Stevenage Urban District Council became the Borough Council under local government reorganisation in 1974 and by 1980 most of the Development Corporation's functions had been transferred to the Borough Council.

### General Statistics

2016/17		2017/18
	<b>Area and Population</b>	
2,596	Area (hectares)	2,596
86,470	Population	87,080
33.31	Population per Hectare	33.54
	<b>Council Tax</b>	
28,163	Number of Chargeable Dwellings	29,017
	Council Tax per Property in Band D	
£193.52	- Stevenage Borough Council	£198.52
£1,186.62	- Hertfordshire County Council	£1,245.83
£147.00	- Hertfordshire Police Authority	£152.00
£1,527.14	<b>Total Council Tax</b>	£1,596.35

*\*published by the Office of National Statistics sub national population*

## About Stevenage Borough Council

### General information

#### Geography

Stevenage is strategically located within Hertfordshire 30 miles north of London.

Having a major station on the East Coast Main Line, Stevenage offers superb connectivity with it only taking **19 minutes** to Kings Cross and less than 40 minutes to Cambridge. Thameslink services giving **direct connections** to **Farringdon, London Bridge** and **Gatwick** have begun operating in May 2018.

Stevenage is also situated on the A1 (M) allows access to Cambridge, Peterborough, Northampton and Milton Keynes in less than one hour by road.

In addition, two international airports are within easy reach of Stevenage: London Luton (14 miles) and London Stansted (29 miles)

#### Business

Many of the world's most innovative companies as well as numerous exciting start-up businesses have chosen Stevenage to base their operations. Whether it is creating a new drug, driving on Mars or building a successful technology business, **Stevenage is the place to do business**. Our business base has a rich history and diversity that spans a wide range of sectors including aerospace, information technology, pharmaceuticals, advanced engineering and media. Our major employers include:

- GlaxoSmithKline
- Airbus Defence & Space
- MBDA
- Stevenage Bioscience Catalyst
- Fujitsu

#### Living

Stevenage offers a fantastic balance of life with a strong mix of urban and rural life. There is a great mix of housing in and around the town at reasonable prices. Schools and colleges provide an excellent education offer, with many exceptional schools situated throughout Hertfordshire. It has a **strong culture and leisure offer** within the town centre with major retailers present within the Borough. The Old Town provides a pleasant contrast with the High Street popular for cafes, pubs and independent retailers. There are over **300 acres of public park** within the Borough that provide a wide range of recreational activity that can be accessed via an extensive, safe cycle network.



## About Stevenage Borough Council

### General information

#### Opportunity

Stevenage is planning on delivering over 7500 new homes over the coming 20 years with half of these to be delivered in the Town Centre. The Stevenage Central Framework sets out our ambitious regeneration programme for the town centre and having just announced Mace as our development partner for the first phase, called SG1, construction is another step closer. SG1 will see over 1000 new homes, shops, public spaces and a new community hub delivered. A masterplan for the scheme is currently being further developed with a planning application due to be received by the end of the financial year.



SG1 redevelopment: artist's impression

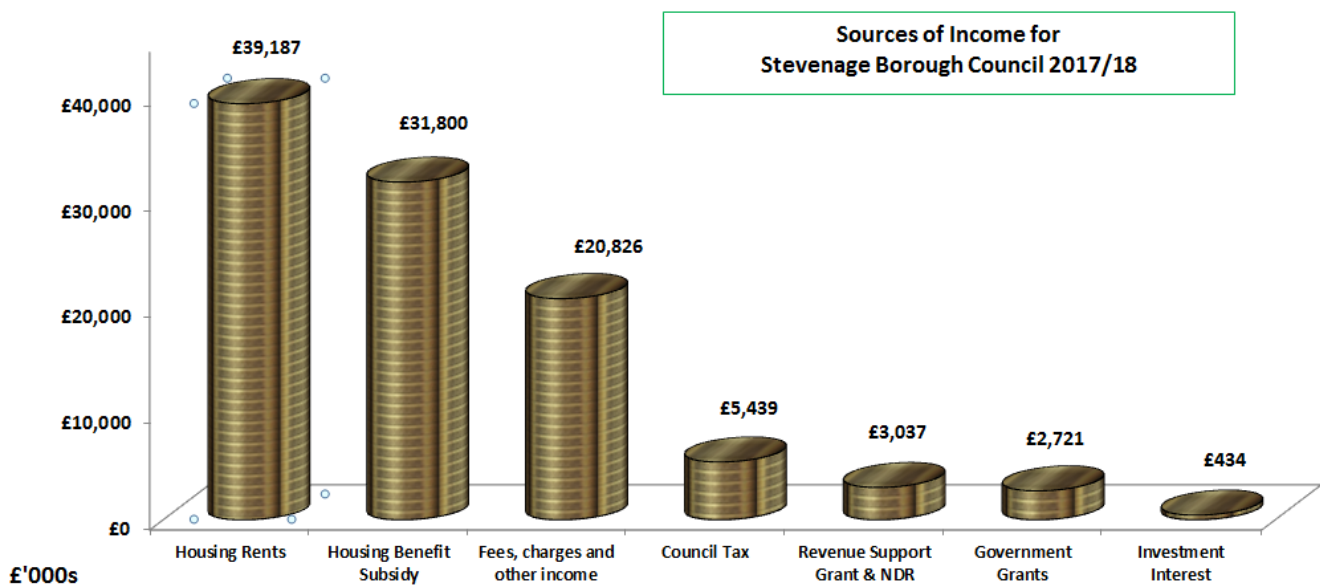
## About Stevenage Borough Council



### Where our money comes from and how we spend it.

The Council provides a wide range of services to the residents of Stevenage including refuse and recycling collections, leisure facilities including children's play schemes and maintenance of the

public open spaces in the district. In addition the Council helps to keep the residents safe with responsibility for environmental health issues and ensuring new buildings comply with legislation. The Council also has a responsibility to help homeless families and to administer housing benefit claims. To pay for these services the Council receives money from a number of sources. The following charts show where we receive our income and where we spend it for our residents and tenants.

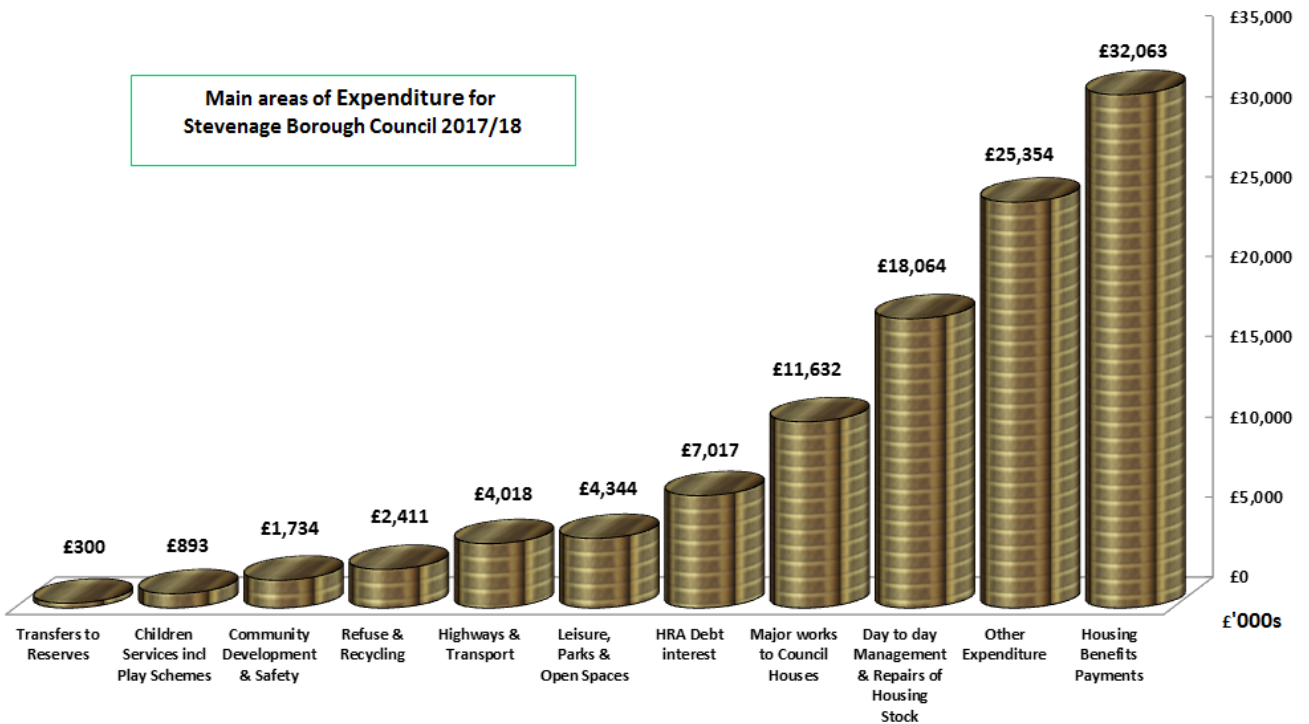




## About Stevenage Borough Council



Main areas of Expenditure for Stevenage Borough Council 2017/18



## Narrative Statement

The Narrative Summary includes abbreviated versions of the Accounts. The full, detailed versions with supporting notes are shown later.

### Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

(full statement on page 35)

2016/17 £'000		2017/18 £'000
<b>15,254</b>	<b>Cost of Services</b>	<b>3,314</b>
(6,258)	Other Operating Expenditure	(1,350)
3,532	Financing & Investment Income & Expenditure	6,636
(12,227)	Taxation & Non-Specific Grant Income	(12,990)
<b>301</b>	<b>Deficit/(surplus) on Provision of Services</b>	<b>(4,390)</b>
(39,524)	Other Comprehensive Income & Expenditure	(32,565)
<b>(39,223)</b>	<b>Total Comprehensive Income &amp; Expenditure</b>	<b>(36,955)</b>

\* the large variance in cost of services from 2016/17 to 2017/18 has arisen due to revaluation changes charged to cost of services. These costs are then reversed out in Movement in Reserves Statement in accordance with statutory provisions and CIPFA guidance to negate any impact on the council tax payer.

### Balance Sheet

(full statement on page 41)

31 March 2017 £'000		31 March 2018 £'000
	<b>Assets:</b>	
749,918	Long Term Assets	784,069
62,691	Current Assets	62,215
(25,209)	Current Liabilities	(26,652)
(261,612)	Long Term Liabilities	(256,890)
<b>525,788</b>	<b>Net Assets</b>	<b>562,742</b>
	<b>Fund Balances &amp; Reserves:</b>	
58,896	Usable Reserves	58,846
466,892	Unusable Reserves	503,896
<b>525,788</b>	<b>Total Fund Balances &amp; Reserves</b>	<b>562,742</b>

## Narrative Statement

### Revenue Budget and Outturn

The original General Fund net budget of £9,382,220 was agreed at Full Council on 28 February 2017. Subsequently, Members have approved various budget amendments to take into account service pressures and budget options arising in year resulting in a revised budget of £10,126,440 approved on 13 March 2018 (third quarter budget monitoring report). The final out-turn position for the year against the revised budget is set out below:

	Original Budget 2017/18	Working Budget 2017/18	Actual 2017/18	Variance to Working Budget
	£'000	£'000	£'000	£'000
<b>Directorate:</b>				
Community Services	4,915	4,598	5,481	883
Housing Services	1,948	2,013	3,856	1,843
Environmental Services	6,501	7,174	7,584	410
Local Community Budgets	101	101	101	0
Resources*	(4,430)	(4,879)	(7,100)	(2,221)
Resources - Support	347	1,119	216	(903)
<b>Total Net General Fund Expenditure</b>	<b>9,382</b>	<b>10,126</b>	<b>10,138</b>	<b>12</b>
<b>Income:</b>				
Council Tax	(5,299)	(5,299)	(5,299)	0
Transfers to/from collection fund	(617)	(617)	(617)	0
Revenue Support Grant (RSG)	(690)	(690)	(690)	0
Retained business rates	(2,570)	(2,570)	(2,570)	0
NDR Pooling Levy*	226	226	0	(226)
<b>Total Income from taxation and RSG</b>	<b>(8,950)</b>	<b>(8,950)</b>	<b>(9,176)</b>	<b>(226)</b>
<b>Net underspend/transfer to balances</b>	<b>432</b>	<b>1,176</b>	<b>962</b>	<b>(214)</b>
General Fund Balance Brought Forward	(5,275)	(6,427)	(6,427)	
<b>Balance Carried forward</b>	<b>(4,843)</b>	<b>(5,251)</b>	<b>(5,465)</b>	

\*The majority of Resources - Support costs are recharged out to the service area in accordance with CIPFA Reporting Code of Practice

The 2017/18 actual net spend on the General Fund was £11,789 higher than the working budget. Included within this small overspend is a pressure of £582,000 relating to the timing of the NDR levy payment shown in net cost of services (£226,000 levy had been budgeted and shown in core resources – total levy adverse variance was £356,000) plus £338,100 relating to projects which have slipped into 2018/19 and for which a carry forward of budget has been requested. The large variance in Housing Services is due to capital charges that are then reversed out as a credit entry within Resources in accordance with statutory provisions and CIPFA guidance.



## Narrative Statement

### Budget – Housing Revenue Account (HRA)

The original HRA budget of £2,790,940 (surplus) was agreed at Council on 31 January 2017. Subsequently, Members have approved various budget amendments to take into account service pressures and budget options arising in the year resulting in a revised budget of £3,020,120 surplus approved on 13 March 2018 (third quarter budget monitoring report). The final out-turn position for the year against the revised budget is set out below:

	Original Budget	Working Budget	Actual	Variance to Working Budget
	2017/18	2017/18	2017/18	2017/18
	£'000	£'000	£'000	£'000
<b>Expenditure:</b>				
Supervision & Management	9,135	8,865	8,406	(459)
Repairs & Maintenance	5,844	5,645	5,828	183
Other expenditure	5,074	5,326	5,280	(46)
<b>Total Expenditure</b>	<b>20,053</b>	<b>19,836</b>	<b>19,514</b>	<b>(322)</b>
<b>Income:</b>				
Dwelling Rents	(40,134)	(39,740)	(39,680)	60
Other income	(4,935)	(5,291)	(5,375)	(84)
<b>Total Income</b>	<b>(45,069)</b>	<b>(45,031)</b>	<b>(45,055)</b>	<b>(24)</b>
<b>Other charges to the HRA</b>				
Depreciation	11,357	11,357	11,599	242
Interest	7,017	7,017	7,017	0
Other	3,851	3,801	2,560	(1,241)
<b>Total Other charges to the HRA</b>	<b>22,225</b>	<b>22,175</b>	<b>21,176</b>	<b>(999)</b>
<b>(Surplus) / Deficit for the year</b>	<b>(2,791)</b>	<b>(3,020)</b>	<b>(4,365)</b>	<b>(1,345)</b>
Balance brought forward	(18,579)	(19,750)	(19,750)	0
<b>Balance Carried forward</b>	<b>(21,370)</b>	<b>(22,770)</b>	<b>(24,115)</b>	<b>(1,345)</b>

The 2017/18 actual HRA net surplus was £1,344,973 more than the working budgeted surplus. Included within this underspend is a £1,241,000 debt repayment budgeted to be paid 31 March 2018 but due to the Easter holidays was physically paid on 3<sup>rd</sup> April and £82,270 relating to projects which have slipped into 2018/19 and for which a carry forward of budget has been requested subject to approval at the Executive in July 2018.

## Narrative Statement

### Budget – Housing Revenue Account (HRA)

In April 2012 the HRA became subject to the Self-financing regime. Under the scheme the costs associated with running, maintaining and replacing the Council's housing stock is financed from income generated from rents and if necessary, capital borrowing up to a borrowing cap set by the government. At the time of the Self Financing settlement the HRA took loans totalling £196,911,000 (an amount determined by and payable to The Secretary of State). The balance of HRA surpluses £24,114,664 at 31 March 2018 is required to repay the loans taken out as part of the self-financing deal.

During the financial year 2017/18, 37 council homes were sold under the Right to Buy scheme and 34 new homes were acquired. Of these, the Council's new build schemes delivered 22 homes at Archer Road, and four homes at Vincent Court. A further eight homes were acquired through open market purchases. The council's closing stock of housing at 31 March 2018 was 7,997 properties.



*New homes at Vincent Court*

## Narrative Statement

### Material Assets Acquired or Liabilities Incurred during 2017/18.

During 2017/18 the Council acquired the property Essex House, an office complex, to enhance and promote economic opportunities in Stevenage in line with the Council's Future Town Future Council ambitions. In addition 34 residential properties were acquired to increase the Council's social housing stock.

### Economic Significant Provisions, Contingencies and Write offs

There were no significant provisions or write offs in 2017/18.

### Council Reserves

The Council operates two main funds or accounts; a 'General Fund' for services such as refuse, grass cutting etc. and a 'Housing Revenue Account' which manages the Council's housing stock. Each fund has its own reserves for capital and revenue expenditure – General Fund balances can not be used for HRA expenditure and vice versa. As at the 31 March 2018 the General Fund had total reserves of £15,365,000 and the HRA had total reserves of £43,481,000 (HRA reserves include £10.1 million that can only be used on new social housing with significant restrictions and if not spent must within three years must be returned to the Government). Although the balances may appear relatively high the medium term financial strategy (for the General Fund) and Business Plan (for the HRA) have identified the need to draw down a proportion of these balances in the future. HRA balances are required to fund future loan repayments due over the 30 years of the Business Plan. In addition these balances include specific reserves that can only be used for capital expenditure.

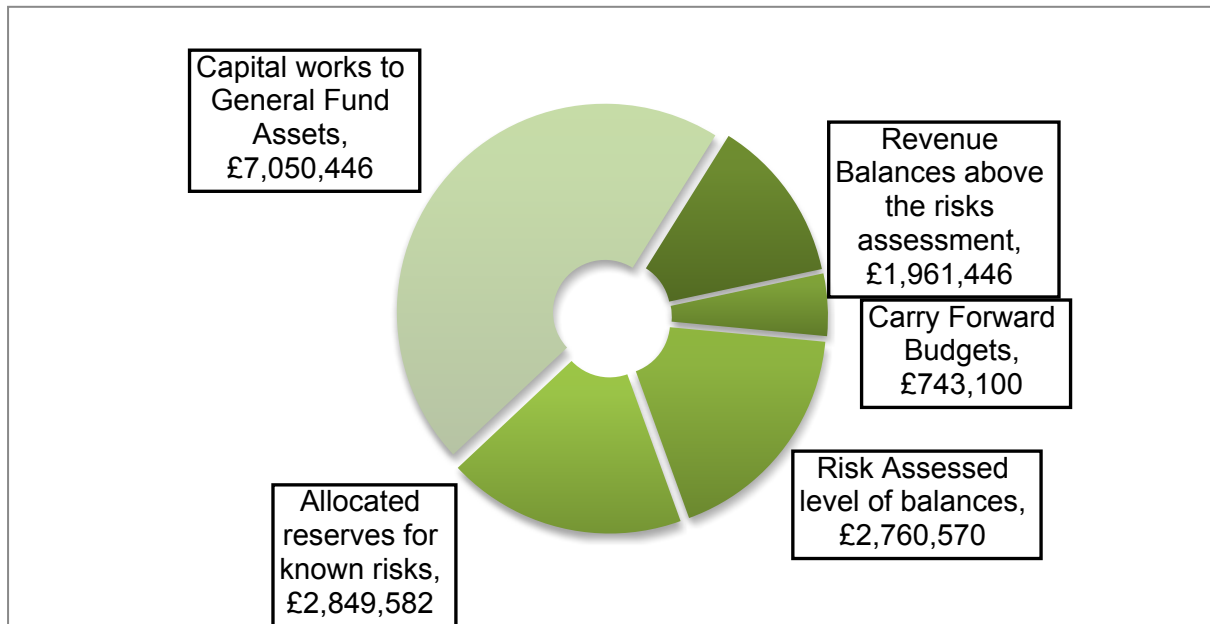


*New homes at Archer Road*

## Narrative Statement

### General Fund Reserves

The Reserves which can be used for “one-off” funding of day to day General Fund services total £8,315,000, this includes £743,000 identified for carry forward spend from 2017/18 to 2018/19 and £1.15Million ring fenced to regeneration projects. The General Fund also has reserves it can use to fund major works to assets such as buildings and equipment, which cannot be spent on revenue services. As at 31 March 2018 the General Fund had capital resources of £7,050,000. These reserves are summarised below:



As part of the budget setting process the Council undertakes a risk assessment to determine the level of balances required in 2017/18. The risk assessment identified General Fund balances of at least £2,760,570 are required, (at the 31 March 2017, £2,656,938). In setting a minimum balance it ensures that there are reserves available to meet unforeseen expenditure and/or income losses arising in the year and to meet expenses arising before income is received. The Council’s Medium Term Financial Strategy includes a managed use of General Fund balances to allow for the impact of the reduction in central government funding to meet the Council’s Financial Security objective of funding expenditure pressures in year by 2022/23.

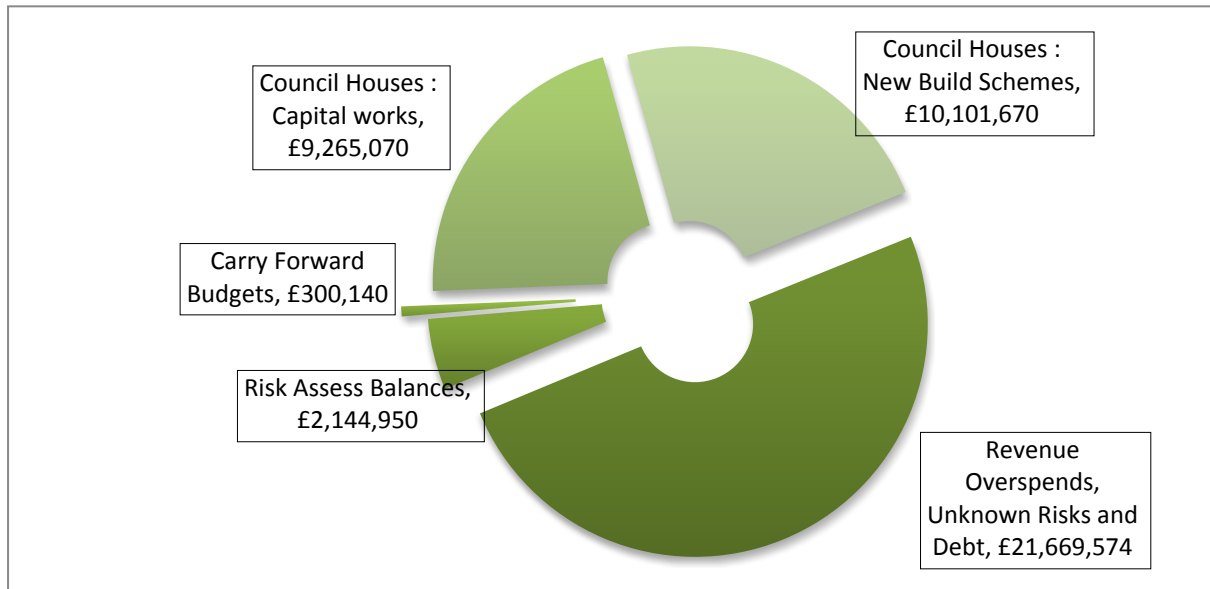
Local Government finances are going through considerable change and the assessment of balances must not only deal with unplanned spend but also future Government initiatives, including the localisation of Business Rates which places greater risk and reward on the Council in regard to NDR collection rates and yield.



## Narrative Statement

### Housing Revenue Account Reserves

HRA reserves are ring fenced and cannot be used for General Fund expenditure. The Reserves which can be used to support Housing Revenue Account (HRA) total £43,481,000 and these are summarised below:



As with the General Fund a risk assessment is undertaken on the HRA to determine the level of balances required in 2017/18. The risk assessment identified HRA balances of at least £2,144,950. As at 31 March 2018, the HRA had loans of £204Million, of which most related to a one off payment to the Government as a result of the self-financing settlement on the 28 March 2012.

The HRA balances as at 31 March 2018 were £24,114,664 and higher than the risk assessment of balances for 2017/18, however the HRA is subject to significant financial risks including;

- A number of legislative changes may have the effect of increasing the levels of RTB sales over and above those anticipated in the HRA Business Plan.
- A decision as to the detail about the sale of High Value void properties has yet to be made by Government. This may require the Council to sell or pay a levy when high value properties become vacant. Currently this policy is being piloted in the Midlands.
- The maximum level of discount available to tenants under RTB has been increased and the level of RTB sales may be higher than anticipated. The business plan currently assumes a reduction in the number of sales in later years.



## Narrative Statement

### Housing Revenue Account Reserves (contd)

- Central Government rent policy has been updated so that formula rents will be reduced by 1% per annum for four financial years beginning April 2016, before reverting back to CPI+1% rent increase. The impact of this change over a 30 year planning horizon is to reduce revenue by an estimated £225 million – more than the initial debt taken on at the outset of self-financing. The government has indicated that the rents will return to the CPI+1% formula from 2020/21.

The HRA also has reserves it can use to fund capital works to Council houses. As with all capital cash balances this money cannot be spent on revenue services; of the £19,367,000 available £10,102,000 must be used for the provision of new housing (funding up to a maximum of 30% of the build costs, the remainder being funded by other HRA capital resources) or repaid to the Government if not spent within three years. These receipts are generated from right to buy sales of which the government takes a proportion up to an annual fixed amount.

### Borrowing and Capital

As at the 31 March 2018 the Council had external borrowing of £208.621 million (£209.629million at 31 March 2017). The majority of this debt relates to the Housing Revenue Account (HRA) payment to the government as a result of the introduction of Self Financing for the HRA. The HRA business plan has a timetable for the repayment of this debt phased over the next 25 years.

In 2017/18 the Council spent £26,035,577 on capital projects, of which £17,022,272 was spent on our housing stock and other housing related assets and a further £9,013,305 on General Fund assets.

The Council funded £14,796,730 of its capital programme from the sale of assets, (land and Council house sales), which equates to 57%, (11.5% 2016/17) of the total funding. Another main source of funding (41%) of the HRA capital programme in 2017/18 was the Major Repairs Reserve. The depreciation charge made to the HRA (£11,675,369 for 2017/18) is transferred to the Major Repairs reserve to finance future capital investment.

### Pension Liability

The Council participates in the Local Government Pension Scheme. The scheme is administered by Hertfordshire County Council, and the impact of the pension liability is shown on the face of the balance sheet. As at 31 March 2018 the pension liability decreased by £4,956,000 to £50,052,000 (£9,119,000, increase in 2017/18).

## Narrative Statement

### Significant changes in accounting policy in 2017/18

There have been no significant changes in accounting policies in 2017/18. The reader should note that policies specific to a Note to the Core Statement are shown at the start of the note that they relate to (in a green text box).

### Significant changes in estimation techniques in 2017/18

The Council has engaged external valuers, Wilks Head and Eve, to provide Balance Sheet valuations as at 1 April 2018 for General Fund Assets. This is the second year that Wilks Head and Eve have provided these valuations. The additional resources and experiences available to Wilks Head and Eve has enabled them to value a number of community assets based on expected rental incomes and hence the estimation technique used for the valuation of these assets is Existing use value (EUV) as used for the valuations published in last year's accounts.

### Other significant events during the financial year 2017/18

In February 2018 the Council announced the appointment of Mace as the developer for the first phase of town centre regeneration. Mace (<https://www.macegroup.com/projects>) the international development and Construction Company - behind some of the world's landmark developments – will be undertaking the first phase of regeneration, called SG1. The Council's Regeneration team are now working with Mace on various complex legal and planning matters that need to be completed before construction starts in Spring 2019.

This ambitious scheme will bring £350million of private investment into the town centre and will see the area covering Council offices at Daneshill House, the Plaza, bus station and some of the adjacent car parks redeveloped with new shops, bars and restaurants, homes, new public spaces, and a central public sector hub accommodating our offices, a library, exhibition space, and health services. All schemes of this type are subject to economic market conditions and should there be a major downturn in the local economy due to Brexit or other factors, then the Council and Developer would be unable to fulfil their joint plans and will have to scale back the redevelopment.

## Introduction to the Statement of Accounts

The Accounts and Audit Regulations (England) 2015 require the Council to produce a “Statement of Accounts” each financial year. Stevenage Borough Council’s accounts for the year 2017/18 are set out from page 31 onwards. These accounts have been prepared on an International Financial Reporting Standards basis and may, by necessity, contain technical terminology. To aid the reader the core statements are supported by explanatory notes and a glossary of terms has been included from page 121 onwards.

### Core Financial Statements

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

**Comprehensive Income & Expenditure Statement** shows the “accounting” cost of providing services in year in accordance with International Reporting Standards. The accounting cost of providing services in year differs from the amount “funded” from council tax, government grants and housing rents. The Movement in Reserves Statement shows the adjustments between funding basis and accounting basis.

**Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council analysed into “usable” reserves (those that can be used to fund future expenditure) and “unusable” reserves. The surplus/deficit on the provision of services line shows the true economic cost of providing the Council’s services. This is different to the statutory amounts that should be charged to the General Fund and Housing Revenue Account i.e. the amounts needed to be recovered through council tax and housing rents. The difference is reversed out on the “adjustment between accounting basis and funding basis under regulations” line. Further detail of these adjustments is given in Note 7.

**Balance Sheet** shows the value of the Council’s assets and liabilities as at the Balance Sheet date. These are matched by the Council’s usable and unusable reserves.

**Cash Flow Statement** shows the changes in cash and cash equivalents held by the Council during the reporting period. The statement shows how the Council generates cash and cash equivalents by classifying cash flows as operating, investing and financial activities.

**Notes to Core Financial Statements** provide additional information in support of the Core Financial Statements listed above.

## Introduction to the Statement of Accounts

### Supplementary Statements

**Housing Revenue Account (HRA) Income & Expenditure Statement** shows the economic cost of providing the Council's housing services in accordance with generally accepted accounting practices rather than the amount to be funded from rents and other income. The difference in accounting and funding basis is shown in the Movement in Reserves Statement.

**Collection Fund Account & Notes** shows the collection of council tax and retained non-domestic rates (NDR) and payments to Stevenage Borough Council, Hertfordshire County Council, Police and Crime Commissioner for Hertfordshire and Central Government.

### Further Information

Further information about the accounts is available from: Assistant Director (Finance and Estates), Stevenage Borough Council, Daneshill House, Danestrete, Stevenage, SG1 1HN

Email: [clare.fletcher@stevenage.gov.uk](mailto:clare.fletcher@stevenage.gov.uk)



# Statement of Responsibilities for the Statement of Accounts

## Stevenage Borough Council's Responsibilities

Stevenage Borough Council is required:

- To make arrangements for proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Assistant Director (Finance and Estates) (Chief Financial Officer).
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts

## The Assistant Director (Finance and Estates) (Chief Financial Officer) Responsibilities

The Assistant Director (Finance and Estates) (Chief Financial Officer) is responsible for the preparation of the Council's Statement of Accounts which, 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), and is required to present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2018.

In preparation of this statement of accounts, the Assistant Director (Finance and Estates) (Chief Financial Officer) has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Assistant Director (Finance and Estates) (Chief Financial 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.

## Certificate of Chief Financial Officer

I certify that this Statement of Accounts has been prepared in accordance with Regulation 8 of the Accounts and Audit Regulations (England) 2015 and presents a true and fair view of the financial position of the Authority as at 31 March 2018 and its Comprehensive Income and Expenditure Statement for the year ended 31 March 2018.



**Clare Fletcher**  
Assistant Director (Finance and Estates) (Chief Financial Officer)



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# Statement of Accounts 2017/18

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis is a note to the financial statements however it is positioned here as it provides a link between the figures in the narrative statement and the Comprehensive Income and Expenditure Statement.

	2016/17						
	Net Expenditure chargeable to the General Fund Balances £'000	Net Expenditure chargeable to the HRA Balances £'000	Adjustment for capital purposes £'000	Net Change for Pension Adjustments £'000	Other Differences £'000	Total Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Community Services	10,035		0	0	4	4	10,039
Housing Services	2,407		0	0	3	3	2,410
Environmental Services	8,815		0	0	19	19	8,834
Local Community Budgets	98		0	0	0	0	98
Resources	(12,510)		21,972	(1,551)	379	20,800	8,290
Resources - Support	113		0	0	11	11	124
Housing Revenue Account		(2,795)	(5,069)	0	(6,677)	(11,746)	(14,541)
<b>Net Cost of Services</b>	<b>8,958</b>	<b>(2,795)</b>	<b>16,903</b>	<b>(1,551)</b>	<b>(6,261)</b>	<b>9,091</b>	<b>15,254</b>
Other Operational Expenditure	0		(6,258)			(6,258)	(6,258)
Financing & Investment Income and Expenditure	0		(4,727)	1,551	6,708	3,532	3,532
Taxation and other non-specific grant income and expenditure	(7,497)						
<b>Deficit/(surplus) on Provision of Services</b>	<b>1,461</b>	<b>(2,795)</b>			<b>(4,730)</b>	<b>1,635</b>	<b>301</b>
<b>Opening General Fund balance</b>	<b>(7,888)</b>						
<b>Opening HRA balance</b>		<b>(16,955)</b>					
Less/plus surplus or (deficit) on General Fund	1,461						
Less/plus surplus or (deficit) on Housing Revenue Account		(2,795)					
<b>Closing General Fund Balance</b>	<b>(6,427)</b>						
<b>Closing HRA Fund Balance</b>		<b>(19,750)</b>					
<b>Closing General Fund and HRA Balances</b>		<b>(26,177)</b>					

Additional Disclosure to aide the Reader reconcile this note to the Movement in Reserves Statement (MIRS)	
General Fund Adjustment (as per MIRS and Note 7)	(7,216)
Housing Revenue Account Adjustment (as per MIRS and Note 7)	7,283
Transfers to/ from Earmarked Reserves	(1,702)
	<b>(1,635)</b>

## Expenditure and Funding Analysis

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

	2017/18	Net Expenditure chargeable to the General Fund	Net Expenditure chargeable to the HRA Balances	Adjustment for capital purposes	Net Change for Pension Adjustments	Other Differences	Total Adjustments between Funding Basis and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Community Services		5,481		0	99	1	100	5,581
Housing Services		3,856		213	31	3	247	4,103
Environmental Services		7,584		(19)	652	(28)	605	8,189
Local Community Budgets		101		0	0	0	0	101
Resources		(7,326)		3,834	81	1,200	5,115	(2,211)
Resources - Support		216		(86)	538	(31)	421	637
Housing Revenue Account			(4,365)	(57)	573	(9,237)	(8,721)	(13,086)
<b>Net Cost of Services</b>		<b>9,912</b>	<b>(4,365)</b>	<b>3,885</b>	<b>1,974</b>	<b>(8,092)</b>	<b>(2,233)</b>	<b>3,314</b>
Other Operational Expenditure		0		(1,350)			(1,350)	(1,350)
Financing & Investment Income and Expenditure		0		3	1,398	5,235	6,636	6,636
Taxation and other non-specific grant income and expenditure		(8,950)				(4,040)	(4,040)	(12,990)
<b>Deficit/(surplus) on Provision of Services</b>		<b>962</b>	<b>(4,365)</b>				<b>(987)</b>	<b>(4,390)</b>
<b>Opening General Fund balance</b>		<b>(6,427)</b>						
<b>Opening HRA balance</b>			<b>(19,750)</b>					
Less/plus surplus or (deficit) on General Fund Account		962						
Less/plus surplus or (deficit) on Housing Revenue Account			(4,365)					
<b>Closing General Fund Balance</b>		<b>(5,465)</b>						
<b>Closing HRA Fund Balance</b>			<b>(24,115)</b>					
<b>Closing General Fund and HRA Balances</b>			<b>(29,580)</b>					

	2017/18
General Fund Adjustment (as per MiRS and Note 7)	(2,768)
Housing Revenue Account Adjustment (as per MiRS and Note 7)	3,455
Transfers to/ from Earmarked Reserves	300
	<b>987</b>

**Additional Disclosure to aide the Reader reconcile this note to the Movement in Reserves Statement (MiRS)**

General Fund Adjustment (as per MiRS and Note 7)  
Housing Revenue Account Adjustment (as per MiRS and Note 7)  
Transfers to/ from Earmarked Reserves

## Comprehensive Income & Expenditure Statement for the year ended 31 March 2018

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

All Council operations are continuing. The Council is a shareholder in Hertfordshire CCTV Partnership Ltd which started trading in 2015 and the Building Control Company that started trading in August 2016. Group accounts are not completed due to the small size of these trading companies (see also note 3 – Critical Judgements in applying accounting policies).

\* the large variance in cost of services from 2016/17 to 2017/18 has arisen due to revaluation changes charged to cost of services. These costs are then reversed out in Movement in Reserves Statement in accordance with statutory provisions and CIPFA guidance to negate any impact on the council tax payer.



## Comprehensive Income and Expenditure Statement

2016/17			2017/18			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
10,438	(399)	10,039	Community Services	5,856	(275)	5,581
37,973	(35,563)	2,410	Housing Services	38,006	(33,903)	4,103
17,259	(8,425)	8,834	Environmental Services	16,752	(8,563)	8,189
98	0	98	Local Community Budgets	101	0	101
10,712	(2,422)	8,290	Resources	3,642	(5,853)	(2,211)
2,096	(1,972)	124	Resources - Support	2,589	(1,952)	637
29,129	(43,670)	(14,541)	Housing Revenue Account	30,034	(43,120)	(13,086)
<b>107,705</b>	<b>(92,451)</b>	<b>15,254</b>	<b>Cost of Services*</b>	<b>96,980</b>	<b>(93,666)</b>	<b>3,314</b>
				<b>Note</b>		
	(6,258)		Other Operational Expenditure	10		(1,350)
	3,532		Financing & Investment Income and Expenditure	10		6,636
	(18,873)		Taxation & Non-Specific Grant Income: Retained Business rates	11		(16,756)
	16,568		Taxation & Non-Specific Grant Income: NNDR expenditure (tariff to DCLG)	11		14,409
	(9,922)		Taxation & Non-Specific Grant Income: Other	11		(10,643)
	<b>301</b>		<b>Deficit/(surplus) on Provision of Services</b>			<b>(4,390)</b>
	(47,488)		Surplus on revaluation of Property, Plant and Equipment assets		(24,318)	
	7,964		Actuarial (gains)/losses on pension assets/liabilities	26	(8,247)	
	<b>(39,524)</b>		<b>Other Comprehensive Income and Expenditure</b>			<b>(32,565)</b>
	<b>(39,223)</b>		<b>Total Comprehensive Income and Expenditure</b>			<b>(36,955)</b>

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## Movement in Reserves Statement

This statement shows the movement in year of the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year after these adjustments. (See also Expenditure and Funding Analysis)

## Movement in Reserves Statement

	Note	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Major Repairs Reserve Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2016 carried forward		(7,888)	(4,252)	(16,955)	(4,652)	(15,995)	(304)	(50,046)
<b>Movement in reserves during 2016/17</b>								
<b>Total Comprehensive Expenditure and Income</b>		<b>10,379</b>		<b>(10,078)</b>		<b>0</b>	<b>0</b>	<b>301</b>
Adjustments between accounting basis & funding basis under regulations	7	(7,216)		7,283	145	(9,523)	161	(9,150)
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>3,163</b>	<b>0</b>	<b>(2,795)</b>	<b>145</b>	<b>(9,523)</b>	<b>161</b>	<b>(8,849)</b>
Transfers to/from Earmarked Reserves	8	(1,702)	1,702	0	0	0	0	0
<b>(Increase)/Decrease in Year</b>		<b>1,461</b>	<b>1,702</b>	<b>(2,795)</b>	<b>145</b>	<b>(9,523)</b>	<b>161</b>	<b>(8,849)</b>
Balance at 31 March 2017 carried forward		(6,427)	(2,550)	(19,750)	(4,507)	(25,518)	(143)	(58,895)
<b>Movement in reserves during 2017/18</b>								
<b>Total Comprehensive Expenditure and Income</b>		<b>3,430</b>		<b>(7,820)</b>				<b>(4,390)</b>
Adjustments between accounting basis & funding basis under regulations	7	(2,768)		3,455	(4,757)	10,095	(1,586)	4,439
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>662</b>	<b>0</b>	<b>(4,365)</b>	<b>(4,757)</b>	<b>10,095</b>	<b>(1,586)</b>	<b>49</b>
Transfers to/from Earmarked Reserves	8	300	(300)					0
<b>(Increase)/Decrease in Year</b>		<b>962</b>	<b>(300)</b>	<b>(4,365)</b>	<b>(4,757)</b>	<b>10,095</b>	<b>(1,586)</b>	<b>49</b>
Balance at 31 March 2018 carried forward		(5,465)	(2,850)	(24,115)	(9,264)	(15,423)	(1,729)	(58,846)

## Movement in Reserves Statement

	Note	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016 carried forward		(50,046)	(436,518)	(486,564)
<b>Movement in reserves during 2016/17</b>				
<b>Total Comprehensive Expenditure and Income</b>		<b>301</b>	<b>(39,525)</b>	<b>(39,224)</b>
Adjustments between accounting basis & funding basis under regulations	7	(9,150)	9,150	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>(8,849)</b>	<b>(30,375)</b>	<b>(39,224)</b>
Transfers to/from Earmarked Reserves	8	0	0	0
<b>(Increase)/Decrease in Year</b>		<b>(8,849)</b>	<b>(30,375)</b>	<b>(39,224)</b>
Balance at 31 March 2017 carried forward		(58,895)	(466,893)	(525,788)
<b>Movement in reserves during 2017/18</b>				
<b>Total Comprehensive Expenditure and Income</b>		<b>(4,390)</b>	<b>(32,565)</b>	<b>(36,955)</b>
Adjustments between accounting basis & funding basis under regulations	7	4,439	(4,439)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>49</b>	<b>(37,004)</b>	<b>(36,955)</b>
Transfers to/from Earmarked Reserves	8	0	0	0
<b>(Increase)/Decrease in Year</b>		<b>49</b>	<b>(37,004)</b>	<b>(36,955)</b>
Balance at 31 March 2018 carried forward		(58,846)	(503,897)	(562,743)



## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

The first category of reserves are **usable reserves**, i.e. those reserves that the authority may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt) (see also Note 8 to the Accounts).

The second category is **unusable reserves** or those that the authority is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserves Statement line "adjustment between accounting basis and funding under regulations".

Additional notes to aid the reader regarding the Balance Sheet

Within the **Council dwellings** valuation of £633,712,000 there are a number of properties which are likely to be sold within the next 12 months under the Right to Buy Scheme. As at the balance sheet date these properties were not actively marketed and nor is there any certainty as to which properties will be sold. However based on the number of successful applications made last year it is estimated that 50 properties could be sold in 2018/19. This would equate to an estimated balance sheet valuation of £3,962,000.

## Balance Sheet

31 March 2017		31 March 2018		
£'000	Note	£'000	£'000	£'000
607,236	- Council Dwellings	13	633,712	
95,286	- Other Land & Buildings	13	96,962	
4,618	- Vehicles, Plant & Equipment	13	5,289	
13,025	- Other	13	12,229	
<b>720,165</b>	Total Property, Plant & Equipment		<b>748,192</b>	
676	Heritage Assets	12	637	
23,270	Investment property	14	24,212	
533	Intangible Assets	15	740	
5,010	Long Term Investment	18	10,017	
264	Long Term Debtors	18	271	
<b>749,918</b>	<b>Total Long Term Assets</b>			<b>784,069</b>
39,745	Short Term Investments	18	45,647	
0	Assets Held for Sale	21	1,700	
161	Inventories		139	
9,434	Short Term Debtors	19	7,029	
13,351	Cash and Cash Equivalents	18	7,700	
<b>62,691</b>	<b>Current Assets</b>			<b>62,215</b>
(4,139)	Short Term Borrowing	18	(3,138)	
(17,218)	Short Term Creditors	20	(19,225)	
(3,852)	Provisions	22	(4,289)	
<b>(25,209)</b>	<b>Current Liabilities</b>			<b>(26,652)</b>
(770)	Long term creditors	20	(762)	
(205,490)	Long term borrowing	18	(205,483)	
(55,008)	Pension Liability	26	(50,052)	
(344)	Grants Receipts in Adv - Capital	11	(593)	
<b>(261,612)</b>	<b>Long Term Liabilities</b>			<b>(256,890)</b>
<b>525,788</b>	<b>Net Assets</b>			<b>562,742</b>
6,427	General Fund Balance		5,465	
19,750	HRA Balance		24,115	
32,719	Other Usable Reserves	8	29,266	
<b>58,896</b>	<b>Total Usable Reserves</b>		<b>58,846</b>	
466,892	Unusable Reserves	9		503,896
<b>525,788</b>	<b>Total Reserves</b>			<b>562,742</b>

These financial statements are authorised by Clare Fletcher – Assistant Director (Finance and Estates) (Chief Financial Officer) on 26<sup>th</sup> July 2018 and replace the unaudited financial statements issued on 31 May 2018.



Clare Fletcher

## Cash Flow Statement for the year ended 31 March 2018

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

2016/17 £'000		Note	2017/18	
			£'000	£'000
301	Net (surplus) or deficit on the provision of services			(4,390)
(30,270)	Adjustments to net surplus or deficit on the provision of services for non cash movements	30		(23,572)
	<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>			
13,743	Transfer of sale proceeds included in the Comprehensive Income & Expenditure Statement		5,556	
1,492	Capital Grants received or applied to meet financing		2,354	
0	Other payments in respect of property		0	
				7,910
<b>(14,734)</b>	<b>Net Cash flows from Operating Activities</b>	31		<b>(20,052)</b>
	<b>Investing Activities:</b>			
24,187	Purchase of property, plant & equipment, investment property & intangible assets		24,821	
31,900	Purchase of short term & long term investments		38,500	
107	Other payments for investing activities		0	
(10,667)	Proceeds from the sale of property, plant & equipment, investment property & intangible assets		(8,132)	
(24,200)	Proceeds from short-term & long-term investments		(27,600)	
(3,071)	Other receipts from investing activities		(2,622)	
<b>18,256</b>	<b>Net cash flows from investing activities</b>			<b>24,967</b>
	<b>Financing Activities:</b>			
0	Cash receipts of short & long term borrowing		(1,756)	
(2,236)	Other receipts from financing activities		2,763	
263	Repayments of short and long term borrowing		(271)	
0	Other payments for financing activities		0	
<b>(1,973)</b>	<b>Net cash flows from financing activities</b>			<b>736</b>
<b>1,549</b>	<b>Net increase or decrease in cash and cash equivalents</b>			<b>5,651</b>
(14,900)	Cash & Cash Equivalents at the beginning of the reporting period			(13,351)
<b>(13,351)</b>	<b>Cash &amp; Cash Equivalents at the end of the reporting period</b>	18		<b>(7,700)</b>

## Notes to the Core Financial Statements

### 1. Cross Cutting Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by the Council in preparing and presenting the financial statements. Where accounting policies are specific to an area of the accounts they are included with the relevant disclosure note in a green shaded box. Accounting policies which apply across the whole of the accounts are disclosed below:

**General Principles:** *The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position as at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which those regulations require to be prepared in accordance with proper accounting practices. The Statement of Accounts have been prepared in accordance with proper accounting practices and Code of Practice on Local Authority Accounting in the UK 2017/18 supported by International Financial Reporting Standards and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.*

**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 the transaction, other events and conditions on the Authority'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.*

## Notes to the Core Financial Statement

### 1. Cross Cutting Accounting Policies (contd.)

**Accruals of Income and Expenditure (updated)** - 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 of 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 and the value is considered material, they are carried as inventories on the balance sheet.
- Expenses in relation to the services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but the 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.
- Revenue relating to council tax and non-domestic rates (NDR) shall be measured at the full amount receivable (net of any impairment losses).
- Staff expenses are recognised in the year that they are paid.
- A de minimus limit of £1,000 has been established for all accruals (2017/18)

**Value Added Tax (VAT)** - Income and expenditure excludes any amounts that relate to VAT, except where the VAT element is not recoverable from HM Revenue and Customs.



## Notes to the Core Financial Statements

### 1. Cross Cutting Accounting Policies (contd.)

**The Local Authority Mortgage Scheme** This scheme closed in 2017/18 and funds were returned to the Council. In the comparator year 2016/17 expenditure is classified as a capital cost, and not as an investment. It is therefore excluded from the Council's non-specified investments. This is because the deposit is for the purposes of service delivery, and not for treasury management. The deposits were classified as a short term debtor, and a short term creditor is also recognised for the contribution received from Hertfordshire County Council towards the Local Authority Mortgage Scheme. The Council has an earmarked reserve set aside to help meet the cost of any future defaults in the mortgage scheme – there have been no defaults since the scheme started up to the publication date of this document.

The costs of **overheads and support services** are charged to those services that benefit from the supply or service provided. The total absorption costing principle is used with the basis for internal charging, wherever possible, on a unit basis appropriate for the service provided, e.g. office accommodation by floor area, Human Resources (HR) charges by number of employees etc. Other categories of internal charge are apportioned on an appropriate percentage basis based on staff time.

**Borrowing Costs** – It is not the Council's Policy to capitalise borrowing costs.

**Inventories** (stock) are included in the Balance Sheet. Stocks are valued at the latest purchase price paid. The Council does not comply with IFRS which requires stocks to be shown at the lower of costs or current replacement cost, however, the effect of the different treatment is not significant. Work in progress on uncompleted jobs is valued at cost price.

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

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

- 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 to amortised cost and fair value through other comprehensive

## Notes to the Core Financial Statements

### 2. Accounting Standards issued but have not yet been adopted (contd)

income 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 (as disclosed on page 42) 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.

### 3. Critical judgements in applying Accounting Policies

In applying the accounting policies, the authority has had to make certain judgements about complex transactions and/or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a degree of uncertainty about the 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 or materially reduce levels of service provision. The Council has identified budget options in its General Fund Medium Term Financial Strategy in anticipation of reduced central government grant funding levels in future years and a methodology to address this via the financial security work stream of the Future Town Future Council priorities.
- Following a review of leases under the stricter IFRS categorisation the Council is of the judgement that no material finance leases are in existence.
- The Council considered that the partnership arrangements of the CCTV control room constitute a jointly controlled operation and as such each authority accounts for its share of the liabilities and assets of the partnership. (See also Note 23 CCTV Partnership and Hertfordshire Building Control Ltd).

## Notes to the Core Financial Statements

### 3. Critical judgements in applying Accounting Policies (contd)

- From 1st April 2015 the Hertfordshire CCTV Partnership Ltd started trading. The new company for the year ended 31st March 2018 produced a profit after tax of £12,000. The SBC share of the profit is £4,400 with the remainder belonging to the partner councils (North Hertfordshire District Council, East Herts Council and Hertsmere Borough Council). Due to the small size of the new company group accounts have not been completed.
- In August 2016 the Hertfordshire Building Control Ltd started trading. The company was set up to deliver the building control function for the council and is jointly owned with six other local authorities in Hertfordshire. Due to small shareholding the Council has not included any further disclosure notes regarding this company. Final accounts for Hertfordshire Building Control have yet to be published for 2017/18, however it is not expected that SBC's share of the profit/loss will be material.
- Within the Council dwellings valuation there are a number of properties which are likely to be sold within the next 12 months under the Right to Buy Scheme. The Council does not classify these properties as "Held for Sale" as at the balance sheet date as these properties are not actively marketed and nor is there any certainty as to which properties will be sold. Based on the number of successful applications made last year it is estimated that 50 properties could be sold. This would equate to an estimated balance sheet valuation of £3,962,000.
- The council considers that three commercial sites held in the town centre are not classified as "Investment Properties" as they are held for strategic planning purposes and not solely for rental income or capital appreciation. As such they are included under land and buildings on the balance sheet and expenditure and income on these sites is included within cost of services in the Comprehensive Income and Expenditure Statement.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2018 for which there are significant risk of material adjustments in the forthcoming financial year are shown on the following pages:

## Notes to the Core Financial Statements

### 4. Assumptions made about the future and other major sources of estimation uncertainty (Contd)

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Provisions - Insurance</b>	The Authority has a provision of £621,000 for the settlement of insurance claim excesses, based on the estimated reserve for each claim. It is not certain that the all valid claims have yet been received by the Authority relating up to 31 March 2018 or that the estimated reserve levels will be sufficient.	An increase in the forthcoming year of 10% in either total number of claims or the estimated average settlement would each have the effect of adding £62,100 to the provision needed.
<b>Provisions – NDR Appeals</b>	The Authority has a provision of £3,354,000 for the expected outcome of NDR appeals outstanding with the VOA as at 31 March 2018.	If 10% of the appeals that we have provided for were unsuccessful this would mean a reduction of £335,345 in the provision.
<b>Pension Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effect of the pension liability for changes in individual assumptions can be measured. For instance, a one year increase in member life expectancy would approximately increase the employer's defined benefit obligation by around 3-5% (£6,226,000-£10,377,000). (see also Note 26 Pensions – sensitivity analysis of actuarial assumptions).
<b>Property, Plant and Equipment</b>	To ascertain the balance sheet valuation of buildings and land held by the Council various estimation techniques can be used. The estimation technique used must be compliant with RICS standards and will be dependent on information available to the valuer.	In preparing the balance sheet valuations as at 31 March 2018 of community assets exiting use values (EUV) based on rental value (known and estimated) has been used by the Council's external valuers (Wilks Head and Eve (WHE)) as they have extensive experience of valuing local authority assets. Where this information is not known Depreciated Replacement Cost (DRC) is used. The DRC technique is known to return high current values. If updated DRC had been used on community centres and pavilions the balance sheet valuation would be approximately £2.4 million higher. This would increase the value of other land and buildings shown on the balance sheet by £2.4 million and increase unusable reserves by £2.4million. (It should be noted that Balance sheet valuations are not used when determining the sale price of council assets).

## Notes to the Core Financial Statements

### 4. Assumptions made about the future and other major sources of estimation uncertainty (contd)

<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions regarding the level of repairs and maintenance that will be incurred in relation to each individual asset. The current economic climate makes it uncertain that the Authority will be able to sustain its current expenditure on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	Housing stock is split into elements including kitchens, bathrooms. The remaining element has an average useful life of 50 years. It is estimated that the annual depreciation charge for this residual element of the Council Houses would increase by approximately £135,000 if the useful life decreased by one year. This depreciation charge does affect the in year surplus of deficit of the HRA.
<b>Fair Value valuations</b>	The Authority owns a number of properties that have been valued based on rental yields.	If the Authority were to assess the security of the income streams more favourably, then the yield would increase giving a higher balance sheet valuation. The valuation would depend on the time of the expected rental income flows and rent increases specific to each asset.
<b>Benefit Overpayments</b>	At 31 March 2018, the Authority had a balance of housing overpayment debtors of £3,635,000. A review of significant balances suggested that an impairment of doubtful debts based on the age and repayment arrangements in place of 85% of the outstanding arrears was appropriate. However, it is not certain that such an allowance would be sufficient should the age profile of arrears increase.	If collection rates were to improve across all years by 10%, an equivalent reduction in impairment of doubtful debts of £951,100 would be required, returning this money back to the General Fund.
<b>Trade Debtors and Arrears</b>	At 31 March 2018, the Authority had a balance of trade debtors of £1,089,000 of which £492,000 was older than 3 months. A review of significant balances suggested that an impairment of doubtful debts based on the age and repayment arrangements in place of 34% of the outstanding arrears was appropriate. However, it is not certain that such an allowance would be sufficient should the age profile of arrears increase.	If arrears were to age by a further year, the Authority would be required to set aside a further £157,000 in provision.



## Notes to the Core Financial Statements

### 5. Expenditure and Income Analysis by Nature

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

2016/17 £'000		2017/18 £'000
	<b>Expenditure</b>	
26,073	- Employee Benefits Expenses	29,030
7,023	- Other Services Expenses	1,510
22,619	- Support Service Recharges	23,347
16,394	- Depreciation, Amortisation, Impairment	14,934
7,399	- Interest Payments	7,371
16,569	- NDR Tariff	14,409
874	- Payments to Housing Capital Receipts Pool	865
10,395	- (Gain)/ Loss on the Revaluation of assets	(1,909)
(6,984)	- (Gain)/Loss on the Disposal of Assets	(2,104)
	<b>Material Items of Expenditure</b>	
1,029	- Stevenage Leisure Limited Contract Payment	1,039
14,192	- Rent Allowances	13,587
19,362	- Rent Rebates	18,476
<b>134,945</b>	<b>Total Expenditure</b>	<b>120,555</b>
	<b>Income</b>	
(22,623)	Fees, charges and other service income	(16,762)
(394)	Interest and Investment Income	(434)
(24,062)	Income from Council Tax & Non Domestic Rates (before tariff)	(22,158)
(3,886)	Government Grants and Contributions	(3,411)
	<b>Material Items of Income</b>	
(39,975)	Housing Rents	(39,187)
(4,414)	Car Parks	(4,720)
(13,921)	Rent Allowances Subsidy	(13,440)
(19,045)	Rent Rebate Subsidy	(18,360)
(2,919)	Garage Rental Income	(3,012)
(3,405)	Commercial Property Rent	(3,461)
<b>(134,644)</b>	<b>Total Income</b>	<b>(124,945)</b>
<b>301</b>	<b>Deficit / (Surplus) on the Provision of Services</b>	<b>(4,390)</b>

## Notes to the Core Financial Statements

### 5. Expenditure and Income Analysis by Nature (contd.)

#### Material items of capital income and expenditure:

The Council spent £26.1million on its capital programme in 2017/18, this included £12.2million on roofing and external works to its housing stock, £4.6million on providing new homes, £0.5million on the town centre and regeneration projects, and £8.8million on other General Fund and HRA capital projects.

### 6. Events after the Balance Sheet Date

*Events after the Balance Sheet date, both favourable and unfavourable, that occur between the end of the reporting period and the authorised for issue date are identified into two types:*

*Adjusting events – where the conditions existed at the end of the reporting period and the Statements are adjusted accordingly, and Non adjusting events - where conditions were not present but if material are disclosed as a note to the accounts.*

*Events after the authorised for issue date are not reflected in the Statement of Accounts.*

Events after the Balance Sheet date are reflected up to the 'authorised for issue' date. These accounts have been authorised for issue on 26 July 2018 by the Assistant Director (Finance and Estates) (Chief Financial Officer). Events taking place after this date are not reflected in the Financial Statements or notes. Where events taking place before this date provide 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.

## Notes to the Core Financial Statements

### 7. Adjustments between Accounting Basis and Funding Basis under Regulations

*The Council sets aside specific amounts as **Reserves** for future policy purposes. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed is incurred, it is charged to the appropriate revenue service account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back through the Movement in Reserves Statement so that there is no net charge against Council Tax or HRA tenant for the expenditure.*

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement 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.

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

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

## Notes to the Core Financial Statements

### 7. Adjustments between Accounting Basis and Funding Basis under Regulations (contd.)

The **Housing Revenue Account Balance** reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function. The Localism Act 2011 (Part VII) introduced the self-financing regime with Councils now able to keep the rent they collect and use it locally to maintain their social homes. As part of the new regime depreciation is now a real cost to the HRA and is transferred to the Major Repairs Reserve to finance future capital investment.

The Council is required to maintain the **Major Repairs Reserve (MRR)**, which holds the depreciation and revenue contributions to capital (RCCO) from the HRA and is limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that are available and planned to be used for future years capital programme.

The **Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end. Part of the reserve (£10,102,000) can only be used towards the provision of additional council house schemes and has further restrictions on its use in that it can only be used for 30% of scheme costs.

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

## Notes to the Core Financial Statements

2017/18 Adjustments between Accounting Basis and Funding Basis Under regulations	General Fund Balance £000	Housing Revenue Account £000	Usable Reserves			Total Usable Reserves £000	Unusable Reserves £000
			Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000		
<b>Adjustments involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement (CI&amp;E)</b>							
Charges for depreciation & impairment of non current assets	(3,180)	(11,633)				(14,813)	14,813
Revaluation on Property, Plant & Equipment	1,894	0				1,894	(1,894)
Movements in the market value of Investment Property	14	0				14	(14)
Amortisation of intangible assets	(79)	(42)				(121)	121
Capital Grants & Contributions	604	134				738	(738)
Revenue expenditure funded from capital under statute	(2,772)	0				(2,772)	2,772
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E	(360)	(3,090)				(3,450)	3,450
<b>Insertion of items not debited or credited to the CI&amp;E</b>							
Statutory provision for the financing of capital investment	654	2,500				3,154	(3,154)
Capital Expenditure charged against General Fund and HRA balances	1,745	60				1,805	(1,805)
<b>Adjustments involving the Capital Grants Unapplied Account (CGU)</b>							
Capital grants & contributions unapplied credited to the CI&E Statement	1,587	0			(1,587)	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0			0	0	0
<b>Adjustments involving the Capital Receipts Reserve (CRR):</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	712	4,859	(5,571)			0	0
Use of the CRR to finance new capital expenditure	0	0	14,784			14,784	(14,784)
Contribution from CRR to finance the payments to the Government capital receipts pool & admin costs of disposal	(865)	0	880			15	(15)
Transfer from Deferred Capital Receipts Reserve upon cash receipt	0	0	3			3	(3)
<b>Adjustments involving the Major Repairs Reserve (MRR):</b>							
Reversal of the MRR credited to the HRA		11,676		(11,676)		0	0
Use of the MRR to Finance new capital expenditure		0		6,919		6,919	(6,919)
<b>Adjustments involving the Pension Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement (see also note 26)	(6,741)	(994)				(7,735)	7,735
Employer's pension contributions & direct payments to pensioners payable in year	4,190	0				4,190	(4,190)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	(157)					(157)	157
<b>Adjustments involving the Accumulated Absences Adjustment Account</b>							
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirement	(15)	(14)				(29)	29
<b>TOTAL ADJUSTMENTS</b>	<b>(2,768)</b>	<b>3,455</b>	<b>10,095</b>	<b>(4,756)</b>	<b>(1,587)</b>	<b>4,439</b>	<b>(4,439)</b>



## Notes to the Core Financial Statements

Comparator Year 2016/17 Adjustments between Accounting Basis and Funding Basis Under regulations	General Fund Balance £000	Housing Revenue Account £000	Usable Reserves			Total Usable Reserves £000	Unusable Reserves £000
			Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000		
<b>Adjustments involving the Capital Adjustment Account:</b>							
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement (CI&amp;E)</b>							
Charges for depreciation & impairment of non current assets	(5,104)	(11,197)				(16,301)	16,301
Revaluation on Property, Plant & Equipment	(13,494)	0				(13,494)	13,494
Movements in the market value of Investment Property	3,099	0				3,099	(3,099)
Amortisation of intangible assets	(62)	(29)				(91)	91
Capital Grants & Contributions	570	692				1,262	(1,262)
Revenue expenditure funded from capital under statute	(592)	0				(592)	592
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the (CI&E)	(2,443)	(4,315)				(6,758)	6,758
<b>Insertion of items not debited or credited to the CI&amp;E</b>							
Statutory provision for the financing of capital investment	654	0				654	(654)
Capital Expenditure charged against General Fund and HRA balances	3,355	5,069				8,424	(8,424)
<b>Adjustments involving the Capital Grants Unapplied Account (CGU)</b>							
Capital grants & contributions unapplied credited to the CI&E Statement	(161)	0			161	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0			0	0	0
<b>Adjustments involving the Capital Receipts Reserve (CRR):</b>							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	6,300	7,439	(13,739)			0	0
Use of the CRR to finance new capital expenditure	0	0	3,347			3,347	(3,347)
Contribution from CRR to finance the payments to the Government capital receipts pool	(873)	0	873			0	0
Transfer from Deferred Capital Receipts Reserve upon cash receipt	0	0	(3)			(3)	3
<b>Adjustments involving the Major Repairs Reserve (MRA):</b>							
Reversal of the MRA credited to the HRA		11,227		(11,227)		0	0
Use of the MRA to Finance new capital expenditure		0		11,371		11,371	(11,371)
<b>Adjustments involving the Pension Reserve</b>							
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement (see also note 26)	(3,826)	(1,564)				(5,390)	5,390
Employer's pension contributions & direct payments to pensioners payable in year	4,166	0				4,166	(4,166)
<b>Adjustments involving the Collection Fund Adjustment Account</b>							
Amount by which Council tax income credited to the CI&E Statement is different from Council tax income calculated for the year in accordance with statutory requirements	1,231					1,231	(1,231)
<b>Adjustments involving the Accumulated Absences Adjustment Account</b>							
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirement	(36)	(39)				(75)	75
<b>TOTAL ADJUSTMENTS</b>	<b>(7,216)</b>	<b>7,283</b>	<b>(9,522)</b>	<b>144</b>	<b>161</b>	<b>(9,150)</b>	<b>9,150</b>

## Notes to the Core Financial Statements

### 8. Other Usable Reserves

*The Council sets aside specific amounts as **Reserves** for future policy purposes. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed is incurred, it is charged to the appropriate revenue service account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back through the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.*

The Council maintains a General Fund Balance and Housing Revenue Account. In addition there are a number of other usable reserves, for capital projects and revenue projects.

Earmarked reserves identified for specific purpose are detailed below:

- **Regeneration Reserve**

This reserve has been established to help fund the regeneration plans for Stevenage.

- **Housing and Planning Delivery Grant Reserve**

The Council received monies from the Government designed to incentivise housing growth and the underlying planning requirement to allocate land and put development plans in place. Due to the nature of the work the expenditure is often not aligned to the pattern of grant received.

- **New Homes Bonus Reserve**

The New Homes Bonus scheme commenced in April 2011. The scheme gives Councils a financial reward for new homes and properties brought back into use. The grant may be used to fund any General Fund expenditure. This reserve has been established to mainly fund one off schemes approved by Members.

- **Regeneration Assets Reserve.**

This reserve contains the ring fenced surplus/deficit from the management and maintenance of the regeneration assets held in the town centre and will be used to cover any future fluctuations in costs or rental stream, any balances remaining will be used to help repay any debt outstanding and/or contribute towards the regeneration costs for the Town Centre.

- **Town Centre Reserve**

This reserve contains the ring fenced surplus/deficit from the Town Centre management service and will be used fund activities and management in the Town Centre.

- **Local Authority Mortgage Scheme (LAMS) Reserve**

This reserve was set up to cover the potential for any mortgage defaults on the Local Authority Mortgage Scheme introduced in 2012. The reserve contains investment income generated from the deposits placed over and above the Council's average interest rate earned for the year. There have been no defaults on the scheme since inception and lending under the scheme is now closed.

## Notes to the Core Financial Statements

### 8. Other Usable Reserves (contd)

- **Capital Reserve**

This reserve was set up in 2013/14 as part of the Council's Integrated Financial Planning Process and funds capital projects. It was set up to reduce the Council's reliance on borrowing to fund capital projects.

- **Insurance Reserve**

This reserve has been set up in 2016/17 to fund proactive works to reduce insurance claims against the Council.

- **Future Town Future Council Reserve**

The Council has identified nine strands as part of the Future Town Future Council agenda and this reserve has been allocated to support this programme.

- **NDR Collection Fund Reserve**

This reserve has been set up in 2013/14 to meet any adverse impact on the General Fund arising from any losses in NDR income above the government's safety net rules.

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement.

A more detailed breakdown showing the amounts set aside from the General Fund balances to specific earmarked reserves is shown below. This sets out amounts used to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	31 March 2017	Transfer to Reserve (to fund future years expenditure)	Transfer from Reserve (to fund in year expenditure)	Net movement in year	31 March 2018
	£'000	£'000	£'000	£'000	£'000
<b>Earmarked Reserve:</b>					
<b>General Fund</b>					
Regeneration SG1	0	300	0	300	300
Housing & Planning Delivery Grant	170	0	(109)	(109)	61
New Homes Bonus	1,073	0	(383)	(383)	690
Regeneration Assets	749	200	(102)	98	847
Town Centre	54	1	(27)	(26)	28
LAMS (Local Authority Mortgage Scheme)	54	7	0	7	61
Capital Reserve	0	1,073	(1,073)	0	0
Insurance Mitigation	98	50	(24)	26	124
Future Town Future Council	180	83	0	83	263
NNDR collection Fund	172	303	0	303	475
<b>Total Earmarked Reserves</b>	<b>2,550</b>	<b>2,017</b>	<b>(1,718)</b>	<b>299</b>	<b>2,849</b>

## Notes to the Core Financial Statements

### 9. Unusable Reserves

The Council has a number of **Unusable Reserves** that are required for statutory reasons, to comply with proper accounting practice. As such these reserves are unavailable to fund expenditure. They include reserves kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

31 March 2017		31 March 2018
£'000		£'000
(95,782)	Revaluation Reserve	(118,594)
(425,607)	Capital Adjustment Account	(435,032)
(191)	Deferred Capital Receipts Reserve	(188)
55,008	Pension Reserve	50,052
(679)	Collection Fund Adjustment Account	(522)
359	Accumulated Absences Account	388
<b>(466,891)</b>	<b>Total Unusable Reserves</b>	<b>(503,896)</b>

**9.1 The Revaluation Reserve** contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and intangible assets). 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 only contains 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.

## Notes to the Core Financial Statements

### 9. Unusable Reserves (contd)

The Revaluation Reserve:

2016/17 £'000		2017/18	
		£'000	£'000
<b>(50,550)</b>	<b>Balance as at 1 April</b>		<b>(95,782)</b>
(69,195)	Upward revaluation of assets	(31,954)	
21,706	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	7,637	
(47,489)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(24,317)
1,158	Difference between fair value depreciation and historic cost depreciation	1,237	
1,099	Accumulated gains on assets sold or scrapped	268	
2,257	Amount written off to the Capital Adjustment Account		1,505
<b>(95,782)</b>	<b>Balance as at 31 March</b>		<b>(118,594)</b>

**9.2 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 additions to 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 historic 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 Property and gains recognised as 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 the Revaluation Reserve was created to hold such gains.

Note 7 provides further details on the source of all transactions, other than those involving the Revaluation Reserve, to the Capital Adjustment Account.

## Notes to the Core Financial Statements

### 9. Unusable Reserves (contd)

Capital Adjustment account

2016/17 £'000		£'000	2017/18 £'000	£'000
(432,497)	<b>Balance as at 1 April</b>			(425,607)
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>			
16,302	Charges for depreciation & impairment of non-current assets	14,813		
13,494	Revaluation losses on Property, Plant & Equipment	(1,894)		
0	Self Financing Debt repayment	(2,500)		
91	Amortisation of Intangible Assets	121		
592	Revenue expenditure funded from capital under statute	2,772		
6,759	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	3,717		
37,238			17,029	
(2,258)	Adjusting amounts written out of the Revaluation Reserve		(1,505)	
34,980	Net written out amount of the cost of non-current assets consumed in the year			15,524
	<b>Capital financing applied in the year</b>			
(3,118)	Use of the Capital Receipts Reserve to finance new capital expenditure		(14,797)	
(11,372)	Use of the Major Repairs Reserve to finance new capital expenditure		(6,940)	
(1,263)	Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing		(738)	
(161)	Application of grants to capital financing from the Capital Grants Unapplied Account		0	
(654)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances		(654)	
(8,423)	Capital expenditure charged against the General Fund and HRA balances.		(1,805)	
(24,991)				(24,934)
(3,099)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement			(15)
<b>(425,607)</b>	<b>Balance as at 31 March</b>			<b>(435,032)</b>



## Notes to the Core Financial Statements

### 9. Unusable Reserves (contd)

**9.3 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.

2016/17 £'000		2017/18 £'000
(194)	<b>Balance as at 1 April</b>	(191)
3	Amounts received in year & available for funding	3
<b>(191)</b>	<b>Balance as at 31 March</b>	<b>(188)</b>

**9.4 The Pension 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 Council makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension 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. (See also Note 26 Pension).

2016/17 £'000		2017/18 £'000
45,889	<b>Balance as at 1 April</b>	55,008
7,965	Remeasurements of the net defined benefit liability/(asset)	(8,247)
5,390	Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Account	7,735
(4,236)	Employers' pension contributions and direct payments to pensioners payable in the year	(4,444)
<b>55,008</b>	<b>Balance as at 31 March</b>	<b>50,052</b>

## Notes to the Core Financial Statements

### 9. Unusable Reserves (contd)

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

2016/17 £'000		2017/18 £'000
552	<b>Balance as at 1 April</b>	(679)
(1,231)	Amount by which council tax-income and non domestic rates income credited to the Comprehensive Income & Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	157
<b>(679)</b>	<b>Balance as at 31 March</b>	<b>(522)</b>

**9.6 The Accumulated Absences Account** absorbs the difference that would otherwise arise on the General Fund and HRA Balance from accruing for compensated absences earned but not taken in the year, for example annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund and HRA balance is neutralised by transfers to/ from the Account.

2016/17 £'000		2017/18 £'000	£'000
283	<b>Balance as at 1 April</b>		359
(283)	Settlement or cancellation of accrual made at the end of the preceding year	(359)	
359	Amounts accrued at the end of the current year	388	
76	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements		29
<b>359</b>	<b>Balance as at 31 March</b>		<b>388</b>

## Notes to the Core Financial Statements

### 10. Other Operating Expenditure and Financing and Investment Income and Expenditure

2016/17 £'000		2017/18 £'000
873	Payments to the Government Housing Capital Receipts Pool	865
(7,131)	Gains/losses on the disposal of non current assets	(2,215)
<b>(6,258)</b>	<b>Total</b>	<b>(1,350)</b>

2016/17 £'000		2017/18 £'000	
7,028	Interest payable & similar charges	7,017	
1,551	Pensions interest cost & expected return on pensions assets	1,398	
(311)	Interest receivable & similar income	(368)	
801	Expenditure in relation to investment properties and changes in their fair value	1,206	
(5,528)	Income in relation to investment properties and changes in their fair value	(2,635)	
	Trading Operations - Indoor Market:		
(426)	Income from stall holders	(412)	
417	Expenditure	430	
(9)	Surplus taken to General Fund		18
<b>3,532</b>	<b>Total</b>		<b>6,636</b>

### 11 Taxation and Non Specific and Specific Grant Income

#### **Government Grants and Contributions**

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

- The Council will comply with the conditions attached to the payments , and
- the grants or contributions will be received – without requiring any impairment for capital contributions.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Grants - receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

## Notes to the Core Financial Statements

### 11. Taxation and Non Specific and Specific Grant Income (contd)

#### **Government Grants and Contributions contd**

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

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

2016/17 £'000		2017/18 £'000
	<b>Grants, Contributions credited to Taxation and Non Specific Grant Income</b>	
5,189	Council Tax	5,402
18,874	NNDR Retained income	16,756
(16,569)	NNDR Tariff payment	(14,409)
1,236	Revenue Support Grant	690
124	Council Tax Reform	115
1,542	New Homes Bonus	1,254
	Apprenticeship Levy	(73)
0	Homelessness prevention grant	213
113	NDR administration Grant	110
282	s31 Grant	593
576	Disabled Facilities Grant	634
0	MHCLG Land release project	900
849	Other Capital Contributions	790
11	Other Government grants	15
<b>12,227</b>	<b>Total Grants, Contributions credited to Taxation and Non Specific Grant Income</b>	<b>12,990</b>
	<b>Credited to Services</b>	
32,788	Department of Work and Pensions Grants for rebates	31,716
196	Discretionary Housing Payments	274
481	Other	588
<b>33,465</b>	<b>Total Grants, Contributions credited to Services</b>	<b>32,580</b>

The Council has not received any material donations in 2017/18.

## Notes to the Core Financial Statements

### 12. Heritage Assets

*A **heritage asset** will be recognised as an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and is not being used for operational purposes.*

*Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements the asset will not be recognised on the balance sheet. Where that valuation is material these assets will be recognised as a separate class of asset – heritage asset on the face of the balance sheet. Where heritage assets are not recognised in the balance sheet appropriate disclosure is made in the notes to the financial statements.*

*Acquisitions of heritage assets will be recognised at cost. However, where an asset is donated or acquired for less than fair value the asset will be recognised at valuation.*

*Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.*

*Depreciation will not be applied where a heritage assets has an indefinite life, however where there is evidence of physical deterioration or doubts arise as to the authenticity of the asset, the value of the assets will be reviewed. In addition assets held at current value will be reviewed with sufficient frequency as to ensure that the valuation is up to date.*

## Notes to the Core Financial Statements

### 12. Heritage Assets (contd)

Reconciliation of the carrying value of Heritage assets held by the Council

	Town Centre	War Memorial	Exhibits	Civic Regalia	Total
Cost or Valuation	£'000	£'000	£'000	£'000	£'000
At 1 April 2017	833	53	200	53	1,139
Additions					0
At 31 March 2018	833	53	200	53	1,139
<b>Accumulated Depreciation &amp; Impairment</b>					
At 1 April 2017	(443)	(19)	0	0	(462)
Depreciation charge	(33)	(7)	0	0	(40)
At 31 March 2018	(476)	(26)	0	0	(502)
<b>Net Book Value</b>					
At 31 March 2018	357	27	200	53	637
At 31 March 2017	390	33	200	53	676

The Council's collections of heritage assets are categorised as follows:

**Town Square including Clock Tower:** The town square includes the water feature and clock tower, the clock tower is a Grade II listed building.

**Museum Collection:** The museum collections include paintings, local history archives, Roman coin hoard from Chells, clocks, a bible from 1754 and a Chalice from 1572 from St Mary's in Aston. These items are reported as at their insurance valuation. The Council maintains an inventory of this collection however there is no readily available valuation of individual items. The Council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of this archive. Items that form the museum collection are deemed to have indeterminate lives, therefore the Council does not consider it appropriate to depreciate these assets.

**Statues and Sculptures:** The Council has a number of statues and sculptures around the borough which were gifted by the Commission for New Towns to the Stevenage Development Corporation which is now Stevenage Borough Council.



## Notes to the Core Financial Statements

### 12. Heritage Assets (contd)

**Public Art and Cultural Artefacts:** The Council has a number of public art works around the borough, however does not hold readily available valuations.

There is no readily available valuation held by the Council for statues, sculptures, public work of art or cultural artefacts as no definitive market value for these types of assets exist as they are not normally traded. The Council believes that the benefits of obtaining a valuation for these items to the user of the accounts would not justify the cost given the specialised nature of these assets, as such the Council has not recognised these assets on the balance sheet.

**War memorial:** The Council has a war memorial classified as a heritage asset and is valued at historic cost on the balance sheet.

**Civic Regalia:** The Council holds civic regalia for use by the mayor and mayoress for official ceremonial purposes. These are reported at insurance valuation. Due to the nature of these assets the Council does not deem it appropriate to depreciate these assets.

**Archaeological Sites including Six Hills Burial Site:** The Council does not consider that reliable cost or valuation information can be obtained for its archaeological site at Six Hills Burial site. This is because of the diverse nature of the asset held and lack of comparable market values, consequently the Council does not recognise these assets on the balance sheet.

Historical valuations and valuation method of heritage assets is shown below.

Method of valuation	Heritage Assets				Total Heritage Assets £'000
	Town Square £'000	Museum Collection £'000	War Memorial £'000	Civic Regalia £'000	
Cost or Valuation	833	0	53	0	<b>886</b>
Valued at Insurance Valuation	0	200	0	53	<b>253</b>
	833	200	53	53	<b>1,138</b>

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment

***Property, Plant and Equipment (PPE) Updated in 2017/18***

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

***Recognition:*** *expenditure on the acquisition, creation or enhancement of tangible non current assets is capitalised on an accruals basis, provided that the future economic benefits or service potential will flow to the Council and that the cost can be measured reliably. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.*

***Measurement and valuations:*** *Non Current Assets are initially measured at cost, comprising, in addition to the purchase price, all expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.*

*Valuations of the Council's freehold and leasehold properties are co-ordinated by the Council's In-House Valuer in accordance with International Financial Reporting Standards (IFRS) as applied to the United Kingdom public sector and interpreted by the current CIPFA Code of Practice for Local Authority accounting. The valuations are made in accordance with the RICS Valuation – Professional Standards, January 2014 as published by the Royal Institution of Chartered Surveyors, in so far as that is consistent with the IFRS standards and CIPFA interpretation with the exception that not all properties were inspected. This was neither practical nor considered by the Valuer to be necessary for the purpose of the valuation. A proportion of the assets are re-valued at each 1 April as part of a continuous rolling programme of valuation. The rolling programme was recently amended to include valuations on opening balance in line with common practice. Non Current Assets are then carried in the Balance Sheet using the following measurement bases:*

- Council dwellings – current value determined using the basis of existing use value for social housing (EUV-SH)*
- Where possible all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)*
- Where assets cannot be valued by any other method depreciated historic costs is used.*

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd)

#### *Property, Plant and Equipment*

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where the DRC approach was used it was in accordance with RICS GN 6, titled "Depreciated Replacement Cost (DRC) method of Valuation for Financial Reporting". RICS GN6 requires Modern Equivalent (ME) to be considered if properties are valued using the DRC method and this was applied to last year's review.

*Fair Value Hierarchy* - To establish the fair value of its surplus assets, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices.
- 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.

In regard to property assets the total value has been apportioned between its land and non-land (i.e. building) parts, with the latter representing the depreciable amount.

Where non-property assets (e.g. vehicles plant and equipment) have short useful lives, low value or both, depreciated historical cost is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value, but as a minimum every five years. In addition should current valuations of similar class of asset suggest material differences in valuations, the entire class to which the asset belongs would be re-valued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service.

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd)

#### ***Property, Plant and Equipment***

*Where decreases in value are identified, they are accounted for:*

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carry amount of the asset is written down against that balance (up to the amount of the accumulated gains)*
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.*

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

*New council house properties, either constructed or acquired at market value, are re-valued downwards on completion to recognise that Council Dwellings are valued on the balance sheet at existing use value-social housing (39% of the market value).*

*HRA properties are re-valued at 1 April on a Beacon Basis. Beacon types being defined by the number of bedrooms, the type of property, its area and whether it is a traditional or non-traditional build. So, with the exception of the properties which were converted into maisonettes and expenditure on replacing fully depreciated components, works done after this date have not been deemed to add value to the Beacon. The Council's housing stock was valued by external valuer Savills. The latest valuation certificates are dated 1 April 2017. A review is undertaken at year end to ensure valuations undertaken on 1 April are still appropriate as at the balance sheet date and uplifted/amended if required.*

*General Fund properties' valuation certificates are dated 1 April 2018 and revaluations are carried out by private firms of Chartered Surveyors – Wilks Head and Eve.*

*The revaluation process is co-ordinated by the Council's Estates Manager J Herbert MRICS.*

***Impairment:*** *Assets are assessed annually for any indication of impairment. 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.*

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd)

#### ***Property, Plant and Equipment***

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 the balance (up to the amount of the accumulated gains)

- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

**Depreciation:** Properties classified PPE are valued on the basis of Current Value (Existing Use Value (EUV)) and the total value has been apportioned between its land and non-land (i.e. building) parts, with the latter representing the depreciable amount. Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Exception is made for assets without a determinable finite useful lives (i.e. freehold land and certain community assets) and assets 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 life of the property as estimated by the valuer
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

The useful economic lives for property, plant and equipment which are depreciated are:

Council Dwellings	up to 50 years
Operational buildings	up to 50 years
Vehicles, plant and equipment	3-7 years
Computer Equipment	3-7 years

**Componentisation:** Where an asset has major components with different estimated useful lives, these are depreciated separately.

The criteria applied by the Council for componentisation, is that where the cost of a component exceeds 15% of the cost of the asset, and there is a significant difference in depreciable life of a component, compared to the asset as a whole, the Council will

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd)

#### ***Property, Plant and Equipment***

*componentise the asset, to ensure no material distortions in either the value of the asset or the charge made for use of the asset.*

*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. The Council's housing stock has been accounted for using componentisation since April 2011.*

**Charges to Revenue for Non-Current Assets** - *Service, 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 losses can be written off.*
- *amortisation of intangible non-current assets attributable to the service.*

*The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the 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.*

*Depreciation charged to the Housing Revenue Account (HRA) is not reversed out and is now a cost to the HRA. HRA depreciation is transferred to the Major Repairs Reserve to fund future HRA capital investment*



## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd).

The valuations provided for non-housing stock assume that there are no encumbrances to the Council's Current Value in the use of those assets. It is however noted that if there is a disposal of the Business Technology Centre before 29 November 2022 it will trigger a claw-back to East of England Development Agency (EEDA) in accordance with a formula. There is no intention on the part of the Council to dispose of this asset.

The inputs to inform the Council's Surplus Asset valuation have been determined at level 2 as per the fair value hierarchy (see also policy detail on page 69).

### Impairment Losses

During 2017/18 (as in 2016/17) the Council did not incur any losses as a result of impairment. The table overleaf shows the movement in valuations of property, plant and equipment.

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd).

Movement of Property, Plant and Equipment in 2017/18

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2017</b>	<b>631,566</b>	<b>103,446</b>	<b>20,475</b>	<b>5,647</b>	<b>3,458</b>	<b>2,541</b>	<b>5,329</b>	<b>772,462</b>
Additions	14,606	1,771	1,780	396	27	0	2,513	21,093
Accumulated Depreciation & Impairment written off to cost/valuation	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	16,767	(606)	0	0	0	(146)	0	16,015
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(4,492)	0	0	0	(84)	0	(4,576)
Derecognition - Disposals	(4,014)	(2)	(536)	0	0	0	0	(4,552)
Derecognition - Other	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Assets Under Construction	3,276	0	89	29	0	0	(3,147)	247
Other movements in Cost or Valuation	0	(334)	(19)	499	0	(303)	0	(157)
<b>At 31 March 2018</b>	<b>662,201</b>	<b>99,783</b>	<b>21,789</b>	<b>6,571</b>	<b>3,485</b>	<b>2,008</b>	<b>4,695</b>	<b>800,532</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
<b>At 1 April 2017</b>	<b>(24,331)</b>	<b>(8,160)</b>	<b>(15,857)</b>	<b>(3,198)</b>	<b>(681)</b>	<b>(69)</b>	<b>0</b>	<b>(52,296)</b>
Depreciation charge	(11,416)	(1,593)	(1,171)	(467)	(97)	(32)	0	(14,776)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	6,467	0	0	5	(2)	0	6,470
Depreciation written out to Revaluation Reserve	6,601	465	0	0	0	11	0	7,077
Assets reclassified (to)/from Assets Under Construction	0	0	0	0	0	0	0	0
Derecognition - Disposals	657	0	528	0	0	0	0	1,185
Derecognition - Other	0	0	0	0	0	0	0	0
<b>At 31 March 2018</b>	<b>(28,489)</b>	<b>(2,821)</b>	<b>(16,500)</b>	<b>(3,665)</b>	<b>(773)</b>	<b>(92)</b>	<b>0</b>	<b>(52,340)</b>
<b>Net Book Value</b>								
<b>At 31 March 2018</b>	<b>633,712</b>	<b>96,962</b>	<b>5,289</b>	<b>2,906</b>	<b>2,712</b>	<b>1,916</b>	<b>4,695</b>	<b>748,192</b>
<b>At 1 April 2017</b>	<b>607,235</b>	<b>95,286</b>	<b>4,618</b>	<b>2,449</b>	<b>2,777</b>	<b>2,472</b>	<b>5,329</b>	<b>720,166</b>

## Notes to the Core Financial Statements

### 13. Property, Plant and Equipment (contd).

Preceding movements of Property, Plant and Equipment in 2016/17.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2016</b>	<b>574,054</b>	<b>119,208</b>	<b>23,418</b>	<b>5,262</b>	<b>3,192</b>	<b>2,855</b>	<b>3,633</b>	<b>731,622</b>
Additions	14,000	1,772	1,754	266	0	0	5,525	<b>23,317</b>
Accumulated Depreciation & Impairment written off to cost/valuation	0	0	0	0	0	0	0	<b>0</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	46,163	(4,904)	0	0	0	125	0	<b>41,384</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(12,739)	0	0	(355)	(439)	0	<b>(13,533)</b>
Derecognition - Disposals	(4,676)	(945)	(4,697)	0	0	0	(15)	<b>(10,333)</b>
Derecognition - Other	0	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Held for Sale	2,025	1,054	0	116	620	0	(3,815)	<b>0</b>
Other movements in Cost or Valuation	0	0	0	0	0	0	0	<b>0</b>
<b>At 31 March 2017</b>	<b>631,566</b>	<b>103,446</b>	<b>20,475</b>	<b>5,644</b>	<b>3,457</b>	<b>2,541</b>	<b>5,328</b>	<b>772,457</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
<b>At 1 April 2016</b>	<b>(19,783)</b>	<b>(4,576)</b>	<b>(19,564)</b>	<b>(2,724)</b>	<b>(590)</b>	<b>(69)</b>	<b>0</b>	<b>(47,306)</b>
Depreciation charge	(11,014)	(3,659)	(989)	(472)	(91)	(40)	0	<b>(16,265)</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	39	0	<b>39</b>
Depreciation written out to Revaluation Reserve	6,106	0	0	0	0	0	0	<b>6,106</b>
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>
Derecognition - Disposals	361	76	4,697	0	0	0	0	<b>5,134</b>
Assets Derecognised - Reclassified	0	0	0	0	0	0	0	<b>0</b>
<b>At 31 March 2017</b>	<b>(24,330)</b>	<b>(8,159)</b>	<b>(15,856)</b>	<b>(3,196)</b>	<b>(681)</b>	<b>(70)</b>	<b>0</b>	<b>(52,292)</b>
<b>Net Book Value</b>								
<b>At 31 March 2017</b>	<b>607,236</b>	<b>95,287</b>	<b>4,619</b>	<b>2,448</b>	<b>2,776</b>	<b>2,471</b>	<b>5,328</b>	<b>720,165</b>
<b>At 31 March 2016</b>	<b>554,271</b>	<b>114,632</b>	<b>3,854</b>	<b>2,538</b>	<b>2,602</b>	<b>2,786</b>	<b>3,633</b>	<b>684,316</b>

## Notes to the Core Financial Statements

## 14. Investment Property

*Investment properties* are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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

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

### **Fair Value Hierarchy**

To establish the fair value of its investment properties, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices.
- 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.

## Notes to the Core Financial Statements

### 14. Investment Property (contd)

2016/17 £,000		2017/18 £,000
19,990	<b>Balance at start of year</b>	<b>23,270</b>
	Additions:	
190	Subsequent expenditure	1,842
(10)	Disposals	(350)
3,100	Net gains/(losses) from fair value adjustments	14
	Transfers:	
0	From Property, Plant & Equipment	20
0	To Property, Plant & Equipment	(337)
0	To HRA Assets under construction	(247)
<b>23,270</b>	<b>Balance at end of year</b>	<b>24,212</b>

The Council's investment property portfolio has been assessed as Level 2 for valuation purposes.

#### Valuation Techniques Used to Determine Level 2 Fair Values for Investment Properties:

The values have been derived from a desktop valuation taking into account existing lease terms and rentals, market rentals and yields, and then adjusted to reflect the nature and profile of the particular asset valued.

The Council's commercial property portfolio located within the Borough boundary are measured using the income approach, where the expected cash flows from the property are discounted at an appropriate discount rate (reflecting the nature and risk profile of the particular asset valued), to establish the present value of the net income stream.

The Council's commercial property portfolio is therefore categorised as Level 2 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

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

#### Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

#### Valuers

The investment property portfolio has been valued at 1 April 2018 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The revaluations are carried out by Wilks Head and Eve.

## Notes to the Core Financial Statements

### 14. Investment Property (contd)

The valuations assume that 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 on income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property. Nor does the Council have any contractual obligations to repair, maintain or enhance the investment properties with the exception of a very small proportion of the Council's investment property portfolio where the leases are internal repairing leases and the Council is responsible for the external fabric of the building.

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

2016/17 £,000		2017/18 £,000
2,231	Rental Income from Investment Property	2,212
(603)	Less direct operating expenses arising from Investment Property	(798)
<u>1,628</u>	<b>Net gain</b>	<u>1,414</u>

### 15. Intangible Assets

**Intangible Non Current Assets** - Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised on a straight line basis to the Information Communications Technology (ICT) service revenue account and then recharged out across the service headings in the Comprehensive Income and Expenditure Statement over the economic life of the asset to reflect the pattern of consumption of benefits. All software is given a finite useful life, based on an assessment of the period that the software is expected to be of use to the Council - usually 5 years

Amounts are only revalued where the fair value of the assets held can be determined by reference to an active market. No such assets exist for this Council.

Any losses from impairment are recognised in the ICT service revenue account and the Comprehensive Income and Expenditure Statement.



## Notes to the Core Financial Statements

### 15. Intangible Assets (contd)

#### *Intangible Non Current Assets contd-*

*Any gain or loss from the disposal or abandonment of an asset is posted to the other operating expenditure line on the Comprehensive Income and Expenditure Statement. Where expenditure 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 and are therefore reversed out through the Movement in Reserves Statement and Capital adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.*

*HRA intangible assets are depreciated in accordance with the council's policy but the charge is not reversed out but forms part of the transfer to the Major Repairs Reserve.*

The intangible assets include a number of services such as 'business objects' which is a report and project modelling tool. There was a total amortisation of £121,458 for all intangible assets charged to revenue in 2017/18 (2016/17 - £91,493). There are no items of capitalised software that are individually material to the financial statements. The movement on Intangible Asset balances during the year is as follows:

2016/17 £000's		2017/18	
		£000's	£000's
	<b>Balance as at 1 April</b>		
744	Gross carrying amounts		737
(251)	Accumulated amortisation		(204)
<b>493</b>	<b>Net carrying amount at 1 April</b>		<b>533</b>
	<b>Movements in year:</b>		
131	Purchases	328	
(91)	Amortisation for the period	(121)	
40			207
<b>533</b>	<b>Balance at 31 March</b>		<b>740</b>
	<b>Comprising:</b>		
737	Gross carrying amounts		1,065
(204)	Accumulated amortisation		(325)
<b>533</b>			<b>740</b>

## Notes to the Core Financial Statements

### 16. Capital Expenditure and Capital Financing

#### **Revenue Expenditure Funded From Capital Resources Under Statute –**

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

*No such expenditure was incurred by the HRA in 2017/18.*

The total amount of capital expenditure incurred in the year is shown in the following table, together with resources that have been used to finance it. No assets were acquired through finance leases or PFI/PP contracts. Where capital expenditure is to be financed in future years by charges to revenue as assets used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

As at 31 March 2018 significant commitments for major projects already underway included:-

	<b>£'000</b>
Decent Homes and major repairs	14,420
Housing Regeneration	8,182
Information and Communication Technologies	1,585
Garage Strategy	3,431
<b>Total</b>	<b>27,617</b>

## Notes to the Core Financial Statements

### 16. Capital Expenditure and Capital Financing (contd)

2016/17 £'000		2017/18 £'000
223,927	<b>Opening Capital Financing requirement</b>	223,275
	<i>Capital investment :</i>	
15,772	Land and Buildings	16,377
2,151	Other Plant and Equipment	2,532
191	Investment Property	1,842
5,525	Assets under construction	2,513
592	Revenue expenditure funded from Capital under statute	2,772
24,231		26,036
	<i>Sources of Finance :</i>	
(1,057)	Capital Receipts - general	(11,073)
(1,726)	Capital Receipts - New Build	(3,724)
(1,653)	Government Grants & Other Contributions	(738)
(11,372)	Major Repairs Reserve	(6,940)
	Sums set aside from Revenue:	
(8,423)	Direct revenue contributions	(1,805)
(652)	MRP and Loan Principal	(3,154)
(24,883)		(27,434)
223,275	<b>Closing Capital Financing requirement</b>	221,877
	<i>Explanation of movement in year:</i>	
(652)	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,398)
(652)	<b>Increase/(decrease) in Capital Financing requirement</b>	(1,398)

## Notes to the Core Financial Statements

### 17. Leases

The Council accounts for **leases** as finance leases when substantially all the risks and rewards incidental to ownership of the property, plant or equipment (PPE) from the lessor to the lessee. All other leases are classified as operating leases.

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

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

#### **The Council as Lessee**

**Finance Leases:** PPE held under finance leases is recognised in the Balance Sheet at the commencement date of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the PPE applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

PPE recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by revenue contributions 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.

## Notes to the Core Financial Statements

### 17. Leases (contd.)

**Operating leases:** Rentals paid under operating lease are charged to the CIES as an expense of the service benefitting from the use of the leased PPE. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

#### **The Council as Lessor**

**Finance Leases:** Where the Council 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 PPE or Assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain is 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, and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. 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 future rentals are received, the element for the capital receipt for the disposal is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not charged against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund in the Movement on Reserves Statement.

**Operating Leases:** Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income for investment properties is credited to the Other Operating Expenditure line in the CIES.

## Notes to the Core Financial Statements

### 17. Leases (contd.)

#### Operating Leases

**Plant and Equipment:** In 2017/18 the Council had use of multi-functional printing devices and six vehicle leases. The annual amount charged under these arrangements in 2017/18 was £66,000 (2016/17 £65,000). Future lease payments due are shown in the table below:

31 March 2017			Lease Costs Payable	31 March 2018		
Printers £'000	Assigned Vehicles £'000	Total £'000		Printers £'000	Assigned Vehicles £'000	Total £'000
16	24	40	Not later than one year	25	16	41
0	0	0	Later than one year	0	0	0

**Property:** Council as Lessor - the authority currently leases 358 premises which include 185 shops, 35 workshops, 11 public houses, 10 surgeries and 117 miscellaneous. These leases are accounted for on an operating lease basis. The rental receivable in 2017/18 was £3,318,000, (2016/17 £3,248,000).

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

31 March 2017 £'000	Future minimum lease payments	31 March 2018 £'000
3,159	Not later than one year	3,282
12,636	Later than one year and not later than five years	13,128
47,384	Later than five years	49,230

**Finance Leases: Property, Plant, and Equipment:** There were no assets held under finance leases by the Council as at 1 April 2017. This is with the exception of de minimis lease arrangements in respect of Timebridge and Westgate car park. As these involve only a peppercorn rent and the assets are correctly shown within the Council's asset base, no further accounting adjustments have been made.

The Council was not a lessor in respect of any assets disclosed within the Non-current Assets, except where an operating lease arrangement has already been identified, and disclosed.



## Notes to the Core Financial Statements

### 18. Financial Instruments

#### **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 (the Council does not directly hold such assets)*

*Loans and receivables are initially measured at fair value and carried at their amortised cost.*

*Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.*

*Cash and Cash Equivalents are represented by notes and coins held by the Council and deposits available on demand. Cash Equivalents are represented by short-term, highly liquid investments that can be readily converted (within seven days) into known amounts of cash and that are subject to an insignificant risk of changes in value.*

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

#### **Financial liabilities**

*Financial liabilities are initially measured at fair value and carried at their amortised cost.*

*Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying value of the liability, multiplied by the effective interest rate for the instrument. For most of the borrowings that the Council has, this means that the amount in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest chargeable to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.*

#### **Fair Value Hierarchy**

*The Council is required to classify the valuation of financial instruments into three levels, according to the quality and reliability of information used to determine fair values.*

*Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts).*

## Notes to the Core Financial Statements

### 18. Financial Instruments (contd.)

#### **Financial Assets**

#### **Fair Value Hierarchy**

*Level 2 - where 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. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Council currently invests in.*

The Council'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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Council's treasury team, under policies approved annually (in February prior to the financial year to which it relates) by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The Strategy includes the Prudential Indicators, the key objectives of which are

- To ensure that capital investment plans are affordable, prudent and sustainable.
- To ensure treasury management decisions accord with good professional practice and in a manner that supports affordability, prudence and sustainability.
- To be consistent with and support local strategic planning, local asset management and optional appraisal.

## Notes to the Core Financial Statements

### 18. Financial Instruments (contd)

The Council's Treasury Management Strategy applicable from 1 April 2017 complies fully with the code of practice. Further details on the Council's Treasury Management Strategy can be found on Stevenage Borough Council's website

**Credit Risk:** Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions unless they meet the Council's criteria as specified in the Treasury Management Strategy.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over previous financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2018 £'000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default & uncollectability 31 March 2018 £'000	Estimated maximum exposure to default & uncollectability 31 March 2017 £'000
<b>Financial Institutions</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>(AxC)</b>	
Banks & Building Societies	33,061	0	0		0
Other Local Authorities	6,883	0	0		0
Other Counter parties	22,590	0	0		0
Trade Debtors	1,089	20%	34%	368	249
<b>Total</b>	<b>63,623</b>			<b>368</b>	<b>249</b>

The historical experience of default for trade debtors is based on the debt provision calculated as at 31st March 2018. The calculation is based on the age of the trade debtor and debt type. The Council does not generally allow credit for customers, such that £492,000 of the £1,089,000 trade debtors balance has passed its due date for payment. The past due amount can be analysed by age and service in the following table;

## Notes to the Core Financial Statements

### 18. Financial Instruments (contd)

Age of Sundry Debt	Estates Services £'000	Direct Services (incl Recycling) £'000	Planning £'000	Other £'000	Total Trade Debtors £'000
less than 3 months	97	151	182	167	597
Over Term:					
3-6 months	22	10	2	20	54
6 months - 1 year	18	1	2	44	65
over 1 year	201	1	20	151	373
<b>Total trade debtors over term</b>	<b>241</b>	<b>12</b>	<b>24</b>	<b>215</b>	<b>492</b>
<b>Total Trade Debtors 31 March 2018</b>	<b>338</b>	<b>163</b>	<b>206</b>	<b>382</b>	<b>1,089</b>
<b>Total Trade Debtors 31 March 2017</b>	<b>385</b>	<b>99</b>	<b>35</b>	<b>286</b>	<b>805</b>

Deferred Capital Receipts are amounts derived from sales of assets that will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of Council houses, which form the main element of Mortgages under Long Term Debtors. As at 31 March 2018 Deferred Capital Receipts were £188,000, (31 March 2017, £191,000).

These figures do not include debt relating to Council Tax or Non-domestic Rates as these are considered to be statutory debts. Debt relating to Council house rents is disclosed in Note HRA2 Rent and Supported Housing Arrears.

**Liquidity risk:** The Council's cash flow is managed so that cash is available as needed. If the unexpected happens the Council has ready access to borrowings from the money markets and the Public Works Loan Board (PWLB).

**Interest rate risk:** The Council is exposed to significant risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects on Stevenage Borough Council: Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise, whilst the fixed term investment/borrowing cost/income will remain constant.

Changes in interest receivable on variable rate investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Movement in Reserves Statement.

## Notes to the Core Financial Statements

### 18. Financial Instruments (contd.)

If interest rates had been 1% higher with all other variables held constant (according to assessment as at 31 March 2018), the financial effect would be:

	<b>£'000</b>
Increase in interest receivable on investments	( 721)
Impact on Comprehensive Income & Expenditure Statement	( 721)
Share of overall impact credited to the HRA	497
Impact on Movement in Reserves Statement	( 223)

The impact of a 1% reduction in interest rates would be as above but with movements being reversed. The above represents what the cost will be less the payment due to the HRA.

The PWLB borrowings undertaken to date are all fixed rate, therefore there would be no impact from a rise in interest rates, other than the rate at which borrowing which has not yet been physically taken could be borrowed at in future.

**Price risk** The Council does not invest in equity shares and does not have any shareholdings. (The Municipal Bond purchased in 2015/16 (£10,000) is not held for trading purposes but to support and have access to preferential borrowing rates from the Municipal Bond Agency, set up by the Local Government Association. As such this transaction has been classed as a long term investment.)

**Foreign exchange risk:** The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

**Financial Instruments:** Councils are required to define all financial instruments disclosed in the Balance Sheet into further categories. For this purpose the accrued interest receivable is included in this note within the principal financial asset. The items disclosed in the Balance Sheet are made up of the following categories of financial instruments:

## Notes to the Core Financial Statements

## 18. Financial Instruments (contd.)

	Long Term		Current	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
<b>Investments</b>				
Investment (LGA Municipal Bond)	10	10	0	0
Loans and Receivables	5,000	10,007	39,744	45,647
<b>Total Investments</b>	<b>5,010</b>	<b>10,017</b>	<b>39,744</b>	<b>45,647</b>
<b>Debtors (including Cash, Cash equivalents and Bank)</b>				
<i>Loans and Receivables comprising:</i>				
Mortgages	157	164	22	13
Housing Rents Leaseholders	0	0	408	577
Other debtors	107	107	7,504	6,439
Cash held by the Authority	0	0	12	11
Bank Current Accounts	0	0	344	809
Investment Cash Equivalents	0	0	12,995	6,880
Local Authority Mortgage Scheme	0	0	1,500	0
<b>Total Debtors</b>	<b>264</b>	<b>271</b>	<b>22,785</b>	<b>14,729</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	205,490	205,483	4,139	3,138
<b>Total Borrowings</b>	<b>205,490</b>	<b>205,483</b>	<b>4,139</b>	<b>3,138</b>
<b>Creditors</b>				
Receipts in Advance	0	0	877	519
Sundry Creditors	762	762	6,516	9,737
Local Authority Mortgage Scheme	0	0	1,007	0
<b>Total Creditors</b>	<b>762</b>	<b>762</b>	<b>8,400</b>	<b>10,256</b>

**Schedule of PWLB loan repayments**

less than one year	£3,138,007
1-2 years	£263,158
2-5 years	£789,474
6-10 years	£18,955,950
10 -15 years	£64,700,000
15 -20 years	£97,163,000
20-25 years	£23,611,000
<b>Total</b>	<b>£208,620,589</b>



## Notes to the Core Financial Statements

### 18. Financial Instruments (contd.)

The gains and losses recognised in the Comprehensive Income & Expenditure Statement in relation to financial instruments are made up as follows:

31 March 2017			31 March 2018		
Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total			
£000	£000	£000	Financial Liabilities Measured at Amortised Cost	Financial Assets: Loans and Receivables	Total
			£000	£000	£000
7,091	0	7,091	Interest Expense	0	7,083
<b>7,091</b>	<b>0</b>	<b>7,091</b>	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>7,083</b>
0	(405)	(405)	Interest income	(457)	(457)
<b>0</b>	<b>(405)</b>	<b>(405)</b>	<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>(457)</b>	<b>(457)</b>
<b>7,091</b>	<b>(405)</b>	<b>6,686</b>	<b>Net (gain)/loss for the year</b>	<b>(457)</b>	<b>6,626</b>

Financial assets and financial liabilities represented by loans and receivables 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 take place over the remaining life of the instruments using the following assumptions:

- The fair value of Public Works Loan Board (PWLB) loans is calculated using the “new loan rate”.
- The fair value of Non -PWLB loans is calculated using the “new loan rate”.
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.

The Valuation Techniques Used to Determine Level 2 Fair Values for Investments:

The fair value of the investments have been provided by Capita Asset Services and are based on a financial model valuation which uses market information for similar instruments. The Code states that fair values disclosures are not required for short term trade payables and receivables since the carry amount is a reasonable approximation of fair value.

## Notes to the Core Financial Statements

### 18. Financial Instruments (contd.)

31 March 2017			31 March 2018	
Carrying amount	Fair Value		Carrying amount	Fair Value
£'000	£'000		£'000	£'000
		<b>Long Term Investments</b>		
5,020	5,020	Long term loans & receivables	10,007	10,010
<b>5,020</b>	<b>5,020</b>	<b>Total</b>	<b>10,007</b>	<b>10,010</b>
		<b>Loan Debt</b>		
1,522	1,544	Market Debt	1,522	1,524
208,107	235,753	PWLB Debt	207,098	232,021
<b>209,629</b>	<b>237,297</b>	<b>Total</b>	<b>208,620</b>	<b>233,545</b>

Valuation Techniques Used to Determine Level 2 Fair Values for Public Works Loan Board (PWLB) Loans:

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

The fair value of Public Works Loan Board (PWLB) loans of £233.545million measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the [additional/reduced] interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

The Authority has used a transfer value for the fair value of financial liabilities. We have also calculated an exit price fair value of £262.413million, which is calculated using early repayment discount rates. The Authority has no contractual obligation to pay these penalty costs and would not incur any additional cost if the loans run to their planned maturity date.

The fair value of loan debt is higher than the carrying amount because the council's portfolio of loans includes fixed rate loans where the prevailing rates at the Balance Sheet date are lower than the interest rate payable. The fair value includes the premium that would be payable should the council reschedule its debt.

## Notes to the Core Financial Statements

### 19. Debtors

The Council's debtors (net of the provision for bad and doubtful debts) are as follows:

31 March 2017 £'000		31 March 2018 £'000
119	Central Government Bodies	1,105
37	Other Local Authorities	79
408	Housing Rents & Leaseholders	577
167	Collection Fund	231
8,703	Other Debtors	5,037
<b>9,434</b>	<b>Total</b>	<b>7,029</b>

Included in Other debtors (as at 31 March 2017) is £3.3million for a land sale completed on 31 March 2017. The money was received by the Council on 3<sup>rd</sup> April 2017.

The Council has one long term debtor:

**Hertfordshire Building Control** – This relates to a two year loan (£107,000)

## Notes to the Core Financial Statements

### 20. Creditors and Receipts in Advance

**Employee accrued benefits payable** - 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 and are recognised as an expense for service in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlement (or any form of leave e.g. flexi time) 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 salary rate applicable in the following year, being the year in which the employee takes the benefit. Stevenage Borough Council policy states that no more than five days annual leave should be carried over into the next financial year unless permission is granted in exceptional circumstances. The flexi time scheme is available to the majority of employees except in services areas where, due to the nature of the work, it is not possible for employees to fully participate.

31 March 2017		31 March 2018	
£'000		£'000	£'000
6,059	<b>Creditors:</b>	6,464	
2,489	Central Government Bodies	126	
0	Other Local Authorities	574	
359	Collection Fund	388	
5,939	Accumulated leave	9,348	
<b>14,846</b>	Other Entities & Individuals		
	<b>Total Creditors</b>		<b>16,901</b>
	<b>Receipts in Advance:</b>		
0	Other Local Authorities	0	
827	Housing	1,061	
23	Tenants (redecorating scheme)	23	
646	Collection Fund	720	
876	Other Entities & Individuals	519	
<b>2,372</b>	<b>Total Receipts in Advance</b>		<b>2,323</b>
<b>17,218</b>	<b>Total</b>		<b>19,225</b>

The Council has long term creditors comprising principally:

**Local Enterprise Partnership (LEP)** – this relates to a grant to purchase a town centre regeneration asset (£762,488) which will be repayable in 2021/2022 on completion of the regeneration plan.

## Notes to the Core Financial Statements

### 21. Assets held for sale

**Disposals and Non-Current Assets Held for Sale:** Where it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than continued use, it is reclassified as an asset held for sale. The asset is revalued at that point. Any subsequent gains and losses are posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Assets held for sale are only recognised where a property is being actively marketed, and is likely to result in a probable sale within 12 months of the balance sheet date.

A reasonable assessment can be made of General Fund disposals. However, for HRA Council dwellings, at the balance sheet date, the Council cannot reliably estimate specific disposals for the following 12 months. For example Right to Buy requests are received from tenants which may not result in a subsequent sale. As the numbers involved are not material, Right to Buy properties which are nearing completion of a sale are not recognised as Assets held for sale and no adjustment is made in the accounts for these. Fair value gains are only recognised up to the amount of any previously recognised losses, recognised in the revenue account.

**Disposals and Non-Current Assets Held for Sale (contd)**

Fair value gains are only recognised up to the amount of any previously recognised losses, recognised in the revenue account.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. With the introduction of Self-financing in April 2012 a new government calculation was introduced to apportion right to buy receipts due from sales of the Council's housing stock. The Council agreed to participate in the new scheme that enabled the Council to retain a proportion of the receipts that can only be used for new build provision.

Under the new scheme a proportion of the HRA right to buy receipts go to the government. The Council then retains the remainder of the receipts to cover four elements; administration costs, allowable debt, a capped share of the receipt for the local authority, and an allowance for new build provision. There is a duty to use the element retained for new build provision within three years, funding up to a maximum of 30% of the cost of any individual new build scheme. Other housing receipts from land may be fully retained by the Council if spent on affordable housing,

## Notes to the Core Financial Statements

### 21. Assets held for sale (contd)

#### **Disposals and Non-Current Assets Held for Sale (contd)**

regeneration or repayment of HRA debt. The capital receipts retained by the Council are required to be credited to the Capital Receipts Reserve and used for capital expenditure. The written-off value of disposals for General Fund and HRA assets is not a charge against council tax or tenants, 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 / Housing Revenue Account Balance in the Movement in Reserves Statement.

**Pre-Sale Expenses and Disposal costs:** The Council is able to offset costs incidental to disposals against the capital receipt. This is restricted for General Fund disposals to a maximum of 4% of the capital receipt. Any costs not covered by a separate agreement with the purchaser to meet the Council's revenue costs are considered for this treatment.

31 March 2017 £'000		31 March 2018 £'000
1,550	<b>Balance at start of year</b>	0
0	Transfer from surplus assets	1,135
0	Transfer from land & building	565
(1,550)	Assets sold	0
<b>0</b>	<b>Balance at year end</b>	<b>1,700</b>



## Notes to the Core Financial Statements

### 22. Provisions

*Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by transfer of economic benefits, but where timing of the transfer is uncertain. The Council's policy is to assume all transfers of economic benefit will be made within 12 months. The Council recognises that on rare occasions a provision is utilised after 12 months (for example an insurance provision), however these instances do not materially alter the financial statements. Provisions are charged to the appropriate service account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet date of the expenditure required to settle the obligation.*

*Where payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed and where it becomes less than probable that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.*

*Where some or all of the payment required to settle a provision is expected to be recovered from another party (for example from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.*

*Impairment for doubtful debts are separately disclosed against debtors (Note 21).*

**Insurance provision:** Provides for excesses relating to known claims.

**Organisational Change Provision:** This provision was established to meet the costs arising from service efficiencies (identified as part of the budget setting process and service reviews).

**Municipal Mutual Insurance (MMI) Provision:** MMI suffered substantial losses between 1990 and 1992 and these losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement. In September 1992 MMI went in to "run off", and ceased to renew or take on new general insurance work. If a solvent "run off" cannot be achieved the Council may have to repay part of the claims already settled.

**NDR Appeals Provision:** Business Rate Payers are entitled to appeal against the rateable value allocated to it by the Valuation Office Agency (VOA). From 1 April 2013 onwards, in the event that the appeal is successful, the Council is responsible for the Business Rate repayment to the business. This provision has been made based on the expected outcome of the appeals outstanding with the VOA as at 31 March 2018.

**Other Provisions:** All other provisions are individually insignificant.

## Notes to the Core Financial Statements

### 22. Provisions (contd)

	Insurance Provision £'000	Organisation change £'000	Municipal Mutual Insurance £'000	NDR Appeals £'000	Other Provisions £'000	Total £'000
<b>Balance as at 31 March 2016</b>	(570)	(342)	(74)	(2,724)	(62)	<b>(3,772)</b>
Additional Provisions made in 2016/17	(336)	(4)	(19)	(872)	(124)	<b>(1,355)</b>
Amounts Used in 2016/17	304	41	42	326	23	<b>736</b>
Unused Amounts reversed in 2016/17	0	145	0	376	18	<b>539</b>
<b>Balance as at 31 March 2017</b>	<b>(602)</b>	<b>(160)</b>	<b>(51)</b>	<b>(2,894)</b>	<b>(145)</b>	<b>(3,852)</b>
Additional Provisions made in 2017/18	(232)	(203)	0	(944)	(19)	<b>(1,398)</b>
Amounts Used in 2017/18	213	66	0	164	100	<b>543</b>
Unused Amounts reversed in 2017/18	0	94	0	320	4	<b>418</b>
<b>Balance as at 31 March 2018</b>	<b>(621)</b>	<b>(203)</b>	<b>(51)</b>	<b>(3,354)</b>	<b>(60)</b>	<b>(4,289)</b>

### 23. Hertfordshire CCTV Partnership Ltd and Hertfordshire Building Control Ltd.

The Council has one jointly controlled operation for the provision and management of CCTV in the Hertfordshire and Bedfordshire area. This arrangement is with Stevenage Borough Council (SBC), North Hertfordshire District Council, East Hertfordshire District Council and Hertsmeare Borough Council. Each member of the arrangement accounts for their share of the asset, liabilities and cash flows of the CCTV in their own accounts.

On the 1 April 2015 a new company, **Hertfordshire CCTV Partnership Ltd**, was incorporated to conduct the commercial trading affairs of the CCTV Partnership. For the year ended 31 March 2018 the company produced a profit after tax of £12,000. SBC's share of the profit is £4,400. Due to the de minimis size of the new company, group accounts have not been completed.

The council partnered with six local authorities across Hertfordshire to create a new fully integrated building control service and in August 2017, **Hertfordshire Building Control Ltd**, started trading. The council holds 14% of the share capital and is represented on the board. In August 2016 the council made a loan to the company of £107k which is held in Long Term Debtors on the balance sheet. Final result for the company had yet to be published but the profit/loss is not expected to be material.

Due to the Council's small share holding the Council has not included any further disclosure notes regarding this company.

## Notes to the Core Financial Statements

### 24. Members Allowances

Total expenditure on Members' allowances (including expenses), as made under the Local Authorities (Members' Allowances) Regulations 2003, was £444,031 in 2017/18. ( £437,239 in 2016/17). Payments made outside the scheme for Mayoral Allowances totalled £17,277 in 2017/18, (£16,259 in 2016/17).

### 25. Officers Remuneration

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

	Salary, Fees and Allowances	Expenses Allowance	Other Emoluments*	Total Remuneration (excluding pension contributions)	Pension Conts.	Total Remuneration Incl Pension Contributions
	£	£	£	£	£	£
<b>Remuneration 2017/18</b>						
Chief Executive	112,955	1,018	7,380	121,353	34,048	155,401
Strategic Director and Deputy Chief Executive	97,882	405	1,162	99,449	27,856	127,305
Strategic Director	88,984	515	340	89,838	25,323	115,162
Borough Solicitor **	26,966	23	103,417**	130,405	7,685	138,090
Assistant Director Finance & Estates (s151 Officer)	78,893	78	340	79,311	22,452	101,763
<b>Total remuneration in 2017/18</b>	<b>405,680</b>	<b>2,038</b>	<b>112,639</b>	<b>520,357</b>	<b>117,364</b>	<b>637,721</b>
<b>Remuneration 2016/17</b>						
Chief Executive	107,795	1,034	10,064	118,893	28,029	146,922
Strategic Director and Deputy Chief Executive	96,913	506	2,128	99,547	25,199	124,746
Strategic Director (from 4/7/2016)	65,367	387	0	65,754	16,996	82,750
Borough Solicitor	68,223	361	370	68,954	17,739	86,693
Assistant Director Finance & Estates (s151 Officer)	75,895	66	490	76,451	19,734	96,185
<b>Total remuneration in 2016/17</b>	<b>414,193</b>	<b>2,354</b>	<b>13,052</b>	<b>429,599</b>	<b>107,697</b>	<b>537,296</b>

\* "Other emoluments" includes election duty payment (and redundancy costs).

\*\*In 2017/18 as part of the Future Town Future Council agenda legal service were procured through an ongoing shared service with Hertfordshire County Council. The Borough Solicitor was made redundant and other emoluments includes redundancy costs paid by the Council.

## Notes to the Core Financial Statements

### 25. Officers Remuneration contd.

The number of Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) is detailed below:

Officer remuneration includes redundancy and severance payments made to officers on termination of employment during the year.

2016/17 Number of employees	Remuneration Band	2017/18 Number of employees
6	£50,000 - £54,999	8
3	£55,000 - £59,999	4
2	£60,000 - £64,999	1
5	£65,000 - £69,999	3
1	£70,000 - £74,999	4
2	£75,000 - £79,999	2
0	£80,000 - £84,999	0
0	£85,000 - £89,999	2
0	£90,000 - £94,999	0
1	£95,000 - £99,999	1
0	£100,000 - £104,999	1
0	£105,000 - £109,999	0
0	£110,000 - £114,999	0
3	£115,000 - £119,999	0
0	£120,000 - £124,999	1
0	£124,999 - £130,000	0
0	£130,000 - £135,000	1
<b>23</b>	<b>Total</b>	<b>28</b>

The council directly employees circa 650 employees. With effect from 1<sup>st</sup> January 2014 the Council commenced paying the real living wage (promoted by Living Wage Foundation) to all employees (excluding apprentices who are paid above the national apprentice rate). As at the 1 April 2017 the Chief Executive is paid 6.93 times the lowest paid member of staff and 3.83 times the mean average (£29,474).

Further information can be found in the annual pay policy statement published on the website:

<https://democracy.stevenage.gov.uk/Data/Council/201702281900/Agenda/20170228-Item14>

This document includes the remuneration of its chief officers and terms and conditions for staff including the approach to the payment of Chief Officers on the ceasing to hold office.

## Notes to the Core Financial Statements

### 25. Officers Remuneration contd.

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

#### 2017/18

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
£0 - £9,999	2	0	2	£5,976
£30,000 - £69,999	3	0	3	£145,574
£100,000 - £119,999	3	0	3	£327,098
<b>Total</b>	<b>8</b>	<b>0</b>	<b>8</b>	<b>£478,648</b>

#### 2016/17

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
£0 - £19,999	8	0	8	£89,652
£20,000 - £39,999	2	2	4	£120,889
£40,000 - £59,999	3	0	3	£164,553
<b>Total</b>	<b>13</b>	<b>2</b>	<b>15</b>	<b>£375,095</b>

## Notes to the Core Financial Statements

### 26. Pension

#### **Pensions - Local Government Pension Scheme**

The Local Government Pension Scheme is accounted for as a defined benefit scheme meaning the Council and its employees make contributions into the Pension Fund at a level calculated to balance the liabilities with the investment asset.

The liabilities of the Hertfordshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis by projecting forward the results of the 2016 Valuation i.e. by carrying 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 estimations of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate.

The assets of the Hertfordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

⇒ Equities – bid-market value

⇒ Property-market value

⇒ Bonds and Cash at fair value

The change to the net pension liability is analysed into the following components:

Service costs comprising:

- Current service cost – the increase in liabilities, as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for whom the employees worked.

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (CI&E) as part of Non Distributed Costs.

- Net Interest on the net defined benefit liability (asset), i.e. net interest expense for the Council - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CI&ES this is calculated by applying the discount rate used to measure defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the defined benefit liability during the period as a result of contributions and benefit payments .

Remeasurements comprising:

- The return on plan assets- excluding amounts included in the net interest on the net defined benefit liability – charged to the Pension Reserve as Other Comprehensive Income and Expenditure



## Notes to the Core Financial Statements

### 26. Pension contd.

*Pensions-Local Government Pension Scheme contd.*

- *Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve and Other Comprehensive Income and Expenditure.*

*Contributions paid to the Hertfordshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities.*

*In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserves to remove the notional debits and credits for retirement benefits and replaces them with debits for 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 Pension 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 earned by employees.*

*Discretionary benefits:*

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

#### **Participation in Pension Schemes**

The Council participates in the Local Government Pension Scheme administered by Hertfordshire County Council. As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not be payable until the employees retire, the Council has a commitment to make payments which need to be disclosed at the time these benefits are earned.

#### **Transactions Relating to Post-employment Benefits**

The cost of retirement benefits is recognised in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions.

## Notes to the Core Financial Statements

### 26. Pension contd.

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.

2016/17 £'000		2017/18 £'000
	<b>Cost of service</b>	
3,793	Current service costs	6,262
46	Past service costs	75
	<b>Financing and Investment Income &amp; Expenditure</b>	
5,918	Interest costs	5,131
(4,367)	Interest income on plan assets	(3,733)
5,390	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the provision of Services</b>	7,735
	<b>Other Post Employment Benefit Charged to the Comprehensive Income &amp; Expenditure Statement</b>	
17,321	Return on plan assets (excluding the amount included in the net interest expense)	4,551
2,125	Actuarial gains and losses arising on changes in demographic assumptions	0
(32,631)	Actuarial gains and losses arising on changes in financial assumptions	3,683
5,221	Other Actuarial gains and losses	13
(2,574)	<b>Total Post Employment Benefit Charged to the Comprehensive Income &amp; Expenditure Statement</b>	15,982
	<b>Movement in Reserves Statement</b>	
(5,390)	Reversal of net changes made to the Surplus or Deficit for the provision of Services for post employment benefits in accordance with the Code	(7,735)
	<b>Actual amount charged against the General Fund and HRA Balance for pensions in the year</b>	
4,276	Employer's contributions payable to the scheme	4,362

## Notes to the Core Financial Statements

### 26. Pension contd.

#### Pension Assets & Liabilities recognised in the Balance Sheet

2016/17 £'000		2017/18 £'000
<b>129,083</b>	<b>Opening fair value of Scheme assets</b>	<b>149,648</b>
4,367	Interest Income	3,733
	<b>Remeasurement gain/(loss)</b>	
17,321	The return on plan assets, excluding the amount included in the net interest expense	4,564
4,276	Contributions from employer	4,444
1,035	Contributions from employees into the scheme	1,084
(6,434)	Benefits paid	(5,983)
<b>149,648</b>	<b>Closing fair value of scheme assets</b>	<b>157,490</b>

2016/17 £'000		2017/18 £'000
<b>174,972</b>	<b>Opening Balance</b>	<b>204,656</b>
3,783	Current Service Cost	6,262
5,918	Interest Cost	5,131
1,035	Contributions from Scheme participants	1,084
	<b>Remeasurement gain/(loss)</b>	
(2,125)	Actuarial gains/(losses) arising from changes in demographic assumptions	0
32,631	Actuarial gains/(losses) arising from changes in financial assumptions	(3,683)
(5,170)	Other	0
46	Past service costs	75
(6,434)	Benefits paid	(5,983)
<b>204,656</b>	<b>Closing balance</b>	<b>207,542</b>
<b>(55,008)</b>	<b>Net Pension Liability</b>	<b>(50,052)</b>

#### 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. Hymans Robertson LLP, an independent firm of actuaries, has assessed Stevenage Borough Council's fund liabilities. The estimates for the Council are based on the latest formal valuation of the scheme as at 31 March 2016.

## Notes to the Core Financial Statements

## 26. Pension contd.

Fair value of Employer's assets (at bid values unless otherwise stated)

Asset category	Period Ended 31 March 2017		Period Ended 31 March 2018		
	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total % of Total Assets
<b>Equity Securities:</b>					
Consumer	11,668	0	7,196	0	5%
Manufacturing	11,198	0	6,190	0	4%
Energy and Utilities	2,696	0	1,651	0	1%
Financial Institutions	10,021	0	7,025	0	4%
Health and Care	2,026	0	997	0	1%
Information Technology	8,159	0	4,910	0	3%
Other	504	0	375	0	0%
<b>Debt Securities:</b>					
Corporate Bonds (investment grade)	0	0	0	0	0%
UK Government	0	0	0	0	0%
Other	0	0	0	64	0%
<b>Private Equity:</b>					
All	0	6,909	0	5,975	4%
<b>Real Estate:</b>					
UK Property	0	4,842	0	5,217	3%
Overseas Property	0	5,608	0	5,142	3%
<b>Investment Funds and Unit Trusts:</b>					
Equities	31,356	0	41,394	0	26%
Bonds	41,223	0	56,640	0	36%
Commodities	0	0	0	0	0%
Infrastructure	0	340	0	376	0%
Other	578	7,878	1,173	8,035	6%
<b>Derivatives:</b>					
Interest Rate	0	0	0	0	0%
Foreign Exchange	0	(297)	0	(126)	0%
<b>Cash and Cash Equivalents:</b>					
All	4,939	0	5,256	0	3%
<b>Totals</b>	<b>124,368</b>	<b>25,280</b>	<b>132,807</b>	<b>24,683</b>	<b>100%</b>
		<b>149,648</b>		<b>157,490</b>	<b>100%</b>

## Notes to the Core Financial Statements

### 26. Pension contd.

#### Principal Assumptions

The principal assumptions used by the Actuary have been:-

2016/17		2017/18
<b>Mortality Assumptions:</b>		
Longevity at 65 for current pensioners:		
22.5	Men	22.5
24.9	Women	24.9
Longevity at 65 for future pensioners:		
24.1	Men	24.1
26.7	Women	26.7
<b>Other Assumptions:</b>		
2.4%	Rate of inflation	2.4%
2.5%	Rate of increase in salaries	2.5%
2.5%	Rate for discounting scheme liabilities	2.6%
50%	Take up of option to convert annual pension into retirement lump sum. (Pre-April 2008 service)	50%
75%	Take up of option to convert annual pension into retirement lump sum. (Post April 2008 service)	75%

#### Defined Benefit Obligation and maturity profile

	Liability split £'000's as at 31 March 2018 (%)	Weighted average duration
Active members	81,185 (39.1%)	21.4
Deferred members	47,951 (23.1%)	21.6
Pensioner members	78,406 (37.8%)	11.1
<b>Total</b>	<b>207,542 (100%)</b>	<b>16.4</b>

#### Sensitivity analysis of Actuarial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis that follows has been determined based on reasonably possible changes in the assumptions occurring at the end of the reporting period in calculating the impact for each change in assumption it is assumed that the other assumptions remain unchanged. In practice it is likely that changes in assumptions would be interrelated.

## Notes to the Core Financial Statements

### 26. Pension contd.

Change in assumptions at year ended 31 March 2018	Approximate % increase to Employer Liability	Approximate monetary amount increase (£'000)
0.5% decrease in Real Discount Rate	9	19,135
0.5% increase in salary increase rate	1	2,080
0.5% increase in pension increase rate	8	16,849

The total contributions for current service cost expected to be made to the Pension Scheme in the year to 31 March 2019 is estimated at £4,378,000.

Further information can be found in Hertfordshire County Council Pension Fund's Annual Report that is available upon request from: Hertfordshire County Council, Corporate Services, County Hall, Hertford SG13 8DQ (email contact : [pensions.team@hertsc.gov.uk](mailto:pensions.team@hertsc.gov.uk))

### 27. Related Parties

The Council is required to disclose material transactions with related parties. 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.

**Central Government:** Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions the Council has with other parties (e.g. Council tax bills, housing benefits). Grants received from government departments are set out in Note 11 Taxation and Non Specific and Specific Grant Income.

**Other Public Bodies:** Payments between the Council and Hertfordshire County Council (HCC) amounted to £857,034 (2016/17, £697,523). Further payments between the Council and Hertfordshire County Council are disclosed in the Collection Fund accounts, Note 26 Pension and Note 11 Taxation and Non Specific and Specific Grant Income.

The Council provides a verge maintenance service for Hertfordshire County Council under an agency agreement for which the Council was reimbursed £541,459 in 2017/18 (£540,218 in 2016/17).



## Notes to the Core Financial Statements

### 27. Related Parties contd

In 2017/18 Stevenage Borough Council (SBC) used a number employment agencies (listed below) to assist in carrying out services throughout the Council. There were no declarations of interest from Members and Senior Officers expressed.

24/7 Staffing Solutions Ltd T/A Labour Zone	James Andrews Recruitment Solutions Ltd
Adecco UK Ltd	LA International Computer Consultants Ltd
Badenoch & Clark	Lawrence Dean Recruitment Ltd
Baltimore Consulting Group	MAR Facilities Support Services Ltd
Beech Consulting	Marcus Donald People Ltd
Build Recruitment Ltd	Marks Consultancy Partners Limited
Capstone Property Recruitment Interim Ltd	Methods Professional Services Ltd
Carrington West Ltd	Michael Page International Recruitment Ltd
DK Recruitment	Newstaff Employment Services Ltd
Driver Require Ltd	Penna Plc
Essential Results Limited	Sellick Partnership Group Ltd
Gotpeople Ltd	Service Care Solutions Ltd
Graham Rose Limited	TalentHQ Ltd
Gravitas Recruitment Group Ltd	Tate
Greenacre Recruitment Limited	The Housing Executive
Hays Specialist Recruitment	The Oyster Partnership Limited
Housing Consultants Network	Venn Group Limited
Interaction Recruitment Plc	Waste Consulting LLP

**Members and Senior Officers:** Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2017/18 is shown in Note 28 Members Allowances.

A contract payment of £1,254,472 was paid to Stevenage Leisure Limited (SLL) (2016/17 £1,282,912) and £70,572 was paid to Hertfordshire Building Control Limited. Also £1,426,593 was paid to other organisations (2016/17 £1,260,991), either as grants or services received. With reference to all of these organisations, of the 39 Members, 34 Members declared interests through either the Register of Interests or completed related party transactions' forms. As at 31 March 2018 SBC had paid SLL £296,752 (£406,779 31 March 2017) for management costs relating to 2018/19.

The relevant Members did not take part in any discussions or decision relating to the grants. The grants were made with proper consideration of the declarations which all Members completed in accordance with the statutory Code of Conduct for Members (Local Government Act 2000). During 2017/18 expressions of interest, both potential financial and other interests, are declared and recorded in the minutes of the meeting.

## Notes to the Core Financial Statements

### 27. Related Parties contd

including involvement with voluntary organisations, public authorities and as the local authority representative on various bodies. This is available for public inspection at the Council offices. There are no other material related party transactions other than those shown elsewhere in the accounts.

During 2017/18, the Chief Executive and Strategic Leadership Team declared no pecuniary interests in accordance with section 117 of the Local Government Act 1972. The Assistant Director of Planning and Regulatory did not take part in any discussion, decision or administration relating to the Stevenage Leisure Limited and Hertfordshire Building Control Limited contract payments.

**Other companies:** Hertfordshire Building Control Limited and Hertfordshire CCTV Limited, please see note 23 Joint Arrangements.

### 28. Contingent Liabilities and Assets

***Contingent liability** arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either the obligation cannot be measured reliably or where it is not probable that an outflow of resources will be required. Contingent liabilities will not be recognised in the balance sheet but will be disclosed separately as a note to the accounts.*

*A **contingent asset** arises from a past event that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control.*

*The Council does not recognise any contingent assets due to the uncertainty of economic gain of a contingent asset.*

At the Balance Sheet date four contingent liabilities/assets were identified, that related to:-

- There is a possibility that a new claim for mandatory relief from business rates on behalf of NHS Trust will be received. The second reading of the Hospital (Parking and Business Rates) Bill 2017-19 is scheduled for 15 June 2018. The application could potentially be backdated, potentially up to 6 years (as a statute of limitation).

## Notes to the Core Financial Statements

### 28. Contingent Liabilities and Assets (contd.)

Due to the uncertainty to whether a claim for mandatory relief is made and to whether it is back dated it is not possible to quantify the financial impact to the Council.

- Business Rate payers are entitled to appeal against the rateable value allocated to it by the Valuation Office Agency. The Council has made a provision for appeals lodged including a percentage for those that may be withdrawn. However the provision does not include an allowance for future appeals and the new process of check, challenge and appeal has extended the time taken for successful appeals to come to fruition.
- The 2006 Water resale order restricts the total cost to unmetered charge as cost plus 1.5%. Based on a high court judgement the London Borough of Southwark may have overcharged tenants based on the contract in place. Stevenage BC contract differs from that of LB of Southwark, however, the council have sought legal opinion and are currently working with the LGA. It is not possible to quantify this liability until the outcomes of LGA's legal considerations are known.
- Stevenage Borough Council is one of a number of Local Authority and National Parks Authority who have asked the Local Government Association (LGA), to co-ordinate legal representation and provide ongoing support in respect of collective legal action against MasterCard/Visa (Card Schemes) for unlawful interchange fee.

### 29. External Audit Costs

The Council has incurred fees in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections. The estimated fees payable for audit work in respect of the 2017/18 financial year are shown in the table below. The appointed auditor for 2017/18 is Ernst & Young LLP.

2016/17 £'000	Fees Payable	2017/18 £'000
64	Fees payable to the <b>External Auditor</b> with regard to <b>external audit services</b> carried out by the appointed auditor for the year.	64
11	Fees payable to <b>External Auditor</b> for the certification of <b>grant claims and returns</b> for the year.	10
0	Fees refunded by the <b>Audit Commission</b> with regard to external audit services carried out by the appointed auditor	(9)
4	Fees payable in respect of other services provided by Grant Thornton	0
<b>79</b>		<b>65</b>

## Notes to the Core Financial Statements

### 30. Cash Flow Statement – Operating Activities

The cash flow for operating activities include the following items

2016/17 £'000		2017/18 £'000
(346)	Interest received	(447)
7,096	Interest paid	7,085
<u>6,750</u>		<u>6,638</u>

### 31. Adjustments to net surplus or deficit on the provision of services for non cash movements

2016/17 £'000	Non Cash Items	2017/18 £'000
(29,888)	Removal of Depreciation and Impairment from Comprehensive Income & Expenditure Statement	(13,040)
(1,155)	Removal of IAS Pension entries in the Comprehensive Income & Expenditure Statement	(3,291)
(6,759)	Removal of carrying amount of assets disposed	(3,718)
3,020	Other non cash item movements	(423)
	Items on an accrual basis	
(4)	Add/(less) increase/(decrease) in stock	(22)
(474)	Add/(less) increase/(decrease) in debtors	(40)
4,990	Add/(less) increase/(decrease) in creditors & receipts in advance	(3,038)
<u>(30,270)</u>		<u>(23,572)</u>

## Housing Revenue Account (HRA) Income & Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from 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		Note	2017/18 £000
	<b>Expenditure</b>		
6,909	Repairs & Maintenance		6,649
10,087	Supervision & Management		10,752
125	Rents, Rates, Taxes & Other Charges		176
11,014	Depreciation & Impairment of Non-Current Assets - HRA Dwellings		11,416
147	Depreciation & Impairment of Other Non-Current Assets		183
228	Movement in the allowance for bad debts		146
<b>28,510</b>	<b>Total Expenditure</b>		<b>29,322</b>
	<b>Income</b>		
(39,975)	Dwelling rents	HRA 1	(39,187)
(304)	Non-dwellings rents		(360)
(2,824)	Charges for Services & Facilities		(2,888)
(605)	Contributions towards expenditure		(685)
<b>(43,708)</b>	<b>Total Income</b>		<b>(43,120)</b>
<b>(15,198)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income &amp; Expenditure Statement</b>		<b>(13,798)</b>
657	HRA Services share of Corporate & Democratic Core		712
<b>(14,541)</b>	<b>Net income for HRA services</b>		<b>(13,086)</b>
(3,125)	Gain on sale of HRA Non-Current Assets		(1,770)
6,513	Interest payable (PWLB loans - Self-financing)		6,514
515	Interest payable (Decent Homes borrowing)		503
(301)	Interest receivable on revenue balances		(287)
(10)	Interest receivable on mortgages		0
0	Apprentice levy		22
(692)	Capital grants & Contributions receivable		(134)
1,563	Pension Interest and expected return on pension assets		418
<b>(10,078)</b>	<b>(Surplus)/Deficit for the year on HRA services</b>		<b>(7,820)</b>

## Movement on the Housing Revenue Account (HRA) Income & Expenditure Statement

This statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2016/17 £000		Note	2017/18	
			£000	£000
(16,955)	Balance on the HRA at the end of the previous year			(19,750)
(10,078)	Deficit for the year on the HRA Income & Expenditure Statement		(7,820)	
7,283	Adjustment between accounting basis and funding basis under statute	8	3,455	
(2,795)	(Increase)/Decrease in year on the HRA			(4,365)
<b>(19,750)</b>	<b>Balance on the HRA at the end of the year</b>			<b>(24,115)</b>

## Notes to the Housing Revenue Account (HRA)

### HRA 1. Gross Rent Income

Dwelling rents as shown on the HRA Income and Expenditure Statement is the total rent income due, excluding service charges and after an allowance is made for voids etc. During the year 0.79% of let-able properties were vacant (in 2016/17 figure was 0.68%). Average rents - excluding service charges - were £96.48 a week in 2017/18 (£97.07 in 2016/17).

### HRA 2. Rent and Supported Housing Payment Arrears

During the year 2017/18 rent arrears as a proportion of gross rent income were 2.62% (2.35% in 2016/17).

2016/17 £'000		2017/18 £'000
1,040	Arrears at 31 March	1,140
223	Amounts written off during the year	182
(2)	Amounts written on during the year	(6)

The bad debts provision stood at £620,655 at 31 March 2018 (£650,519 at 31 March 2017).



## Notes to the Housing Revenue Account (HRA)

### HRA 3. Housing Stock Numbers

The stock movement can be summarised as follows:-

2016/17 No.		2017/18 No.
8,042	Stock as at 1st April	8,000
(60)	Less Right to Buy Sales	(37)
21	New Build acquisitions	34
0	Transferred from General Fund	0
(3)	Conversions/other	0
<b>8,000</b>	<b>Stock at 31st March</b>	<b>7,997</b>
5,169	Houses	5,168
2,831	Flats	2,829
<b>8,000</b>	<b>Total</b>	<b>7,997</b>

The stock numbers disclosed above are properties that are in management and available to let.

### HRA 4. Non Current Asset Valuations

#### Housing Stock

The total balance sheet value (£'000,s) of the dwellings within the HRA can be summarised as follows:-

	£'000's
As at 31 March 2017	£ 607,235
<b>As at 31 March 2018</b>	<b>£ 633,712</b>
The Vacant Possession value of the dwellings as at 31 March 2018 was	£ 1,667,663

The valuation of the dwellings in the Balance Sheet is on the basis of fair value, which is the market value on the assumption that the property is sold as part of the continuing enterprise in occupation. The difference between the Balance Sheet valuation and the higher valuation on the basis of Vacant Possession shows the economic cost of providing Council housing at less than open market rents.

## Notes to the Housing Revenue Account (HRA)

### HRA 4. Non Current Asset Valuations (contd.)

Other non current assets held by the HRA are detailed below:

31 March 2017 £'000's		31 March 2018 £'000's
4,921,139	Assets Under construction	4,067
590,986	Vehicles Plant & Equipment	472
<b>5,512,125</b>	<b>Total</b>	<b>4,539</b>

### HRA 5. Major Repairs Reserve (MRR)

2016/17			2017/18	
£'000	£'000		£'000	£'000
	(4,652)	<b>Opening Balance as at 1st April</b>		(4,507)
		<b>Transfers to the MRR -</b>		
(11,014)		Depreciation of HRA Dwellings	(11,415)	
(214)		Depreciation of other HRA Assets	(260)	
	(11,228)			(11,675)
		<b>Transfers from MRR -</b>		
	11,373	Financing of HRA Capital Expenditure		6,918
	(4,507)	<b>Closing Balance as at 31 March</b>		(9,264)

## Notes to the Housing Revenue Account (HRA)

### HRA 6. Capital Expenditure, Financing & Receipts

Capital Expenditure and Financing within the HRA in 2017/18 is summarised as follows:

2016/17 £'000		2017/18 £'000
	Capital Expenditure	
12,028	Major Repairs & Improvements	11,814
1,517	New Council Housing	1,761
456	Disabled Adaptations	421
307	Equipment	242
5,094	Assets under construction	2,784
19,402		17,022
	The Capital Expenditure was financed as follows:	
2,269	Capital Receipts	9,888
11,372	Major Repairs Reserve	6,940
5,761	Contributions	194
19,402		17,022

Total Capital Receipts in 2017/18 from the sale of property within the HRA can be summarised as follows :-

2016/17 £'000		2017/18 £'000
(7,516)	Right to Buy Sales	(4,904)
(2)	Right to Buy Mortgage Repayments	
(11)	Other Land & Property *	(96)
(7,529)		(5,000)

\*Includes repayment of Right to Buy discounts



New homes being built at former Twin Foxes site

**Collection Fund Statement 2017/18**

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. Stevenage Borough Council is a billing authority. The statement shows the transactions of the billing authority in relation to the collection of council tax from taxpayers and distribution to Hertfordshire County Council and Hertfordshire Police and the collection of NDR from businesses and distribution to the Government and Hertfordshire County Council.

2016/17			2017/18		
Council Tax £000	Business Rates £000	Total £000	Council Tax £000	Business Rates * £000	Total £000
(41,238)		(41,238)			
		0			
	(48,544)	(48,544)			
	174	174			
(41,238)	(48,370)	(89,608)			
30,719	4,614	35,333			
3,806		3,806			
<b>5,010</b>	<b>18,457</b>	<b>23,467</b>			
	23,072	23,072			
	113	113			
155	624	779			
131	27	158			
	424	424			
1,805	(233)	1,572			
232		232			
<b>299</b>	<b>(936)</b>	<b>(637)</b>			
	(1,170)	(1,170)			
<b>42,157</b>	<b>44,992</b>	<b>87,149</b>			
919	(3,378)	(2,459)			
(2,085)	2,050	(35)			
(1,166)	(1,328)	(2,494)			
<b>Income</b>					
Council Tax Receivable			(43,622)		(43,622)
Council Tax Benefits					0
Business Rates Receivable				(47,497)	(47,497)
Transitional Payment Protection receivable				3,086	3,086
<b>Total income</b>			(43,622)	(44,411)	(88,033)
<b>Expenditure</b>					
<b>Precepts, Demands and Shares</b>					
Hertfordshire County Council			33,258	4,219	37,477
Hertfordshire Police Authority			4,058		4,058
<b>Stevenage Borough Council</b>			<b>5,300</b>	<b>16,876</b>	<b>22,176</b>
Central Government				21,095	21,095
<b>Charges to Collection Fund</b>					
Costs of collection				110	110
Write offs of uncollectable amounts			71	509	580
Increase/(decrease) for impairment			116	(442)	(326)
Increase/(decrease) in provision for appeals				1,148	1,148
<b>Contribution in regard to previous year deficit/surplus</b>					
Hertfordshire County Council			855	120	975
Hertfordshire Police Authority			105		105
<b>Stevenage Borough Council</b>			<b>139</b>	<b>478</b>	<b>617</b>
Central Government				598	598
<b>Total expenditure</b>			<b>43,902</b>	<b>44,711</b>	<b>88,613</b>
<b>Movement on fund balance (deficit/(surplus))</b>			<b>280</b>	<b>300</b>	<b>580</b>
<b>Balance at beginning of year</b>			<b>(1,166)</b>	<b>(1,328)</b>	<b>(2,494)</b>
<b>Balance at end of year</b>			<b>(886)</b>	<b>(1,028)</b>	<b>(1,914)</b>

## Notes to the Collection Fund Statement 2017/18

### CF 1. Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, Hertfordshire Police Authority and the Stevenage Borough Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D property equivalent and adjusted for discounts. In 2013/14 the local council tax support scheme was introduced and the band D equivalents was reduced to take into account the loss of income; (26,995.10 for 2017/18, 25,888.50 for 2016/17). The basic amount of council tax for a band D property £1,596.35 for 2017/18 (£1,527.14 for 2016/17) is multiplied by the proportion specified for the particular band to give an individual amount due.

Band	A (Disbld.)	A	B	C	D	E	F	G	H	TOTAL
Properties	0	1,576.25	6,459.18	21,298.36	3,274.28	3,186.41	900.01	420	16	37,130.49
Exemptions		(36)	(109)	(138)	(14)	(13)	(7)	(2)	(5)	(324)
Disabled Relief	0	10	73	(67)	8	(17)	0	(5)	(2)	0
Discounts (25%)	0	1,126.61	3,917.76	6,369.02	779.83	527.71	108.73	51	0	12,880.66
Discounts (50%)	0	2	6	12	3	3	6	7	5	44
Council Tax Support Scheme	0	328.19	1,440.52	2,423.66	238.82	59.08	13.60	2.99	0	4,559.86
Empty Homes Premium	0	6.00	6.00	6.00	2.00	2.00	1.00	2.00	0	25.00
Effective Properties	0	889.41	4,003.22	17,074.44	2,834.00	2,964.91	849.73	394.76	6.50	29,016.97
Proportions	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	0	592.94	3,113.62	15,177.28	2,834.00	3,623.78	1,227.38	657.93	13	27,239.93
<b>Council Tax Base</b>		Band D equivalent multiplied by collection rate of 98%								<b>26,995.10</b>

## Notes to the Collection Fund Statement 2017/18

### CF 1. Council Tax (cont)

The income chargeable of £54,559,037 in 2017/18 is from the following sources:

2016/17		2017/18
£41,083,000	Billed to Council Tax Payers	£43,550,585
£5,683,162	Local Council Tax Scheme	£5,828,125
£4,436,735	Exemptions, Discounts, etc.	£5,180,327
<b>£51,202,897</b>		<b>£54,559,037</b>

### CF 2. Non-Domestic Rates (NDR)

The Government specified a multiplier of 47.9p in 2017/18 (49.7p in 2016/17) by which local businesses pay rates calculated by multiplying their rateable value by this amount (subject to the effects of transitional arrangements). The equivalent amount for small businesses was 46.6p in 2017/18 (48.4p in 2016/17). The rateable value for the Council's area is £110,366,867 at 31 March 2018 (£111,172,474 at 31 March 2017). The rateable value changes throughout the year due to increases and decreases in assessments.

In 2013/14 the business rate retention scheme was introduced by the Local Government Finance Act 2012. This scheme enables local authorities to retain a proportion of the business rates generated in their areas. Income generated by business rates is shared between the billing authority (Stevenage Borough Council), Central Government, and Hertfordshire County Council as shown in the Collection Fund Statement below. Liabilities and provisions arising from the NDR collection fund are also shared between the three and recognised in their accounts.

### CF 3. Allocation of Collection Fund (surpluses)/deficits

The Council Tax surplus is allocated in proportion to the respective precepts, whereas the NDR surplus is allocated on fixed apportionment of Central Government 50%, Stevenage BC 40%, and Hertfordshire County Council 10%.

2016/17			2017/18			
Council Tax	Business Rates	Total		Council Tax	Business Rates	Total
(£ 907,065)	(£132,857)	(£ 1,039,922)	Hertfordshire County Council	(£690,974)	(£102,814)	(£793,788)
(£111,172)		(£ 111,172)	Hertfordshire Police Authority	(£83,898)		(£83,898)
<b>(£ 147,323)</b>	<b>(£531,430)</b>	<b>(£678,753)</b>	<b>Stevenage Borough Council</b>	<b>(£110,942)</b>	<b>(£411,255)</b>	<b>(£522,197)</b>
	(£664,287)	(£664,287)	Central Government		(£514,069)	(£514,069)
<b>(£ 1,165,560)</b>	<b>(£1,328,575)</b>	<b>(£2,494,135)</b>		<b>(£885,814)</b>	<b>(£1,028,138)</b>	<b>(£1,913,952)</b>



## Glossary of Terms

### Actuarial Gains and Losses

Changes in the net pensions liability that arise because

- Events have not coincided with assumptions made at the last actuarial valuation, or
- The actuarial assumptions have changed

### Agency Services

Services which are provided by the Council for another Local Authority or public body and the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out.

### Amortisation

The measure of the cost or revalued amount of benefits of the intangible non current asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a non current asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

### Appointed Auditors

Independent external auditors that provide an audit opinion as to whether the Statement of Accounts shown are true and fair.

### Balances

In general, the surplus or deficit on any account at the end of the financial year. Often used to refer to an available surplus, which has accumulated over a number of past years.

### Budget

A statement defining in financial terms, the Council's policies over a specified period of time.

**Original Budget** the estimate for a financial year approved by the Council before the start of the financial year.

**Working Budget** – an updated revision of the original budget for the financial year approved at Executive Meetings and/or Council Meetings throughout the year

### Capital Expenditure

Expenditure on the acquisition of assets or works which have a long term value to the Council, either directly by the Council or indirectly in the form of grants to other persons or bodies. Expenditure which does not fall within this definition must be charged to a revenue account.

### Capital Receipts

The proceeds from the disposal of land or other assets which can be used to finance new capital expenditure (but not revenue spending). The Local Government Act 2003 introduced new provisions whereby a proportion of local authority housing capital receipts must be paid into the Government's National Pool (75% for Council houses and 50% for HRA land). This was amended for HRA receipts with changed with regard to the provision for new social housing ("one for one" receipts) and debt provision in 2012 following self financing.

## Glossary of Terms

### Capital Financing Costs

A charge to services to reflect the cost of assets used in the provision of the service.

### Code of Practice

Code of Practice on Local Authority Accounting sets out the arrangements required to be followed in the Statement of Accounts. It constitutes 'proper accounting practice' and is recognised as such by statute.

### CIPFA

Chartered Institute of Public Finance and Accountancy. The principal accounting body dealing with local government finance.

### Collection Fund

Every billing authority (District/Borough Council) is required to maintain a Collection Fund into which is paid the Council Tax and National Non-Domestic Rates collected from the tax/rate payers. Payments are made from the Fund to the precepting authorities (County Council, Police Authority and District/Borough Council) whilst National Non-Domestic Rates income is passed to the Government.

### Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. An example of a community asset would be parks.

### Contingent Asset

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

### Contingent Liability

A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.

### Council Tax

The property based tax by which Local Authorities and Police Authorities, raise revenue from the local community. All domestic properties have been valued and placed within eight bandings to which is applied the local rate assessed by the relevant authorities. A discount on charges is applied where dwellings are occupied by only one adult. Rebates are available to those Council Tax payers meeting the Government's criteria.

### Debt Charges

The repayment of money borrowed from a third party. These payments usually include repayment of part of the loan as well as interest. Also known as capital financing costs or loan charges.

## Glossary of Terms

### Defined Benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

### Depreciation

The measure of the cost or revalued amount of benefits of the non current asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a non current asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

### Earmarked Reserve

These are funds that are set aside for a specific purpose, or a particular service, or type of service. Stevenage Borough Council refer to these as “allocated reserves” in budget reports.

### Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

### Fees and Charges

Income arising from the provision of services e.g. parking facilities, planning applications.

### General Fund

The main revenue fund of the Council. Day to day spending on services is met from this fund. Spending on the provision of Council housing, however, must be charged to the separate Housing Revenue Account.

### Going Concern

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of operations.

### Government Grants

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

## Glossary of Terms

### **Heritage Assets**

Assets that are held and maintained principally for their contribution to knowledge and culture and are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

### **Housing Revenue Account (HRA)**

A separate account dealing with expenditure and income arising from the letting of Council dwellings. Expenditure includes supervision and management costs, repairs and capital financing charges. Income includes rent, Government subsidies and investment interest. It is a “ring fenced” (i.e. the transfer of amounts between the HRA and the General Fund is restricted by legislation).

### **Impairment**

A reduction in the value of a non-current asset below its carrying amount on the Balance Sheet.

### **Infrastructure Assets**

Expenditure on assets whose value is recoverable, e.g. roads footpaths, and bridges.

### **Interest on Balances and from Investments**

The interest earned by investing the day to day surplus on the authority's cash flow and balances in hand.

### **Non Domestic Rates (NDR)**

A levy on businesses based on a notional rate in the pound (multiplier) set by Central Government and multiplied by the 'rateable value' (RV) of the premises they occupy. The amount depends on the RV assigned to the property by the District Valuer and the multiplier, which is uniform across the whole country.

The government compensates the council through a S31 grant for additional NDR reliefs announced in recent budgets

### **Net Book Value**

The amount at which non-current assets are included in the balance sheet. This would be either the asset's historic cost or current value less the cumulative amount provided for depreciation. It does not represent the sale value.

### **Overheads**

Administration costs e.g. finance, personnel, information technology together with other central costs which cannot be allocated direct to services such as general expenses.

### **Precepts**

Sums levied by District/Borough, County and Parish Councils and Police Authorities on the Collection Funds of billing authorities (Districts and Boroughs) and forming part of the overall demand for Council Tax.

## Glossary of Terms

### **Public Works Loan Board (PWLB)**

A government agency established to provide long-term loans to local authorities to finance part of their capital expenditure.

### **Rateable Value**

A value on all non-domestic properties subject to Non-Domestic Rates (NDR). The value is based on a notional rent that the property could be expected to yield and revaluations take place every five years.

### **Related Parties**

For a relationship to be treated as a related party relationship there has to be some element of control or influence by one party over another, or by a third party over the two parties.

### **Revenue Contributions to Capital Outlay**

Contributions from revenue to finance capital expenditure.

### **Revenue Expenditure**

The day to day running costs incurred by the Council in providing its services.

### **Retrospective Restatement**

Retrospective restatement of the financial statements will occur where there has been a change in accounting policy (unless there are specific transitional arrangements) or where material Prior Period errors have been identified. Correcting the recognition, measurement and disclosure amounts of elements of the financial statements as if a prior period error had never occurred. This is achieved by restating the comparative amounts for prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net worth for the earliest prior period presented.

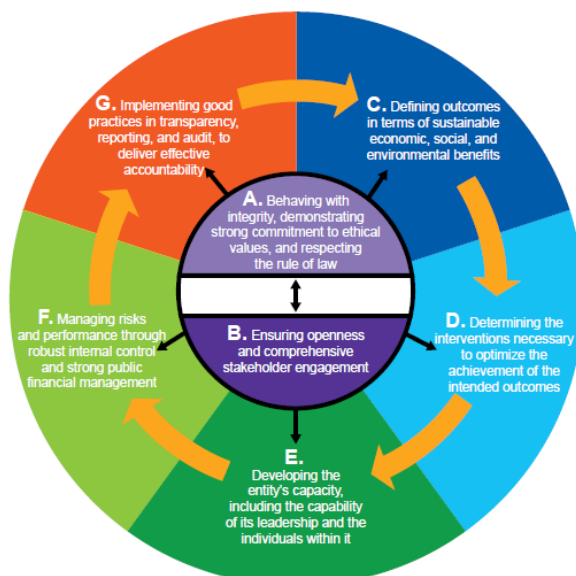
### **Surplus**

An excess of income over expenditure (or assets over liabilities).

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## What is Corporate Governance?



**Figure 1: International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) 'Achieving the Intended Outcomes While Acting in the Public Interest at all Times' – The International Framework**

Corporate governance is both the policies and procedures in place and the values and behaviours that are needed to help ensure the organisation runs effectively, can be held to account for its actions and delivers the best possible outcomes for the community with the resources available. Good governance enables the Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* sets the standard for local authority governance in the UK. The concept underpinning the framework is to support local government in developing and shaping an informed approach to governance, aimed at achieving the highest standards of governance in a measured and proportionate way. The Framework is designed to assist authorities with the review of the unique local governance arrangements in place with the overall aim to ensure that:

- Resources are directed in accordance with agreed policy and according to priorities.
- There is sound and inclusive decision making.
- There is clear accountability for the use of these resources to achieve desired outcomes for service users and communities.

Stevenage Borough Council has adopted a Local Code of Corporate Governance that sets out a commitment to corporate governance and summarises the governance arrangements in place to enable the council to monitor the achievement of its strategic objectives, to consider whether those objectives have enhanced delivery of appropriate cost effective services and outlines the activities through which it accounts to and engages with its communities. The Local Code reflects the core and sub-principles outlined in the 2016 CIPFA/SOLACE\* Framework, 'Delivering Good Governance in Local Government'



(\* CIPFA – Chartered Institute of Public Finance and Accountancy, SOLACE – Society of Local Authority Chief Executives and Senior Managers, IFAC – International Federation of Accountants)

## The Council's responsibility in relation to Corporate Governance

### Identifying Local Governance Arrangements

Stevenage Borough Council is responsible for ensuring that its business is conducted in accordance with the law and to proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The council's Local Code of Corporate Governance was revised and approved by Audit Committee in June 2017. The revised Local Code:

- Better reflects the revised principles in the 'Delivering Good Governance' Framework (2016)
- Provides enhanced detail in relation to the current governance assurance policies, processes, culture and values in place at the Council to facilitate the delivery of outcomes.

A copy of the code can be obtained from the Council Offices.

This Statement explains how the council has continued to comply with the Local Code summarises the review of effectiveness and identifies areas of governance to be strengthened.

The Statement also meets the statutory requirements in section 6 of the 2015 Accounts and Audit (England) Regulations, which requires all relevant bodies to prepare an Annual Governance Statement.

## How do we know our arrangements are working?

### The Governance Framework – How the Council monitors arrangements in place

The local Governance Framework outlines the process the council applies to review corporate governance arrangements. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they materialise, and to manage them efficiently, effectively and economically.

Stevenage Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of local governance arrangements including the system of internal control.

## Governance monitoring and assurance arrangements

The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's Annual Report, and also by comments made by external auditors and other review agencies and inspectorates.

To monitor and maintain the effectiveness of the Council's governance arrangements and drive continuous improvement:

- A Corporate Governance Group meet four times a year to consider the assurance framework from the perspective of the seven core principles of corporate governance in the CIPFA/SOLACE Framework (2016) - The seven core principles are set out in the diagram on page 1 and page 7.
- In addition to this proactive in-year review, Corporate Governance Group carries out an annual review of compliance with the behaviours that make up the seven core principles of corporate governance in the CIPFA/SOLACE Framework and submit a summary of the assessment to the Audit Committee. (Considered at Audit Committee March 2018).
- At business unit level, assurance of compliance with the principles of good governance requires all Assistant Directors to complete, certify and return a Service Assurance Statement each year.
- Corporate Governance Group also consider whether any recommendations as a result of external or internal audit activity (and other review agencies and inspectorates), and the Head of Assurance Annual Report require inclusion in the Statement.

All of these mechanisms of review contribute to overall assurance for the 2017/18 Annual Governance Statement. A summary of the types of assurance required, sources of assurance, assurance received and planned enhancement actions is represented on page 4 against the relevant principles. More detail is provided throughout the Annual Governance Statement.

The preparation and publication of the Annual Governance Statement in accordance with the requirements set out in the 'Delivering Good Governance in Local Governance' Framework (2016) fulfils the statutory requirement for the annual review of the effectiveness of systems of internal control meeting the requirement for 'preparation in accordance with proper practice'.

The Governance Framework summarised in this Statement has been in place at the council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

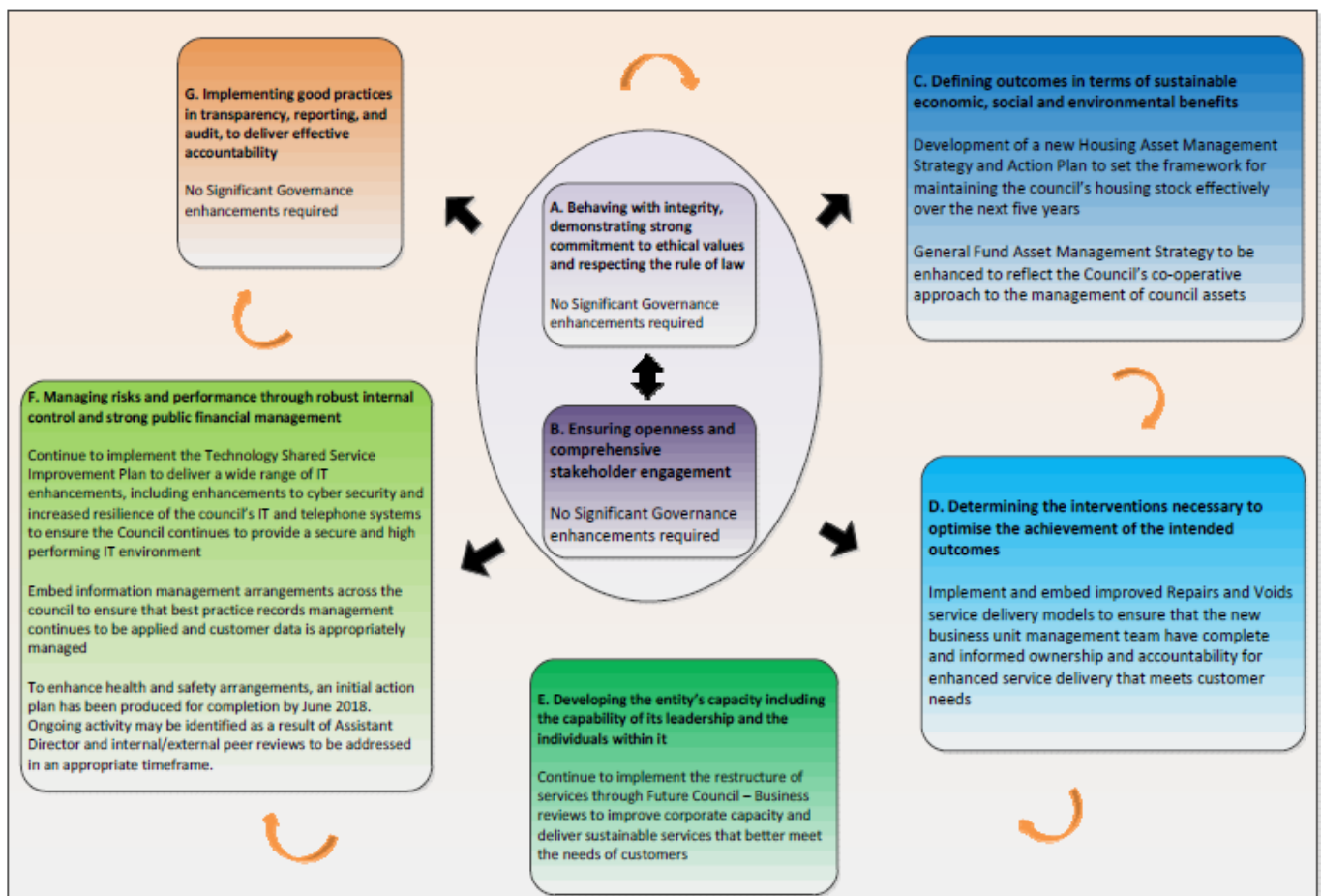
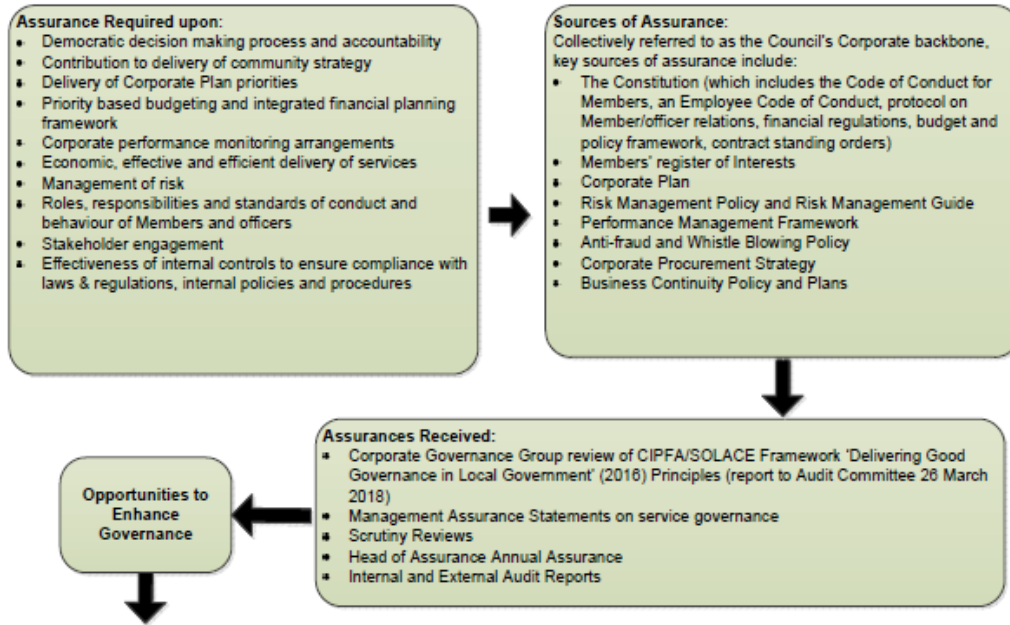


Figure 2: Overview of sources of assurance to inform review of effectiveness and identification of governance enhancements for 2018/19

The Action Plan, Pages 21 and 22 provides more detail on the governance enhancements identified.

## Assurance: Internal Audit Arrangements

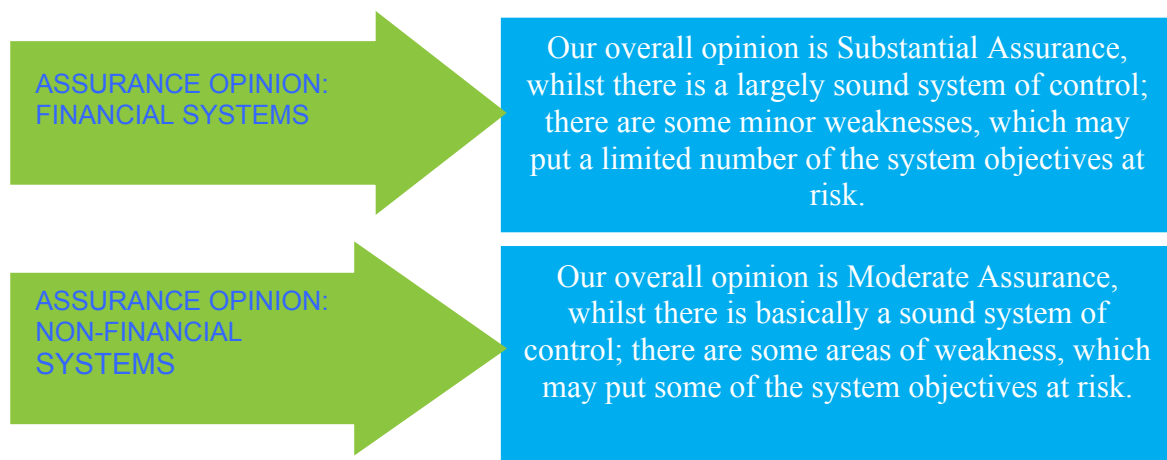
### Annual Audit Coverage

Delivery of the Council's Internal Audit provision was transferred to the Shared Internal Audit Service (SIAS) hosted by Hertfordshire County Council from 1 July 2011. Annual audit coverage is determined through a risk assessment, which is influenced by external regulatory requirements and the strategic and operational risks of the council. By reviewing the Council's systems of internal control, risk management and governance in accordance with an approved Audit Plan, Internal Audit contribute to the council's corporate governance framework.

SIAS operates to defined professional standards, i.e. the Public Sector Internal Audit Standards (PSIAS) and the Head of Assurance reports to the Council's Assistant Director (Finance & Estates) (Section 151 Officer) providing updates on internal audit progress and issues at regular liaison meetings. The Head of Assurance provides an independent opinion on the adequacy and effectiveness of the system of internal control. Since 2006/07 this report has been submitted on an annual basis to the Audit Committee. The main responsibility of SIAS is to provide assurance and advice on the internal control systems of the council to both Management and Members. Internal Audit reviews and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement where necessary. It also supports management in developing systems by providing advice on matters pertaining to risk and control.

### 2017/18 Audit Report

The Head of Assurance's Annual Internal Audit Report and Assurance Statement was reviewed by SLT and is being reported to the Audit Committee in June 2018. From the internal audit work undertaken in 2017/18, the Shared Internal Audit Service (SIAS) can provide the following assurance on the adequacy and effectiveness of the council's control environment, broken down between financial and non-financial systems as follows:



*Note: Further information relating to the above audit opinion is provided on Page 18.*

### Review of Effectiveness of Systems of Internal Audit

The Accounts and Audit Regulations 2015 came into force from 1 April 2015; Paragraph 5 (1) states, "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

As part of demonstrating the efficiency and effectiveness of the internal audit activity and identifying opportunities for improvement, the Head of Assurance must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This includes an annual internal or self-assessment undertaken by the Head of Assurance against the

Public Sector Internal Audit Standards (PSIAS) for Internal Audit in Local Government in the UK. The self-assessment concluded that the system of Internal Audit employed at Stevenage Borough Council is effective. In addition, PSIAS require that an external assessment or peer review is undertaken at least once every five years. An independent Peer Review was undertaken in 2015/16, which concluded that SIAS 'generally conforms' to the PSIAS, including the Definition of Internal Auditing, the Code of Ethics and Standards. 'Generally conforms' is the highest opinion within the scale of three ratings, and the peer review identified areas of good practice and high standards.

The annual performance indicators for SIAS are set by the SIAS Board which is comprised of the Section 151 Officers from the client authorities within the partnership. The table below sets out SIAS' performance against the performance indicator relating to planned days delivery since the service was introduced.

<b>Area of Activity</b>	<b>Target</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
Planned Days percentage of actual billable days against planned chargeable days completed	<b>95%</b>	97%	95%	99%	95%

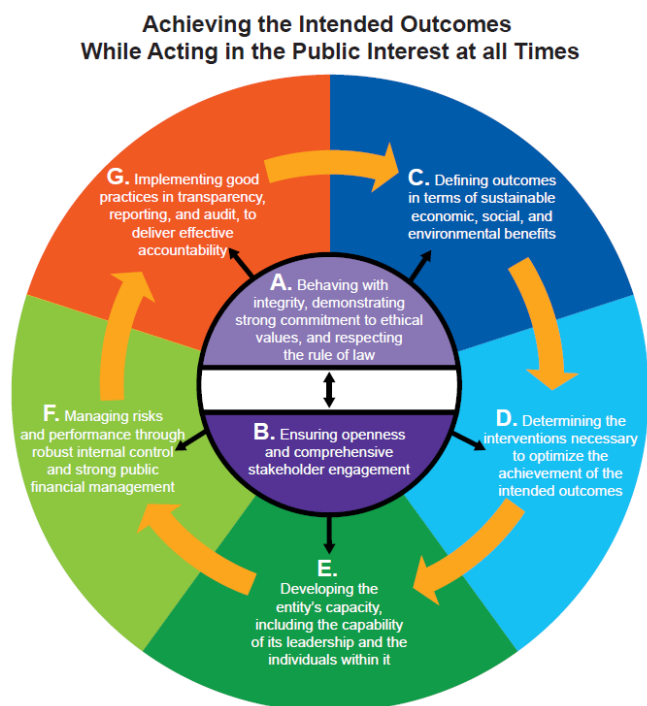
The assurance arrangements conformed with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010), as demonstrated through the assessment in the SIAS Annual Assurance Statement and Internal Audit Annual Report being reported to Audit Committee on 12 June 2018.



## The CIPFA/SOLACE Core Principles of Governance

The council achieves good standards of governance by applying the CIPFA/SOLACE Principles of Governance set out in the 'Delivering Good Governance in Local Government' Framework (2016) represented in the International Framework (Figure 1):

Figure 3: International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2014)



The diagram at figure 3 illustrates how the various principles for good governance in the public sector relate to each other. To achieve good governance the Council should achieve their intended outcomes while acting in the public interest at all times.

As overarching requirements for acting in the public interest, principles A and B apply across all other principles (C – G)

A summary of the review of effectiveness of local arrangements in place for 2017/18 against each of the principles is set out on the following pages identifying opportunities for governance enhancements. Arrangements are monitored throughout the year as set out on page 3. Key enhancements to arrangements delivered throughout 2017/18 are

indicated in the Corporate Calendar with specific reference to progress against the delivery of actions identified in the 2016/17 Annual Governance Statement.

## Principle A: Behaving with Integrity and respecting the rule of law

**Principle A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law** is acknowledged as key to the delivery of good governance and underpins the delivery of council priorities and services for the community.

### Summary of 2017/18 Review of Effectiveness

The Council's Local Code of Corporate Governance identifies the Nolan Principles (Standards in Public Life) as underpinning all local government activity.

The standards of conduct and personal behaviour expected of Members and Officers, its partners and the community are defined and communicated through Codes of Conduct and Protocols and the Council's Constitution. Arrangements are in place to ensure that Members and Officers are aware of their responsibilities under these codes and protocols. The council's website outlines the arrangements for making a complaint that a member of the authority has failed to comply with the Authority's Code of Conduct and sets out how the authority will deal with allegations of a failure to comply with the authority's Code of Conduct. Complaints about Members and allegations that a Member has breached the Code of Conduct would be dealt with by the Standards Committee and

the Borough Solicitor (Monitoring Officer) under the Localism Act 2011. In addition, the Council has appointed an Independent Person, to consult on alleged breaches to the Member Code of Conduct. The Council's Constitution sets out the employment procedures for the Head of the Paid Service, Strategic and Assistant Directors, Monitoring Officer and Chief Finance Officer.

The council has a Standards Committee to promote and maintain high standards of conduct by Members of the council and deal with any allegations that a member is in breach of the council's Code of Conduct and to consider changes to the Code as required.

The council's six organisational Values are underpinned by a behaviour framework for staff. The values are intended to influence the ways in which elected members and officers think and behave in responding to future challenges.



The Values are embedded into Member and Officer Induction, the Modern Member Programme, and management development programmes. A set of desired behaviours associated with each of the Values has been developed and form part of the council's appraisal process for officers.

The council also has a Whistle-blowing Policy which is based on the Public Interest Disclosure Act 1998 and an Anti-Fraud and Corruption Policy. The council's website and intranet have options for the public and staff to report suspected fraud that link to the Shared Anti-Fraud Service webpage.

The council did not carry out any investigations using covert surveillance under RIPA during 2017/18.

#### 2017/18 Enhancement Activity:

- A revised Local Code of Corporate Governance to better reflect the principles of good governance included in the 'Delivering Good Governance in Local Government Framework: 2016' was approved by Audit Committee
- Regulation of Investigatory Power Act (RIPA) training was undertaken by the council's RIPA Authorising Officers
- The council's Whistle-Blowing Policy has been reviewed and updated to reflect safeguarding changes and the Freedom to Speak Up report.

**Arrangements reflect those summarised in the council's Local Code of Corporate Governance - No significant opportunities to enhance governance have been identified.**

#### Principle B: Engaging with Local People and other Stakeholders

**Principle B: Ensuring openness and comprehensive stakeholder engagement** is considered essential in meeting the council's corporate ambitions and framework of values and regarded as key to effective service delivery. Communication supports the decision-making process and helps to improve service quality and foster good relationships between staff, Members and stakeholders.



#### Summary of 2017/18 Review of Effectiveness

The council's Corporate Communications Strategy, Let's Talk, sets out how the council will establish and maintain clear and relevant two-way channels of communication to:

- Ensure the council communicates its aims and achievements to all stakeholders
- Create an informed and recognisable profile for Stevenage Borough Council and a positive image of the town as a whole.

The Council wants to hear views about Council services. The Council regularly provides local residents, partners and other interested parties with opportunities to influence the planning, prioritisation and monitoring of services. A variety of methods are used to engage the local community, such as: surveys and questionnaires, community roadshows, focus groups and stakeholder conferences. During 2017/18 the Council has carried out a range of consultation activities to inform its priorities and budget-setting, such as:

- Residents Survey sent to 5000 households throughout the town asking residents to share their views on the town and council services
- Consultation events were held in the town centre and surveys shared with customers to inform the themes for the new Community Safety Strategy.
- Tenant and Leaseholder Satisfaction survey to measure customer perception of their home and the housing services they receive.
- Town centre shopper survey to inform town centre improvement

The council has a system for recording customer feedback which enables learning from feedback and complaints to facilitate effective monitoring of information provided by customers to review future service delivery.

The council has established a number of shared service arrangements to provide efficient and effective shared service provision and governance arrangements facilitate effective stakeholder engagement to deliver agreed outcomes. To facilitate the council's drive for continuous improvement, a Partner of Choice Programme has been established with an ambition to have stronger partnerships with key agencies to better deliver our strategic priorities. To achieve this, the programme will aim to strengthen partnership working skills in the Council and to map services that can be shared with other agencies, and measure the Council's reputation with partners.

#### **2017/18 Enhancement Activity:**

- A LGA Communications Peer Review was carried out and has informed a new Communications and Marketing Action Plan to enhance strategic communications.
- The Co-operative and Neighbourhood Management programme was launched at Stevenage Day, giving the local community an opportunity to hear about the programme.
- The 'Our Neighbourhood' webpage was developed to enable residents to find out what is happening in their local area.
- A shared Legal Service went live in July 2017.
- A Social Media Policy was published to enhance the use of social media as part of a wider communications mix.

**Arrangements reflect those summarised in the council's Local Code of Corporate Governance - No significant opportunities to enhance governance have been identified.**

### **Principle C: Defining Outcomes - The Council's Vision and Priorities**

**Principle C: Defining outcomes in terms of sustainable, economic, social and environmental benefits.** The focus of the council's governance arrangements is to deliver the best possible outcomes for the community and the council's vision for the town. It is essential that the Council seeks customer feedback and works with partners, to pool resources and skills

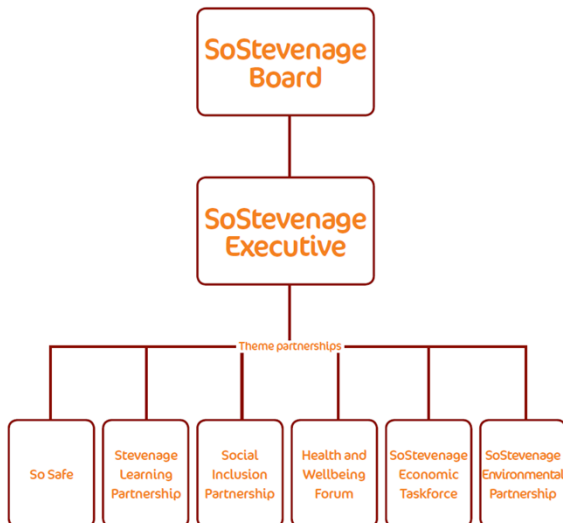
## Summary of 2017/18 Review of Effectiveness

### The Council's vision:

Stevenage: a prosperous town with vibrant communities and improved life chances

### Working in partnership

SoStevenage, the local partnership is made up of a wide range of public, private, voluntary and community organisations that have come together to work towards shared goals for Stevenage. SoStevenage is responsible for producing a community strategy and making sure that it is carried out.



The Community Strategy is the main strategic plan for the partnership. It outlines the partnership's vision and how the partnership will work together to improve Stevenage and contribute to the development of the town.

SoStevenage has adopted five co-operative principles:

- The Partnership as a strong community leader
- Working together with the community and other agencies to provide services based on needs
- Communities empowered to design and deliver services and play a role in their local community
- A clear understanding between the partnership and our communities – this is what we do, this is what we will help you to do
- Joined-up and accessible services that offer

value for money and focus on the customer

### Future Town, Future Council

The Future Town, Future Council (FTFC) programme consists of nine key programmes that aim to deliver improved outcomes and real change for Stevenage residents.

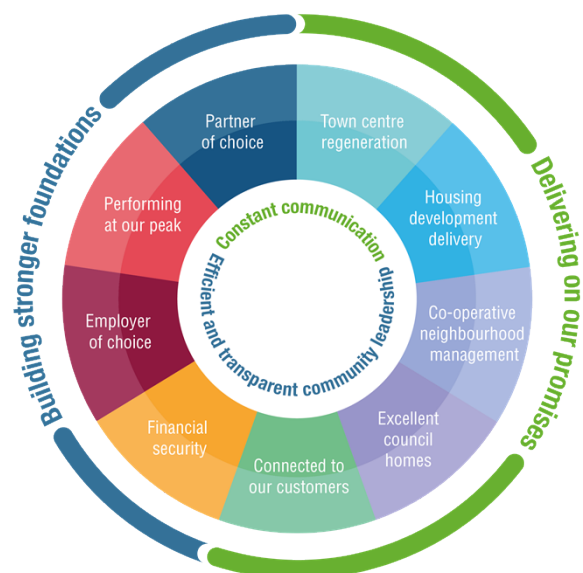
The Future Town Future Council programme will also serve to enhance future governance arrangements, particularly through the four programmes that deliver the changes required to ensure the Council is well placed to meet the service demands of the future:

- Financial Security
- Performing at our Peak
- Employer of Choice
- Partner of Choice.

The focus and scopes of programmes is monitored to ensure that the FTFC

Programme continues to deliver the Council's priorities. The FTFC programme continues to perform well and is currently on track against delivery of the agreed outcomes.

### Future town future council



The Co-operative Corporate Plan FTFC reflects the ambitions and projects and articulates to the public the council's key priorities and objectives that support the achievement of the FTFC programme over the next few years.

Every year we consider progress against our priorities as part of our annual plans and this informs important decisions about where to spend the budget. The Annual Report summarises our achievements over the past year and outlines what we plan to do in the next twelve months and is published on the council's website.

The Housing Revenue Account (HRA) Business Plan is the council's strategic plan for managing and maintaining its housing stock. It sets out the council's short-to-medium term plans and priorities for its housing management services and provides a long term (30 year) perspective on stock investment and financial planning.



The council is currently preparing a new local plan for the future of the town. This plan will guide development within the town until 2031. The Local Plan sets out how Stevenage will develop in the future: both regeneration and growth.

### 2017/18 Enhancement Activity

- The FTFC Programme was reviewed during the first half of 2017/18 to ensure governance arrangements remained effective as programmes moved from planning to delivery.
- A new Equality and Diversity Policy “Encouraging an Equal and Diverse Town and Workforce to 2021” was published and comprehensive Equality and Diversity training was delivered to all staff at Cavendish Road.

#### **To enhance arrangements summarised in the council's Local Code of Corporate Governance (published June 2017):**

A new Housing Asset Management Strategy and Action Plan to be developed to set the framework for maintaining the Council's housing stock effectively over the next five years and support delivery of the Future Town Future Council Programme. (Action 1, Page 21)

The draft General Fund Asset Management Strategy was considered by Executive on 14 February 2018. Officers and Members will now enhance the strategy with the incorporation of the Council's Co-operative principles to ensure that the Council's fundamental principle of working with the community to manage the Council's assets is reflected. (Action 2, Page 22)

#### **Ongoing monitoring is planned in mitigation of risks relating to the delivery of agreed outcomes:**

The HRA Business Plan, agreed by Executive November 2016, is under ongoing review to ensure a balanced HRA financial plan for the next 30 years, and to ensure there are sufficient HRA funds to fund the Council's Housebuilding and Acquisitions Programme. In light of a £27M deficit in the Business Plan's capital programme in future years, a package of financial security savings were considered by Members (Executive November 2017) with a further update provided to Special Council (January 2018). Future Council Business Unit Reviews will refocus on delivering Financial Security savings through improved processes and targeted commercialisation.

The Medium Term Financial Strategy and Capital Programme are under ongoing review to ensure finances remain robust in the long term and ensure the council can deliver the ambitions set out in the Future Town Future Council programme; deliver a once in a generation investment in the town, through town centre regeneration, housing development and investment in neighbourhoods and become financially self-sufficient.



## Principle D: Determining Interventions

**Principle D: Determining the interventions necessary to optimise the achievement of outcomes** requires robust monitoring and decision-making mechanisms to ensure that actions identified are sustainable within available resources.

### Summary of 2017/18 Review of Effectiveness

#### Financial Governance Arrangements:

The Financial Security programme continues to enhance the financial resilience of the council by ensuring resources are used effectively and efficiently and through the development of commercial and entrepreneurial skills and services.

The Medium Term Financial Strategy is under ongoing review to ensure a clear financial situation can be demonstrated. The Officer's Asset and Capital Group ensures effective arrangements are in place for the design and delivery of capital projects. Financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015)

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the separation of duties, management supervision, appropriate staffing structure including appropriately skilled, trained or qualified staff, and a system of delegation and accountability.

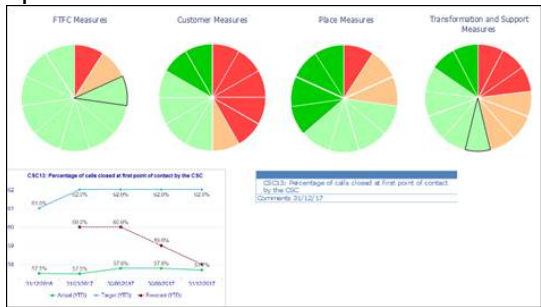
The council's framework of internal financial control is supported by Financial Regulations and Contract Standing Orders. The regulations provide the framework for managing the council's financial affairs. They set out the procedures that the council has adopted for financial planning, budgeting, risk management, auditing, treasury management and procurement of goods and services.

The developer to undertake the first phase of the council's ambitious programme of town centre regeneration has now been appointed with construction expected to start next year. The scheme, which celebrates the heritage of the New Town while bringing it into the 21<sup>st</sup> Century, includes new shops, homes, and a bespoke central venue for a library, exhibition space, health services and council offices. It will also create a new linear park and food and drink space with bars and restaurants in the heart of the town for people to enjoy.

#### Monitoring performance:

The performance and quality of each FTFC programme is monitored through a monthly Programme Board. The corporate programme is monitored through assessment of progress against target for a set of corporate performance measures aligned to service priorities.

As part of the Performing at our Peak programme, a new performance management framework was introduced to monitor performance measure results associated with the Future Town, Future Council Programme together with measures to monitor the delivery of effective services (The Corporate programme).



The status of performance for both the FTFC programme and the corporate programme with proposed improvement plans, where necessary, are discussed by senior management prior to Executive on a quarterly basis. In addition the Executive receive separate monthly updates on the council's financial position and quarterly overview reports.



The Council has a Data Quality Policy which outlines the council's commitment to ensuring data quality and arrangements are in place to monitor and enhance the quality of performance data.

### 2017/18 Enhancement Activity

- A new performance and governance system (InPhase) has been introduced to monitor performance and risk and is providing improved insight into corporate priority delivery. The new system is providing a range of corporate performance monitoring relating to service delivery, finances, staff, and customers, alongside consideration of the risks associated with the delivery of objectives in order to provide strategic insight and facilitate prompt implementation of any necessary improvement plans
- A review of the FTFC Programme was carried out to ensure governance arrangements remain effective as programmes move from planning to delivery.
- The Senior Leadership Team received procurement and contract management training and Introduction to Procurement and Managing the Tender Process training was delivered to officers as required.

#### **To enhance arrangements summarised in the council's Local Code of Corporate Governance (published June 2017):**

Implement and embed improved Repairs and Voids service delivery models to ensure that the new business unit management team have complete and informed ownership and accountability for enhanced service delivery that meets customer needs. (Action 3, Page 22)

#### **Ongoing monitoring is planned in mitigation of risks relating to the delivery of agreed outcomes:**

New Local Plan: Active engagement is currently being carried out with the Ministry of Housing, Communities and Local Government and the Chief Planner – Briefing papers have been prepared and are with the Secretary of State for decision. Partnership support is being managed along with contingency planning for all scenarios.

The Council is continuing to assess the potential impact of Welfare Reform on the community and Council through business insight. The current advised 'go live' date for roll out of the remainder of claimants for Universal Credit for Stevenage is now October 2018.

## **Principle E: Leadership Capacity and Capability**

**Principle E: Developing the organisation's capacity, including the capability of its leadership and the individuals within it.** The appropriate structures and leadership, as well as people with the right skills and values, enable the Council to operate efficiently and effectively and achieve the best possible outcomes for the community.

### **Summary of 2017/18 Review of Effectiveness**

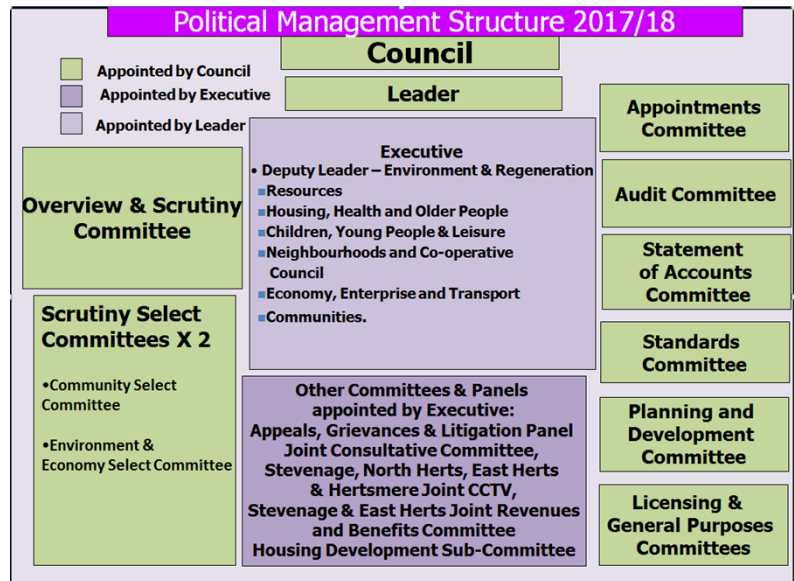
**The Council's Political Management Structure:** The Political Management Structure diagram (following page) summarises the Council's political structure for 2017/18.

All Councillors meet together as the Council. Meetings are generally open to the public and feature a main topical debate item. The Council has an approved Constitution which details how the Council operates, how decisions are made, including delegation of decisions and the procedures that are to be followed to ensure that these are efficient, transparent and accountable to local people. The Monitoring Officer ensures that the Constitution remains fit for purpose, that legal requirements are met and that the public interest is paramount in all decision making.

An Audit Committee was first established in May 2006 and its duties include advising and commenting on Internal and External Audit matters, as set out in the Constitution. It has been constituted in line with best practice recommendations from CIPFA guidance.

The Council has structured its processes and procedures for the Executive and Scrutiny Committees plus other Committees such as the regulatory ones, to minimise the risk of it acting in contravention of its own policies and external laws and regulations. The Council also appoints officers, qualified to undertake statutory responsibilities, such as:

- Chief Financial Officer (Assistant Director Finance and Estates) as contained within Section 114 of the Local Government Finance Act 1988.
- Monitoring Officer to meet Section 5 of the Local Government and Housing Act 1989.



### 2017/18 Enhancement Activity

- Members received training on reviewing the 'big three' reports (Budget, MTFs and Statement of Accounts)
- The Chair and Vice Chair of Audit Committee attended a training session facilitated by external auditors Ernst and Young
- The programme of training for Members (Modern Members Programme) was relaunched.

**The Council's Officer Structure:** The Council aims to create a flexible, collaborative, creative and modern workforce to ensure the council can deliver the priorities set out in the FTFC programme and give residents the standard of services they expect.



The senior management team has been structured to drive the development of a more sustainable, customer orientated and commercial operating model. The model is focused upon delivering the right services to the right standards, at the right time for the town's residents and businesses, using the most cost/resource effective delivery models. The senior management review resulted in the reorganisation of Business Units across three key delivery themes, Customer, Place and Transformation and Support.

The Council's Employer of Choice programme aims to transform the way the Council works, ensuring that staff have the skills, abilities and experience to deliver excellence

### 2017/18 Enhancement Activity:

- Assistant Directors were appointed to all Business Units
- A new Human Resources Management system to support workforce planning, training, development and the implementation of the council's new competency framework went live
- A bite-size manager training programme was launched to develop management capability through shared knowledge and good practice
- Development opportunities were offered through the District Council's Network Staff Development programme and Local Authority Challenge East
- A new approach to Senior Leadership Team induction was introduced to build strong bonds within the leadership team.
- A new staff Performance and Improvement Policy and Manager Toolkit was developed, along with a review of associated policies (Absence Management, Dignity at Work, Disciplinary, Grievance and Appeals policies) to encourage all employees to personally deliver the highest standards of service possible and for managers to proactively address performance issues.
- A review of the Performance and Development Appraisal process is now complete resulting in high level strategic proposals being agreed with the aim of a new corporate appraisal process being available for 2019/20
- An initial suite of e-learning modules to provide training and development matching individual and organisational requirements was made available to council staff.

**To enhance arrangements summarised in the council's Local Code of Corporate Governance (published June 2017):**

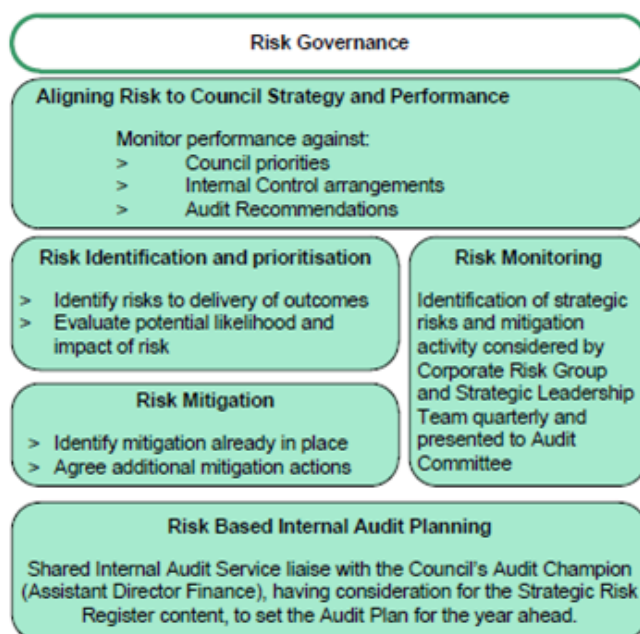
Continue to implement the restructure of services through Future Council – Business Reviews to improve corporate capacity and deliver sustainable services that better meet the needs of customers (Action 4, Page 22).

**Principle F: Managing Risks – The Council's Risk Governance Arrangements**

**Principle F: Managing risks and performance through robust internal control and strong public financial management.** Risk management together with a strong system of financial management are integral parts of a performance management system and are crucial to the achievement of outcomes.

**Summary of 2017/18 Review of Effectiveness**

The council consider and counter risk across a broad range of areas. The council has an approved Risk Management Policy and a Risk Management Guide is available to all employees. Strategic risks are linked to the council's priorities and the Strategic Risk Register is reviewed and monitored on a quarterly basis. Operational risks are also developed and monitored. A Corporate Risk Management Group with representation from each directorate

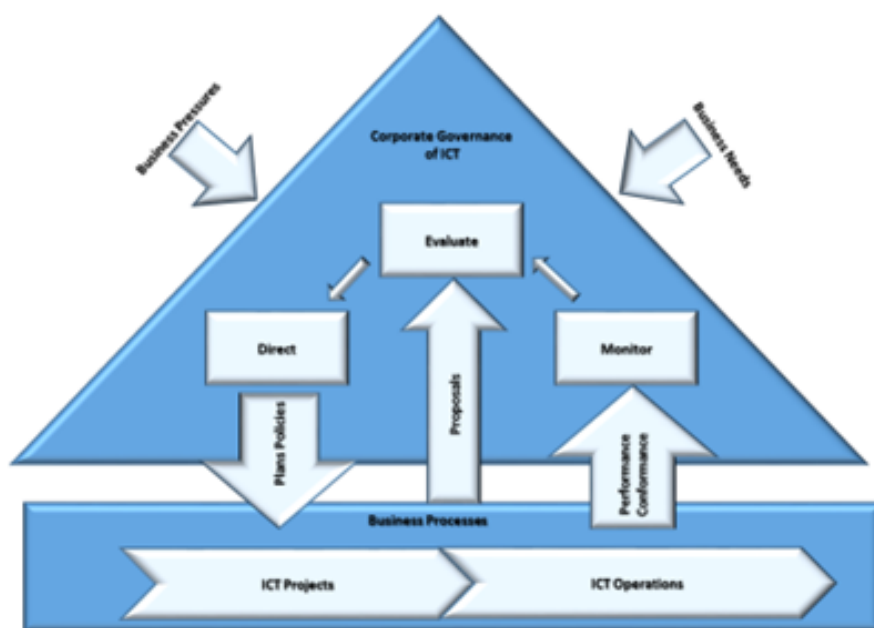


meets quarterly to oversee and review the process and development of the council's approach to risk.

To support service delivery improvements, the Council welcomes constructive challenge as a result of scrutiny from internal/external audit activity, the work programme of Overview and Scrutiny Committee and other external review agencies and inspectorates.

The Shared Anti-Fraud Service Anti-Fraud Action Plan 2018/19 will ensure compliance with the best practice issued by central government, National Audit Office and CIPFA. The Anti-fraud and Corruption Policy is available on the council's website and a Whistle-blowing Policy is available to all staff. Data Protection and Information Security responsibilities for staff, and processes for the management of both electronic and manual records are available to staff.

Corporate Governance of ICT is summarised in the following diagram setting out a robust framework to manage resilience and risk.



Stevenage is committed to embracing new digital opportunities to better meet the needs of residents, achieve savings and transform services. A secure, resilient, effective and forward looking Technology Service is critical in delivering these aims.

The Technology Service is in place to support the council in delivering key services to residents and customers, to enable service transformation and make the most of new digital opportunities. To support the council in delivering their corporate goals a new Technology Shared

Service Improvement Plan was agreed at Executive in November 2017.

Four external reviews were carried out during 2017 to support identification of risks and weaknesses to ensure we have the right foundation to support our corporate FTFC priorities. The reviews incorporate a focus on the additional steps we can take to prepare for the challenges of the ever changing technological environment, the growing threat of cyber-attack, as well as address risks in relation to disaster recovery. These four external reviews were:

- SOCITM review,
- SOCITM Security Assessment
- SIAS Disaster Recovery Audit
- Public Sector Network Assessment (and associated independent health check)

The New Technology Shared Service Improvement Plan will ensure the council has a robust foundation to enable delivery of its 'Connected to our Customers' programme, including a first rate website and online offer which is mobile enabled, and a wider set of improvements to the functions that customers should expect from a modern Council; from easy payment to balance enquiries to complaint resolution.



To enhance council-wide arrangements for the assessment and monitoring of health and safety a Health and Safety Management Framework was put in place.

Assistant Directors have ensured that health and safety responsibilities at each level of management within their business units are clear. An ongoing schedule of review by Assistant Directors and internal/external peers will provide assurance that key health and safety risks are being suitably controlled while identifying areas where improvements can be made and including these into the ongoing action plan.

Senior management representation on the Corporate Health and Safety Group will ensure the group is providing senior management with the assurances that are required.

An initial action plan to further enhance arrangements has been produced for completion by June 2018. Ongoing activity may be identified as a result of AD and peer reviews to be addressed in an appropriate timeframe.

**To enhance arrangements summarised in the council's Local Code of Corporate Governance (published June 2017):**

Continue to implement the Technology Shared Service Improvement Plan to deliver a wide range of IT enhancements, including enhancements to cyber security and increased resilience of the council's IT and telephone systems to ensure the Council continues to provide a secure and high performing IT environment. (Action 5, Page 22).

Embed information management arrangements across the council to ensure that best practice records management across the council continues to be applied and customer data is appropriately managed. (Action 6, Page 22).

To further enhance health and safety arrangements, an initial action plan has been produced for completion by June 2018. Ongoing activity may be identified as a result of Assistant Director and internal/external peer reviews to be addressed in an appropriate timeframe. (Action 7, Page 22).

**2017/18 Enhancement Activity:**

- SAFS has launched a county-wide framework to enhance processes to identify Council Tax Fraud
- The Council's business continuity arrangements have been reviewed to reflect the Senior Management review

**Principle G: Delivering Effective Accountability**

**Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability** will ensure that the Council provides information regarding the completion of actions in a timely and understandable way.

**Summary of 2017/18 Review of Effectiveness**

Reporting on performance, value for money, the stewardship of resources and the assessment of robust corporate governance arrangements are provided throughout the year through:

- Quarterly financial monitoring reports to Executive
- Quarterly FTFC and corporate performance status reports to Executive
- Annual publication of Statement of Accounts

- Publication of the Annual Governance Statement
- the council's Annual Report

The council complies with requirements outlined in the Local Government Transparency Code 2015. Compliance is monitored throughout the year by Corporate Governance Group.

New laws regarding data protection (EU General Data Protection Regulation (GDPR)) which became effective on 25 May 2018 have been considered during 2017/18. The primary objectives of the GDPR are to give citizens and residents back control of their personal data and to simplify the regulatory environment. An action plan to enhance information management arrangements across the council is being implemented, an Information Officer has been appointed, Information Asset Owners have been assigned and a Corporate Information Governance Group has been established to embed best practice records management across the council and ensure that customer data is appropriately managed.

The Council's internal audit provision is delivered by the Shared Internal Audit Service hosted by Hertfordshire County Council. A summary of 2017/18 arrangements is set out on page 4 of this Statement outlining assurance for both financial and non-financial systems.

For 2017/18 the Shared Internal Audit Service assigned 'substantial' assurance for financial systems and 'moderate' assurance to non-financial systems. The approved audit plan for 2017/18 included a range of non-financial audits that focused on complex services and areas in transition and this has had an impact on the assurance levels provided. Actions to enhance governance for the areas highlighted have been identified and prioritised.

**Arrangements reflect those summarised in the council's Local Code of Corporate Governance – No significant opportunities to enhance governance have been identified. Action 6 identified as a result of the assessment of Principle F: Managing Risks is, however, applicable to the ongoing delivery of EU General Data Protection Regulation (GDPR).**

## Corporate Governance Calendar 2017/18

The following corporate governance calendar summarises activity and enhancements delivered throughout the year to ensure compliance with the corporate governance arrangements outlined in the council's Local Code and outlines progress made against the improvement actions identified in the 2016/17 Annual Governance Statement.



## Apr 2017

- A new Human Resources Management system went live to support workforce planning, training, development and the implementation of the council new competency framework
- SAFS began working with DWP to investigate fraud affecting national benefits linked to local benefits
- Equality and Diversity training package was delivered to all staff at Cavendish Road

## May 2017

- Annual Council agree the political management structure of the Council
- FTFC Programme reviewed to ensure governance arrangements remain effective

**To meet a 2017/18 AGS Action Council approved the allocation of £15M towards a Commercial Property Investment Strategy to enable economic growth in Stevenage with an added benefit of generating long term rental income streams to support the delivery of the FTFC programme and council services**

## Aug 2017

- Council's Constitution updated
- Shared Legal Service with HCC went live
- SIAS restructured to provide a more responsible service in light of changing customer demand
- Ernst and Young appointed as the Council's external auditors for a five year period

## Sep 2017

- Annual report on the activity of the Shared Internal Audit Service for 2016/17 reported to Audit Cttee
- Annual report on the activity of the Shared Anti-Fraud Service for 2016/17 reported to Audit Cttee
- 2016/17 Statement of Accounts and external audit report are reported to Audit Committee
- Statement of Accounts training provided for Audit Committee
- Executive approves both the General Fund and HRA MTFS 2017/18-2021/2022

**To meet a 2017/18 AGS Action, a Corporate Information Group was established, and an Information Officer appointed to establish best practice records management across the council**

## Dec 2017

- A new corporate e-learning package was launched that will help to develop staff knowledge and capability
- New Social Media Policy published

## Jan 2018

- RIPA refresher training for Authorising Officers was carried out
- Review of Appraisal process completed
- Council approve the Housing Revenue Account Final Budget Proposals 2018/19 and Rent Setting, and Draft Council Tax Support Scheme 2018/19
- Overview and Scrutiny Committee consider 2018/19 Draft Capital Forward Plan, Five Year Capital Strategy Update and 2018/19 Council Tax Setting and General Funding Budget prior to submission to Executive and Council February 2018

## Jun 2017

- Audit Committee recommended the 2016/17 AGS to Statement of Accounts Committee
- Head of Assurance confirms to Audit Committee the 'fitness for purpose' of internal audit to carry out the work that informs the assurance opinion for 2017/18 and of 'Substantial Assurance' opinion for the council's financial and non-financial systems for
- Executive appoints the council's Executive bodies for 2017/18
- Revised Local Code of Corporate Governance approved by Audit Committee

**To meet a 2017/18 AGS Action, additional hardware was installed to enhance IT resilience**

## Jul 2017

- Annual Scrutiny Report submitted to Council
- Annual Report and Performance Review approved by Executive
- Pay Policy Statement approved by Council
- Corporate Governance Group carried out a proactive review of Principles A and B of the CIPFA/SOLACE Framework

**To meet a 2017/18 AGS Action, Executive approved the procurement process for sub-contract supply chain for Repairs and Voids service**

## Oct 2017

- Modern Member Programme Relunched
- Council approves the Annual Treasury Management Review of 2016/17 including prudential code
- Corporate Governance Group carried out a proactive review of Principles C and D of the CIPFA/SOLACE Framework
- New Equality and Diversity Policy 'Encouraging an Equal and Diverse Town and Workforce to 2021' was published

## Nov 2017

- External Auditors advise Audit Committee in their Annual Audit Letter 2016/17 that the council's financial statements give a true and fair view of the financial position of the Council at 31 March 2017 and of its expenditure and income for the year then ended
- A new staff Performance and Improvement Policy and Manager Toolkit was developed
- LGA Communications Peer Review carried out

**To meet 2017/18 AGS Actions, the Data Protection Policy and document retention guidance was reviewed and updated. A Technology Shared Service Improvement Plan was agreed by Executive which sets out improvement to ensure services are delivered to meet customer needs and are fit for purpose**

## Feb 2018

- Developer appointed for regeneration
- Council approves the 2018/19 Council Tax, General Fund and Capital budgets
- Whistle Blowing Policy reviewed and updated
- Data Protection and GDPR e-learning modules went live

## Mar 2018

- Audit Committee note the self-assessment of compliance against the CIPFA/SOLACE Framework
- Internal Audit of Corporate Risk Management arrangements achieved Full Assurance for areas assessed

## Planned Improvement Activity for 2018/19:

Significant internal control and governance issues identified as part of the 2017/18 review of the Governance Statement are summarised on page 4, identified in the relevant section throughout this Statement and set out in the following Action Plan.

Enhancement activity is deemed significant if recommended for reflection in the Annual Governance Statement by the Shared Internal Audit Service following reviews of control arrangements to meet the Audit Plan, or if identified as key to the management of 'very high/high level' strategic risks. By adopting this approach, any concerns over key controls that have a material effect on corporate governance arrangements and the associated delivery of priority outcomes should be addressed.

There are currently a few high level strategic risks where related mitigation activity is identified throughout this document as recently introduced or ongoing governance arrangements, such as:

- The Housing Revenue Account (HRA) Business Plan, (agreed by Executive November 2016) is under ongoing review to ensure a balanced HRA financial plan for the next 30 years, and to ensure there are sufficient HRA funds to fund the council's Housebuilding and Acquisitions Programme. In light of a £27M deficit in the Business Plan's capital programme in future years, a package of financial security savings were considered by Members (Executive November 2017) with a further update provided to Special Council (January 2018). Future Council Business Unit Reviews will refocus on delivering Financial Security savings through improved processes and targeted commercialisation.
- The Medium Term Financial Strategy and Capital Programme are under ongoing review to ensure finances remain robust in the long term and ensure the council can deliver the ambitions set out in the Future Town Future Council Programme; deliver a once in a generation investment in the town, through town centre regeneration, housing development and investment in neighbourhoods and become financially self-sufficient.
- New Local Plan: Active engagement is currently being carried out with the Ministry of Housing, Communities and Local Government and the Chief Planner – Briefing papers have been prepared and are with the Secretary of State for decision. Partnership support is being managed along with contingency planning for all scenarios.
- Risks associated with the impact of Welfare Reform on the community and Council have been identified. The Council is continuing to assess potential impacts through business insight. The current advised 'go live' date for roll out of the remainder of claimants for Universal Credit for Stevenage is now October 2018.

Action Ref	Action	Responsible Officer	Target Date
1	A new Housing Asset Management Strategy and Action Plan to be developed to set the framework for maintaining the Council's housing stock effectively over the next five years and support delivery of the Future Town Future Council Programme	AD Housing Management and Investment	September 2018

Action Ref	Action	Responsible Officer	Target Date
2	The draft General Fund Asset Management Strategy was considered by Executive on 14 February 2018. Officers and Members will now enhance the strategy with the incorporation of the Council's Co-operative principles to ensure that the Council's fundamental principle of working with the community to manage the Council's assets is reflected.	AD Finance and Estates	September 2018
3	Implement and embed improved Repairs and Voids service delivery models to ensure that the new business unit management team have complete and informed ownership and accountability for enhanced service delivery that meets customer needs.	AD Stevenage Direct Services	March 2019
4	Continue to implement the restructure of services through Future-Council – Business reviews to improve corporate capacity and deliver sustainable services that better meet the needs of customers.	All ADs	March 2019
5	Continue to implement the Technology Shared Service Improvement Plan to deliver a wide range of IT enhancements, including enhancements to cyber security and increased resilience of the council's IT and telephone systems to ensure the Council continues to provide a secure and high performing IT environment.	AD Corp Services and Transformation	<b>Phase One</b> Sept 2018 <b>Phase Two</b> Jan 2019 <b>Phase Three</b> From Jan 2019 onwards
6	Embed information management arrangements across the council to ensure that best practice records management across the council continues to be applied and customer data is appropriately managed.	AD Corp Projects, Customer Services & Technology	September 2018
7	To further enhance health and safety arrangements, an initial action plan has been produced for completion by June 2018. Ongoing activity may be identified as a result of Assistant Director and internal/external peer reviews and to be addressed in an appropriate timeframe.	Richard Protheroe AD Corp Services and Transformation	June 2018 for initial action plan

## Approval of Statement:

### Approval of Statement by Chief Executive and Leader of the Council

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Strategic Leadership Team, relevant officers and the Audit Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. Areas to enhance the governance framework already addressed are summarised in the Corporate Calendar set out on pages 19/20. Areas to be addressed and ensure continuous improvement are set out in the table above on pages 21/22.

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 their implementation and operation as part of our next annual review.

Signed .....  
Date .....  
Cllr Sharon Taylor  
Leader of Stevenage Borough Council

Signed .....  
Date .....  
Scott Crudgington  
Chief Executive of Stevenage Borough Council

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## Glossary of Common Audit phrases

- **Known Differences:**

Represent items that can be accurately quantified and relate to a definite set of facts or circumstances.

- **Judgemental Differences:**

Generally involves estimation and relate to facts or circumstances that are uncertain or open to interpretation.

- **Misstatement:**

An amount entered in the statement of accounts which the auditors believe is not correct.

- **Materiality Levels:**

Audits have used a figure equivalent to 2% of SBC's gross expenditure (£0.106m) on provision of services. This represents the threshold for reporting misstatements that have an effect on the primary statements (e.g. Comprehensive Income and Expenditure Statement, Balance Sheet, Movement on Reserves, Cash Flow Statement and Collection Fund).

- **True and Fair:**

True and fair view in auditing means that the financial statements are free from material misstatements and faithfully represent the financial performance and position of the organisation.

- **Qualified**

A qualified opinion is typically given due to a limitation of scope in which the auditor was not able to gather sufficient evidence for various aspects of the financial statements. Without sufficient verification of transactions, an unqualified opinion may not be given. A qualified opinion is suitable when accounting procedures used do not conform to recognised accounting standards or procedures. Inadequate disclosures in the notes to the financial statements, estimation uncertainty, or the lack of a statement of cash flows are also grounds for a qualified opinion.

- **Unqualified**

An unqualified opinion is an independent auditor's judgment that a company's financial statements are fairly and appropriately presented, without any exceptions, and in compliance with recognised accounting standards or procedures.

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