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Audit & Governance Committee Supplementary Agenda

7. **Financial Statements 2019/20 - External Audit Findings Report**
(Pages 5 - 254)

This report presents two reports from the Council's external auditors (Grant Thornton UK LLP)

- The final 2019-20 Audit Findings Report for the Council's accounts, including recommendations and management responses
- An External Audit Plan for the financial year 2020-21

This report also presents an updated set of audited 2019-20 statement of accounts, including the 2019-20 Pension Fund accounts. The report sets out the key changes between the audited 2019-20 accounts, and the version last presented to this committee on 20 July 2023.

The Audit and Governance Committee is recommended to:

1. Delegate authority to the Section 151 Officer in consultation with the Chair of Audit and Governance Committee to sign the 2019-20 Council accounts, including Pension Fund accounts (Appendix 2)
2. Delegate authority to the Section 151 Officer in consultation with the Chair of Audit and Governance Committee to sign the letters of representation to Grant Thornton LLP for the Council and Pension Fund
3. Note the 2019-20 Audit Findings Report for London Borough of Croydon and recommendations made (Appendix 1)
4. Note the External Audit Plan for 2020-21 (Appendix 3)

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8. **Financial Statements 2020/21 - External Audit Plan**

Please refer to Item 7. Financial Statements 2019/20 - External Audit Findings Report (Pages 5 – 254) Appendix 3 - LBC Audit Plan for 2020-21 and progress report - March 2024.

9. **Auditors Annual Report - 2022/23**

Please note the Chair has agreed that this item will be deferred to the next meeting of the Audit and Governance Committee on 11 April 2024.

15. **People & Cultural Transformation Update** (Pages 255 - 310)

Appendix 3 - Workforce ICB data dashboard January – December 2023

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LONDON BOROUGH OF CROYDON

REPORT:	**Audit and Governance Committee**	
DATE OF DECISION	**14 March 2024**	
REPORT TITLE:	**External Audit Findings Report on the 2019-20 Statement of Accounts**	
CORPORATE DIRECTOR	**Jane West** **Corporate Director of Resources (Section 151 Officer)**	
LEAD OFFICER:	**Ian Geary, Interim Head of Corporate Finance**	
LEAD MEMBER:	**Cllr Jason Cummings, Cabinet Member for Finance**	
KEY DECISION?	**No**	**Reason: N/A**
CONTAINS EXEMPT INFORMATION?	**No**	**Public** **Grounds for the exemption: N/A**
WARDS AFFECTED:	**All**	

1 SUMMARY OF REPORT

1.1 This report presents two reports from the Council's external auditors (Grant Thornton UK LLP)

- The final 2019-20 Audit Findings Report for the Council's accounts, including recommendations and management responses
- An External Audit Plan for the financial year 2020-21

1.2. This report also presents an updated set of audited 2019-20 statement of accounts, including the 2019-20 Pension Fund accounts. The report sets out the key changes between the audited 2019-20 accounts, and the version last presented to this committee on 20 July 2023.

2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

2.1 Delegate authority to the Section 151 Officer in consultation with the Chair of Audit and Governance Committee to sign the 2019-20 Council accounts, including Pension Fund accounts (Appendix 2)

2.2 Delegate authority to the Section 151 Officer in consultation with the Chair of Audit and Governance Committee to sign the letters of representation to Grant Thornton LLP for the Council and Pension Fund

2.3 Note the 2019-20 Audit Findings Report for London Borough of Croydon and recommendations made (Appendix 1)

2.4 Note the External Audit Plan for 2020-21 (Appendix 3)

3 REASONS FOR RECOMMENDATIONS

3.1 The terms of reference of the Audit and Governance Committee include to "oversee the financial reporting and annual governance processes" and "to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

3.2 The audit of the 2019-20 accounts is substantively complete, with the auditors findings and management's agreed responses set out in Appendix 1, and the updated financial accounts as Appendix 2. The committee is recommended to delegate sign-off of the final accounts and letters of representation to the Section 151 Officer and Chair of the Audit and Governance Committee following completion of the audit and receipt of the final audit opinion.

3.3 Committee is also recommended to delegate sign-off of the letters of representation to the Section 151 Officer and Chair of the Audit and Governance Committee. These letters will attest to the accuracy of financial statements and information submitted by the Council to Grant Thornton LLP.

3.4 Committee is also asked to note the External Audit Plan for the 2020-21 financial accounts, which incorporates an update on audit progress and sector updates.

4 BACKGROUND AND DETAILS

4.1 The amended 2019-20 unaudited Statement of Accounts were presented to Audit and Governance Committee on 20 July 2023, together with a report explaining the key changes made to them since their initial publication on 19 October 2020.

4.2 The external audit of the 2019-20 accounts has subsequently been completed, and the final Audit Findings Report for London Borough of Croydon from Grant Thornton UK

LLP is provided in Appendix 1. Note: the Audit Findings Report for the Pension Fund was presented and agreed at this committee on 30th November 2023.

4.3 The Audit Findings Report includes an action plan appendix which provides recommendations as a result of issues identified during the course of the audit, and the Council's management response to these. The auditors will report to this Committee on progress on these recommendations during the course of the following year's audit.

4.4 The audited 2019-20 accounts are provided in Appendix 2, which contain a number of adjustments from the version presented on 20 July 2023.

4.5 The following section sets out the key areas that have been updated in the 2019-20 accounts since July 2023:

Capitalisation Direction

4.6 The Council received an "in principle" confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) to agree a capitalisation direction for up to £126m in 2019-20, to address legacy issues. The council has requested a further £9.4m of capitalisation direction to fund a further charge to the General Fund in 2019-20. This was in relation to the settlement of a contract dispute.

Minimum Revenue Provision for Capital Loans and purchase of investment properties

4.7 The Council's Minimum Revenue Provision (MRP) guidance for the 2019-20 financial year did not set aside MRP for capital borrowing in relation to capital loans and investment properties. A review of the MRP policy determined this was not a prudent amount, as required by accounting standards. This has been corrected in the 2019-20 financial year by increasing the MRP in relation to these items, as set out below:

Capital Borrowing:	**Principal £'000**	**MRP 2019-20 £'000**	**MRP 2020-21 £'000**	**MRP 2021-22 £'000**	**MRP 2022-23 £'000**
Loans to Brick by Brick	147,365	1,862	1,921	1,981	2,043
Investment Property	101,343	1302	1,343	1,385	1,428
Charge to General Fund	**248,708**	**3,164**	**3,264**	**3,366**	**3,471**
Amounts since included		0	651	3,670	3,423
Changes arising		**3,164**	**2,612**	**(304)**	**48**

4.9 The Council had begun to make an MRP charge for Investment Property debt in 2020-21 and Brick by Brick debt in 2021-22 onwards. Introducing the charge into the 2019-20 year has therefore brought the charge forward by 1 to 2 years and will ultimately see it end 1 to 2 years earlier. The additional charge to the general fund in 2019-20 and 2020-21 has been funded from available earmarked reserves and balances in those years.

Loans to Brick by Brick (Croydon) Limited

4.8 At 31 March 2020 the Council had made loans of £147.365m to Brick by Brick for the construction of housing. The final 2019-20 accounts now include an impairment to the value of loans, to reflect that the loans will not be repaid in full. At the date of this report, the actual write-off of loans to Brick by Brick is not finalised, as it is dependent upon the sale by Brick by Brick of its final development sites. The Brick by Brick closure report to Cabinet on 14 February 2024 estimated the loss to be between £62m and £68m. However, for 2019-20 an impairment loss has been estimated by using a credit risk factor on the loan balance that existed at 31 March 2020.

	31 March 2020 £'000
Loans to Brick by Brick	147,365
Impairment	51,696
Carrying value of loans	**95,669**

4.9 Because the loans are capital in their nature (all debt in relation to interest has been repaid), the impairment is not a proper charge to the general fund under accounting rules. It is instead charged to the Capital Adjustment Account (an unusable reserve) and effectively increases capital debt.

4.10 Amounts of capital debt are required to be repaid via MRP. The amount of capital loans made to Brick by Brick is already subject to MRP, as set out in Paragraph 4.8 above, so no further MRP charge is required in relation to this impairment. It should be noted that as Brick by Brick repays loan amounts to the Council, it's capital debt will be reduced. Ultimately, the residual balance being repaid from the general fund via MRP will be the balance of unpaid capital loans, currently estimated at between £62m and £68m.

Fairfield Halls Asset classification

4.11 During its period of refurbishment, the Fairfield Halls have been reclassified from an operational asset to an asset under construction. This required numerous adjustments to the Council's balance sheet, comprehensive income and expenditure and movement in reserves statements, due to the way revaluations and depreciation are accounted for. However, there was no overall impact to the level of council reserves held as a result of this classification change.

Revised General Fund and capitalisation direction.

4.12 The table below sets up the cumulative impact of the changes to the 2019-20 accounts on the Council's General Fund position.

Capitalisation Direction Applied to 2019-20 Accounts

Reason for change	Report July 2023 (£000's)	Report November 2023 (£000's)	Report March 2024 (£000's)
Transformation expenditure removed	73,078	73,078	73,078
Credit loss for bad debt	28,872	28,872	28,872
Reduction in recharge to HRA	10,173	10,173	10,173
Cumulative MRP	3,544	6,708	6,708
Increase in General Balances	3,934	3,934	3,934
Increase in Earmarked Reserves	6,399	3,235	3,235
Expenditure arising from a contractual dispute			9.394
Total Capitalisation Direction applied to 2019-20 accounts	**126,000**	**126,000**	**135,394**

Accounts preparation and Audit of subsequent financial years

4.13 The changes applied to the Council's 2019-20 accounts will be rolled forward into the 2020-21 and later financial years as part of bringing the Council up to date in relation to its financial accounts. Appendix 3 sets out the External Audit Plan for 2020-21, and contains updates from the Council's auditor in relation to addressing the backlog of local authority accounts.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 None.

6 CONSULTATION

6.1 None.

7. CONTRIBUTION TO COUNCIL PRIORITIES

7.1 This report supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services".

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

8.1.1 A capitalisation direction of £135.394m is required in 2019-20, which must be repaid by the General Fund over a period of 20 years.

8.1.2 The external audit fees by Grant Thornton UK LLP will be funded through revenue budget and earmarked reserves (including the Opening the Books reserve).

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer), 07/03/2024.

8.2 LEGAL IMPLICATIONS

8.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that under Section 3 of the Local Audit and Accountability Act 2014, the authority must keep adequate accounting records, and must prepare a statement of accounts in respect of each financial year.

8.2.2 Regulation 7 of the Accounts and Audit Regulations 2015 ('the Regulations') requires the authority's statement of accounts to be prepared in accordance with the Regulations and proper practices in relation to accounts.

8.2.3 Regulation 9 sets out the requirements for the signing and approval of the statement of accounts. In particular regulation 9(2) provides that subject to the requirements of regulation 9(3) and following conclusion of the period of exercise of public rights in regulation 14 the Council must in the following order:

(a) Consider either by way of a committee or by members as a whole the statement of accounts;

(b) Approve the statement of accounts by a resolution of that committee or meeting; and

(c) Ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

Regulation 9(3) requires the responsible financial officer to re-confirm on behalf of that authority that they are satisfied that the statement of accounts presents a true and fair view of:

(a) the financial position of the authority at the end of the financial year to which it relates; and
(b) that authority's income and expenditure for that financial year, before that authority approves it.

8.2.4 The terms of reference of the Audit and Governance Committee include to "oversee the financial reporting and annual governance processes" and "to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

8.2.5 The authority is also under a general duty "to make arrangements for the proper administration of their financial affairs" under Section 151 of the Local Government Act 1972.

In addition, keeping adequate accounting records, and following proper practices in relation to accounts may impact on the authority's ability to deliver its functions in a manner which promotes economy, efficiency, and effectiveness, and therefore the consideration of this report also seeks to demonstrate the authority's compliance with its Best Value Duty under the Local Government Act 1999.

Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 29/02/2024)

8.3 HUMAN RESOURCES IMPLICATIONS

8.3.1 There are no immediate HR implications arising from the content of this report. Should any matters arise, these will be managed in line with the appropriate Council policies and procedures.

Comments approved by Dean Shoesmith, Chief People Officer, (Date 22/02/2024.)

8.4 EQUALITIES IMPLICATIONS

8.4.1 The Council has a statutory duty to comply with the public sector equality duty set out in section 149 of the Equality Act 2010. The Council must therefore have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.4.2 Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

8.4.3 This report is exempt from an EQIA as it does not affect service delivery and is not a key decision item.

Comments approved by Helen Reeves, Head of Strategy & Policy (Date 22/02/2024)

9. APPENDICES

9.1 Appendix 1 - The Final Audit Findings Report for London Borough of Croydon
Appendix 2 - The 2019-20 Statement of Accounts
Appendix 3 - The 2020/21 External Audit Plan

10. BACKGROUND DOCUMENTS

10.1 None.

The Audit Findings Report for London Borough of Croydon

Financial Year ended 31 March 2020

14 March 2024

Contents

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Section **Page**

Appendices

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Croydon (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group and Council’s income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was undertaken remotely over an extended period from October 2020 when the original draft financial statements were received. The majority of the audit work was completed by August 2021. At the same time we reported to officers that we did not agree with the accounting treatment of a complex technical issue relating to Croydon Affordable Homes. Officers sought external support and ongoing discussions were held until an agreed position was reached in February 2023. The resolution of all audit identified adjustments required officers to represent the draft financial statements which were then provided to the July 2023 Audit Committee. Given the scale of the adjustments additional audit work was required and the audit recommenced in August 2023.

Our findings to date are summarised on pages 4 to 37. We identified fourteen adjustments to the financial statements that have resulted in a £206 million adjustment to the Council’s 2019/20 Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation, following a considerable update to reflect the challenges you have faced as an authority over the past three years.

Our audit is subject to the following closing procedures which necessarily take place at the end of the audit:

- Agreement and receipt of your management letter of representation
- Review of the final set of approved financial statements
- Review of the final approved Annual Governance Statement
- Final internal quality reviews of the File
- Closure of the Financial Reporting Technical Review

Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

1. Headlines

Financial Statements (continued from previous slide)

Our anticipated audit report opinion will be **modified with a disclaimer opinion**, further details of the modification to the audit opinion can be found below.

The audit opinion will also include an emphasis of matter paragraph highlighting Land and buildings, Investment Property and Pension Fund Liability valuation material uncertainty disclosures as a result of the material valuation uncertainty imposed by the covid-19 pandemic. This will apply to both the single entity and group financial statements and is consistent with other council audit opinions for 31 March 2020.

Basis for Audit Opinion

Disclaimer Opinion

Our report in the public interest issued in January 2022 outlined our concerns over the historical decision making and governance arrangements relating to the refurbishment of Fairfield Halls. Our report in the public interest highlighted potential non-compliance with laws and regulations. As a result of the report issued in the public interest, the Council engaged KROLL to perform a forensic investigation. The Council's consideration of the KROLL report and other reports including the two Reports in the Public Interest, led to the Council referring matters to the Police to consider whether there is a case to answer under the Misuse of Public Office. As a result of the ongoing Police investigations, management are unable to quantify if there is a potential impact of those investigations on the financial statements or whether any instances of fraud have occurred. We consider that the ongoing Police investigation limits our ability to conclude on the Council's compliance with laws and regulations and as a result of these matters, we are unable to:

- Respond appropriately to suspected non-compliance with laws and regulations identified during the audit;
- Obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements; and
- Perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements.

We have concluded that the possible effects on the financial statements of undetected misstatements arising from these matters could be both material and pervasive, and therefore we have not been able to form an opinion on the financial statements.

1. Headlines

Financial Statements	(continued from previous slide)	**Basis for Audit Opinion (continued)** **Emphasis of Matter- Land and Building Valuations, Investment Property Valuations, Pension Liability** Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. The actuary for the pension fund has also disclosed a material valuation uncertainty within the actuarial report in relation to valuation of pension fund assets. This therefore extends to the council's share of pension assets used to inform the valuation of the net pension liability. You have included a disclosure within your accounts to reflect the material uncertainty within Note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty as at 31 March 2020.

1. Headlines

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Croydon did not have proper arrangements in place during 2019/20 to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. The significant risks identified at planning and subsequent to the planning stage are outlined below.

VfM significant risks identified at the planning stage communicated to TCWG within the audit plan on 17 March 2020:

- The Authority's Financial Sustainability, including the Authority's arrangements for addressing the risks arising from Brexit
- OFSTED Inspection of Children's Services
- The Governance of the Authority's Alternative Delivery Models

VfM significant risks identified subsequent to the planning stage and communicated to TCWG within the audit plan addendum on 2 December 2020:

- Governance of Finance and Group Structures

Subsequent to our audit plan addendum we identified a further value for money significant risk which we have performed audit procedures over:

- The condition of the Council's Housing Stock

A further explanation of the significant matters we have identified in the Council's arrangements is detailed on page 41 of this report.
We anticipate issuing a qualified adverse value for money conclusion. Our findings leading to this conclusion are summarised in a separate report.
We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and therefore we anticipate issuing a qualified adverse opinion for securing value for money.
A summary of our findings resulting in this conclusion can be found below:

- The budget set for 2020/21 was deemed to be unrealistic and further reported within our October 2020 Public Interest Report (PIR);
- Failings in financial management and governance reporting within our Public Interest Report which covered arrangements during 2019/20;
- The Council issues its first Section 114 Notice in November 2020 after identifying an in-year £66m budget gap which the Council on its own could not resolve, indicating issues with the budget setting arrangements;
- Issues were identified with the governance and oversight of the Council's wholly owned subsidiaries, which included wide ranging issues with the performance of Brick by Brick Croydon LLP, along with the striking off of the London Borough of Croydon Holdings Co. due to the Council failing to file the relevant paperwork in a timely manner;
- Internal Audit issued an overall Limited Assurance Conclusion on the 2019-20 Financial Year, with a wide range of issues identified in a number of different areas of the Authority;
- Issues were identified in respect of the quality of the Council's Housing Stock, with the conditions in Regina Road receiving national press attention which led to widespread condemnation for the issues that were raised;
- The project to refurbish Fairfield Halls led to a second PIR. Fairfield Halls was reopened in September 2019 and the PIR refers to arrangements in 2019/20 and earlier; and
- Poor arrangements to support the preparation of accounts leading to long delays in responding to audit queries.

We will share the proposed wording of this conclusion once drafted. Our findings are also summarised in a separate report, which is published alongside this report on the Agenda.

1. Headlines

Statutory duties

The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We exercised our additional statutory powers and duties by issuing two separate Reports in the Public Interest on 23 October 2020 and on 26 January 2022 relating to arrangements in place during 2019/20. Please refer to page 43 of this report for detailed findings of powers exercised.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council . This has had an impact on both the front-line services operated by the Council and back-office function roles, where individuals and service departments have had to get used to a new way of working as the pandemic has progressed. As a local authority you are at the forefront of efforts to support local people and clearly your focus will be directed to supporting the local community as best you can in these exceptionally difficult circumstances.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 24 November 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both the Council’s finance team and our audit team had to adapt to remote working arrangements. Your finance team was well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over completeness and accuracy of information produced by you. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries took longer than face to face discussion. Regular meetings were held with the finance teams to highlight key outstanding issues and findings to date. We used a query log to track and resolve outstanding items.

By the conclusion of the audit, all restrictions relating to Covid-19 had been lifted and the latter stages of the audit reverted to face to face meetings.

2. Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and those charged with governance (the Audit Committee).

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and the group's business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a full audit of Brick by Brick Croydon Ltd was required, which was completed by an separate accountancy firm, Ensors Chartered Accountants LLP; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.
- Perform a full scope audit of the Authority and it's subsidiary Brick by Brick Croydon Ltd

Audit approach (continued)

We issued our initial audit plan and presented this to you on 9 March 2020. After that time we re-assessed our audit risks to reflect our response to the Covid-19 pandemic and the matters arising communicated in the Report in the Public Interest issued on 23 October 2020. We provided an Audit Plan Addendum which we communicated to management and those charged with governance on 2 December 2020. Since this date, updates have been provided to Audit and Governance Committee (formerly the General Purposes and Audit Committee (GPAC)) members on the progress of the 2019/20 External Audit. The additional changes made from our planned audit approach included the identification of the following additional significant risks:

- a risk relating to the impact on the statutory accounts as a result of the Covid-19 pandemic;
- a risk relating to the risk of fraud in revenue recognition attributable to income from fees and charges and other service income;
- a risk relating to the risk that the expenditure cycle includes fraudulent transactions and therefore operating expenditure, and associated creditor balances are incomplete;
- a risk relating to the accounting treatment for transactions relating to Emergency Temporary Accommodation (ETA) schemes;

2. Audit approach

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our Audit Plan Addendum, which was however a change from those reported in our Audit Plan.

	Planning Stage		Final Accounts Stage		
	Group Amount (£000)	Council Amount (£)	Group Amount (£000)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18,500	18,000	15,000	14,000	This benchmark is determined as the Council's Gross Revenue Expenditure in year. Our initial planning identified 1.5% as an appropriate measurement percentage. Following the issues identified in the Report in the Public Interest, we revisited our assumptions and reduced the benchmark to 1.2%.
Performance materiality	12,950	12,600	9,000	8,400	Performance Materiality is based on a percentage of the overall materiality. Our initial planning identified 70% as an appropriate level. Following the issues identified in the Report in the Public Interest, we revisited our assumptions and reduced the benchmark to 60%.
Trivial matters	900	900	700	700	Triviality is set at 5% of Headline Materiality and hence has fallen due to a reduction in this figure.
Materiality for Senior Officer Remuneration disclosures	100	100	100	100	We selected a value of £100,000 for this area as an error of this size would impact on the banding within which these Managers would sit, which we have determined is something that the users of the Accounts would be interested in.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement**.**	Group and Council	We undertook the following work in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. During our journals testing, we identified two control issues: understanding of the purpose of the journal; and self-authorisation of journals. **Purpose of the journal** Our testing identified a small number of journals which had been posted by members of the finance team without them being able to explain the rationale for these journals. When challenged further, these members of staff stated these journals had been prepared by the Head of Finance and they had taken assurance from that individual that the journals were reasonable and appropriate, and thus had posted these to the Ledger on this basis. This is a fundamental control failing. All staff members should be able to explain the journals that they have posted during the course of the year, even if these have been prepared by other members of the finance team as may happen on some occasions. We have raised a recommendation in Appendix A - **Recommendation 2** to ensure that controls around journals are tightened to prevent this from happening in the future. In terms of the journals themselves, we traced each of the journals identified back to the appropriate supporting documentation, and were able to speak to individuals in the Council who had more knowledge on the areas in question to gain sufficient assurance that these journals were proper and appropriate, and were not indicative of fraud. **Self-authorisation of journals** Our testing also identified that several journals had been posted and authorised by the same individual. This is not in line with the Council's Policies which prohibit the self-authorisation of journals. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal. We have raised a recommendation for Management in Appendix A - **Recommendation 9** to prevent this from happening moving forward as well.

(our commentary on this risk continues on the following page)

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	*(continued from previous slide*) **Accounting Estimates and critical judgements** Our testing of the Council's bad debt provisions identified that management had unwound the housing benefit bad debt provision in 2019/20 when it was not prudent to have done so. Follow up work looking at collection rates post 2019/20 identified that the accounting estimate was not prudent based on up to date evidence which contradicted management's judgement to reduce the provision for 2019/20. Management therefore performed an opening the books exercise to identify areas of accounting estimates including bad debt provision where up to date information highlighted that provisions should be increased rather than decreased, this has led to an audit adjustment to increase the bad debt provision for 2019/20. We also identified from our review of the Minimum Revenue Provision charge that management had changed their policy in 2019/20 to not charge MRP on investment properties or loans made to their subsidiary company Brick by Brick. We felt this was not a prudent approach to calculating the relevant MRP charge and therefore management has agreed to adjust for a £6.7 million increase to the MRP charge to the general fund as a result of audit findings in this area. As outlined within page 14 of this report, within our testing of transformation expenditure and REFCUS we found a circa £7million extrapolated error of expenditure that had been capitalised under transformation expenditure which had no evidence to support capitalisation or did not meet the criteria required to capitalise as transformation funding. This essentially reduces the revenue impact when capitalised. However, as a result of the review of the accounting around the wider Croydon Affordable Housing structure, the Council has agreed to adjust all transformation expenditure as a revenue charge as it can no longer capitalise expenditure where it does not have a flexible capital receipt, and thus the initial error disappears as a result of this revised treatment. Within our testing of provisions, we identified a large legal claim which the Council was aware of had not been provided for, subsequently a £9.439 million adjustment has been made to the accounts, which required an additional capitalisation direction to cover. Our findings over accounting estimates especially bad debt provisions, MRP charge, provisions and capitalising expenditure has identified areas where errors identified have all impacted on the bottom-line financial position of the council. The vast majority of errors identified have resulted in a decrease to the general fund position. These issues have been identified through our testing of accounting estimates as opposed to journal entries. The vast majority of audit adjustments identified present a picture that increases the expenditure charge for 2019/20 which calls into question the risk of management override of controls within the 2019/20 accounts. We have performed substantive testing over the revised set of financial statements provided to audit by new management of the council and did not identify instances of management override of controls within the revised set of financial statements. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	*(continued from previous slide)* Our Value for Money Work in respect of the redevelopment of Fairfield Halls and the related transactions led to a Report in Public Interest in January 2022. The Council subsequently engaged a forensic expert, Kroll. The Council's consideration of the resulting report and the wider reports on governance including the two Reports in the Public Interest led to the Council referring matters to the Police to consider whether there is a case to answer under the Misuse of Public Office. We understand that the case is being considered and we intend to issue a modification to the audit report to reflect the matters arising. As a result of the ongoing Police investigations, management are unable to quantify the potential impact of those investigations on the financial statements. We consider that the ongoing Police investigation limits our ability to conclude on the Council's compliance with laws and regulations. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA (UK) 705. This requires the auditor to assess the pervasiveness of the effects or possible effects on the financial statements. **In our judgement, the effect of the suspected misconduct in public office could be material and pervasive, and therefore we have not been able to form an opinion on the financial statements.** We therefore have concluded a disclaimer of opinion due to the fact that we consider that the ongoing Police investigation limits our ability to conclude on the Council's compliance with laws and regulations and as a result of these matters, we are unable to: • Respond appropriately to suspected non-compliance with laws and regulations identified during the audit; • Obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements; and • Perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We have concluded that the possible effects on the financial statements of undetected misstatements arising from these matters could be both material and pervasive, and therefore we have not been able to form an opinion on the financial statements.

2. Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern material uncertainty disclosures

As going concern considers the forward look of the Council’s financial position, we have considered matters up to December 2024. 2020/21 was a challenging year due to the Covid-19 pandemic and the impact of this has included the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines, staff absences due to sickness, self isolation and shielding with the need to free up capacity of teams in addition to normal responsibilities. The Council faced significant challenges during the period from 2020/21 and has to date issued three section 114 notices. The Council has been granted a Capitalisation Directive from the Department for Levelling Up, Housing and Communities (DLUCH) covering the financial gaps in the years from 2019/20 onwards.

Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

We therefore identified the requirement of disclosures relating to material uncertainties that may cast doubt on the group’s ability to continue as a going concern in the financial statements as a risk requiring audit consideration and a key audit matter for the audit.

Going concern commentary	Auditor commentary
Management's assessment process The authority’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of service in the future is anticipated, as evidenced by the inclusion of financial provision for that service in published documents.	**Single Entity** The Council issued a Section 114 Notice in November 2020 after identifying an in year £66m Budget Gap that they were unable to resolve without external support. At the end of 2019/20, the Council's draft financial statements reflected a General Fund Balance of £10.2m, which whilst it was consistent with the balance at the end of the prior year, was a very small balance given the level of spend incurred by the Council in a given year. The Council’s financial position significantly deteriorated during 2019/20 and capitalisation directions of £126m have been required in 2019/20 after audit adjustments. In March 2021, the Council was awarded a capitalisation direction of £70 million for 2020/21 and £50 million for 2021/22. Capitalisation directions to be applied for the 2019/20 financial year have not yet been approved and are contingent on the Council reporting to the Department the final amounts identified for which it requires capitalisation for each year, with the agreement of the Council’s external auditors and endorsed by the Improvement Assurance Panel. Further capitalisation directions are required in 2022/23 and are expected to be needed in 2023/24. This financial support will assist the Council in balancing it’s budget in the short term and therefore provides some assurance over the going concern assumption adopted by management for a period of twelve months following the expected date of the auditor’s report. However, as a result of the audit adjustments mentioned in this Report, the Council will finish 2019/20 with a negative General Fund position and will require further capitalisation funding to restore the General Fund position to breakeven following the completion of the 2019/20 audit process. Concern remains over the longer-term financial sustainability of the Council and its ability to balance its budget in the longer term without government aided support.

2. Significant findings – going concern (continued)

Going concern commentary	Auditor commentary
Management's assessment process The authority’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of service in the future is anticipated, as evidenced by the inclusion of financial provision for that service in published documents.	**Group** The construction industry was significantly impacted by the Covid-19 pandemic with construction work having to be slowed down or stopped during the peak of the pandemic, shortages of labourers and increased costs in supplies and materials. These issues also impacted the subsidiary company Brick by Brick Croydon Ltd (Brick by Brick) which resulted in a loss for the company of **£803k** for the year ended 31 March 2020. The Council has now provided a letter of financial support to Brick by Brick and Brick by Brick is currently in the process of being wound up and once final developments are completed is due to be fully closed in 2024.
Concluding comments	We have been unable to conclude on the going concern assumption adopted by management as a result of the disclaimer opinion anticipated to be issued on the financial statements of both the Authority and Group. As the ongoing police investigations provide a limitation of scope which is so pervasive, we are unable to conclude on the financial statements as a whole and therefore it is not appropriate to conclude on whether the use of the going concern basis of accounting is appropriate or not.

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
The revenue cycle includes fraudulent transactions **Income from fees and charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. We have now concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our new assessment is that the greatest risk of material misstatement relates to fees and charges and other service income. This income stream is regarded as a significant risk as there is increased judgement from management regarding recognition of revenue from fees and charges and other service income compared to income streams such as council tax and NNDR, HRA rental revenues and government grants and contributions. We have therefore identified the occurrence and accuracy of fees and charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have still rebutted this presumed risk for the other revenue streams of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	Group and Council	We undertook the following work in relation to this risk: • evaluated the Group and Council's accounting policy for recognition of income from fees and charges and other services for appropriateness; • gained an understanding of the Group and Council's system for accounting for income from fees and charges and other services and evaluated the design of the associated controls; • agreed, on a sample basis, amounts recognised as income from fees and charges and other services in the financial statements to appropriate and sufficient audit evidence to gain assurance over the occurrence and accuracy of income. From the work performed to date, we have identified three issues relating to the Allowance for Credit Losses included within the draft Accounts. Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by **£1.5 million**. Secondly, during the course of the audit, the Council identified a considerable balance relating to outstanding Schools Utility Charges which were several years old and hence an Allowance should have been made against these items. It was identified that the additional Allowance required for these charges was **£4.5 million**. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted **£3.1 million** of invoices which were raised in 2019/20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated by this balance, which meant that the provision made of **£4.5 million** was understated based on the age profile of this debt. Given the age profile of the debt the Council has written off this debt and provision as unrecoverable income which has been included as an audit adjustment as part of the 'Opening the Books' Exercise outlined below. As a result of issues identified in relation to understatement of receivable credit loss allowance, management performed a detailed review of this balance as part of their 'Opening the Books' Exercise which identified a **£25.162 million understatement** of the prior credit loss allowance, which has been updated in the revised accounts, and thus has seen a reduction in the General Fund balance equivalent to this balance. Thirdly, we identified that Management were initially of the view that no allowance for credit loss assessment was required for the loans issued to Brick by Brick Croydon Ltd, due to the fact that Brick by Brick is wholly owned by the Council and thus would prevent any loss. An assessment was subsequently performed by management in November 2023 which identified no impairment was needed for 2019/20 but will have an impact on the position in 2020/21. Our view is that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
The revenue cycle includes fraudulent transactions **Income from fees and charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. However for both audits, we have now concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our new assessment is that the greatest risk of material misstatement relates to fees and charges and other service income. This income stream is regarded as a material risk as there is increased judgement from management regarding recognition of revenue from fees and charges and other service income compared to income streams such as council tax and NNDR, HRA rental revenues and government grants and contributions. We have therefore identified the occurrence and accuracy of fees and charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have still rebutted this presumed risk for the other revenue streams of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	Group and Council	*(continued from the previous page)* Management's revised assessment provided in December 2023 has concluded that as at 31 March 2020 a lifetime credit risk impairment of **£51.696 million** is required to loans made to subsidiary Brick by Brick as a result of expected anticipated sales proceeds not being sufficient to clear the outstanding debt as at 31 March 2020. This has resulted in a charge to the general fund which is subsequently reversed out to the capital adjustment account under CIPFA accounting requirements Our testing on income completeness identified an invoice raised in 2020/21 which related to services provided in 2019/20 and was above the Council's deminimus level for items to be accrued. We were informed that this item was not raised in a timely manner due to the pressures of the pandemic, but despite this the Council needs to ensure items like this are raised in a timely manner or accrued for to ensure inclusion within the Financial Statements. We extended our testing sample and did not identify any further instances of income not being accrued for in the correct financial year. We did raise a similar issue in the prior year– refer to Appendix B for further detail on this. **We identified a number of errors across our testing populations for revenue and associated receivables as a result of lack of evidence provided to audit. New management were able to follow up on the missing evidence and reduce the number of errors identified as a result of missing evidence. Errors identified in our substantive testing are not material nor have a material extrapolation impact.** **Based on our audit work we have not identified any material unadjusted misstatements relating to revenue recognition, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion.**

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
The expenditure cycle includes fraudulent transactions **Completeness of operating expenditure and associated creditor balances** Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets. Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure and associated creditor balances. We have therefore identified the completeness of operating expenditure and associated creditor balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • Evaluated the design and implementation effectiveness of the accounts payable system. • Verified that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger. • Searched for unrecorded liabilities by performing substantive testing on a sample of invoices input on to the accounts payable system post period end. • Searched for unrecorded liabilities by reviewing cash payments post period end. • Performed substantive testing on a sample of expenditure included within the year to make sure it is correctly recorded. • Performed substantive sample testing of liabilities recorded in the ledger to gain assurance that liabilities are accurate and not understated. • We also performed testing on the expenditure which has been classified as Transformational Expenditure in year to confirm it meets the requirements to be classified in this way. From the work performed to date, we have identified issues with transformation expenditure and the provision relating to a contractual dispute with a supplier. **Revenue Expenditure Funded from Capital Under Statute (REFCUS)** From our testing of items classified as REFCUS we identified • 9 items which did not meet the requirements to be treated in this manner, generating an actual error of £12,434 This generated an extrapolated error of £430,797. This is not material to the audit however outlines a trend of errors which highlight the understatement of expenditure within the Council's accounts. **Transformation expenditure** From our testing of items classified as Transformational Expenditure by the Council we identified • 7 items which did not meet the requirements to be treated in this manner, generating an actual error of **£258k**. This generated an extrapolated error of **£7.449 million**. Where we undertake sample testing we extrapolate the error across the whole population. As a result of these findings, and the 'Opening the Books' exercise undertaken by the Council, the accounting treatment of Croydon Affordable Housing LLP and Croydon Affordable Tenures LLP was re-reviewed by the external audit team based on further information being made available. This resulted in an updated view of the accounting treatment that should be applied based on the group structure. It was concluded that there is no capital receipt due from the Croydon Affordable Housing and Croydon Affordable Tenures group arrangement and therefore without a capital receipt the Council is unable to apply flexible use *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
The expenditure cycle includes fraudulent transactions **Completeness of operating expenditure and associated creditor balances** Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets. Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure and associated creditor balances. We have therefore identified the completeness of operating expenditure and associated creditor balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	Group and Council	*(continued from the previous page)* of capital receipts under Government Statutory Direction. Without a capital receipt from this arrangement, qualifying expenditure is unable to be capitalised and therefore all transformation expenditure since inception of the CAH and CAT LLP arrangements is required to be re-categorised as revenue expenditure. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is **£73 million**. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20. We have raised recommendations in Appendix A - **Recommendations 3 and 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future. **Provision** The Council entered into a Highways Maintenance contract with a third party beginning in September 2011 which ran for 7 years. At the end of the contract term the Council received a claim from the third party disputing there was unpaid works which fell within the scope of the Contract. The Council did not originally provide for the full amount and subsequently an adjusting post balance sheet event has been actioned increasing the provision by **£9.439 million** has been adjusted for within the financial statements with a corresponding expenditure charge to the general fund. **Unrecorded Liabilities** No issues have been identified from our testing completed in relation to unrecorded liabilities however we did identify an error where expenditure had been overstated as no accrual had been made in 2018/19 relating to a school grant owed in 2018/19 but paid in 2019/20. We obtained an understanding that this was isolated to this type of school grant and concluded the extent of this error to be £711k. **Operating Expenditure** We identified a number of errors across our testing populations for expenditure and associated liabilities as a result of lack of evidence provided to audit. New management were able to follow up on the missing evidence and reduce the number of errors identified as a result of missing evidence. Errors identified in our substantive testing are not material nor have a material extrapolation impact. **Based on our audit work we have not identified any material unadjusted misstatements relating to expenditure recognition, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion**.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.884 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation; • tested a sample of revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. You have included a disclosure within your accounts to reflect the material uncertainty within Note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty as at 31 March 2020. Our testing in this area also identified several control deficiencies around the Council's processes in this area, which were as follows: • When testing the Council's asset valuations, we identified that some assets had not been classified on the Asset Register under the correct valuation basis (Depreciated Replacement Cost, Existing Use Value, Fair Value). There has been no material impact on the closing valuation of these assets for 2019/20 as a result of this deficiency. However, there is a risk that where material assets are not classified correctly for valuations purposes this could cause a material error within the financial statements as they could be valued incorrectly in future years. We have raised a recommendation in Appendix A - **Recommendation 11** to ensure that controls around asset classifications are strengthened. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.884 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	*(continued from the previous page)* • During our testing over valuations of Investment Properties and Land and Buildings, we challenged the external valuers (Wilks, Head and Eve) over the classification of assets against the definitions within the Code. They confirmed that this is not a test that they perform directly based on instruction received from Croydon. There is a risk that these types of assets are incorrectly classified where reviews are not performed over classification of assets which thus could lead an incorrect asset valuation. In response to this risk we obtained a list of EUV assets that are held under lease based on the valuation report. We obtained an understanding of EUV assets and checked our understanding against the definition of an investment property asset per the Code of Audit Practice. We concluded from our work that the EUV assets identified were correctly categorised as EUV and not investment property assets however, we have raised a recommendation that management should perform a check in conjunction with their valuer that assets are categorised appropriately. We have raised a recommendation in Appendix A - **Recommendation 13** to ensure that controls around investment property asset classifications are strengthened. • We reviewed management's assessment of those assets which had not been formally revalued in-year and noted deficiencies within management's assessment, which included an incorrect adjustment factor calculation, and it was difficult for the audit team to reperform management's calculation due to poor links between the working paper and the Fixed Asset Register/Valuer's Report. On challenge, management explained that this assessment had been rolled forward from prior years and thus the methodology is outdated. There is a risk that assets that have not been revalued have a materially different carrying value at the balance sheet date and are not picked up by management through their assessment performed. In response to this finding we performed a recalculation of assets not revalued in year and compared this against management's calculation, this resulted in a trivial difference of £558k, we therefore have obtained sufficient assurance over the calculation used to understand the impact of assets not revalued in year. We have raised a recommendation in Appendix A - **Recommendation 12** to ensure that controls around assets not revalued in year are strengthened. • In the prior year we also identified issues with the data passed from the Council to the Valuer, and similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the council. We extrapolated the errors identified and concluded an extrapolated error of £1.4 million of potentially understatement of valuation of assets based on discrepancies in data being supplied to the valuer. Thus as per Appendix B we will roll forward the recommendation raised in the prior year to reflect there is more for the Council to do in this space to resolve this issue. **Whilst we have been able to obtain sufficient assurance over the asset valuations included within the Financial Statements, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion, all of the issues raised led to additional audit effort above expected levels. We have raised recommendations for management in respect of each of these areas, which have been documented in Appendix A. We have identified a material valuation uncertainty which will be included as an emphasis of matter within our Audit Opinion and disclosure also reflected within the disclosures to your financial statements.**

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£653 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to your management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. To date, the only issue identified in respect of this area is the material uncertainty which is attached to the Pension Fund's investments, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020. Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council's element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the 'Emphasis of Matter' Paragraph mentioned earlier within the report. **We have gained assurance that the valuation of the pension fund net liability is not materially misstated except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion however, we have identified a material valuation uncertainty which will be included as an emphasis of matter within our Audit Opinion and disclosure also reflected within the disclosures to your financial statements.**

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of Investment Properties The Authority revalues its Investment Properties on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£99 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter	Group and Council	We undertook the following work in relation to this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert ; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation; • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. You have included a disclosure within your accounts to reflect the material uncertainty within Note 4. **We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion.** This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. The Council's investment in Croydon Park Hotel is held as an Investment Property in these accounts. Croydon Park Hotel was sold by the Council in 2021 as it fell into administration. The hotel was valued at £30m as at 31 March 2020 and later valued at £17.4m in March 2021 as a result of the Hotel falling into administration in June 2020. The hotel was later sold for £24m in December 2021. We are satisfied from work performed that the fair value as at 31 March 2020 is not materially misstated and no adjusting post balance sheet event is required. **We have gained assurance that the valuation of investment properties is not materially misstated, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion however, we have identified a material valuation uncertainty which will be included as an emphasis of matter within our Audit Opinion and disclosure also reflected within the disclosures to your financial statements.**

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Transfer of Properties from Council to Pension Fund During the course of the year, the Authority is proposing to transferred 346 houses into the Pension Fund, between November 2057 and April 2059. As a result of this pledge, the Authority is seeking a reduced contribution rate over the course of the 40 years, which would be set by the Authority’s Actuary, Hymans Robertson LLP. We therefore identified the completeness and accuracy of the information around the transfer of properties as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	Despite management informing us that this transaction had taken place, our work identified that the transaction had not taken place during the course of the 2019/20 or 2020/21 financial years. In May 2021, the scheme was formally withdrawn at the Pension Fund Committee held on 25 May 2021. There is no impact on the 2019/20 Financial Statements and no further work was needed on this significant risk area.
Incomplete or inaccurate financial information transferred to the new General Ledger In April 2020, the Authority implemented a new cloud based general ledger system for the 2019/20 financial year. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • completed an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the new general ledger system • mapped the closing balances from the 2018/19 general ledger to the opening balance position in the new ledger for 2019/20 to ensure accuracy and completeness of the financial information We have identified a number of control issues in relation to the IT environment of the new general ledger system, please refer to Appendix A for further details. These issues were reported to the General Purposes and Audit Committee held on 14 January 2021, and a further update and discussion with management was held at the Committee held on 10 June 2021. A summary of our findings can be found in Appendix A - Action Plan - IT Audit. No further material issues have been identified from the work performed in this area, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) Schemes In previous years we have considered the Council's Emergency Temporary Accommodation (ETA) Schemes, focusing on both how these schemes have been financed by the Council, along with how they have been accounted for within the Council's Accounts. ETA1 was reviewed in 2017/18, and an issue was identified relating to the charging of a Reverse Lease Premium, which has been reported in our previous Audit Findings Reports. Since then the Council expanded the ETA Schemes with potentially different sources of finance in 2019/20 raising audit concerns which we reflected in our Audit Plan. We also noted a subsequent detailed review was performed by pwc who flagged a number of areas for the Council to revisit as part of wider review in this area. We will undertake further work following recommendations made by pwc to ensure items are accounted for correctly. We therefore identified the accounting for the ETA schemes as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We have performed the following work in respect of this risk: • Evaluated the design and implementation of the Council's processes and controls in this area; • Reviewed the recommendations raised by the PwC Report where these impact the balances included within the Accounts and challenged Management on the appropriateness of these judgements. • Reviewed the accounting for these schemes within the 2019-20 Accounts, and considered the involvement of technical specialists to gain assurance over the appropriateness of the accounting. • Tested the transactions recorded in the 2019-20 Accounts to confirm compliance with the CIPFA Code of Practice for Local Authority Accounting. Following issues identified within the cash and bank reconciliation, we identified that the companies set up to operate the ETA schemes did not have their own separate bank account or their own financial ledger instead both companies (Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP) used the Council's bank account and financial ledger. This raised a question over the control of the companies and hence the accounting treatment. These questions were first raised in January 2021. In following up the queries, we reached a view in August 2021 that we did not agree with the Council's accounting treatment for these schemes. The Council engaged PWC to review the accounting treatment and we reviewed the resulting report in January 2022 which identified new information that had not been made available to the auditor in 2017/18 or 2018/19. During 2022 we continued to discuss and challenge management over the accounting treatment and the Council secured the support of another financial reporting expert. In February 2023, we reached a shared understanding of the arrangements and consequent accounting treatment. The Council then restated the draft financial statements to reflect the revised accounting treatment. The schemes (ETA1 and ETA2) had been accounted for as a number of separate transactions and the financial statements reflected that approach. However some of the new information identified showed that the individual transactions were inherently interlinked and therefore under the requirements of accounting standard SIC27 the schemes should be shown as a series of linked transactions rather than as separate transactions. Under the original approach the assets were 'sold' to the companies generating a capital receipt. The additional work identified that the assets remained the property of the Council, both from a freehold and a leasehold perspective. Without a disposal, no capital receipts were generated. *(continued on next page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) Schemes In previous years we have considered the Council's Emergency Temporary Accommodation (ETA) Schemes, focusing on both how these schemes have been financed by the Council, along with how they have been accounted for within the Council's Accounts. ETA1 was reviewed in 2017/18, and an issue was identified relating to the charging of a Reverse Lease Premium, which has been reported in our previous Audit Findings Reports. Since then the Council expanded the ETA Schemes with potentially different sources of finance in 2019/20. We also noted a detailed review was performed by pwc who flagged a number of areas for the Council to revisit as part of wider review in this area. We will undertake further work following recommendations made by pwc to ensure items are accounted for correctly. We therefore identified the accounting for the ETA schemes as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We held a significant number of discussions with management over this issue and management has revised their judgement in accounting for these transactions and the accounts reflect the substance of the transaction rather than the legal form of the transaction. Note 43 of the revised financial statements sets out the revised judgements of management in relation to the accounting of Croydon Affordable Housing (CAH) LLP (known as ETA1) and Croydon Affordable Tenures (CAT) LLP (known as ETA2). The changes in judgement applied by management has resulted in a number of changes to the accounts. The key element relates to the lack of capital receipt. The previous approach appeared to generate a capital receipt which management applied the Flexible Use of Capital Receipts for Transformation regulations which allowed capital receipts to be applied to revenue expenditure for transformation. The Council had applied £73 million through these regulations however the change in accounting treatment which reflects that no capital receipt was generated means that the £73 million is direct revenue expenditure by the Council further worsening the General Fund balance and a further Capitalisation Direction has been obtained to reflect this accounting change. These changes have been reflected as an audit adjustment to the 2019/20 financial statements with restatement for prior years. We have raised a recommendation in Appendix A - **Recommendation 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future.

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We undertook the following work in relation to this risk: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. A reduction was made to materiality levels previously reported at planning (see page 9 of this report for changes made to materiality levels). The draft financial statements were provided on 16 October 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of an auditor expert to gain assurance over asset valuations. Due to the potential impact that Covid-19 has on the value of your land and buildings and council dwellings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. An identical uncertainty has been included within the report for the Council's Investment Properties as well. You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. A similar issue has been identified in respect of the illiquid assets held by the Pension Fund, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020. Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council's element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the 'Emphasis of Matter' Paragraph mentioned above. The emphasis of matter in relation to uncertainties of valuations on assets (land, buildings, investment properties and pension fund) is consistent to other local authorities in 2019/20.

2. Other audit risks

Risks identified in our Audit Plan	Auditor commentary
IFRS 16 implementation has been delayed by two years Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	We discussed the implementation of IFRS16 with the Council who have confirmed that whilst considerable progress had been made, this has been put on hold following the deferral and the Covid-19 Pandemic. CIPFA has continued to defer implementation of this standard until 1 April 2024.

2. Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Brick by Brick Croydon Limited	Ensors Chartered Accountants LLP	A qualified disclaimer of opinion of Brick by Brick Croydon Limited was issued by Ensors Chartered Accountants LLP on 31 March 2021. A number of issues were identified by Ensors which led to the conclusion of the disclaimer opinion including: • Limited evidence available to support the accuracy and existence of the loans balance included on the balance sheet. This included evidence to support the status of funds advanced to Brick by Brick by the parent company, the accuracy of relevant interest charges or repayment terms relating to the loan advances. Refer to Appendix A - **Recommendation 6** for control recommendation raised. • Material uncertainty over the going concern status of Brick by Brick including limited evidence available to support the going concern assumption adopted by management. • Material errors were identified in respect of the timing of the recognition of construction costs as well as the accuracy of both the recorded value of creditors and work in progress recorded in the financial statements. These errors were adjusted for in the final set of financial statements however control weaknesses were identified around the reconciliation of project costing records and financial accounting records which led to limited audit evidence to support whether ongoing construction sites are likely to be profitably concluded.	As a result of the qualified disclaimer of opinion on the component provided by the component auditor, the group auditor performed the following procedures: • Discussed with the component auditor to obtain an understanding of the issues identified which led to a qualified disclaimer opinion; • Assessed the material balances/transactions and significant risk areas determined within our risk assessment and planning and reassessed the audit approach required in order to gain assurance over the material balances/transactions and significant risk areas pertaining to the group financial statements; and • Reviewed the component auditor audit file and working papers to obtain assurance over the control environment of the component entity and material balances/transactions and significant risk areas included in the group financial statements. **We have been unable to gain assurance over the Group financial statements as a result of issues identified and the outstanding police investigation. The Brick by Brick issues identified by the component auditor will form part of the proposed disclaimer of opinion.**

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Dedicated Schools Grant (DSG) The Council had a cumulative overspend on the DSG of £14.524 million as at 31 March 2020. The balance was £9.193 million as at 31 March 2019 and this was treated as a debtor in the 2018/19 financial statements. In 2019/20 the Council changed its accounting treatment from a debtor to a negative earmarked reserve. SI 2020/1212 (Nov 2020) amended the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to require that where a local authority had a schools' budget deficit at 1 April 2020 or where a deficit now arises, the deficit must not be a charge to a revenue account and must be recorded in an account dedicated to recording the deficit.	In 2018/19 the Council recorded the overspend as a debtor, we considered this accounting treatment to be incorrect and recorded this as an unadjusted misstatement in that year. As it was not material you chose not to adjust for the error. In 2019/20 the Council revised its accounting treatment to move the overspend from debtors to a negative earmarked reserve.	The Council has now included a prior period restatement of 2018/19 to recognise an earmarked reserve for the dedicated schools grant overspend. We are satisfied this revised treatment by the Council meets the regulations. See page 56 in this report for further details of adjustment made.
Transformation Expenditure We noted from our Report in the Public Interest that the Council had invested £73 million of transformation expenditure in the previous three years yet the Council continue to experience overspends in areas heavily invested with transformation monies including both Children and Adults' Social Care.	The Council capitalised £29 million of transformation expenditure in 2019/20. The audit team performed substantive testing on the capitalised expenditure to gain assurance that expenditure capitalised was in accordance with the statutory guidance and that benefits were being realised from investment made.	As noted in the section on ETA schemes, no capital receipt was generated and all these transactions have now been corrected. It is worth noting we did undertake testing of sample of expenditure items charged to transformation and identified 7 out of 20 samples that were incorrectly classified in that they did not meet the criteria to be capitalised in line with statutory guidance. This generated an actual error of **£258k**, which resulted in an extrapolated error of **£7.449 million** and would result in a charge against the general fund. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is £73 million. It is important that the Council reflects on the evidence it maintains to demonstrate that it has met the requirements of specific schemes going forward. See page 68 in this report for further details of adjustments made in respect of the errors identified. We have raised a recommendation in Appendix A - **Recommendation 3 and 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Group Structure The Council has a number of companies that it has set up as part of its large group structure. During our review of the group structure we noted a number of companies that had been set up that were not disclosed within the Statement of Accounts and we also identified that the company that had been struck off by Companies House, and thus all assets previously held by the company had been transferred to the Crown which we noted in our Report in the Public Interest.	• As part of our review of all companies that the Council holds an interest in we also noted that a company London Borough of Croydon Holdings Ltd (100% shares held by the Council) had been struck off on 3 December 2019 and was not reinstated until 11 February 2021. This meant that as at 31 March 2020, the Council did not hold any assets associated with the company. • The Council also established new companies during the 2019/20 financial year which were not identified by the Council and were therefore not disclosed within the group interests note to the accounts.	• During the course of the audit, the Council successfully applied for London Borough of Croydon Holdings Ltd to be reinstated at Companies House and all assets which were previously held by this company have been returned to it by the Crown. • There is a risk that companies are set up with minimal oversight and therefore intended benefits or interests held by the Council are lost due to lack of governance or oversight. See Appendix A - **Recommendation 4** of this report for further details of control findings in relation to group companies. We understand the Council has now put strengthened arrangements in place to help manage the risks in this area, albeit the Council should continue to review the Companies which it is operating and close down those which are not providing any benefits to the Council.
Inaccurate FTE data From our testing performed over payroll expenditure we identified that Full Time Equivalent (FTE) Reports were inaccurate.	FTE reports are used to understand the workforce of the council and can be used to inform decision making. We identified FTE report data was inaccurate and therefore there is a risk that data used for management purposes contains incorrect information and inappropriate decisions could be made on inaccurate information.	• We were required to amend our audit approach on identification that FTE data provided was inaccurate. This meant that we could not provide reliance on FTE data for our audit purposes and amended our approach to a fully substantive approach to test payroll expenditure. We did not identify any material errors within our substantive testing of payroll expenditure however, we have raised a recommendation in Appendix A - **Recommendation 10** to ensure that controls around FTE data are strengthened.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Minimum Revenue Provision (MRP) In 2019/20 the Council amended its Minimum Revenue Provision policy so that borrowing relating to investment properties and loans to Brick by Brick would not incur a minimum revenue provision charge against them to repay borrowing costs on the basis that the MRP charge was off-set by income received from investment properties and interest received from loans given to third parties.	Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to this guidance.	Based on our review of the revised minimum revenue provision policy, we concluded that the changes made did not provide a prudent charge of MRP as required by the statutory guidance. We did not agree with management's view that MRP should not be charged on investment properties, nor did we agree with management's view not to charge MRP on the loans issued to Brick by Brick Croydon Ltd. The Council is of the view that as they were planning to receive interest back from Brick by Brick, which was going to fund the repayment of the debt initially taken out by the Council, no MRP charge was required. Based on our audit findings management re-reviewed the MRP charge and have now included **£141 million** of Brick by Brick loans into its MRP calculation. This has resulted in management recognising a further **£6.7 million** for 2019/20 required to increase the MRP charge. This adjustment has been reflected in the revised 2019/20 accounts and reduced the General Fund and Earmarked Reserves position. **£3.164m** of this increase in MRP will be funded through earmarked reserves, therefore **£3.544m** is the total general fund impact of the additional charge. We have reviewed the charge of MRP made in the prior year and estimated that the 2018/19 charge was understated by **£2.3 million**. This is not material and therefore no prior period adjustment is required. We have raised a recommendation in Appendix A - **Recommendation 5** to ensure that controls around the calculation of MRP is in line with regulations.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Prudential Indicators The capital financing and expenditure note has incorrectly excluded PFI capital expenditure and expenditure and financing on property development loans therefore leading to a material restatement in the capital expenditure and financing note for the prior year comparator.	During the preparation of the draft 2019/20 financial statements the Council noted the omission of PFI expenditure and property development loans from the capital expenditure and financing note. This was also excluded from the 2018/19 note which led to an incorrect opening CFR position in 2019/20. The Council restated the disclosure note for 2018/19.	The Council corrected both the 2019/20 and restated the disclosure note for 2018/19 prior to providing the draft financial statements. We have reviewed the notes for 2019/20 and restated 2018/19 disclosures note and both are in line with the CIPFA Code guidance. There is no impact on the primary statements and affects the disclosure note only.
Fairfield Halls As part of our Report in the Public Interest on the Fairfield Halls refurbishment we identified that the asset remained in the Council's ownership throughout the refurbishment. The expenditure on the refurbishment has been recorded in the Council's draft financial statements as a long term debtor reflecting the loans to Brick by Brick who undertook the management of the refurbishment and accounted for the expenditure within Brick by Brick's accounts.	In line with accounting standards any capital expenditure against an asset should be capitalised on the balance sheet of the entity which owns that particular asset. In the draft financial statements the Council recorded the loans to Brick by Brick which funded the refurbishment of Fairfield Halls as long term debtors and the asset remained in the Council's Property, Plant and Equipment balance. Brick by Brick recorded the refurbishment expenditure in its accounts. The Group accounts consolidates this difference. Following discussion with the auditors, management proposed a revised treatment in a paper to Cabinet on 17 May 2021.	As the Council retained ownership of the asset, the expenditure in relation to the asset should be recorded in the Council's financial statements rather than in Brick by Brick's accounts. As a result • £62 million of capital additions have been added to the Council's accounts (£40m relates to years up to 2018/19 and has been accounted for as a prior period adjustment) • £62 million of long term debtors have been reversed • £9 million of interest included within debtors has been written back • The Capital Financing Note has been amended to reflect the changes • MRP in future years will now include a charge relating to the refurbishment expenditure See page 63 in this report for further details of adjustments made in respect of the errors identified.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view

Brick by Brick Croydon Ltd
During our testing of debtors we noted a number of debtors where the Council had loaned money to its wholly owned subsidiary company Brick by Brick Croydon Limited. A number of the debtors recognised were in relation to loans where the repayment date was due by 31 March 2020 and had not yet been repaid.
	• £221 million of long term and short term debtors recognised on the Council's balance sheet related to loans that were overdue for repayment by Brick by Brick Croydon Ltd. IFRS 9 requires an organisation to consider credit loss assessment of financial assets. The Council had not performed a credit loss assessment of financial assets as at 31 March 2020.
	• In previous years the audit engagement team were able to perform a debtors circularisation to confirm the year end debtors balance in relation to loans provided to Brick by Brick by the council. As at 31 March 2020 we were unable to obtain a debtors circularisation response and therefore performed a sample test of debtors. In obtaining the audit evidence we identified a number of
	    • loans that were past their repayment date and had not yet been paid
	    • loan agreements that had not been signed by both the funding and receiving body or
	    • in some cases no evidence of loan agreements for the funds advanced to the subsidiary company.
	We have raised a recommendation in Appendix A - **Recommendation 6** to ensure that controls around the oversight of legal documents is strengthened.
		IFRS 9 requires the Council to perform a credit loss assessment of financial assets. An assessment was subsequently performed by management which identified no impairment was required for 2019/20 but would have an impact on the position in 2020/21. However our view was that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20 financial statements. Management's revised assessment has concluded that as at 31 March 2020 a lifetime credit risk impairment of **£51.696 million** is required to loans made to subsidiary Brick by Brick as a result of expected anticipated sales proceeds not being sufficient to clear the outstanding debt as at 31 March 2020. This has resulted in a charge to the general fund which is subsequently reversed out to the capital adjustment account under CIPFA accounting requirements.
		In addition, the loan covenants require Brick by Brick to provide audited accounts within 90 days of the financial year end. Audited accounts were provided 365 days after the year end and create a technical breach of the loan covenants meaning all loans are repayable on demand. In previous years the Council issued a waiver to cover this breach, however the waiver was not issued as at 31 March 2020. As a result all loans with Brick by Brick were repayable on demand and will now be disclosed as Short Term Debtors instead of the previous Long Term Debtors classification in the Accounts.
		In addition we consider the lack of monitoring of loan repayment dates and maintenance of signed loan agreements to be a control weakness. There is a risk of oversight and financial mismanagement where there is a lack of legally binding documents in respect of loans made to other organisations which could put the Council at risk of not being able to recover the loaned monies. This risk was earlier communicated through our Public Interest Report issued in October 2020.
		Please refer to Appendix A of this report for further details of control findings in relation to Brick by Brick Croydon Ltd.
		Since this audit finding was presented to management, the council have consolidated all outstanding loans to Brick by Brick Croydon into one loan agreement, totalling £141 million. The Council has built this into its revised MRP calculation which has resulted in an additional charge to the general fund (see page 31 for further details of MRP charge).

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Cash and Cash Equivalents During our testing of cash and cash equivalents we identified that no regular bank reconciliations had been undertaken by the Council. We also identified that LEP cash held by the council had not been separately disclosed within the statement of accounts as required by the CIPFA Code of Practice.	• As part of our audit we request the year end bank reconciliation. The 31 March 2020 bank reconciliation was provided by the Chief Accountant who left the Council in July 2020. During the audit it became clear that no year end bank reconciliation had been completed which is a serious control weakness. In following up the lack of year end bank reconciliation we identified that Internal Audit provided a draft report to the Executive Director of Resources in July 2020 setting out the absence of bank reconciliations. None of the recipients had responded to Internal Audit until we escalated the matter to the Chief Executive In February 2021. • We identified that the Council holds cash on behalf of the Local Enterprise Partnership (LEP). As this is not cash that is controlled by the council the council should not be recognising this cash as an asset in it's Balance Sheet.	For an organisation the size of the Council, monthly bank reconciliations should be prepared and formally reviewed. We would expect more regular reconciliations to be completed as part of routine financial management. Without a fundamental key control ensuring that the bank balance reconciles to the Council's own accounting records there is a risk that cash can be misappropriated or errors made that are not identified promptly. This is a serious control weaknesses and the Council should ensure that routine bank reconciliations are carried out throughout the financial year and formally reviewed by a senior finance officer. In addition, it is unacceptable that serious Internal Audit findings were not actioned between July 2020 and February 2021 when we escalated the matter. Internal Audit is an important part of the Council's governance process and the Council needs an appropriate mechanism to respond to Internal Audit promptly and effectively Please refer to Appendix A - **Recommendations 1 and 7**. of this report for further details of control findings in relation to Cash and Cash Equivalents. We identified that £39 million of the cash and bank overdrafts disclosed within the Council and Group accounts was LEP monies and therefore under CIPFA Code Guidance should not be accounted for by the Council. An adjustment has been made to remove the cash and bank overdraft LEP balance as well as a prior period adjustment as £39 million was also recorded in 2018/19. This has no impact on the net position of the balance sheet or council's general fund. We identified an unreconciled difference between the cash and bank overdraft balance of £3 million. This is below our materiality levels and therefore we have obtained sufficient and appropriate audit evidence that the cash and bank overdraft balances are not materially misstated.

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £972 million	The Council owns 13,465 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged an external valuer, Wilks Head and Eve, to complete the valuation of these properties. The year end valuation of Council Housing was **£972 million**, a net increase of **£18 million** from 2018/19 (**£954 million**).	From the work performed in this area, we gained sufficient assurance on the valuation of the Council's Housing Stock included within the draft financial statements. The valuer prepared the valuation using the Stock Valuation Guidance issued by MHCLG, and ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) and the value was disclosed correctly within the draft financial statements. The valuer performed the valuation as at 31 March 2020 which ensured all events up to year end have been appropriately reflected within the valuations undertaken by Wilks Head and Eve, the valuer. We reviewed and challenged the valuer's assessment, and gained sufficient assurance over the assumptions used by the valuer in respect of this period. We used an Auditor's Expert to review of the assumptions and approach used by the valuer and the Auditor's Expert confirmed the reasonableness and appropriateness of the approach followed by the Council. Due to the potential impact that Covid-19 has on the value of your land and buildings and council dwellings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.	● **Green**

Assessment

● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £804 million	Other land and buildings comprises **£630 million** of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (**£174 million**) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged an external valuer, Wilks Head and Eve, to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 89% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net increase of **£32 million**. Management considered the year end value of assets which were not valued at 31 March 2020 to determine whether there had been a material change in the total value of these properties. Management's assessment of assets not revalued did not identify a material change to the value of the properties. The total year end valuation of Other Land and Buildings was **£804 million**, a net increase of **£38 million** from 2018/19 (**£766 million**). In line with RICS guidance, the Council's Valuer disclosed a material uncertainty in the valuation of the Council's Land and Buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.	• From the work performed in this area, we gained sufficient assurance over the valuation of the Council's Other Land and Buildings included within the Accounts. • The valuer agreed clear terms of reference for this work with the Council in advance of the work being performed, including agreeing the assumptions that were going to be applied to this work. • We reviewed the valuer's assumptions and with our Auditor's Expert confirmed that the assumptions were reasonable and appropriate given the nature of the assets held by the Council. • We also considered the valuer's work on those assets not valued as at the 31 March 2020 to confirm that their value at that date was not materially different to their carrying value included within the draft financial statements. Again we able to gain sufficient assurance over the assessment made by the valuer in this area. • As mentioned earlier in the Report, the Valuer has included a material uncertainty on the valuation certificate, which has been correctly reflected within the Accounts, within Note 4. We will reflect this matter as an Emphasis of Matter in our Audit report.	● **Green**

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Assessment

- ● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £473 million

The Council's total net pension liability at 31 March 2020 is £473 million (PY £653 million), comprising the London Borough of Croydon Pension Fund Local Government and unfunded defined benefit pension scheme obligations.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £180m net actuarial gain during 2019/20.

- The Council used Hymans Robertson as their Actuary for a number of years, and thus we are satisfied with their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2020. Further assurance over this is provided by the work performed by our Auditor's Expert, PwC, who review the work undertaken by all of the Actuaries involved within the LGPS Scheme. They found no significant issues with the work performed by Hymans Robertson which thus provides us with sufficient assurance over the work of the Actuary.
- We reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We again made use of PwC, to obtain assurance over the reasonableness of the assumptions used. A summary of the work performed can be seen in the table below:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.30%	2.30%	●
Pension increase rate	1.90%	1.80%-2.00%	●
Salary growth	1.90%	1.80%-2.90%	●
Life expectancy – Males currently aged 45 / 65	22.5 21.9	21.6-23.3 20.5-22.2	●
Life expectancy – Females currently aged 45 / 65	25.3 23.9	24.6-26.3 22.9-24.3	●

- Based on the table above, we have gained sufficient assurance over the assumptions applied by Hymans Robertson to value the Council's Pension Fund Liability as at the 31 March 2020, and the resulting figures included within the draft financial statements.

● **Green**

Assessment

● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. We considered whether the factors leading to the disclaimer opinion represented matters in relation to fraud. As stated earlier, the Council's consideration of the KROLL report and the wider reports on governance including the two Reports in the Public Interest led to the Council referring matters to the Police to consider whether there is a case to answer under the Misuse of Public Office. Our view is that the uncertainty relating to this matter reflects a material uncertainty over management override of control and we have not concluded that this represents fraud. We have identified significant issues relating to our value for money conclusion due to weaknesses in governance arrangements although our work has not identified any instances of fraud. Given the ongoing consideration of matters by the Police we do not intend to formally certify the 2019/20 audit until we have had an opportunity to consider the findings of the police investigations. We have not been made aware of any other incidents of fraud in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	As mentioned elsewhere within the Report, we identified issues over the disclosure of the development spend incurred in relation to Fairfield Halls, which was initially incorrectly recorded in the accounts of Brick by Brick Croydon Ltd, when this spend should have been recorded in the Council's Accounts given the asset never formally transferred to Brick by Brick. This has been amended in the updated Accounts and a disclosure has been added to the Accounts to explain clearly the changes which have taken place as a result of this adjustment. No other issues have been identified in respect of the related parties or related party transactions recorded within the Accounts.
Matters in relation to laws and regulations	As reported within the Report in the Public Interest, the Council had to issue a Section 114 Notice in November 2020 due to the identification of a £66 million budget shortfall in 2020-21. As a result of this, the Council has been granted a Capitalisation Direction by MHCLG, which will cover sums over the next four financial years. Our Value for Money Work in respect of the redevelopment of Fairfield Halls and the related transactions led to a Report in Public Interest in January 2022. The Council subsequently engaged a forensic expert, Kroll, and the resulting report has been referred by the Council to the Police to consider whether there is a case to answer under the Misuse of Public Office. We understand that the case is being considered and we intend to issue a modification to the audit report to reflect the matters arising.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group and Prior Period Adjustments identified, which will be shared with Management and the Audit and Governance Committee once all of the remaining work has been completed.

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2. Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
Disclosures	Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. A number of these changes have arisen due to the impact of the two Reports in the Public Interest and ensuring this is correctly reflected in the 2019/20 financial statements where required. Further detail is provided within the Misclassifications and Disclosure Changes pages, which are included later in the Report.
Audit evidence and explanations/significant difficulties	This has been a challenging audit for both the finance and audit teams. The initial audit was prolonged to assist the finance team mange the competing pressures of a revised budget in response to the section 114 notice and the request for a Capitalisation Direction at the same time as responding to auditors. Given the length of time the audit has taken there has been significant turnover in key personnel at the Council during the audit period, including four section 151 officers. With significant turnover, corporate memory becomes difficult to retain and going forwards the Council needs to continue to invest in the finance team to help with consistency and resilience. A number of the issues identified in-year have required the new finance team to revisit figures and judgements which were made in previous years, for which there is a lack of corporate memory and hence items have often had to be revisited from scratch to agree a way forward. This has indicated that a more robust mechanism is needed to maintain records that can be easily followed by successors where there is a change in the finance team. We have raised a recommendation in Appendix A - **Recommendation 8** to ensure appropriate succession planning is in place for the finance team. Despite the challenges and the length of time, we acknowledge the cooperation and engagement of the finance team.

2. Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. From the work performed inconsistencies were identified which have now been rectified by management. Most of these related to the issues included within the Report in the Public Interest, where we asked Management to update the Annual Governance Statement and Narrative Report to ensure that matters which related to 2019/20 were appropriately reflected. Our work on the revised narrative information is currently in progress post amendments made by the Council.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties As mentioned elsewhere in the Report, we have issued a Report in the Public Interest relating to the financial challenges that the Council has faced and is continuing to face – refer to Section 4 of the Report for further information. Due to the issues identified in the Report in the Public Interest, we asked the Council to update the Annual Governance Statement to reflect the issues identified which related to 2019-20. The Council has subsequently prepared an updated Statement to reflect these points where appropriate. Our work on the revised AGS is currently in progress post amendments made by the Council.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not yet been started due to the ongoing final accounts audit. The NAO have clarified that group audit procedures and assurance statements submissions are no longer required for outstanding 2019/20 local government audits and therefore no further work will be required in this area.
Certification of the closure of the audit	Given the ongoing consideration of matters by the Police we do not intend to formally certify the 2019/20 audit until we have had an opportunity to consider the findings of the police investigations.

3. Value for Money

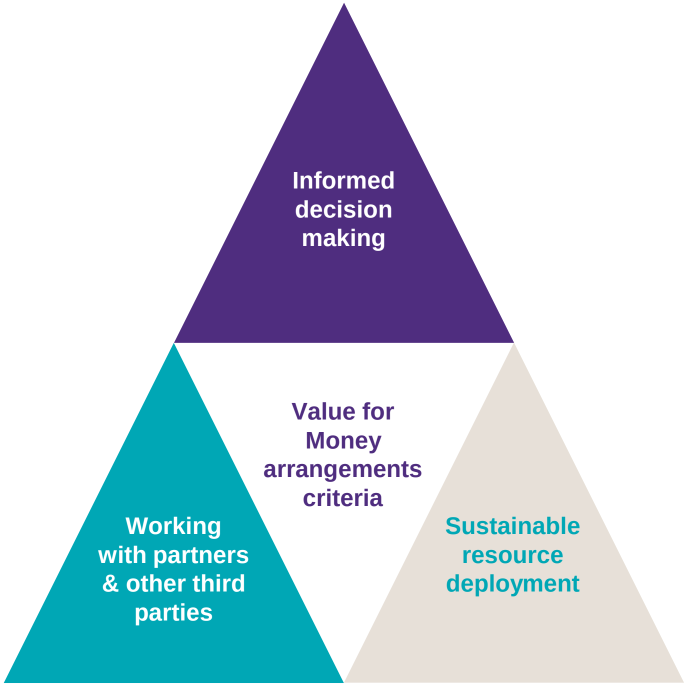
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

In March 2020, we presented our initial 2019/20 External Audit Plan, covering both the Council’s Financial Statements Audit and the Value for Money Conclusion for same year. Within this Plan, we identified the following significant risks in respect of our Value for Money Conclusion:

- The ongoing Financial Sustainability of the Council

- The Council’s response to OFSTED’s Inspection of Children’s Services

- Governance of the Council’s Alternative Delivery Models

The full detail behind each of these risks is shown in the separate VFM Report.

As part of our planning processes, we had undertaken early work on the budget setting processes for 2020/21 where we identified significant concerns regarding the Council’s overall financial position. The concerns were raised with management in late March 2020 (as the COVID-19 pandemic lockdown was implemented) and our resulting work ultimately led to October 2020 Report in the Public Interest. The Council subsequently issued its initial Section 114 Notice in November 2020.

We revisited our planning and issued an Audit Plan Addendum, in November 2020, identifying a further risk:

- Governance and Financing of the Council’s Group Structures

Discussions with management in January 2021 raised concerns about the Council’s refurbishment of Fairfield Halls which re-opened in September 2019. An initial value for money risk was identified however the initial work led to significant concerns and further work was undertaken which led to a second Public Interest Report being issued in January 2022 on this area.

- Refurbishment of Fairfield Halls

The 2019/20 audit continued into 2022 when issues relating to the conditions of the Council’s Housing Stock emerged, in particular in relation to the condition of properties in Regina Road, which featured as part of a news investigation into the conditions in which residents were living. Given the historic and current nature of the issues we considered that the underlying arrangements in 2019/20 were impacted by the findings and a further Significant Risk was identified as:

- The condition of the Council’s Housing Stock

This report will look to summarise all of these issues insofar as they relate to 2019-20. The most recent Section 114 Notice, issued in November 2022, relates to the financial challenges of the Council from 2023-24 onwards, and hence will be covered within our subsequent Value for Money Reports covering financial years 2020-21, which we will also being looking to issue shortly.

3. Value for Money (continued)

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Due to the nature and scale of the risks identified, we have prepared a separate Value for Money Report covering these areas, and this Report is provided alongside this Audit Findings Report for consideration at the Audit Committee.

Proposed Conclusion

On the basis of the significance of the matters we identified with your levels of reserves, the governance of the Council’s Alternative Delivery Models, the financing of the Council’s Group Structures, and the condition of the Council’s Housing Stock, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

4. Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

Issue	Commentary
Report in the Public Interest	On 23 October 2020 we issued a Report in the Public Interest, setting out a range of serious concerns over the Council's financial standing, its financial decision-making and the linked governance arrangements. We raised 20 recommendations within this Report covering the areas mentioned above, which included the following key areas: • Obtaining an understanding of the underlying causes of social care overspends and ensuring robust action is taken to manage demand and the resulting cost pressures in respect of both Adults and Children's. • The Council should challenge the adequacy of the Reserves assessment as part of the annual budget setting process to ensure this is appropriate before the budget is approved, and provide greater challenge to the overall budget ahead of approval. • A review of the outcomes achieved from the use of Transformation Funding to confirm that funding has been applied in accordance with the aim of the scheme. • The use of the Revolving Investment Fund should be reviewed and considered whether the continued involvement is appropriate. • Undertaking a review of the Council's Treasury Management Strategy to consider the ongoing affordability of the strategy and the attached risks and whether the ongoing financial burden can be reduced. • The Council should also review and reconsider its involvement in Brick by Brick and determine whether the financial rationale for doing so remains appropriate. • Finally, undertaking a review of the governance arrangements around the Council's interest in its subsidiaries, how these are linked, and how these subsidiaries link to the overall financial standing of the Council. Following the issuance of the Report in the Public Interest, in November 2020, the Council issued a Section 114 Notice following the identification of a £66 million budget shortfall in 2020/21 which the Council identified there was no way of closing by the end of the financial year. A further two section 114 notices have been issued in relation to budget shortfalls. On 26 January 2022 we issued a second Report in the Public Interest relating to the London Borough of Croydon. This report set out a range of serious concerns regarding the management of the refurbishment of Fairfield Halls which took place between June 2016 and September 2019. We raised 12 recommendations, seven of which were statutory recommendations. This report covered failings including the council's financial, governance and legal arrangements for the Fairfield Halls refurbishment. Under the Local Audit and Accountability Act 2014, it is a statutory requirement of the External Auditor to issue a Report in the Public Interest when 'a significant matter comes to their notice and to bring it to the attention of the audited body and the public.' These reports are rare and very serious. The 2014 Act sets out specific actions which have to be taken when a Council receives a Report in the Public Interest. These actions include holding an extraordinary Council meeting, which were held accordingly for both PIRs, to discuss the Report and the Action Plan which had been agreed by the Council to resolve the issues identified in the Reports. Since the issuance of the Reports the relevant Action Plans have been reviewed and reported on a regular basis to full Council and Cabinet and has been considered by us as external auditors within our Value for Money work, which as mentioned earlier will be reported in a separate Report once all of our work in this area has been completed.

5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers and managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which have been charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £697,352 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Subscription to the Adult Social Care Index	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £697,352 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified 13 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the following years audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● **Red**	**1. Ensuring that the work of Internal Audit is considered appropriately, and findings are actioned in a timely manner** During the course of 2019/20, Internal Audit issued a 'Limited Assurance' Opinion on the Council's internal control environment, which is the second worst scoring possible and is lower than is normally seen at London Boroughs. It was clear from our discussions with Internal Audit that the Management at the time were unwilling to accept the findings raised and effectively refused to sign off the Opinion for issuance. It is also clear that Internal Audit had been stood down from various internal meetings which they would have normally attended which meant they did not have the chance to discuss the findings from their audits with key Management as would have been the case normally and would normally take place at other Councils. Internal Audit is a key part of the Council's internal control environment, and it is important they have unfettered access to all members of staff to undertake their work appropriately. It is also important that they have clear reporting lines and have the ability to report directly to Those Charged with Governance where appropriate.	Ensure that arrangements are in place to allow Internal Audit unfettered access to all members of the staff within the Council, and that there are clear reporting lines to allow any concerns to be raised in a timely manner. There should also be the option for items to be raised directly with Those Charged with Governance where the need may arise in the future. **Management response** Agreed. The July 2021 Organisation Restructure report, agreed at Full Council on 5/7/21, gave the Head of Internal Audit a dotted reporting line to the Chief Executive and full membership of the Corporate Management Team (CMT) with a standing right to attend CMT for any item and to put any item on the CMT agenda as they see fit. The HoIA also receives all CMT papers in advance. The HoIA also attends Statutory Officers' Group meetings in person and sends update reports directly to the Group.

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Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● **Red**	**2. Ensuring journals are only posted by staff where fully understood** During our work on journals, we identified a small number of journals which had been posted by members of the finance team without them being able to explain the rationale for these journals. When challenged further, these members of staff raised that these journals had been prepared by the former Head of Finance and they had taken assurance from that individual that the journals were reasonable and appropriate, and thus had posted these to the Ledger on this basis. All staff members should be able to explain the journals that they have posted during the year, even if these have been prepared by other members of the finance team as may happen on some occasions.	Ensure that members of staff only post journals where they are clear on the business rationale for doing so and can explain the purpose of the journal. Where staff do not have this information, they should not post the journal until they are comfortable it is reasonable and appropriate to be posted. **Management response** Agreed. The new Strategic Finance structure includes a new Finance Manager post (reporting to the Chief Accountant) which will be responsible for reviewing and updating systems controls, procedures and guidance notes, and providing ongoing training.
● **Red**	**3. Appropriate use of Transformation Funding** Our testing of the Transformation Funding included within the Accounts identified a number of transactions where the Council was unable to provide an appropriate rationale for these transactions leading to transformational change within the Council, as required by the relevant guidance. The total value of the actual errors identified was **£258k**, which when extrapolated across the total population for the year of **£29.3 million** generated an extrapolated error of **£7.071 million**. However further work in relation to the Croydon Affordable Housing (CAH) and Croydon Affordable Tenures (CAT) transactions, it was concluded that the change in accounting treatment in the CAH and CAT LLP structure based on additional available information being made available to the external audit team led to no capital receipt being generated. Without a capital receipt the total of transformation expenditure funded by flexible capital receipts of **£73 million** was charged directly to revenue. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20.	Management need to ensure that any judgements in how to apply guidance, such as flexible use of capital receipts, are captured and open to scrutiny within the finance team and with the auditor. **Management response** Agreed.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● **Medium**	**4. Ensuring filing requirements for the Council's Companies is kept up-to-date** As part of our work on the Council's Related Party Transactions and Group Arrangements, we undertook a review of bodies disclosed on Companies House, which identified that one of the Council's wholly owned subsidiaries, the London Borough of Croydon Holdings LLP had been struck off the Register. This was due to the required filings not being done in a timely manner, and the subsequent reminders received by the Council did not make their way to the relevant individual. Whilst the Council has subsequently successfully applied to have this LLP reinstated, and the relevant assets returned from the Crown, it indicates weakness in the arrangements for the governance and monitoring of these arrangements, which is concerning given the number of these that the Council currently has in place.	Ensure clear arrangements are in place to make sure that documents are filed with Companies House in a timely manner to avoid the risk of strike-off action being taken against any subsidiaries in the future. **Management response** Agreed. This is now monitored through the Croydon Companies Supervision and Monitoring Panel (CCSMP) which is chaired by the s151 Officer and includes in its membership the Director of Law and Governance (Monitoring Officer) and the Director of Commercial Investment and Capital.
● **Red**	**5. The setting of an inappropriate Minimum Revenue Provision (MRP)** Our testing of the Council's Minimum Revenue Provision identified that the Council had not included any balances relating to property development loans, investment properties and other capital development costs. Whilst the Council was able to provide a rationale for their approach, we do not feel this produces a prudent Provision, particularly given the performance of Investment Properties and loans to subsidiary companies.	Management should review their approach to calculating their MRP and ensure it is prudent and covers all areas of capital borrowing which have been undertaken by the Council irrespective of their purpose. **Management response** Agreed. The MRP policy has subsequently been reviewed and updated.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● **Medium**	**6. Ensure all legal documents are signed and stored securely** As part of testing the Council's Long Term Debtors, in particular the Loans which have been issued to Brick by Brick Croydon Ltd, we identified that the Council did not have copies of all of the loan agreements that had been entered into, and where copies were held, not all of these were signed. Irrespective of who the counter party is, it is important that all of these types of documents are signed by all sides in a timely manner, and that the signed documents are appropriately stored so they can be located in the future as the need arises.	Ensure that all loan agreements and similar documents are signed on a timely basis and are filed in a central location which is easily accessible so these can be accessed in the future should the need arise. **Management response** Agreed.
● **Medium**	**7. Undertaking timely and robust Bank Reconciliations** Our work on the Council's Bank Reconciliations identified that whilst a reconciliation was performed at year end as part of the accounts closedown, these had not been regularly performed during the year. Performing these reconciliations in a timely manner is a key part of the system of internal control and allow issues to be identified and resolved in a prompt manner, whereas leaving the reconciliation until year end will not only increase the time it takes but may also make it harder to resolve any reconciling items.	Ensure that bank reconciliations are performed on a monthly basis during the course of the year to ensure that any issues are picked up and resolved in a timely manner. **Management response** Agreed. The new Strategic Finance structure has been designed to add capacity and management oversight for bank reconciliations.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● Medium	**8. Ensuring appropriate succession planning is in place for the Finance Team** During the course of the 2019-20 financial year, the Chief Accountant left the Council to take up a different role, and was initially replaced by an interim Chief Accountant, who also moved on after a short period of time. Whilst new team members have come in and subsequently picked the accounts work up, it is clear that a considerable amount of the accounts preparation sat with this one individual, and thus when they left the Council they took an large element of the Council's corporate knowledge with them. Going forward the Council should look to ensure this knowledge is spread more widely within the finance team to ensure they are no longer so reliant on one individual.	As the Council is starting build up its permanent finance team, ensure that tasks are shared more evenly amongst the team so there is less reliance on one or two key individuals as has been the case in previous years. **Management response** Agreed. The new Strategic Finance structure has three Finance Manager posts reporting to the Chief Accountant (for closing/reporting, capital/property companies and systems), which adds capacity and the ability for more shared knowledge.
● Medium	**9. Self authorisation of journals** We have identified from our journals testing that a number of journals have been initiated and posted by the same individual. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal.	Management should ensure that a control is in implemented to prevent users from posting and authorising their own journals within the finance system, where this is impractical to do so detection controls should be implemented such as regular monitoring of journal postings to ensure no inappropriate journals are posted to the system. **Management response** Agreed. The new Strategic Finance structure has added more Finance Manager posts into the service and corporate teams, and this added management capacity will support ensuring that journals prepared by accountants are signed off by their line managers. Also the new structure includes a Finance Manager post (reporting to the Chief Accountant) which will be responsible for reviewing and updating systems controls, procedures and guidance notes, and providing ongoing training. This post will investigate the controls which can be improved in the Oracle financial system for journal workflows.

Controls

● - Red - High – Significant effect on control system

● - Amber - Medium – Effect on control system

● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● **Medium**	**10. Inaccurate FTE data** As part of our early testing of payroll, we identified that Full Time Equivalent (FTE) reports provided were inaccurate. As an example, an individual who was a contractor and not London Borough of Croydon staff, was included within the FTE report as they were required to be input onto 'Myresources' (HR) system in order to access the finance and ledger systems to perform migration of data work. The input of FTE should have been included as 0 on the HR system however had been input as 1 and therefore was input incorrectly. We were unable to gain assurance that the residual individuals included in the FTE reports were included correctly and therefore we were unable to use the FTE report as a key source for our planned audit approach (substantive analytical review) and therefore revised our audit approach to substantive sample testing of individual council staff.	Management should ensure checks are performed on key reports such as FTE reports to ensure that reports used for internal and external reporting purposes are complete and accurate. **Management response** Agreed. The Oracle improvement programme includes an HR workstream which is looking at system, process and reporting improvements for staffing establishments.
● **Medium**	**11. Valuations** Based on our testing performed over asset valuations, we identified that some assets had not been classified under the correct valuation basis (DRC, EUV, FV). There has been no material impact on the closing valuation of these assets for 2019/20 as a result of this deficiency. However, there is a risk that where material assets are not classified correctly for valuations purposes this could cause a material error within the financial statements as they could be valued incorrectly.	We therefore recommend that management reviews the valuation basis of assets per the Fixed Assets Register with a focus on those showing as FV, OMV or those left blank. **Management response** Agreed.

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Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● **Medium**	**12. Management's assessment of assets not revalued in year** We reviewed management's assessment of those assets which had not been formally revalued in-year and noted deficiencies within management's assessment including: • The adjustment factor calculation was incorrect • It was significantly challenge for us to reperform managements calculations due to poor links between the working papers and the FAR/Valuer's report. On challenge, management has explained that this assessment had been rolled forward from prior years and therefore the methodology is outdated. There is a risk that assets that have not been revalued have a materially different carrying value at the balance sheet date and are not picked up by management through their assessment performed.	Management should look to update the methodology used from 2020/21 to perform a more robust assessment of un-revalued assets at year with clear links to the FAR and the valuation reports to ensure assets valuation does not materially differ from the carrying value and are valued correctly at the year end date. **Management response** Agreed. Most assets have been revalued on a two yearly basis in recent years to improve the accuracy of valuations in the accounts, and the methodology of assessment of un-revalued assets will be reviewed.
● **Medium**	**13. Investment Properties and Land and Building Valuations** During our testing over valuations of Investment Properties and Land and Buildings, we challenged the external valuers (Wilks, Head and Eve) over whether they had tested the classification of assets against the definitions within the Code. They have confirmed that this is not a test that they perform directly based on instruction received from Croydon. There is a risk that investment properties and land and buildings are incorrectly classified where reviews are not performed over classification of assets which could in turn provide an incorrect asset valuation.	We recommend that the Council reviews its asset classification to mitigate any risks/issues with wrong classifications. This exercise could either be performed by the valuers or the Council, this is especially important in cases where there is a significant change with an asset in year. **Management response** Agreed.

Controls

● - Red - High – Significant effect on control system

● - Amber - Medium – Effect on control system

● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● Red	**14. Application of transformational capital receipts** The Council entered into a complex group arrangement in order to generate capital receipts to allow application of the flexible use of capital receipts for transformation. Upon additional information supplied by the council, a re-review of the accounting for the structure of the arrangements identified that no capital receipt should have been generated resulting in transformational expenditure previously applied as capital was required to be reclassified to direct revenue expenditure impacting on the general fund position. There is a risk that the accounting treatment of complex arrangements entered into by the Council are not fully understood which can have significant impacts on the accounting treatment and finances of the Council.	Management should look to ensure it fully understands the accounting treatment and accounting impacts of complex structures before they are entered into. **Management response** Agreed.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan – IT Audit (Oracle System)

We have also identified six recommendations for the group as a result of issues identified from the work performed by our IT Audit Team during the 2019-20 Accounts Audit – these issues and Management's responses were reported to you in January 2021 but we have included again here for completeness. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the following years audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and recommendation	Management Response
● Medium	**Segregation of duties conflicts between Oracle system administration, developer, and finance roles** We recommend management consider reviewing the elevated access assignment and, where possible, restricting Oracle administrator access to members of the IT department only with all conflicting finance responsibilities being removed from System administrator accounts. Should management choose to accept the risks associated with the system administrators and finance conflicts, formalised and documented controls should be implemented to monitor the use of system administrator access. This monitoring should be achieved through after-the-fact reports listing management approval for the actions (e.g., transactions posted, queries executed, records updated) performed. Given the criticality of data accessible through financially critical systems, logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	We have reviewed the information provided by the auditor. We found that all the users listed are either system accounts or members of the support and implementation team. We have ended the implementation user accounts. Given the nature of these roles the identified conflicts will exist. We will investigate options to implement appropriate formalised and documented controls to monitor system administrator and support team access. We will present a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November 2020.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan – IT Audit (Oracle System)

Assessment	Issue and recommendation	Management Response
● **Medium**	**Oracle system configuration access granted to an excessive number of users, including non-IT staff / end users** Management should consider reviewing all users with system configuration capabilities assigned and, where possible, removing this from end users / limiting this access to members of IT department. Should management choose to accept the risks associated with this access being granted to end users from outside of IT, formalised and documented controls should be implemented to monitor the use of this ability. This monitoring should be achieved through after-the-fact reports listing management approval for the actions performed.	The task of reviewing users with system configuration capabilities is a significant undertaking therefore the approach we intend to take is to investigate options to monitor system configuration changes. We will present a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November 2020.
● **Medium**	**Users self-assigning responsibilities without formal management approval** Where administrative staff require additional functionality, they should be required to request this through the formal change management procedures. Any such access granted should be end-dated accordingly. Management should implement monitoring controls to identify instances where members of staff have assigned themselves additional responsibilities and any non-compliance with the abovementioned process investigated.	1) We have identified that there has been assignment of forecast approver roles within the projects module by project managers. We will review appropriate controls with Finance and Oracle. 2) The majority of self-assignment occurred during or just after implementation. We have now removed access to the IT security manager role from 3rd Party support staff. 3) We will restate the message that that the internal My Resources support team must not self-assign roles and must follow the normal user access request process if they require additional responsibilities. We will also introduce monitoring controls via a report to identify instances where members of staff have assigned themselves additional responsibilities and any non-compliance. This report will be sent to the Head of Finance and HR Service Centre for review and investigation of any non-compliance.

Controls

● - Red - High – Significant effect on control system

● - Amber - Medium – Effect on control system

● - Green - Low – Best practice

Action plan – IT Audit (Oracle System)

Assessment	Issue and recommendation	Management Response
● Medium	**Weakness in password configurations** We recommend that Password complexity is increased. Password history should be enforced for at least 10 previous passwords. Users should be locked out after a maximum of 5 failed logon attempts. We recommend that the passwords on Generic accounts be changed following each use.	We will seek support from our 3rd Party support provider to understand what options are available. We will provide an update on the options available for the My Resources Board to consider, as part of the agenda item on risks, at their meeting in November.
● Medium	**There is an excessive number of Admins on the Oracle Cloud system and no evidence was provided to identify them** Management should formally review the system administrators access to the network and restrict this access only to appropriate users. Apply a least privilege basis to all users to ensure users have appropriate access and any additional access required is documented and approved.	A formal review was started in 03/2020, We look at 235 domain admin users, 626 Server admins users. The results of this review prompted the Littlefish 'AD Health Check' of which, there is a full remediation proposal awaiting to be approved. In addition, we have recently extended to our review to 172 admin accounts in O365/Azure. Lastly, a 'Privileged Group Access Standard' was created to minimise the amount of privileges accounts we have and define an approval process.
● Medium	**IT Security policy changes are not communicated to all employees** Management should review the IT security policies at least annually and make appropriate changes considering technological changes, data protection regulations as well as changes to the IT environment and current business needs.	We had a recent policy review in 05/2020 of which there are some outstanding actions we need to address. Once the policies have been updated, we will incorporate the distribution alongside a wider IM & Security training & awareness package.
● Medium	**Logs in Active Directory are not being kept and monitored** Logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Work has been commissioned from our supplier to enable audit logging (work request 116) and it should be implemented soon. Review of the logs will be performed by the Council's Digital Security Officer.

Controls

● - Red - High – Significant effect on control system

● - Amber - Medium – Effect on control system

● - Green - Low – Best practice

Action plan – IT Audit (Northgate System)

Assessment	Issue and recommendation	Management Response
● **Medium**	**No Monitoring of Third-Party Activities undertaken on Northgate i-World** Management should implement controls around how the vendor gains access to the production environment. This can be achieved by enabling and disabling access when it is required by the vendor to apply approved change into the production system. Management should also consider reviewing the user activities of the account used by the vendor. This will assist in ensuring that there is appropriate oversight into how the vendor accesses the i-World production environment.	LBC will implement a process with vendors whereby access is granted for a limited time and monitored during the access period. Once changes have been agreed or approved with or by LBC vendors will have access to the system as required within the scope of the change for a duration appropriate to complete their activity. During the period of access and immediately after the vendor's activity and changes will be reviewed and signed off against the scope of the change by a system administrator within LBC. This will be implemented by 14 August 2021, all vendor accounts will be locked by this date.
● **Medium**	**Sharing of Administrative Account on Northgate i-World** Management should use named administrator accounts within IT systems in order to establish accountability. The use of individually named administrator accounts allows for the tracking of administrator activities within the system. Generic accounts should also be removed/disabled from the system.	LBC will only use named accounts for administrative tasks, or accounts which have a sole responsible party attached to them. BATCHJOB will be discontinued and administrators will use their own accounts for system changes or batch work. When an administrator moves on from their role if there is a requirement to maintain the account to ensure batch work can continue their account will be signed over to a senior officer within the ICT support team who will own the account until all dependencies are expired, the account will then be processed as a leaver. This will be documented to provide an audit trail. BATCHJOB will be discontinued by 14 August 2020. The RB user account is an "out the box" admin account that only certain jobs can be run from, this must remain a shared account however LBC will implement a process whereby access to the account is requested and approved/not approved by the ICT manager for individual officers for agreed periods of time/activities. This will be documented to provide an audit trail. RB ownership will change from 1 October 2020. There is work to be done to remove integrations off the RB user before restricting the access.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan – IT Audit (Northgate System)

Assessment	Issue and recommendation	Management Response
● **Medium**	**Weak Password Parameters** Management should consider setting password settings in line with good practice.	All user accounts will join the STANDARD password profile which either currently meets or will meet the requirements above and in line with LBC password policy. All system integration accounts will join a new password profile which is clearly defined in the system. In addition there will be no accounts using the FIRST_DEFAULT profile. LBC will have decommissioned the FIRST_DEFAULT profile and updated user password profiles by 31 August 2020.
● **Medium**	**Lack of Periodic User Access Review** Management should ensure that formal review of user access rights is performed periodically by the system and/or business owner of the application. Once reviewed, IT should configure the appropriate permissions to ensure users have access rights appropriate for their job role. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	LBC will implement a process for user reviews. This has already begun, and will be done in stages in the first instance and then put in to a schedule, with a regular review once per quarter. As part of the regular review, of all roles we will ensure that a segregation of duties is correctly applied and that anyone who has not used their account within an agreed timeframe is processed as a leaver. All users will be asked to reconfirm the reason for access to the system. This will be reviewed and in line with the response and guidance. Access will be modified or revoked as needed. Failure to respond will also result in an account being revoked. Reviewing all current users will be completed by 31 August 2020. The process will be then in place for the first quarterly reviews to be scheduled, and commence by 30 September 2020.
● **Medium**	**Lack of Review of Information Security/Audit Logs** Given the criticality of data accessible through i-World, logs of information security events (i.e., login activity, unauthorized access attempts, privileged user activity) created by these systems should be formally reviewed for the purpose of detecting inappropriate or anomalous activity. We recommend that these reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Following user review in point 4 we will conduct robust reviews to ensure that only current users have access to the system and that users have the correct roles and privileges based on their requirements and the matching access they have been provided. This will prevent unauthorised access. It is not possible for someone to gain access to Northgate if they have locked their account once exceeding the number of login attempts. They will need to raise a call with the administrators to unlock their account, at that point validation takes place to make sure the person asking for their account to be unlocked is actually the account holder. We will review security event logs to detect any anomalous activity with regard to repeated or invalid login attempts. We will implement a time of access review that highlights any users accessing the system outside of the designated hours for updating. These reports will be reviewed by the administrators and offending officer's supervisors will be made aware of their activities. This will be in place by 30 September 2020.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan – IT Audit (Northgate System)

Assessment	Issue and recommendation	Management Response
● **Medium**	**Reconciliation Report Not Formally Approved** Management should consider implementing a process in place that ensure that reconciliation is performed and validated by the appropriated person.	LBC will change the reconciliation process so that if the system is reconciled an administrator will note they have reconciled the system on the reconciliation sheet which will be checked weekly by a second officer/manager. If the system does not reconcile the officer must address any issues and correct the system as needed. This must be reported to another officer who will perform a second check on the day and confirm that appropriate action has taken place to bring the system in to balance and checked by a second officer and escalated to the manager for sign off. This process will be in place by 14 August 2020.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Incomplete Accruals of Income and Expenditure** During the course of our work on Income and Expenditure, we identified several items which had either been incorrectly accrued, or had not been accrued, both from an income and expenditure perspective. Whilst we were able to gain assurance that the impact of these errors was not material, the Council should look to strengthen its controls in this area to ensure the Accounts contain all of the relevant items in following years. We recommended that the Council should revisit the Council's Accruals processes to ensure that items are correctly treated during the accounts preparation process. The Council should consider whether any de-minimus limits are set appropriately to ensure time is focused on those areas which could have a material impact on the Accounts.	Based on our work performed to date we have not identified any material issues relating to incomplete accruals of income and expenditure.
X	**Accounting for New Arrangements** In 2017/18, we raised a recommendation in respect of the need for the Council to consider the accounting arrangements for the new ventures which the Council is embarking on during the development process, rather than once the arrangement is in place. This mainly related to the setting up of Croydon Affordable Homes LLP, where due consideration was not given to the reverse lease premium the Council benefitted from under this arrangement. We highlighted that unless this was given appropriate consideration during the development process, then the Council could experience some unforeseen circumstances when preparing the financial statements at year end. Further issues were identified during 2018/19, partly relating to the potential transfer of properties from the Council to the Pension Fund.	Based on the work performed on Croydon Affordable Housing, management have reconsidered their judgement on how to account for the transactions and balances as a result of a technical review undertaken. This has resulted in a significant prior period adjustment to the Council's accounts where expenditure which was previously capitalised under transformational funding has now had to be reversed and be treated as revenue expenditure, which has impacted on the Council's General Fund Position. It is our view that this prior year recommendation raised was not satisfactorily addressed in the 2019/20 financial year and resulted in a prior period adjustment and significant in year audit adjustment. Previous recommendation will remain open for the future year audit and progress followed up accordingly.

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Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon’s 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Incorrect Data shared with the Valuer** In the prior year we identified some issues with the integrity of the data passed to the Valuer ahead of the revaluation exercise, which could have potentially resulted in errors in the valuations performed by the Valuer. We highlighted the need for the Council to ensure the integrity of the data based to the Valuer ahead of the annual revaluation exercise. During our work on the Council’s valuations in 2018-19, we identified one property included in the valuation schedule which had been disposed by the Council in previous years and thus shouldn’t have been revalued. We also identified a second property where the whole property was valued but the Council only owns a percentage of this property, and thus the whole value should not have been included in the accounts.	Similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the Council. We extrapolated the errors identified and concluded an extrapolated error of £1.4 million of potential understatement of valuation of assets based on discrepancies in data being supplied to the valuer. Thus we will roll forward the recommendation forward to the current year to reflect there is more for the Council to do in this space to resolve this issue.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations IT

We identified the following issues in the audit of the London Borough of Croydon's 2018/19 IT environment, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Users self-assigning responsibilities in Oracle EBS** The risk of fraud or error is increased if users are able to promote their access privileges beyond those that they require to perform their roles, or they have been appropriately trained to use.	This finding is still present in the upgraded system Oracle Fusion.
✓	**Default Oracle EBS and Oracle database accounts credentials have not been changed** Default accounts present a security risk as the usernames and passwords are widely available. They therefore present an easy point of compromise for a malicious user who could use such an account to create new user accounts and assign unauthorised privileges to them. These accounts could then be used to perform unauthorised and unaccountable changes or transactions, which may be fraudulent.	This no longer applies as new system has been implemented.
X	**Audit logging is not configured in line with best practices** Inappropriate or unauthorised activity within a high-risk area of the application and database is not detected in a timely fashion. A user could disguise fraudulent activity by making a change, waiting for the change to be processed and then changing the altered record back to its original state, the only record of change will be the most recent one.	This finding is still present as event logs are not held and monitored.
X	**Generic accounts inadequately controlled in Oracle EBS** Generic accounts present a risk of a user using them to make unaccountable changes or transactions within the system, potentially enabling fraudulent activity to be committed and/or disguised. This risk is increased when these accounts have elevated privileges such as the 'System Administrator' responsibility assigned.	This finding is still present in the upgraded system Oracle Fusion.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations IT

We identified the following issues in the audit of the London Borough of Croydon’s 2018/19 IT environment, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Users with 'processes tab' functionality** Users are able to have unsegregated access to whole processes that system administrators and management are not aware of. There is a risk of users being able to perform end-to-end transactions that could be used to commit fraudulent activity. The risk of such changes not being detected is increased by the absence of effective audit logging.	This no longer applies as new system has been implemented.
✓	**Forms that allow SQL code to be executed** A large number of users having access to execute SQL code presents the risk of unauthorised access or modification of confidential or sensitive data erroneously or for fraudulent purposes.	This no longer applies as new system has been implemented.
✓	**Oracle EBS end user accounts with password that do not expire** User accounts with passwords that do not expire increase the risk of a user account being accessed by unauthorised person(s), thereby increasing the risk of inappropriate use/unauthorised modification of application data or transactions.	This no longer applies as new system has been implemented.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Reinstatement of Capital Spend on Fairfield Halls As mentioned earlier in the Report, we identified that **£62.6 million** of renovation costs in respect of Fairfield Halls had been incorrectly recorded in the Accounts of Brick by Brick, when the asset had never formally transferred from the Council and thus the spend should have been recorded in the Council's Accounts instead. This involves turning the loans issued by the Council to Brick by Brick to capital additions, and then adjusting the linked revaluation movements via the relevant Reserves. Amendments have been made to the 2019/20 figures for this, and a restatement of the 2018/19 figures has also been processed as these balances have moved materially as part of the restatement. The figures disclosed in the table is the total adjustment covering the whole life of the project to date.	Dr Expenditure 11,035 Dr Surplus or Deficit on Revaluation 51,626 Cr Movement in Reserves Statement 62,661	Dr Revaluation Reserve 51,626 Dr Capital Adjustment Account 11,035 Cr Long Term Debtors 62,661	Nil impact on total net expenditure – the balances are moved to Reserves via the Movement in Reserves Statement.
Write out of Interest Receivable from Brick by Brick for Loans taken out for Fairfield Halls Linked to the item above, the Council had accrued **£9.15 million** of interest that was expected to be received from Brick by Brick for the loans given to them for the refurbishment of Fairfield Halls. As a result of these loans being turned into capital additions, this interest is no longer receivable and has been removed from the Council's Accounts.	Dr Financing and Investment Income and Expenditure 9,150	Cr Receivables 9,150	An increase in total net expenditure of 9,150
Overall impact (of just the issues on this page)	**£9,150**	**£9,150**	**An increase of £9,150**

Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Review of Allowance for Credit Loss for Short Term Debtors From the work performed to date, we have identified issues relating to the Allowance for Credit Losses included within the draft Accounts. Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by **£1.5 million**. Secondly, during the course of the audit, the Council identified a considerable balance relating to outstanding Schools Utility Charges which were several years old and hence an allowance should have been made against these items. It was identified that the additional allowance required for these charges was **£4.5 million**. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted **£3.1 million** of invoices which were raised in 2019-20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated by this balance, which is likely to mean that the provision made of **£4.5 million** could be understated based on the age profile of this debt. As a result of issues identified in relation to understatement of receivable credit loss allowance, management performed a review of credit loss allowance of receivables through an opening the books exercise which identified a **£25 million understatement** of credit loss allowance. An overall audit adjustment of £25 million has been charged against the Council's General Fund Balance, in line with the standard accounting for these items, and thus have generated a reduction in the General Fund balance of **£25 million** from that reported in the draft Financial Statements.	Dr General Fund Expenditure £25,162	Cr Receivables £25,162	Increases by £25,162
Recharges to the Housing Revenue Account As a result of issues identified during the external audit, management performed an 'Opening the Books' exercise which identified a review of recharges made to the Housing Revenue Account. This review identified that the original recharge made to the Housing Revenue Account was too high and therefore £7.12 million is required to be recharged back to the General Fund resulting in a **£7.12 million** decrease to the general fund position.	Dr General Fund Expenditure £7,120	CR HRA Reserve £7,120	Increases by £7,120
Overall impact (of just the issues on this page)	**£32,282**	**£32,282**	**Increases by £32,282**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect Valuation of the Investment in the Real Lettings Fund Our testing of the Council's investment in the Real Lettings Fund identified that this was being held at cost instead of fair value as is required by the CIPFA Code. The Council has subsequently adjusted the valuation of this investment, which increases the value of this investment by **£2.0 million**. This issue has been identified in previous years and was reported as an Unadjusted Misstatement in the 2018-19 Audit Findings Report.	Cr Financing Income and Expenditure £2,000 Dr Movement in Reserves Statement £2,000	Dr Long Term Investments £2,000 Cr Financial Instruments Adjustment Account £2,000	Reduces by £2,000
Incorrect Classification of Loans issued to Brick by Brick Croydon Ltd During our work on the loans issued to Brick by Brick Croydon Ltd, we identified that delays in the publication of the 2019-20 Brick by Brick Accounts meant the covenants attached to these loans had been breached, meaning they were effectively repayable immediately to the Council, if the Council had chosen to exercise that option. As a result, all of these loans have been reclassified as Short Term Debtors in the Council's Accounts, from the Long Term Debtors balance where they were previously recorded.	n/a – no impact on the CIES	Dr Short Term Debtors £141,000 Cr Long Term Debtors £141,000	No impact on total net expenditure, this is just a movement on the Statement of Financial Position.
Overall impact (of just the issues on this page)	**£2,000**	**£2,000**	**Reduces by £2,000**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect inclusion of Cash held on behalf of the Local Enterprise Partnership Our work on the Council's Cash Balance in year identified that in 2018-19, the Council had incorrectly recorded the cash held on behalf of the Local Enterprise Partnership (LEP), Coast to Capital, as an asset and liability within the Council's Statement of Financial Position, when this should have been excluded as it was just being held on behalf of the LEP as the Council was the Accountable Body for a three-year period, which ended in April 2020. Thus a current year and prior period adjustment was required to amend this item, which had no impact on the overall financial standing of the Council but reduced Current Assets and Current Liabilities by the same balance.	n/a – no impact on the CIES	Dr Cash Overdraft £39,341 Cr Cash £39,341	n/a – no impact on total net expenditure – this is purely a reduction of assets and liabilities on the Statement of Financial Position.
Incorrect adjustment for the Dedicated Schools Grant Deficit Position The original 2018/19 Statement of Accounts included a £9.193m Deficit (2017/18 £0.963m) in Dedicated Schools Grant (DSG) as a Receipt in Advance on the balance sheet, on the basis it was an unadjusted non-material error. However, the 2018/19 Balance Sheet has now been restated to reflect a change in the accounting treatment of the of Dedicated Schools Grant Deficit. On the 30 January 2020 the Secretary of State for Education laid before Parliament the School and Early Years Finance (England) Regulations 2020. These regulations came into force on 21 February 2020 and are applicable to local authority accounting periods beginning on 1 April 2020. CIPFA released its Bulletin no.5 'Closure of the 2019/20 Financial Statements' in April 2020 in which it clarified how a DSG deficit should be treated. The new regulations are considered to provide a statutory basis for the holding and disclosing of negative earmarked reserves solely relating to the retained deficits arising from accumulated DSG expenditure. Therefore the 2017/18 and 2018/19 DSG Deficit has been reclassified and included as a negative earmarked reserve.	**2019/20 Impact:** no impact as held as a negative reserve **2018:19 Impact:** prior period adjustment reflected DR Income £9,193 MIRS Impact: Cr General Fund Expenditure £9,193 Dr Earmarked Reserve £9,193	**2019/20 Impact**: no impact as held as a negative reserve **2018:19 Impact:** prior period adjustment reflected Cr Receivables £9,193	n/a – no impact on total net expenditure – this is a presentational change on the face of the Statement of Financial Position and Movement in Reserves Statement.
Overall impact (of just the issues on this page)	**Nil impact**	**Nil impact**	**n/a – no impact**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Minimum Revenue Provision Based on our review of the revised minimum revenue provision policy, we concluded that the changes made did not provide a prudent charge of MRP as required by the statutory guidance. We did not agree with management's view that MRP should not be charged on investment properties, nor did we agree with management's view not to charge MRP on the loans issued to Brick by Brick Croydon Ltd. The Council is of the view that as they were planning to receive interest back from Brick by Brick, which was going to fund the repayment of the debt initially taken out by the Council, no MRP charge was required. Based on our audit findings management re-reviewed the MRP charge and have now included £141million of Brick by Brick loans into its MRP calculation. This has resulted in management recognising a further **£6.7 million for 2019/20** required to increase the MRP charge. This adjustment has been reflected in the revised 2019/20 accounts and reduced the General Fund and Earmarked Reserves position.	Dr General Fund Expenditure £3,544 Dr Earmarked Reserves £3,164	Cr Capital Adjustment Account £6,708	Increases by £6,708
Costs for Legal Case The Council entered into a Highways Maintenance contract with a third party beginning September 2011 which ran for 7 years. At the end of the contract term the Council received a claim disputing there was unpaid works which fell within the scope of the contract. The Council did not originally provide for the legal case and subsequently a **£9.439 million** adjustment has been made to the accounts**.** This is an adjusting post balance sheet event and therefore the financial statements have been adjusted to reflect a provision and corresponding expenditure charge to the general fund.	Dr General Fund Expenditure £9,439	Cr Provisions £9,439	Increases by £9,439
Overall impact (of just the issues on this page)	**£16,147**	**£16,147**	**Increases by £16,147**

Appendix C

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Transformation Expenditure From our testing of items classified as Transformational Expenditure by the Council we identified • 5 items which did not meet the requirements to be treated in this manner, generating an actual error of **£258k**. This generated an extrapolated error of **£7.449 million**. Where we undertake sample testing we extrapolate the error across the whole population. Due to audit findings in this area and as a result of management performing an opening the books exercise as well as work performed over the Croydon Affordable Housing transactions, it was concluded that all of the transformation expenditure capitalised since 2017/18 was not eligible capital expenditure. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is **£73 million**. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20.	Nil impact as expenditure was already included in the General Fund	**2019/20 Impact:** Dr Capitalisation £29,268 CR Capital Receipts £29,268 **2018/19 Impact:** Dr Capitalisation £29,307 Cr Capital Receipts £29,307 **2017/18 Impact:** Dr Capitalisation £14,503 Cr Capital Receipts £14,503	Nil impact
Revenues - Schools Utility Provision During the course of the audit, we identified the Council was carrying a considerable balance of old Schools Utility balances as Debtors which the council anticipated it is unlikely to receive. As a result the receivables should be impaired and therefore an adjustment has been made to the accounts to recognise the risk of non-collection, which amounts to a value of **£4.56 million** against debt of **£6.17 million**.	Dr Expenditure £4,597	Cr Receivables (Bad Debt Provision) £4,597	Increases expenditure by £4,597
Overall impact (of just the issues on this page)	**£4,597**	**£4,597**	**Increases by £4,597**

Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000
Croydon Affordable Homes As mentioned earlier within the Report, following the work on Croydon Affordable Homes and the reversal of the original accounting treatment, the Council had to reverse all of the transactions relating to CAH over the past three years. In brief this meant the Council had to reverse the disposals to CAH, and then incurred additional Depreciation on these Assets. These entries have been set out separately here to aid review and understanding.	**1) Reversal of Disposals to CAH** Dr MIRS £25,035 Cr Loss on Disposals £25,527	Dr PPE Assets £25,527 Cr Capital Adjustment Account £24,535 Cr Revaluation Reserve £501	Reduces by £25,035
	2) Reinstatement of Depreciation Dr Depreciation Expense £2,689	Cr PPE Assets £2,196 Cr Revaluation Reserve £493	Increase by £2,689
Credit Loss Impairment of Receivables An assessment was performed by management which identified no impairment was needed for 2019/20 but would have an impact on the position in 2020/21. Our view is that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20 financial statements. Management’s revised assessment has concluded that as at 31 March 2020 a lifetime credit risk impairment of **£51.696 million** is required to loans made to subsidiary Brick by Brick as a result of expected anticipated sales proceeds not being sufficient to clear the outstanding debt as at 31 March 2020. This has resulted in a charge to the general fund which is subsequently reversed out to the capital adjustment account under CIPFA accounting requirements.	Dr Expenditure £51,696 MIRS Adjustment: Dr General Fund £51,696 Cr Capital Adjustment Account £51,696	Cr Short Term Receivables £51,696	Nil impact as reverses out to capital adjustment account
Overall impact (of just the issues on this page)	**Cr £22,838**	**Dr £22,838**	**Reduces by £22,838**
Overall Impact on Financial Statements	**Dr Deficit on Provision of Services £129,337** **Dr Other Comprehensive Income £51,626** **Dr MIRS £25,035** **Total Impact - Dr £205,998**	**Cr Net Assets £166,642** **Cr Reserves £39,357** **Total Impact - Cr £205,999**	**Total Impact – increases CIES by £205,999**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Narrative Statement and Annual Governance Statement	Disclosure of s114 Notice and Report in the Public Interest	The Narrative Report has been updated to reflect the issues which have been identified since the end of the 2019/20 Accounts which were applicable to the year in question, such as the issuance of the Report in the Public Interest and the issuance of the s114 Report.	✓
Notes 7, 10, 12, 16, 23, 32, 33 and 43 – and the Group Accounts	Restatement of Capital Expenditure relating to the redevelopment of Fairfield Halls of **£62.6 million**	The notes mentioned have been updated to reflect the impact of the restatement of the capital expenditure incurred in the redevelopment of Fairfield Halls, as identified on the previous pages, through the remainder of the Accounts. These changes have also been reflected in the Group Accounts as well.	✓
Notes 7, 10, 16, 22, 32 and 43 – and the Group Accounts	Reversal of Interest Receivable from Brick by Brick Croydon Ltd of **£9.15 million**.	The notes mentioned have been updated to reflect the impact of the restatement of the interest receivable from Brick by Brick from the loans issued for the redevelopment of Fairfield Halls, as identified on the previous pages, through the remainder of the Accounts. These changes have also been reflected in the Group Accounts as well.	✓
Note 16 - Financial Instruments and Note 23 – Unusable Reserves	The updated valuation of the Real Lettings Fund to **£47 million**.	The notes mentioned have been updated to reflect the impact of the restatement of the Council's investment in Real Lettings Fund, as identified on the previous pages, through the remainder of the Accounts.	✓
Note 37 – Contingent Liabilities	Narrative relating to the Legal Claim	Updates have been made to the narrative relating to the dispute over the Highways Maintenance Contract to reflect the movement in the case to the current date.	✓
Note 6- Events after the Reporting Period	A number of events have occurred since the draft financial statements were issued due to the length of time the audit has been open that required disclosure in the revised financial statement of accounts.	Events after the reporting period relating to conditions that existed at the end of the reporting period and those that are indicative of conditions that arose after the reporting period require either disclosure or adjustment to the financial statements. A number of non-adjusting post balance sheets have been disclosed in the revised financial statements relating to events that are indicative of conditions that arose after the reporting period.	✓

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Note 43 – Prior Period Adjustments	Inconsistency between the CIES Balance in the Note and the main Statement.	An update has been made to Note 43 to ensure that the CIES balance shown as part of the disclosure relating to the Prior Period Adjustment for the restatement of the Dedicated Schools Grant is consistent with the main CIES at the start of the Accounts.	✓
Note 43 – Prior Period Adjustments	Various additional disclosures relating to the Fairfield Halls Restatement and Croydon Affordable Housing LLP arrangement	Note 43 has been updated to reflect the prior period adjustments required due to the restatement of the expenditure incurred as part of the redevelopment of Fairfield Halls, which has required a restatement of the 2018-19 balances which is considered within this Note. Note 43 has also been updated to reflect the prior period adjustments required due to the restatement of accounting for the Croydon Affordable Housing LLP and Croydon Affordable Tenures LLP transactions.	✓
Note 43 – Prior Period Adjustments	Disclosures relating to the disclosure of the Cash held by the Council on behalf of the Coast to Capital Local Enterprise Partnership	Our work during the course of the year identified that the Council had been showing the cash held with the Coast to Capital Local Enterprise Partnership as both an asset and liability in the Accounts, when it should have been removed from both sides as it is not the Council's Cash. As this issue was present in 2018-19 as well this has required a prior period adjustment to correct the 2018-19 figures as well.	✓
Note 30 - Capital Expenditure and Financing	Omission of PFI capital expenditure and understatement of development loans	Note 33 Capital Expenditure and Financing note has been updated and a prior period adjustment included as PFI capital expenditure had not been included within the CFR disclosure. Property development loans provided to subsidiary Brick by Brick had not been included within the 2018/19 comparator and therefore required restatement. A number of other updates have been included to reflect the capitalisation direction from government as well as audit adjustments impacted by Croydon Affordable Housing LLP arrangement and expenditure incurred by the council for Fairfield Halls project.	✓
Group Accounts	Omission of notes relating to group accounts.	There are a number of transactions and balances within the group accounts that are significant different to the single entity accounts which require accompanying notes. Management has agreed to update the group accounts to include notes where there are material differences in the group transactions and balances from the single entity accounts.	✓

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Audit Fees	Changes in audit fee.	Changes have been made to the Audit Fees disclosed for both 2018-19 and 2019-20 to reflect the additional costs of the audit work undertaken in the past two audits.	✓
Collection Fund	Incorrect council tax rates disclosed.	The council tax rates used for the Council tax base had not been updated for 2019/20 and was still showing the 18/19 rates, which have been updated in the revised accounts.	✓
Note 34 - Leases	Update to disclosure as a result of Croydon Affordable Housing and Croydon AffordableTenures LLP audit adjustment.	The lease disclosure note has been revised as a result of the audit adjustments identified in relation to Croydon Affordable Housing and Croydon Affordable Tenures LLP arrangement.	✓
CIES	Classification issue relating to investment property income.	We have identified that rental income from investment properties was being coded against individual services, thus it was sitting above the line in the CIES. This should have sat within financing and investment income and expenditure (below the line). Management has agreed to update the accounts for classification error of **£6.5million**.	✓
NNDR Income	Classification issue relating to NNDR income.	NNDR top up grant worth £24 million has been disclosed above the line in the CIES. NNDR income is non-service specific and therefore has now been updated to be disclosed within taxation and grant income financial statement line within the CIES.	✓
Financial Instruments	Omission of Market Debt from financial instruments note.	Management had omitted disclosure of £267 million of market debt from the financial instruments disclosure note, this has been updated within the final financial statements.	✓
Cashflow Statement (Group and Single Entity)	Audit adjustments identified have impacted on the disclosure of cashflow statement.	The single entity and group cashflow statement has been updated to reflect audit adjustments identified throughout the financial statements.	✓
Note 4 - Assumptions made about the future and other major sources of estimation uncertainty	Material valuation uncertainty disclosure.	Disclosure has been updated to reflect material valuation uncertainty over land and buildings valuations, investment property valuations and pension fund liability valuation.	✓

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Assets Under Construction (AUC)	Classification issue relating to capital additions being wrongly classified as operational land and building costs.	We have confirmed with management that £18.6million of capital additions in relation to Addington Leisure Centre were incorrectly classified as other land and buildings when these should have been capitalised under AUC and then the Net Book Value (NBV) transferred across on completion of project in 2019/20. There is no impact on NBV as asset was transferred to AUC in 2019/20 and revalued as part of the revaluation programme, therefore all this required was a classification adjustment within the PPE note in relation to capital additions for 2019/20 for New Addington Leisure Centre.	✓
Infrastructure Assets	PPE Note revised to remove gross cost and accumulated depreciation for infrastructure assets.	In 2022, accounting for infrastructure assets was raised as a sector wide accounting issue. Infrastructure assets includes roads, highways, streetlighting and bridge assets. Each year the Council spends a material amount on Infrastructure capital additions. As at 31 March 2020, the net book value of infrastructure assets was £154 million. In accordance with the Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. In accordance with the temporary relief offered by the update to the Code on infrastructure assets the PPE note has been updated which does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not accurately represent the asset position to the users of the financial statements. The authority has chosen to apply the temporary relief offered by the update to the Code of Audit Practice on Infrastructure Assets, which has been reflected in the updated Accounts.	✓
Minor Disclosure Issues	Various Notes	A number of other minor disclosure amendments have been processed in the areas mentioned. None of these are individually significant enough to warrant separate disclosure.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Cash and Cash Equivalents As part of our audit testing in this area we reperformed the bank reconciliation between direct confirmations received from bank accounts held by the Council and the balance included within the general ledger. This resulted in an unreconciled difference of £2.8 million (understatement of bank overdraft).	Dr Expenditure £2,866	Cr Cash and Cash Equivalents £2,866	Dr Expenditure £2,866	Non-material error.
Collection Fund We performed a reconciliation between the general ledger (GL) and Northgate subsystem (Council Tax System). During our reconciliation exercise we identified that GL was understated by £1,160k. Northgate Reports are considered source reports and therefore considered to have the correct values and therefore any difference from Northgate has been considered a reconciling misstatement. This results in an understatement of £1,160k of council tax income.	Cr Council Tax Income £1,160	Dr Cash £1,160	Cr Council Tax Income £1,160	Non-material error
Overall impact (on this page only)	**DR £1,706**	**CR £1,706**	**DR £1,706**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Data provided to managements external valuer We identified issues with the data passed from the Council to the Valuer, similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the council. We extrapolated the errors identified and concluded an extrapolated error of £1.4 million. of potentially understatement of valuation of assets based on discrepancies in data being supplied to the valuer.	Cr Other Comprehensive Income - Surplus on revaluation of non-current assets £1,446	Dr Property, Plant and Equipment £1,446	Cr Other Comprehensive Income- Surplus on revaluation of non-current assets £1,446	Non-material extrapolated error.
PPE Additions We identified that one sample item was incorrectly classified as capital expenditure when it should have been classified as revenue expenditure. Management were unable to confirm why this item had been capitalised and therefore we were unable to isolate this issue. We undertook additional audit testing to understand whether this was a material or pervasive issue. Based on additional testing we are satisfied that the issue identified is not material and concluded on an extrapolated misstatement of £2.898 million.	Dr Expenditure £2,898	Cr Property, Plant and Equipment £2,898	Dr Expenditure £2,898	Non-material extrapolated error.
Overall impact (on this page only)	**Dr £1,452**	**Cr £1,452**	**Dr £1,452**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Long Term Debtors We identified errors within our sample testing of long term debtors which included a £2.199 million difference between the Brick by Brick loan schedule and the records of Croydon Council. We also identified an isolated error of £719k of historical loans which are deemed non recoverable. A further error was identified relating to investments in associates that had been classified as loans and unlikely to be recoverable, this was concluded as an isolated issue totalling £1.25 million. Total errors identified that have not been corrected by management amount to **£4.168 million**.	Dr Expenditure £4,168	Cr Long Term Debtors £4,168	Dr Expenditure £4,168	Non material error.
Operating Expenditure We identified five sample items which failed the test for occurrence and accuracy. The actual value of fails was £1,016.27. The fails identified could not be isolated and therefore we extrapolated this over the population tested which resulted in an extrapolated error of £1.104 million.	Cr Expenditure £1,104	Dr Creditors £1,104	Cr Expenditure £1,104	Non-material extrapolated error.
Operating Expenditure – School Grant Expenditure had been overstated by £12,069 as school grant owed to school in 18/19 was only paid to them in 19/20. No accrual was made and the expenditure only hit the GL in 19/20. Given the specific nature of this expenditure (PE grant), we cannot extrapolate as this does not represent how expenditure is generally treated at Croydon. Therefore, we have isolated this to the cost centre to which all such grants are coded to. Given the client cannot prove which PE grant has been treated correctly and which has not, we can only assume they have all been treated in the same way. Therefore, extent of the error is £711k. Note this is a timing issue as expenditure was still incurred by the council.	Cr Expenditure £711	Dr Opening General Fund Reserve £711	Cr Expenditure £711	Non-material error.
Overall impact (on this page only)	**Cr £2,353**	**Dr £2,353**	**Cr £2,353**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Operating Expenditure We identified a sample item where PFI costs had been over receipted in error. This resulted in a higher expenditure cost of £737,612 than was actually occurred by the council. This was later corrected by the council in 2020/21 however remained an error in the 2019/20 financial statements.	Cr Expenditure £738	Dr Creditors £738	Cr Expenditure £738	Non material error.
Revenue - Fees and Charges We have identified various invoices relating to school utilities that have been raised in 19/20 but which relate to services that occurred in prior years at a total of £3.1mil. We have not been able to prove that this amount had been accrued for correctly in the relevant years. In the absence of such evidence, we have to assume that no such accrual took place. This results in the prior year CIES being understated and the 19/20 revenue in the CIES being overstated by the same amount - this however have no impact on the General Fund balance at the 19/20 year end and is a timing issue only.	Dr Revenue £3,100	Cr Opening General Fund £3,100	Dr Revenue £3,100	Non material error.
Overall impact (on this page only)	**Dr £2,362**	**Cr £2,362**	**Dr £2,362**	
Overall Impact on Financial Statements	**Dr Deficit on Provision of Services £9,319** **Cr Other Comprehensive Income £1,446**	**Cr Net Assets £5,484** **Cr Reserves £2,389**	**Dr Deficit on Provision of Services £7,873**	**Non-material impact on financial statements.**

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements and provides an update on their position within the 2019/20 Accounts.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	**Incorrect Treatment of Dedicated Schools Grant (DSG) Deficit** Due to pressures within the High Needs Block within DSG the Council has provided additional funding in excess of the government grant to meet local needs and as a result has a cumulative DSG deficit of £9.3m at the end of 2018/19. The Council has shown the deficit amount as a Debtor indicating that the Council believes this amount is recoverable. Our audit view is that it is unlikely that this amount will be repaid, and we consider the debtor should not be recognised as a debtor.	**2019-20 Impact:** no impact as held as a negative reserve **2018-19 Impact:** prior period adjustment reflected Dr Income £9,193 Cr General Fund Expenditure £9,193 Dr Earmarked Reserve £9,193	**2019-20 Impact**: no impact as held as a negative reserve **2018-19 Impact:** prior period adjustment reflected Cr Receivables £9,193	Increase of 18/19 general fund position £9,193	**2019/20 Update** – as mentioned earlier in the Report, the Council has processed a prior period adjustment for this item and hence it is now correctly recorded in the Accounts.
	Overall impact	£9,193	£9,193	£9,193	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit – Scale Fee	£133,102	£188,602
Council Audit – Additional Fees (agreed to date)	n/a	£203,000
Council Audit – Additional Fees (yet to be agreed)	n/a	£100,000*
Work on 1st Report in the Public Interest	n/a	£65,000
Work on 2nd Report in the Public Interest	n/a	£140,750
Total audit fees (excluding VAT)	**£133,102**	**Proposed £697,352**

A number of the costs relating to the 2019/20 Audit have yet to be finalised and will need approval by Public Sector Audit Appointments (PSAA) before we are able to invoice these to the Council. We have communicated the current position to the s151 Officer, who provided an update to the Audit Committee in July 2023. We will agree any further additional fees with the s151 Officer as part of concluding the audit *

Non-audit fees for other services	Proposed fee	Final fee
Non-Audit Related Services		
- CFO Insights	£10,000	£10,000
- Adult Social Care Index	£12,500	£12,500
Total non-audit fees (excluding VAT)	**£22,500**	**£22,500**

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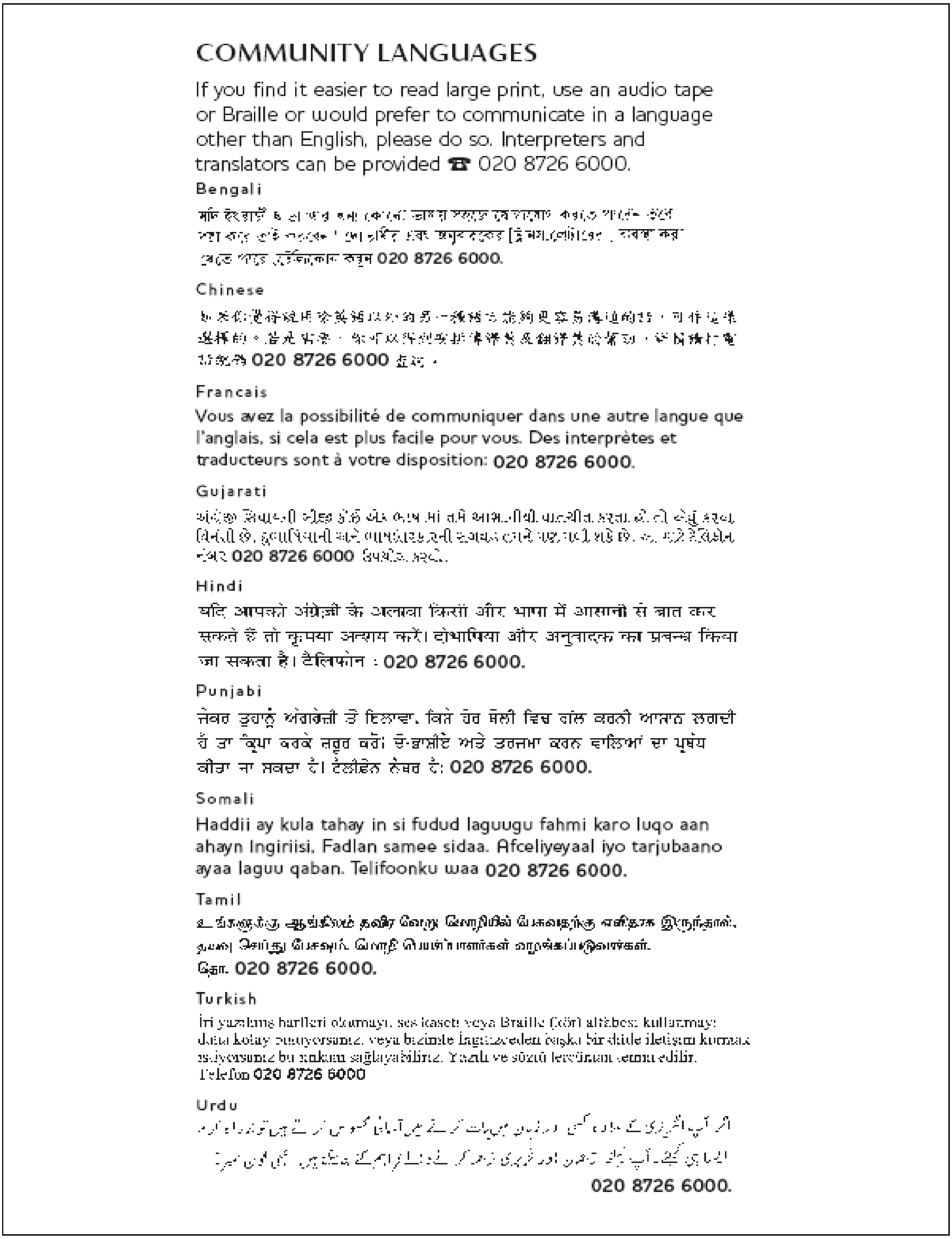
Statement of Accounts

Statement of Accounts for the year ended 31 March 2020

CROYDON
www.croydon.gov.uk



COMMUNITY LANGUAGES

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Gujarati

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यदि आपको अंग्रेज़ी के अलावा किसी और भाषा में आसानी से बात कर सकते हैं तो कृपया अनुरोध करें। दोभाषिया और अनुवादक का प्रबन्ध किया जा सकता है। टैलिफ़ोन : 020 8726 6000.

Punjabi

ਜੇਕਰ ਤੁਹਾਨੂੰ ਅੰਗਰੇਜ਼ੀ ਤੋਂ ਇਲਾਵਾ, ਕਿਸੇ ਹੋਰ ਬੋਲੀ ਵਿਚ ਗੱਲ ਕਰਨੀ ਆਸਾਨ ਲਗਦੀ ਹੈ ਤਾਂ ਕ੍ਰਿਪਾ ਕਰਕੇ ਜ਼ਰੂਰ ਕਰੋ। ਦੋ-ਭਾਸ਼ੀਏ ਅਤੇ ਤਰਜਮਾ ਕਰਨ ਵਾਲਿਆਂ ਦਾ ਪ੍ਰਬੰਧ ਕੀਤਾ ਜਾ ਸਕਦਾ ਹੈ। ਟੈਲੀਫ਼ੋਨ ਨੰਬਰ ਹੈ: 020 8726 6000.

Somali

Haddii ay kula tahay in si fudud laguugu fahmi karo luqo aan ahayn Ingiriisi, Fadlan samee sidaa. Afceliyeyaal iyo tarjubaano ayaa laguu qaban. Telifoonku waa 020 8726 6000.

Tamil

உங்களுக்கு ஆங்கிலம் தவிர வேறு மொழியில் பேசுவதற்கு எளிதாக இருந்தால், தயவு செய்து பேசவும். மொழி பெயர்ப்பாளர்கள் ஏற்படுத்தப்படுவார்கள்.
தொ. 020 8726 6000.

Turkish

İri yazılmış harfleri okumayı, ses kaseti veya Braille (kör) alfabesi kullanmayı daha kolay buluyorsanız, veya bizimle İngilizceden başka bir dilde iletişim kurmak istiyorsanız bu imkanı sağlayabiliriz. Yazılı ve sözlü tercüman temin edilir.
Telefon 020 8726 6000

Urdu

020 8726 6000.

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STATEMENT OF RESPONSIBILITIES

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

► to make arrangements for the 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 Corporate Director of Resources Section 151 Officer;

► to approve the Statement of Accounts.

RESPONSIBILITIES OF THE CORPORATE DIRECTOR OF RESOURCES AND SECTION 151 OFFICER

The Corporate Director of Resources and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2020.

In preparing the Statement of Accounts, the Corporate Director of Resources and Section 151 Officer has:

► selected suitable accounting policies and then applied them consistently;

► made judgements and estimates that were reasonable and prudent;

► complied with the Code of Practice;

► kept proper accounting records which are up to date; and

► taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE CORPORATE DIRECTOR OF RESOURCES AND SECTION 151 OFFICER

LONDON BOROUGH OF CROYDON AND LONDON BOROUGH OF CROYDON PENSION FUND
FINANCIAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

CERTIFICATE of the Corporate Director of Resources and Section 151 officer

I certify that this Statement of Accounts is an accurate summary of the accounts of the London Borough of Croydon and the London Borough of Croydon Pension Fund, for the financial year 2019/20 prepared in accordance with the accounting policies stated.

Jane West

Jane West
Corporate Director of Resources and Section 151 Offier

REPORT OF THE AUDITOR

INDEPENDENT AUDITORS REPORT TO BE INSERTED AFTER COMPLETION OF AUDIT

NARRATIVE STATEMENT 2019/20

INTRODUCTION

This statement summarises the Council's financial performance during 2019/20 showing expenditure for all services during the year and the Council's financial position as at 31 March 2020. This Narrative Statement is an important part of the accounts. It provides information about Croydon and includes the key issues affecting the Council’s accounts. It also summarises the financial position at the end of the financial year 2019/20.
It should be noted that this is an updated version of the draft 2019/20 accounts, replacing the version of the draft accounts that were published in October 2020 on the Council’s website.

BACKGROUND

The London Borough of Croydon experienced an unprecedented period of turmoil from 2019 through to 2021. The aftermath of that turmoil is still being worked through today, in 2023, which is why the draft accounts for The 2019/20 have needed to be revised prior to the external audit being completed by Grant Thornton. The draft accounts for 2020/21 still need to be revised and the accounts for 2021/22 and 2022/23 still need to be produced.
As set out in the Council’s Annual Governance Statement for 2020/21, significant issues relating to the Council’s governance were identified during the course of 2020/21:

► Croydon Council's external auditors published on 23 October 2020 a ‘Report in the Public Interest’ (RIPI). The report set out serious concerns about the Council's financial situation, its financial decision-making and governance and made 20 recommendations.

► An independent strategic review of Brick by Brick, Croydon Affordable Homes LLP and the Council’s Revolving Investment, Asset Investment and Growth Zone Funds was conducted by PWC in November 2020. The review found that Brick by Brick significantly underperformed against its 2019/20 business plan, there was an absence of company-wide cash flow and forecasting arrangements and the company’s ambitious strategy of development had placed the Council at risk in relation to loans. Governance of all of these companies and funds and oversight by the Council were identified as requiring significant improvement.

► The accounting treatment of Croydon Affordable Homes and Croydon Affordable Tenures in the 2019/20 draft accounts was identified by Grant Thornton as requiring review and the Council was warned that any financial implications would need to be dealt with appropriately. It was highlighted by Grant Thornton that these could be significant.

► An adverse qualification in the external auditor’s conclusion on Value For Money for 2018/19, meant that some significant issues were still to be resolved.

► Significant overspending had been identified in relation to the refurbishment expenditure at Fairfield Halls and required a review by the Council’s external auditors.

► The Council issued two ‘Section 114 reports’ in November and December 2020. These required the Council to identify actions in order to achieve a balanced budget, which included seeking a capitalisation. directive from the (then) Ministry of Housing, Communities and Local Government (MHCLG) in December 2020

► MHCLG commissioned a non-statutory ‘rapid review’ (completed in November 2020) and appointed an Improvement and Assurance Panel which issued its first report in February 2021.

During 2020/21, the Council fully recognised the scale and significance of issues to be addressed and the systemic change required. In December 2020 it adopted actions to address areas for improvement identified by the RIPI within the Croydon Renewal Plan, a major programme to deliver savings, strengthen governance and financial practices and embed new ways of working to put the Council on a more sustainable financial footing.

The Improvement and Assurance Panel, appointed in January 2021 and which first reported in February 2021, continues to be in place and provides external advice and challenge to the Council along with assurance to the Secretary of State. The Council immediately set to work delivering the Croydon Renewal Plan and reporting progress on a quarterly basis.

In addition to input from the Improvement and Assurance Panel, support has been sought from a number of different sources including the Local Government Association and a review of the Council’s scrutiny arrangements informed by the Centre for Governance & Scrutiny.

In order to balance the 2020/21 budget, borrowing of up to £70m for the financial year 2020-21 was sanctioned by the MHCLG in March 2021 under a 'Capitalisation Direction'. This agreement was conditional on the Council delivering its renewal plans at pace and the provision of regular positive progress updates by the Improvement and Assurance Panel to MHCLG.

In addition to these developments, in March 2021 the Council launched an investigation into the condition of its housing stock following complaints and national press coverage of conditions at Regina Road, South Norwood. An independent report commissioned by Croydon from the ARK consultancy made a number of far-reaching recommendations to significantly change the arrangements and management of Croydon Council's housing stock.

In January 2022, the Council's External Auditor issued a second Report in the Public Interest (RIPI 2) concerning the refurbishment of Fairfield Halls and related governance arrangements and made recommendations which were included in the Croydon Renewal and Improvement Plan.

Most of the recommendations contained in the Croydon Renewal Plan have now been implemented and the few that remain are incorporated into the regular Annual Governance Statement reporting to the independently chaired Audit and Governance Committee, established in May 2022 (previously reporting went to the old General Purposes and Audit Committee).

In May 2022 a new Executive Mayor for Croydon was elected who initiated an Opening the Books exercise to understand the Council's financial position. This work was supported by Worth Technical Accounting Services and PWC. In November 2022, a new S114 report was issued which concluded that Croydon had no prospects of returning to financial sustainability without significant and extraordinary financial support from government above and beyond the usual mechanism of Capitalisation Directions.

The Opening the Books work identified a number of legacy issues which might require the Council to revise its draft unaudited accounts for 2019/20 in relation to:-

- Croydon Affordable Homes/Croydon Affordable Tenures incorrectly accounted for
- Incorrect charges from the General Fund to the Housing Revenue Account
- An insufficient level of Provision for Bad Debt

By March 2023 the legacy adjustments required had been costed and the Council was granted Capitalisation Directions to deal with these legacy accounting issues as follows:

- For 2019/20, £126m
- For 2020/21, £10m
- For 2021/22, £14.4m
- For 2022/23, £11.2m.

The 2019-20 accounts utilise all £126m of the Capitalisation Direction granted for that year, as well as a further £9.439m of capitalisation direction requested in January 2024, to address a contract dispute cost chargeable to the 2019/20 financial year.

The S114 notice issued in November 2022 also identified that the work which had been done in preparation for the 2023/24 Council Tax Setting in March 2023 had identified that expenditure the authority was projected to incur in each year of the period 2023/24-2026/27 would exceed resources (including sums borrowed) available to the Council to meet that expenditure. The combination of the ongoing budget requirements of these legacy budget adjustments, fundamental structural issues within the Council's finances such as a toxic debt burden of negative equity from historic uncontrolled borrowing plus the national and global issues the local government sector continues to face, had undermined the progress being made on the financial recovery. It was clear that in order to balance the Council's budget in 2023/24, and later years, further assistance would be required beyond the Capitalisation Directions usually deployed by central government. The S114 Notice noted that extraordinary support beyond Capitalisation Directions could include write off of all or part of the Council's outstanding debt, permission to repay debt over a longer period and/or at a lower rate of interest or permission to increase the Council Tax beyond the referendum cap.

At council tax setting in March 2023, the Council balanced its 2023-24 budget through a 15% council tax increase (10% above the national referendum limit through a flexibility granted by DLUHC) and capitalisation direction of £63m for that year.

The Council remains in dialogue with the Department for Levelling Up, Housing and Communities (DLUHC) in relation to a path back to financial sustainability. It currently has a continuing annual budget gap estimated at £38m from 2024/25 for which it has no solution in sight.

These revised 2019/20 accounts include all the necessary adjustments identified through the Opening the Books exercise allowing the accounts to be submitted. Work will now begin to revise the 2020/21 accounts in line with the Opening the Books adjustments. Once these are completed, the 2021/22 and 2022/23 accounts can be drafted. It is anticipated that all these accounts will be completed by March 2024.

In early 2023, two reports were issued by the Council’s external auditors, Grant Thornton:

► A Section 24 Statutory Recommendations Report was presented to Council on 29 March 2023 and the Audit and Governance Committee on 20 April 2023.

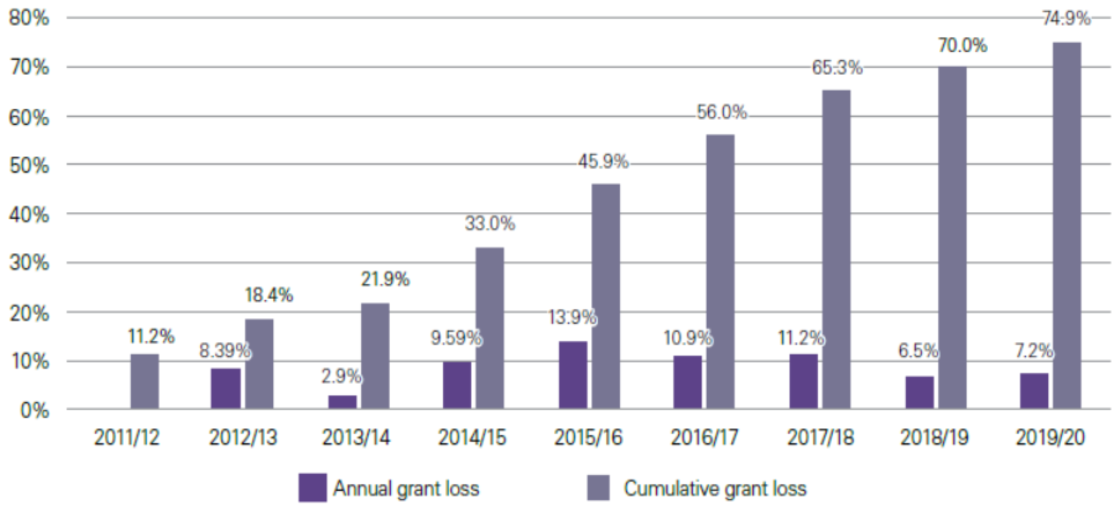
► An Interim External Auditor’s Report for the financial years 2019-20, 2020-21 and 2021-22 was presented to the Audit and Governance Committee on 20 April 2023.

Whilst these reports did not contain the Independent Auditir's opinion of the accounts, they made further recommendations to the Council in relation to improvements it could make to its governance processes. These recommendations will be included in the regular Annual Government Statement reporting to the Audit and Governance Committee.

2019/20 KEY STATISTICS

Croydon is the second largest London borough by population (currently 384,837 and forecast to increase to 445,000 by 2031) and, although situated in outer London, it has over the last decade begun to experience issues and impacts on the budget that previously were more commonly characteristic to inner London. The effects of welfare reform, Universal Credit and the rising cost of rental property within central London have seen large numbers of people move to Croydon in search of cheaper accommodation, care and living costs. Subsequently the Council is seeing the levels of poverty and homelessness rising, need is becoming more complex and demand for services is increasing, which has put pressure on public services and housing.

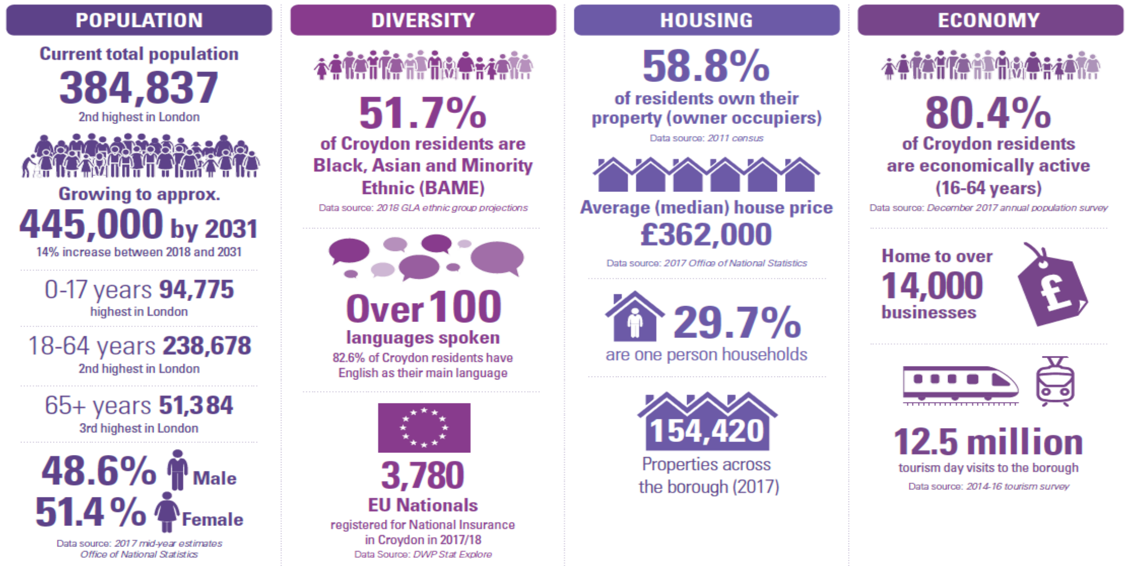
Alongside this, since 2010, when austerity began, Croydon has seen its funding from Central Government reduce by 75% or £144m by 2019/20. The grant received in 2019/20 resulted in a 7.2 % reduction compared to the previous year. The reductions in funding are shown in the chart below



2019/20 KEY STATISTICS

The following page contains some key statistics about Croydon, all of which shape the services that the Council delivers. According to the 2021 census Croydon is the largest London borough by population. It is currently 390,718 (2021 Census) and forecast to increase to 444,600 by 2031 – (GLA housing led projections).

Key statistics



POPULATION

Current total population
384,837
2nd highest in London

Growing to approx.
445,000 by 2031
14% increase between 2018 and 2031

0-17 years **94,775**
highest in London

18-64 years **238,678**
2nd highest in London

65+ years **51,384**
3rd highest in London

48.6% Male
51.4% Female
Data source: *2017 mid-year estimates Office of National Statistics*

DIVERSITY

51.7%
of Croydon residents are Black, Asian and Minority Ethnic (BAME)
Data source: *2018 GLA ethnic group projections*

Over 100
languages spoken
82.6% of Croydon residents have English as their main language

3,780
EU Nationals
registered for National Insurance in Croydon in 2017/18
Data Source: *DWP Stat Explore*

HOUSING

58.8%
of residents own their property (owner occupiers)
Data source: *2011 census*

Average (median) house price
£362,000
Data source: *2017 Office of National Statistics*

29.7%
are one person households

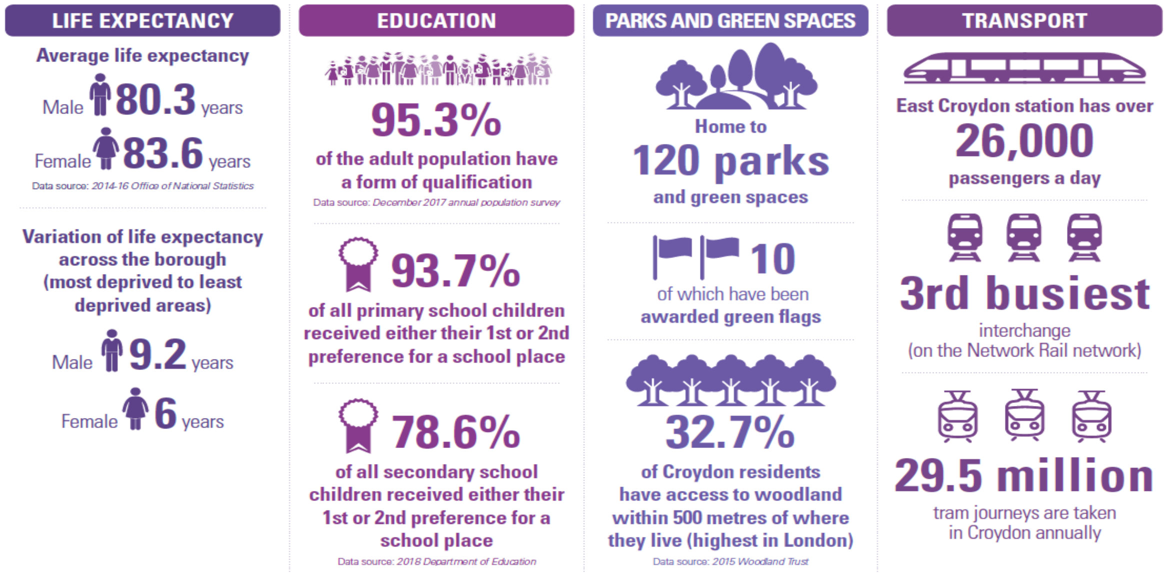
154,420
Properties across the borough (2017)

ECONOMY

80.4%
of Croydon residents are economically active (16-64 years)
Data source: *December 2017 annual population survey*

Home to over
14,000
businesses

12.5 million
tourism day visits to the borough
Data source: *2014-16 tourism survey*



LIFE EXPECTANCY

Average life expectancy
Male **80.3** years
Female **83.6** years
Data source: *2014-16 Office of National Statistics*

Variation of life expectancy across the borough (most deprived to least deprived areas)
Male **9.2** years
Female **6** years

EDUCATION

95.3%
of the adult population have a form of qualification
Data source: *December 2017 annual population survey*

93.7%
of all primary school children received either their 1st or 2nd preference for a school place

78.6%
of all secondary school children received either their 1st or 2nd preference for a school place
Data source: *2018 Department of Education*

PARKS AND GREEN SPACES

Home to
120 parks
and green spaces

10
of which have been awarded green flags

32.7%
of Croydon residents have access to woodland within 500 metres of where they live (highest in London)
Data source: *2015 Woodland Trust*

TRANSPORT

East Croydon station has over
26,000
passengers a day

3rd busiest
interchange
(on the Network Rail network)

29.5 million
tram journeys are taken in Croydon annually

CHALLENGES AND OPPORTUNITES

The future of local authority funding was uncertain in 2019/20 and continues to be so. Local authorities were waiting, and continue to wait in 2023, for the outcome of the Government reviews to look at fair funding for local authorities and to reform the current business rates scheme. During 2019/20 Central Government’s resources were focused on Brexit so that the UK could leave the European Union on 31 January 2020.

Then in December 2019 China announced to the world that it was experiencing the spread of a new disease, COVID-19. This spread throughout the world and was declared as a world-wide pandemic in early March 2020. The Government declared a lockdown, on 20th March 2020, which meant that the country was effectively shut down. Cycles of re-opening and shutdowns, plus COVID 19-related legal restrictions continued through 2020 into 2022. Whilst the Government was quick to provide financial support to businesses many of them were forced to close – significantly affecting the local economy. The Council was heavily impacted as it was at the forefront of providing the response to COVID-19 and had to put considerable resources into ensuring that the most vulnerable in the Croydon community were cared for. The Council also suffered a significant loss of commercial income.

The financial impact was relatively small in 2019/20, as the pandemic only started to have an impact in the last two weeks of March 2020. The true scale of its impact on the Council's finances was felt during 2020/21. The Council experienced substantial losses across many of its largest income streams such as parking, commercial rental income, licensing fees, registrars and planning fees. It also had a bearing on a number of savings programmes that were agreed as part of the 2020/21 budget. In addition, the Council incurred additional COVID-19 related expenditure in areas such as accommodation and support for rough sleepers and additional costs in supporting our most vulnerable adults and children – some of whom may not have required support previously.

The Government made available emergency COVID-19 funding for local authorities during 2019/20, 2020/21 and 2021/22. The funding for 2019/20 was £9,420,138

Whilst the budget was set to include growth that had been previously identified there has continued to be an increase in demand for services, particularly within Adults and Children's social care.

The Council continued to fund a number of exceptional items including Unaccompanied Asylum Seeking Children and services to people with no recourse to public funds. During 2019/20 the Council continued lobbying the Government in these areas in relation to fairer funding, and were successful in securing some additional funding from 1 April 2020 .

The Council owned a hotel as an investment and during 2020 the lessee went into administration and handed back the lease. This left the Council with an investment property that was not earning any rental income. The hotel was sold during 2021.

PERFORMANCE

Despite the Council's challenges, during 2019/20 it made significant improvements in a number of service areas. Below are examples of the key achievements and improvements:

Education and Learning

► Standards in Croydon's schools remained above the national average at the end of Early Years Foundation stage phonics screening check, Key Stage 1 and Key Stage 2, consolidating the improvements seen in recent years. At Key Stage 4 (GCSE) the attainment by pupils was above the England average and progress outcomes were positive. At Key Stage 5 vocational outcomes were good but A- Level performance continued to be an area for development.

► 89.1% of children attended a good or better secondary school, with 47.8% of pupils attending an outstanding school compared to 24.8% nationally.

► 89.8% of children attend a good or better primary school, with 23.5% of pupils attending an outstanding school, compared to 18.1% nationally

Roads, Transport and Streets

► Completion of the Blackhorse Lane Bridge renewal which reopened in February 2020

► Successfully implementing eight new 'School Streets' during 2019/20 and as a result, driver compliance near schools is continually improving and car use has reduced contributing to continuing improved health and safety for school children and access for local residents

Leisure and Culture

► The Culture Partnership Fund supported a range of projects and programmes and levered in external funding to Croydon of nearly 5 times the value (£1:£4.70)

► Fairfield Halls re-opened in September 2019 with a range of public and community events and Croydon was named the London Borough of Culture for 2023 in February 2020.

► Highlights from our museum included a partnership with the National Portrait Gallery to bring a portrait of Stormzy and his mother to our gallery, our new website launched in February 2020 alongside the start of 'What's Your Croydon' an innovative programme with local artists and communities inspired by our collections.

► £1m of capital investment has been made in the borough's leisure facilities during 2019/20 including improvements to tennis courts, the soft play facility at Waddon Leisure Centre and the equipment fit out for the brand new leisure centre at New Addington which opened at the start of the year to much acclaim prior to lockdown.

► £2.2m of capital investment has been made in the centres which has substantially improved the service to residents. This has included new gym equipment, aerobics equipment, refurbished fitness rooms at all sites, new football pitches at Monks Hill, tennis court refurbishments in parks, soft play at Waddon Leisure Centre and equipment fit out for the replacement New Addington Leisure Centre

► Leisure Services provision saw over 860,000 users which was a 12% increase on the previous year and a 23% increase in memberships at over 7,000 members

► Over 15,000 children and young adults accessed the free swimming programme

► Gained nearly 20,000 additional new library members during 2019/20

► Selsdon Library opened in August 2019 and we installed new IT networks and Library Management systems across our sites towards the end of 2019

Health and Social Care Integration: One Croydon Alliance

► COVID 19 and shielding became the major focus for quarter 4 of 2019/20. This included monitoring system and service changes against the Care Act easements guidance. The Council did not enact any easements.

► Further key activities included developing a care homes system response plan, in particular providing support on funding, PPE and infection control.

► A shielded residents team was also developed. This worked alongside central government and the voluntary and community sector, to ensure all shielded residents were contacted, and an assessment of the support needed enabled them to receive emergency and ongoing support on food, medication and social isolation.

► Emergency admissions were down 3% compared to the previous year for One Croydon Transformation (Out of Hospital) targeted conditions.

► 1,341 people were discharged from hospital to the reablement service and 57% of all of these were successfully reabled back into independence.

► Croydon again received accreditation as a Dementia friendly borough. The LIFE Reablement Team was rated 'good' by CQC in its first year; and Croydon Shared Lives maintained its 'outstanding' CQC rating.

GOING CONCERN

Accounts drawn up under the Code assume that a Local Authority's services will continue to operate for the foreseeable future. Despite three S114 Notices Croydon has managed to retain going concern status through support from DLUHC.

GENERAL FUND RESERVES AND BALANCES 2019/20

Table 1 below shows the Council's balances and useable reserves at 31 March 2020 compared with the previous two years. The Council holds Useable Reserves to support the provision of its activity, as well as to mitigate risk and account for timing differences between receipt of funds and delivery. Holding General Fund Balances of zero is not expected, is a symptom of the Council making more charges to the General Fund that it can meet. The Council is working towards restoring an adequate level of General Fund balances in the medium term, with Capitalisation Directions being used in the interim.

Table 1 - Movement in Reserves and Balances

Reserves and Balances	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
General Fund Balances	10.4	10.4	0
Earmarked Reserves excluding schools	20.46	19.7	26.31
Capital Receipts Reserve	52	32.6	20.3
Capital Grants Unapplied	14.3	17.7	13.7
Housing Revenue Account including major repairs reserve	14.5	15.2	25.6
Total	**111.66**	**95.59**	**85.91**

HOUSING REVENUE ACCOUNT (HRA)

The final outturn shows a surplus of £10.329m which has been transferred to HRA reserves. This is a significant improvement compared to the original version of the draft accounts for 2019/20 due to the reversal of charges previously made from the General Fund to the HRA (of £10.173m - see Note 43 for details). Capital expenditure totalled £51.375m. This was partly funded by using the Majors Repairs Reserve balance of £1.929m

Table 3 below shows the level of HRA balances and reserves for the last 3 years:

Table 3 - Housing Revenue Account Balances and Reserves

alances and reserves	2017/18 £m	2018/19 £m	2019/20 £m
Housing Revenue Account balances	14.535	15.271	25.602
Major Repairs Reserve	1.929	0	0
Total	**16.464**	**15.271**	**25.602**

CAPITAL

The original approved capital programme (excluding the Housing Revenue Account) totalled £183m, which was amended during the year to £439m to reflect both programme slippage being added from 2018/19, and re-profiling of schemes. Outturn capital spend was £315m which includes the payment of property development loans to the Council's development company Brick by Brick.

Capital schemes in 2019/20 included the delivery of:
- Education Estates Strategy
- Completion of New Addington Leisure Centre
- Improvements to the Public Realm
- Continuation of Growth Zone Projects
- House building by the councils wholly owned development company Brick by Brick Croydon Limited
- Completion of the Refurbishment of Fairfield Halls
- Financing for Affordable Homes
- Investment in ICT

It should be highlighted that the decision-making governance in relation to the Council's investment in Brick by Brick Croydon Ltd and the refurbishment of Fairfield Halls drew criticism from the Council's external auditors, Grant Thornton, in RIPI 1 (2020) and RIPI 2 (2022) as noted earlier.

PENSION FUND

The Council's Pension Fund decreased in value during 2019/20 by 0.1%. Table 4 below shows the change in value of the Council's Pension Fund in 2019/20:

Table 4 – Pension Fund Performance 2019/20

Detail of Composition of Net Assets	2018/19 £m	2019/20 £m	Net Increase / (Decrease) £m	Change %
Total Investments	1,237.00	1,174.00	63	-5.13%
Other balances held by Fund Managers	2	1	0	-18.37%
Debtors	10	11	-2	18.40%
Cash Held by:				
Fund Managers	6	10	-3	52.03%
London Borough of Croydon	6	82	-77	1385.60%
Creditors	-2	-1	19	900.14%
Net Assets at Year End	**1,258.16**	**1,256.84**	**1.32**	**-0.10%**

Other balances held by Fund Managers comprises outstanding trades, outstanding dividends and tax reclaimable. The net value of the Fund has decreased by 0.1% over the reporting period. The diversified nature of the investment strategy has helped ensure that the fund decreases have been limited. In response to a changing macro-economic landscape, the strategic asset allocation has been reviewed, and the process of restructuring the asset allocation is ongoing.

COLLECTION FUND

The Collection Fund is a ring-fenced account into which all sums relating to Council Tax and Business Rates are paid. Any deficits on the Fund, in relation to Council Tax or Business Rates, must be met by the precepting bodies, but any surpluses can be used by those bodies to fund expenditure within their own organisation. The Collection Fund holds a deficit of £5.790m as at 31st March 2020. The overall deficit was a result of slower than anticipated growth in the tax base, and the collection fund being hit hard in March with the businesses and residents feeling the impact of COVID-19. Croydon's share is comprised of a Council Tax Surplus of £0.657m and a Business Rates deficit of £3.387m.

A council tax surplus of £0.605m and business rates deficit of £1.725m was declared in January 2020. The difference between the amount declared in January 2020 and the year-end position will be carried into 2020/21 and will be distributed to preceptors and part of the 2021/22 budget cycle.

The Council monitors performance targets in relation to the amount of debt collected in the initial year of billing (2019/20 debt collected in 2019/20). The target set for 2019/20 was 97.25% and the actual performance for 2019/20 was 97.10%, a reduction of 0.15%. This can be attributed to the impact of the coronavirus pandemic starting to be felt by residents who failed to pay their final instalment for March. The collection rate was adversely affected from March 15th onwards.

Table 5 shows the impact of actual performance against the target.

Table 5 – Council Tax Collection performance against target

	Target – 2019/20	Actual – 2019/20	Variance
Percentage	97.25%	97.10%	-0.15%
Cash - £m	217.98	217.62	-0.36

NATIONAL NON-DOMESTIC RATE (NNDR) COLLECTION

The target set for 2019/20 was 99.25% and the actual performance was 98.70%, a reduction of 0.55%. The impact of the lockdown and businesses being forced to close was seen immediately with business rates payers failing to pay their March business rates instalment.

Table 6 – NNDR Collection performance against target

	Target – 2019/20	Actual – 2019/20	Variance
Percentage	99.25%	98.70%	-0.55%
Cash - £m	124.76	124.07	-0.69

LONDON BUSINESS RATES POOL PILOT

For 2019/20, councils across London agreed to collectively pool their business rates income and share between them the gains of not paying a growth levy to the Ministry of Housing, Communities and Local Government (MHCLG). So in addition to the surpluses available from the Council's collection fund, there are the additional gains available as a result of the London wide Business Rates pool pilot. In 2018/19 the London Business Rates Pool was able to retain 100% of business rates income. However under a change in legislation for 2019/20, whilst the pooling arrangements continued, councils were only able to retain 75% of business rates income, MHCLG retained a 25% share.

BASIS AND PREPARATION

Further information about the basis and preparation of these accounts can be found in Note 1.1, which sets out that these statements have been prepared in accordance with the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council has also prepared Group Accounts with Brick by Brick Croydon Limited, as a review of control and activity demonstrated group activity is material. Further information can be found in Note 40.

CONCLUSION

The period since 2019 has been very turbulent for the London Borough of Croydon, particularly in relation to its finances. I hope that you find the following accounts useful and informative in helping you to understand how the Council's financial situation has evolved, and the nature of the work underway to restore it to financial sustainability.

EXPLANATION OF THE ACCOUNTING STATEMENTS

Movement in Reserves Statement

The movement in reserves statement shows the movement from the start of the year to he end on the different reserves held by the authority, 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 to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory general fund balance and Housing Revenue Account (HRA) balance movements in the year following those adjustments.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Balance Sheet

The balance sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, 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). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line ‘adjustments between accounting basis and funding basis under regulations’.

Cash Flow Statement

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 of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

MOVEMENT IN RESERVES STATEMENT

2019/20	General Fund Balance £000	Earmarked GF Reserves Balance £000	Total General Fund Balance £000	HRA Balance £000	Capital Receipts Balance £000	Capital Grants Unapplied Balance £000	Major Repairs Reserve Balance £000	Total Usable Reserves Balance £000	Total Unusable Reserves Balance £000	Total Authority Reserves Balance £000
Balance b/f at 1 April 2019	**10,393**	**8,766**	**19,159**	**15,272**	**32,599**	**17,679**	**(1)**	**84,708**	132,486	217,194
Movement in reserves during 2019/20:										
Surplus or (deficit) on provision of services	(296,628)		(296,628)	22,654				(273,974)	0	(273,974)
Other Comprehensive Expenditure and Income								0	259,645	259,645
Total Comprehensive Expenditure and Income	(296,628)	0	(296,628)	22,654	0	0	0	(273,974)	259,645	(14,329)
Adjustments between accounting basis and funding basis under regulations	289,836	0	289,836	(12,324)	(12,356)	(3,895)	1	261,262	(261,262)	0
Net increase/Decrease before Transfers to Earmarked Reserves	(6,792)	0	(6,792)	10,330	(12,356)	(3,895)	1	(12,712)	(1,617)	(14,329)
Transfers to/(from) Earmarked Reserves	(3,600)	3,600	0	0	0	0	0	0	0	0
Net increase/(decrease) in reserves for the year	(10,392)	3,600	(6,792)	10,330	(12,356)	(3,895)	1	(12,712)	(1,617)	(14,329)
Balance c/f at 31 March 2020	1	12,366	12,367	25,602	20,243	13,784	0	71,996	130,869	202,865

Restated 2018/19 (Note 43)	General Fund Balance £000	Earmarked GF Reserves Balance £000	Total General Fund Balance £000	HRA Balance £000	Capital Receipts Balance £000	Capital Grants Unapplied Balance £000	Major Repairs Reserve Balance £000	Total Usable Reserves Balance £000	Total Unusable Reserves Balance £000	Total Authority Reserves Balance £000
Restated Balance b/f at 1 April 2018	**10,393**	**17,190**	**27,583**	**14,535**	**52,182**	**14,307**	**1,928**	**110,535**	360,763	471,298
Movement in reserves during 2018/19:										
Surplus or (deficit) on provision of services	(245,114)		(245,114)	11,419				(233,695)	0	(233,695)
Other Comprehensive Expenditure and Income								0	(20,411)	(20,411)
Total Comprehensive Expenditure and Income	(245,114)	0	(245,114)	11,419	0	0	0	(233,695)	(20,411)	(254,106)
Adjustments between accounting basis and funding basis under regulations	236,690	0	236,690	(10,682)	(19,583)	3,372	(1,929)	207,868	(207,866)	2
Net increase/Decrease before Transfers to Earmarked Reserves	(8,424)	0	(8,424)	737	(19,583)	3,372	(1,929)	(25,827)	(228,277)	(254,104)
Transfers to/(from) Earmarked Reserves	8,424	(8,424)	0	0	0	0	0	0	0	0
Net increase/(decrease) in reserves for the year	0	(8,424)	(8,424)	737	(19,583)	3,372	(1,929)	(25,827)	(228,277)	(254,104)
Balance c/f at 31 March 2019	10,393	8,766	19,159	15,272	32,599	17,679	(1)	84,708	132,486	217,194

Full details of the adjustments between accounting basis and funding basis under regulations are shown in Note 7

Further details about the movements in earmarked reserves can be found in Note 8, and details around movements in all reserves can be found in Note 22 and 23.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

			2019/20			Restated 2018/19 (Note 43)	
	Note No	**Gross £000**	**Income £000**	**Net £000**	**Gross £000**	**Income £000**	**Net £000**
Gross expenditure, income and net expenditure of continuing operations							
Place		260,070	(131,416)	128,654	117,227	(68,631)	48,596
Children, Families & Education		365,308	(223,522)	141,786	376,068	(251,032)	125,036
Health, Wellbeing & Adults		193,035	(71,787)	121,248	211,045	(82,521)	128,524
Gateway, Strategy & Engagement		100,616	(47,593)	53,023	107,076	(42,042)	65,034
Resources		424,563	(356,892)	67,671	400,654	(315,046)	85,608
HRA		56,380	(85,561)	(29,181)	72,394	(91,561)	(19,167)
Net cost of services		1,399,972	(916,771)	483,201	1,284,464	(850,833)	433,631
Other operating expenditure	9			39,625			41,014
Financing and Investment Income and Expenditure	10			48,830			53,251
Taxation and Grant Income	11			(297,681)			(294,202)
(Surplus) or Deficit on Provision of Services				273,975			233,694
(Surplus) or deficit on revaluation of non-current assets				(12,644)			26,702
Remeasurement of the net defined benefit liability				(247,001)			(6,291)
Other Comprehensive Income and Expenditure				(259,645)			20,411
Total Comprehensive Income and Expenditure				14,330			254,105

BALANCE SHEET

The Balance Sheet shows the Council's position at the end of the year for all activities and services except the Pension Fund and trust funds, which are held on behalf of third parties. All internal transactions between funds have been eliminated.

	Note/ Page No.	31-Mar-20 £000	£000	Note 43 Restated 31 March 2019 £000	Note 43 Restated 1 April 2018 £000
Operational Assets (Property, Plant and Equipment)	12				
Council dwellings		972,157		954,042	989,648
Other land and buildings		907,046		808,209	790,443
Vehicles, plant, furniture and equipment		10,399		12,255	3,406
Infrastructure		154,179		147,841	142,336
Community assets		3,696		4,325	4,947
Total Operational Assets (Property, Plant and Equipment)			2,047,477	1,926,672	1,930,780
Non-Operational Assets (Property, Plant and Equipment)					
Assets under construction		-		54,631	4,402
Surplus assets not held for sale		2,553		6,493	2,181
Total Non-Operational Assets (Property, Plant and Equipment)			2,553	61,124	6,583
Total Property, Plant and Equipment			2,050,030	1,987,796	1,937,363
Heritage Assets	13	3,696		3,696	3,696
Investment Properties					
Investment Properties	14	118,379		98,979	29,714
Intangible Assets	15				
Software		12,251		8,880	5,062
Assets under construction		-			
Long-term Investments					
Non-property investments	16	47,233		45,000	45,001
Investments in Associates and Joint Ventures					
Long-term Debtors	16	9,985		85,107	52,596
Long-term Assets			2,241,574	2,229,458	2,073,432
Short-term Investments					
Non-property investments excluding cash equivalents	16	13,000		30,000	5,000
Assets held for sale (< 1 year)	19	650		8,328	16,329
Inventories		1,112		771	689
Debtors, Payments In Advance (PIA) And Allowance For Doubtful Debt	17	261,394		178,626	140,664
Cash and cash equivalents	18	39,479		39,800	29,000
Current Assets			315,635	257,525	191,682
Bank overdraft	18	(39,994)		(12,750)	(20,311)
Short-term borrowing	16	(303,691)		(225,198)	(107,204)
Short-term creditors and receipts in advance	20	(184,552)		(188,957)	(141,092)
Short-term provision	21	(4,835)		(3,529)	(3,424)
Current Liabilities			(533,072)	(430,434)	(272,031)
Long-term Creditors					
Provisions	21	(20,086)		(13,332)	(11,900)
Long-term borrowing	16	(1,288,846)		(1,145,672)	(893,509)
Deferred capital creditors		(12,859)		(11,656)	(10,504)
Other non-current liabilities					
Net pensions liability	42	(472,620)		(652,954)	(593,911)
Other long term liabilities		(8,483)			
Capital grants receipts in advance	31	(18,377)		(15,743)	(11,959)
Long-term Liabilities			(1,821,271)	(1,839,357)	(1,521,783)
Net Assets			202,866	217,192	471,300
Usable reserves					
General Fund	22.1	0		10,395	10,395
Housing Revenue Account	22.2	25,602		15,271	14,535
Earmarked reserves	22.3	12,367		8,766	17,190
Capital receipts reserve	22.4	20,243		32,599	52,181
Capital grants unapplied	22.5	13,784		17,677	14,305
Major repairs reserve	22.2	0		0	1,929
			71,996	84,708	110,535
Unusable reserves					
Revaluation reserve	23.1	642,944		658,650	718,692
Capital adjustment account	23.3	(25,193)		146,081	253,600
Financial Instruments adjustment account	23.4	(31,377)		(32,021)	(1,347)
Pensions reserve	23.5	(472,620)		(664,018)	(616,039)
Deferred capital receipts	23.6	20,826		20,826	2,463
Collection Fund adjustment account	23.7	(2,747)		6,932	6,824
Short-term accumulating compensated absences account	23.8	(3,196)		(3,966)	(3,428)
Pooled Investment Fund Adjustment Account	23.9	2,233		-	-
			130,870	132,484	360,765
Total Reserves			202,866	217,192	471,300

Signed: Jane West

Corporate Director of Resources and Section 151 Officer

Jane West

7 March 2024

CASH FLOW STATEMENT

	Note	2019/20		Restated 2018/19 Note 43	
OPERATING ACTIVITIES	**No.**	**£000**	**£000**	**£000**	**£000**
The cash flows for operating activities include the following,					
Net surplus or (deficit) on the provision of services	1A & 7		(273,974)		(233,695)
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements					
Depreciation	7,12 &23.3	41,607		36,777	
Impairment and downward valuations	7	64,678		16,465	
Amortisations	7,15 & 23.3	2,740		2,077	
Increase/(decrease) in creditors		5,990		41,932	
(Increase)/decrease in debtors		(70,730)		37,509	
(Increase)/decrease in inventories		(340)		(81)	
Movement in pension liability	1B,7 & 23.5	55,603		54,270	
Carrying amount of non-current assets sold	23.3	44,938		70,125	
Provisions		8,059		1,538	
Movements in the value of investment properties	7,10,14 & 23.3	2,141		355	
Other non-cash movements		448		(39,664)	
			155,134		221,303
Items included/excluded from net surplus or deficit on the provision of services:					
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	22.4	(10,377)		(14,341)	
Payment of local taxation to major preceptors		(2,522)		(84,068)	
Any other items for which the cash effects are investing or financing financing cash flows		(4,638)		(15,618)	
			(17,537)		(114,027)
Net cash (inflow)/outflow from operating activities			(136,377)		(126,419)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment, investment property		(168,284)		(271,272)	
Purchase of short-term and long-term investments		(24,999)		(57,896)	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets		10,377		14,341	
Capital grants		23,020		9,014	
Proceeds from short-term and long-term investments		44,117		8,618	
Net cash inflow/(outflow) from investing activities			(115,769)		(297,195)
FINANCING ACTIVITIES					
Cash receipts from short-term and long-term borrowing		467,840		466,023	
Payment of local taxation to major preceptors		2,518		84,068	
Cash payments for the reduction of the outstanding liabilities to finance leases and on-Balance Sheet PFI contracts (Principal)		(2,270)		(2,116)	
Repayments of short-term and long-term borrowing		(243,507)		(106,000)	
Net cash inflow/(outflow) from financing activities			224,581		441,975
Net increase/(decrease) in cash and cash equivalents			(27,565)		18,361
Cash and cash equivalents at the beginning of the reporting period			27,050		8,689
Cash and cash equivalents at the end of the reporting period			(515)		27,050
Cash held	18	39		34	
Bank current accounts	18	(40,033)		(12,784)	
Short-term deposits with building societies and Money Market Funds	18	39,479		39,800	
Cash and cash equivalents as at 31 March			(515)		27,050

Memorandum Items: the cash flows for operating activities include the following items:

	2019/20	2018/19
Dividends Received	(1,397)	(890)
Interest Paid	40,890	40,201
Interest and investment property rental income Received	(8,426)	(4,775)

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1. BASIS OF PREPARATION - SINGLE ENTITY AND GROUP ACCOUNTS

Basis of Preparation

The financial statements have been prepared in accordance with the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 Code), and is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The 2019/20 Code includes the statutory provisions for the preparation of financial statements and the requirements of existing International Financial Reporting Standards (IFRS) pronouncements, except to the extent that they conflict with statute. Additional guidance within the 2019/20 Code is drawn from International Public Sector Accounting Standards (IPSAS), similarly, except to the extent that they conflict with statute.

The Statements Prepared

The Comprehensive Income and Expenditure (CI&E) Statement presents the results of the Council's activities measured under the rules set out in the 2019/20 Code. Different rules are applied to measure the results for the purpose of setting Council Tax. The accumulated amount of the differences are set out in the Movement in Reserves Statement (MIRS) and explained in the notes to the financial statements.

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by reserves held by the Authority.

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The classifications within EFA and ESFA have been adapted to follow the current management structure and how reports are structured to cabinet and committee.

Single Entity Financial Statements

The financial statements presented by a parent, an investor in an associate or a venturer in a joint venture (joint arrangement (joint venture) in which the investments are accounted for on the basis of the direct equity interest (i.e. at cost) rather than on the basis of the reported results and net assets of the investees. In the context of the Code, an Authority’s single entity financial statements are deemed to be separate financial statements.

The single entity financial statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority.

Group Accounts - Recognition of Group Entities and Basis of Consolidation

The Council prepared a review of group interests in the companies and other entities that have the nature of subsidiaries. associates and jointly controlled entities during the 2019/20 financial year. It has concluded that there are material interests in subsidiaries, and that Group Accounts will be prepared. Group interests are:

► Brick By Brick Croydon Limited - 100% control and ownership by Croydon Council, and will be accounted for as a subsidiary under IFRS10.

► Croydon TH Limited - This is a 100% Council owned company. The company has been dormant and not carried out any activities.

► Croydon TH Commercial Limited - This is a 100% Council owned company. The company has been dormant and not carried out any activities.

► Croydon Central Management Company - This is a 100% Council owned company. The company has been dormant and not carried out any activities

► Croydon Holdings Ltd - This is a 100% Council owned company. This company is linked to the Croydon . Affordable Homes and Croydon Affordable Tenure companies and was designed to be a holding company for these subsidiaries. The company has immaterial transactions to be consolidated within the Council’s Group Accounts

► London Borough of Croydon Holdings LLP - This is a Limited Liability Partnership formed between the Council (99%) and Croydon Holdings Ltd (1%). The company is dormant and has not carried out any activities.

1. ACCOUNTING POLICIES

1.1. BASIS OF PREPARATION - SINGLE ENTITY AND GROUP ACCOUNTS (continued)

- Croydon Affordable Homes LLP - This Limited Liability Partnership is between the Croydon Affordable Housing charity (charity number 1175493) and the Council. The Council, via London Borough of Croydon Holdings LLP holds a 10% equity stake in the LLP, with the Charity holding the remaining 90%. This company was created to provide affordable rental accommodation to residents of the Borough.

- Croydon Affordable Tenures LLP - This Limited Liability Partnership is between the Croydon Affordable Housing charity (charity number 1175493) and the Council. The Council, via London Borough of Croydon Holdings LLP holds a 10% equity stake in the LLP, with the Charity holding the remaining 90%. This company was created to provide affordable rental accommodation to residents of the Borough.

- Croydon Affordable Dwellings - This Limited Liability Partnership is between the Croydon Affordable Housing charity (charity number 1175493) and the Council. The Council, via London Borough of Croydon Holdings LLP holds a 10% equity stake in the LLP, with the Charity holding the remaining 90%. This company has had no activity.

- Croydon Affordable Homes (Taberner House) - This Limited Liability Partnership is between the Croydon Affordable Housing charity (charity number 1175493) and the Council. The Council, via London Borough of Croydon Holdings LLP holds a 10% equity stake in the LLP, with the Charity holding the remaining 90%. This company has had no activity.

- Croydon Affordable Housing - the Council does not have economic control of this charity

- Croydon Day Opportunities - This was a 100% Council owned company, used to provide vulnerable adults with day care services, and support to develop their independence and employment capabilities. It was dissolved following voluntary liquidation on 20 September 2019, with activity having been brought back into the Council.

- Croydon Equipment Solutions - This was a 100% Council owned company, used to provide community equipment on behalf of the Health and Socal Care services in Croydon. It was dissolved following voluntary liquidation on 20 September 2019, with activity having been brought back into the Council.

- Croydon Care Solutions - This was a 100% Council owned company, used to provide csocial care and associated products under contract with and on behalf fo the London Borough of Croydon. It was dissolved following voluntary liquidation on 20 September 2019, with activity having been brought back into the Council.

- Croydon Pensions Nominee 1 Ltd - This is a 100% company owned by the Council. This company has been inactive and no transactions have taken place.

- Croydon Pensions Nominee 2 Ltd - This is a 100% company owned by the Council. This company has been inactive and no transactions have taken place.

- Octavo Partnership Limited - the Council has 40% ownership of this Partnership, and would otherwise be accounted for as an associate under IAS28 were the interest material

- Croydon Enterprise Loan Fund - 100% control, although assessed as non material. It would otherwise be accounted for as an associate under IAS 28.

- Yourcare (Croydon) Ltd - 100% control and ownership by Croydon Council. Activity within this company began during 2018/19, which comprises retail sales of aids to daily living. Activity is not material.

See Note 40 for further details on the Council's Group Interests.

1. ACCOUNTING POLICIES (continued)

1.1. BASIS OF PREPARATION - SINGLE ENTITY AND GROUP ACCOUNTS (continued)

The Selection of Accounting Policies

In those instances where the 2019/20 Code permits a choice of accounting policy the selection has been made to facilitate a true and fair presentation of the Authority's results.

In future years the accounting policies selected, as amended from time to time by revised editions of the Code, will be applied consistently when dealing with items considered material in relation to the accounts.

Accruals of Income and Expenditure

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

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

Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority’s General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

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

Principal and Agent

In the majority of transactions the Council undertakes it is acting entirely on its own behalf and completely owns any risks and rewards of the transaction. This is known as the Council acting as a Principal. However there are some situations whereby the Council is acting as an Agent, where the Council is acting as an intermediary for all or part of a transaction or service.

1. ACCOUNTING POLICIES (continued)

1.1. BASIS OF PREPARATION - SINGLE ENTITY AND GROUP ACCOUNTS (continued)

The three main instances where this occurs are in relation to Council Tax and Business Rates whereby the Council is collecting Council Tax, Business Rates and Community Infrastructure Levy income on behalf of itself and the Greater London Authority. The implications for this is that any Balance Sheet transactions at the year end, in relation to these Agent relationships, are split between the principal parties and, therefore, the balances contained on the Balance sheet for a particular debt are the Council's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from/to these parties.

1.2. ACCOUNTING REQUIREMENTS

Financial Performance Reflected by Accrual Accounting

The Authority has prepared its financial statements, except for the Statement of Cash Flow, using the accruals basis of accounting, i.e. the Authority recognises items as assets, liabilities, income and expenses when they satisfy the definitions and recognition criteria for those elements in the 2019/20 Code. The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid. Where revenue and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet

Underlying Assumption - Going Concern

The Authority's financial statements have been prepared on a going concern basis; that is, the accounts have been prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future. Transfers of services under machinery of Government changes, such as Local Government reorganisation, do not negate the presumption of going concern. As local authorities cannot be created or dissolved without statutory prescription, the CIPFA Code of Practice confirms local authority accounts must be completed on a going concern basis.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

1.4. NON-CURRENT ASSETS

Fair Value Measurement

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

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

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

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

1. ACCOUNTING POLICIES (continued)

1.4. NON-CURRENT ASSETS (continued)

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

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

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

1.4.1. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. There is a de minimus of £10,000 in recognising expenditure as capital.

Where there are incomplete works to a pre-existing asset, the entire asset is reviewed to determine the relevant accounting treatment

Where the asset is still operational, including the incomplete project, then it will remain in its original cateogry
Where the original asset is still operational, but the new project is not, then the original asset remains in its original classification, with the new project included as asset under construction
If the asset is totally unusable as part of the works, the asset is transferred to assets under construction, with the value of replaced components being written out.

Measurement

Assets are initially measured at cost, comprising:

- purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets, vehicles, plant and equipment and assets under construction – depreciated historical cost
- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- other land and buildings – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), or at depreciated replacement cost (DRC), which is also known as instant build, as an estimate of current value. This includes council offices and school buildings
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective

1. ACCOUNTING POLICIES (continued)

1.4. NON-CURRENT ASSETS (continued)

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

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.]

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

► dwellings and other buildings – straight-line allocation over the useful economic life of the property (as advised by the valuer). Land is not usually depreciated as it does not have a determinable useful life
► vehicles, plant, furniture and equipment – they are depreciated on a straight line basis over their useful life which is determined at the time of purchase (usually three to five years). These assets include all items except fixtures and fittings to a building.
► infrastructure - they are depreciated on a straight line basis over their useful life (usually thirty years). Some expenditure on infrastructure assets prior to 2009/10 did not separately identify the specific asset. The council has decided to depreciate the balance of these items over 10 years.

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

Componentisation

When an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the asset the components are separately depreciated.

1. ACCOUNTING POLICIES (continued)

1.4. NON-CURRENT ASSETS (continued)

The Authority's policy is to recognise three components:
- Structure
- Mechanical and electrical
- Outside space.

The Authority's assets are considered for componentisation at the time of their revaluation under the rolling five year revaluation programme.

Following the end of the HRA self financing transitional period, Council dwellings are now depreciated on a componentisation basis, which is in accordance with proper accounting practice. The components are:-

- Kitchen
- Bathroom
- Windows and doors
- Structure
- Roof

When the Authority replaces or restores a separately identified component, it derecognises the carrying value of the old component and recognises the carrying value of the new component.

1.4.2 Heritage Assets

A Heritage Asset is defined as either:
- A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities, that is held and maintained by the Authority principally for its contribution to knowledge and culture; or
- An intangible asset with cultural, environmental or historical significance.

The Authority presents Heritage Assets as a separate line item within the Balance Sheet. Assets are held at a valuation, but where obtaining a valuation would not be commensurate with the benefit to the users of the accounts, they are held at cost.

Assets, other than land, are normally regarded as having a finite life and are subject to depreciation. Heritage Assets are preserved by the Authority, not used by the Authority, as are other assets, in the provision of services. Consequently, no depreciation allowance is made against Heritage Assets.

Asset valuations are not undertaken at regular intervals but with sufficient frequency to report realistic values in the Balance Sheet. Assets values are reviewed immediately if there is any evidence of impairment. Impairment can arise due to physical deterioration or doubts about an asset's authenticity.

1.4.3. Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated.
Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.4.4. Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. The Authority recognises an intangible asset if:

- it is probable that future economic benefits, or service potential will flow from the asset to the Authority;
- the asset is controlled by the Authority either through custody or legal rights; and
- the cost of the asset can be reliably measured.

1. ACCOUNTING POLICIES (continued)

1.4. NON-CURRENT ASSETS (continued)

The Authority's intangible assets are its purchased software licences and its in house developed software. These are measured on initial recognition at cost and subsequently at cost less accumulated amortisation and any impairment loss.

Intangible assets are amortised on a straight-line basis over their useful economic lives (usually initially five years). The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised if necessary.

1.4.5. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no previous gains in the Revaluation Reserve
- amortisation of intangible assets attributable to the service

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement [equal to an amount calculated on a prudent basis determined in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.4.6. Investments in Associates

The Authority has no investments in associates. All Group companies are referred to in Note 40 as they are all subsidiaries and Note 1.1 provides details of entities that form part of the Council's Group Accounts.

1.4.7. Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment, or set aside to reduce the authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1. ACCOUNTING POLICIES (continued)

1.5. CURRENT ASSETS

1.5.1. Inventories

The Authority's inventories include items it holds as stores in hand and that are held in the form of materials or supplies to be consumed in the rendering of its services. Inventories are recognised on the Authority's Balance Sheet and measured at:

- the lower of cost and net realisable value, except where inventories are acquired through a non-exchange transaction in which case their cost is deemed to be their fair value at the date of acquisition; or

- the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge, or consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1.5.2. Debtors

Debtors are recognised when the ordered goods have been delivered or the services rendered, and are measured at the amortised cost of the consideration to be received. An allowance for credit losses is estimated based upon past experience. and where sufficient and reliable information is available for future impacts on receipts of the debts

1.5.3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

1.6. CURRENT LIABILITIES

1.6.1. Short Term Creditors

Creditors are recognised when the ordered goods or services have been delivered or rendered, and measured at the amortised cost of the consideration to be paid.

1.7. USABLE AND UNUSABLE RESERVES

The Authority has two categories of reserves, usable and unusable:

Usable Reserves

These are reserves created by the Authority and earmarked for future policy purposes or to provide for contingencies. The reserves are created by transferring amounts out of the General Fund Balance. It is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back to the General Fund Balance so that there is no net charge against council tax for the expenditure.

Unusable Reserves

These are established by the impact of accounting and statutory arrangements and are kept to manage the accounting process for non-current assets, financial instruments, local taxation, retirement and employee benefits. They do not represent usable resources for the Authority. See Note 23 for further details.

1.8. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

1. ACCOUNTING POLICIES (continued)

1.8. GOVERNMENT GRANTS AND CONTRIBUTIONS (continued)

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

1.9. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately 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

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower)The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

Property, plant and equipment 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 asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

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

1. ACCOUNTING POLICIES (continued)

1.9. LEASES (continued)

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as Lessor
Finance Leases

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority’s net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement 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 the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over lease term on the same basis as rental income.

1.10. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

1.10. EMPLOYEE BENEFITS (continued)

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the authority are members of two separate pension schemes:

► the Teachers' Pension Scheme,

► the Local Government Pensions Scheme, administered by London Borough of Croydon.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The People Department line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

► The liabilities of the London Borough of Croydon pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

► Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bond).

► The assets of London Borough of Croydon pension fund attributable to the authority are included in the Balance Sheet at their fair value:

► quoted securities – current bid price

► unquoted securities – professional estimate

► unitised securities – current bid price

► property – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

► current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

► past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

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

1. ACCOUNTING POLICIES (continued)

1.10. EMPLOYEE BENEFITS (continued)

Remeasurements comprising:

► the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

► actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

► Contributions paid to the London Borough of Croydon pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

1.11. FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1. ACCOUNTING POLICIES (continued)

1.11. FINANCIAL INSTRUMENTS (continued)

Financial Assets

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

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

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

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

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit and Loss (FVPL)

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

Fair value measurement of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

1. ACCOUNTING POLICIES (continued)

1.12. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the authority at the end of the contracts for no additional charge, the authority carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement

- **finance cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)

- **lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

1.13. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the authority has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet, but are disclosed in the notes to the accounts.

1. ACCOUNTING POLICIES (continued)

1.13. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

Contingent Assets

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

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

1.14. VAT

Output tax is VAT charged on sales, input tax is VAT paid on purchases. Revenue recognised in the Authority's Comprehensive Income and Expenditure Statement is net of all output tax charged on sales; the VAT collected remitted to HMRC. Purchases are recognised in the Comprehensive Income and Expenditure Statement for consistency net of VAT to the extent that the VAT is recoverable, Any irrecoverable VAT is part of the associated purchase cost. Recoverable VAT is remitted to the Authority by HMRC.

1.15. FOREIGN CURRENCY TRANSLATION

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

1.16. OPERATING SEGMENTS

Segmental information is provided to enable users of the financial statements to evaluate the nature and financial effects of the activities in which the Authority engages and the environments in which it operates. This is achieved by providing financial performance data according to how the Authority has been managed, with information corresponding to that used by management in making decisions. For Croydon Council, these segments are the Children, Families and Education Department; Health Wellbeing and Adults Department; Place Department; Gateway, Strategy & Engagement Department; Resources Department and the Housing Revenue Account (HRA).

1.17. STATUTORY PROVISION FOR THE REPAYMENT OF DEBT

The Minimum Revenue Provision (MRP) is a charge to the General Fund, which reflects the statutory requirement to set aside revenue funds to repay those debts incurred in financing the Authority’s fixed assets. Under accounting regulations the diminution in value of fixed assets through use or passage of time is recognised in the Comprehensive Income and Expenditure Statement by a Depreciation Charge. An adjustment is made through the MIRS to the General Fund balance that replaces the depreciation charge with the MRP.

The bases used for calculation of the MRP are as follows:

► Regulatory Method, which is used for inherited debt pre 2007,and is based on fixed payments of 2% of the balance, payable over 50 years, which is commensurate with the asset lives.

► Annuity method for unsupported borrowing over a repayment period of 40 years, and PFI debt over a repayment period of 27 years for street lighting, and 50 years for Schools ad Care Homes assets.

1. ACCOUNTING POLICIES (continued)

1.18. RECOGNITION OF INCOME AND EXPENDITURE

Activity is accounted for in the year in which it takes place, which may not be the same year in which cash payments are made or received.

The Council adopted IFRS 15: Revenue Recognition from Contracts with Customers from 1st April 2018, such that revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. The council has made use of the transitional provisions to not restate the prior year's financial statements and therefore prior year comparatives are produced under the previous accounting standard, IAS 18: Revenue. The main change is that revenue recognition is now based on the transfer of control over goods and services to a customer rather than risks and rewards, which may result in changes to the pattern of revenue recognition. In local government, the generation of revenues from charges to service recipients is only a minor funding stream and contracts with customers tend to be accounted for and delivered within each financial year.

Revenue from the sale of goods and disposal of assets is recognised when the council transfers the risks and rewards of ownership to the purchaser. Revenue from the provision of services is recognised when the Council 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 council.

Government grants and third-party contributions are recognised when there is reasonable assurance that the council will comply with any conditions attached to the payments, and that the grants or contributions will be received. Where conditions attached to grants or contributions have not been satisfied, monies received to date are carried in the Balance Sheet as creditors and credited to the CIES when the conditions are satisfied. Where capital grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Supplies and services are recorded as expenditure when they are received or consumed. If there is a gap between the date supplies are received and their consumption, they are carried as inventories in the Balance Sheet. Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Housing and Council Tax benefits are calculated and paid in accordance with relevant regulations and accounted for accordingly.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.19. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as an item of property, plant and equipment. The purpose of this is to enable it to be funded from capital resources rather than charged to the General Fund and impact on that year's Council Tax.

Items classified as such are generally grants and expenditure on property not owned by the Council, and amounts directed under statute.

Expenditure of this kind is charged to the Comprehensive Income and Expenditure Statement in accordance with the general requirements of the 2019/20 Code. Any statutory provision that allows capital resources to meet the expenditure is accounted for by charging it to the Capital Adjustment Account and crediting the General Fund Balance and showing it as a reconciling item in the Movement in Reserves Statement.

1. ACCOUNTING POLICIES (continued)

1.20. CAPITALISATION DIRECTION

Under Section 16(2)(b) of the Local Government Act 2003, the Secretary of State may “by direction provide that expenditure of a particular local authority shall be treated for the purposes of this chapter as being, or not being, capital expenditure.” Where this direction is available, expenditure previously classified as revenue, can be capitalised. This expenditure is then classified as Revenue Expenditure Funded from Capital Under Statute (please see accounting policy section 1.19) and is funded from capital resources, rather than charged to the General Fund with its associated impact on that year’s council tax.

Where a Capitalisation Direction is used and the Council uses borrowing to fund this capital expenditure, the Council’s General Fund is required to repay this over a 20 year period via a Minimum Revenue Provision charge.

1.21. BORROWING COSTS

The Authority does not capitalise borrowing costs. All borrowing costs are expensed in the year they are incurred.

1.22. OVERHEADS

All overhead and support service costs are charged to the service segments in accordance with the authority's arrangements for accountability and financial performance

1.23. SCHOOLS

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the Borough are considered to be entities of the Council. Rather than produce group accounts the income, expenditure, current assets, current liabilities, reserves and cash flows of each school are recognised in the Council’s single entity accounts. The council has the following types of maintained schools under its control:

Community schools
Foundation Schools

School Non-Current Assets are recognised on the Balance Sheet where the Council directly owns the assets and where the Council holds the balance of control of the assets. Community schools and foundation schools are owned by the Council and both the buildings and land are, therefore, recognised on the Balance Sheet.

Non-current assets for Voluntary Aided and Academy schools (granted 125 year leases at peppercorn rent) are not directly owned by the Council and are not considered to be controlled by the Council as no formal rights to use the assets through a licence arrangement are passed to the School or Governing Bodies. As a result the buildings and land of these schools are not recognised on the Balance Sheet.

Where a community school transfers to academy status during the year, the value of the land and buildings are derecognised from the balance sheet and treated as a loss on disposal.

1.24. EVENTS AFTER THE REPORTING PERIOD

Events after the balance sheet date are those events occurring between the end of the reporting period and the date when the statement of accounts is authorised. Two types of event can be identified.

- ► those providing evidence of conditions that existed at the end of the reporting period - the statement of accounts is adjusted to reflect such events
- ► those indicative of conditions that arose after the reporting period. The statement of accounts are not adjusted to to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts

NOTES TO THE CORE FINANCIAL STATEMENTS

1A. Expenditure Funding Analysis

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

2019/20	**Net Expenditure Chargeable to the GF and HRA Balances**	**Adjustments between Funding and Accounting Basis**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**
Place	63,084	65,569	128,653
Children, Families & Education	134,894	6,892	141,786
Health, Wellbeing and Adults	111,560	9,688	121,248
Gateway, Strategy and Engagement	36,012	17,011	53,023
Resources	48,033	19,638	67,671
HRA	(26,858)	(2,323)	(29,181)
Net cost of services	**366,725**	**116,475**	**483,200**
Other operating expenditure	(143,279)	182,904	39,625
Financing and Investment Income and Expenditure	65,904	(17,074)	48,830
Taxation and Non-Specific Grant Income	(292,886)	(4,795)	(297,681)
(Surplus)/Deficit	**(3,536)**	**277,510**	**273,974**
Opening GF and HRA Balances and Reserves	34,431		
Less deficit on General Fund in year	(6,792)		
Add surplus on HRA Balance in year	10,330		
Closing General Fund and HRA balance 31 March 2020	**37,969**		

Restated 2018/19	**Net Expenditure Chargeable to the GF and HRA Balances**	**Adjustments between Funding and Accounting Basis**	**Net Expenditure in the CIES**
	£000	**£000**	£000
Place	6,391	42,205	48,596
Children, Families & Education (restated - Note 43)	91,996	33,040	125,036
Health, Wellbeing and Adults	120,475	8,050	128,525
Gateway, Strategy and Engagement	33,008	32,026	65,034
Resources	32,866	52,741	85,607
HRA	(13,962)	(5,206)	(19,168)
Net cost of services	**270,774**	**162,856**	**433,630**
Other operating expenditure	(170)	41,186	41,016
Financing and Investment Income and Expenditure	31,177	22,073	53,250
Taxation and Non-Specific Grant Income	(294,093)	(109)	(294,202)
(Surplus)/Deficit	**7,688**	**226,006**	**233,694**
Opening GF and HRA Balances and Reserves	42,118		
Less decrease on General Fund in year	(8,424)		
Add Surplus on HRA Balance in year	737		
Closing General Fund and HRA balance 31 March 2019	**34,431**		

1B Note to the Expenditure and Funding Analysis

This note provides further analysis of the adjustments between funding and accounting basis shown in Note 1A.

2019/20	**Adjustments for capital purposes**	**Net change for the pensions adjustments**	**Other differences**	**Total adjustments between funding and accounting basis**
	£000	**£000**	**£000**	**£000**
Place	58,825	6,777	(33)	65,569
Children, Families & Education	2,742	4,794	(644)	6,892
Health, Wellbeing and Adults	(2,627)	12,329	(14)	9,688
Gateway, Strategy and Engagement	14,613	2,412	(14)	17,011
Resources	7,356	12,325	(43)	19,638
HRA	(6,121)	3,820	(22)	(2,323)
Net cost of services	**74,788**	**42,457**	**(770)**	**116,475**
Other Income and Expenditure				
Other operating expenditure	182,904			182,904
Financing and Investment Income and Expenditure	(29,575)	13,146	(644)	(17,073)
Taxation and non-specific grant income	(14,474)		9,679	(4,795)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit	**213,643**	**55,603**	**8,265**	**277,511**

Restated 2018/19	**Adjustments for capital purposes**	**Net change for the pensions adjustments**	**Other differences**	**Total adjustments between funding and accounting basis**
	£000	**£000**	**£000**	**£000**
Place	21,760	5,527	20	27,307
Children, Families & Education	24,776	7,792	459	33,027
Health, Wellbeing and Adults	2,113	5,916	32	8,061
Gateway, Strategy and Engagement	30,225	1,794	7	32,026
Resources	58,008	9,614	16	67,638
HRA	(9,455)	4,249	0	(5,206)
Net cost of services	**127,427**	**34,892**	**534**	**162,853**
Other Income and Expenditure				
Other operating expenditure	41,186	-	-	41,186
Financing and Investment Income and Expenditure	(27,979)	19,377	30,675	22,073
Taxation and non-specific grant income		-	(109)	(109)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit	**140,634**	**54,269**	**31,100**	**226,003**

Adjustments for Capital purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line. For other operating expenditure, it adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. For financing and investment income and expenditure, it adjusts for the statutory charges for capital financing and investment i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under income and expenditure. Taxation and non specific grant income and expenditure - capital grants, with no outstanding conditions are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied in year.

Net change for the pensions adjustments

Net change for the renewal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income. For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs. For financing and investment income and expenditure, the net interest on the defined benefit liability is charged to the CIES.

1B Note to the Expenditure and Funding Analysis (continued)

Other differences

Other differences between amounts debited / credited to the CIES and amounts payable / receivable to be recognised under statute. For services, this represents removal of the annual leave accrual adjustment. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable regulations under statutory for Council Tax and Non-Domestic Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

1C Expenditure and Income Analysed by Nature

	2019/20	Restated 2018/19
Expenditure	**£000**	£000
Employee benefits expenses	360,043	376,044
Other service expenses	951,070	989,084
Depreciation amortisation and impairment	109,024	55,318
Loss on disposal of non-current assets	32,488	37,658
Interest payments	41,226	41,341
Precepts and Levies	1,367	1,344
Total	1,495,218	1,500,788
Income		
Fees and charges and other service income	(507,027)	(418,472)
Income from Council tax and Business Rates	(238,710)	(257,891)
Government grants and contributions (2018/19 restated - Note 43)	(469,005)	(586,311)
Interest and investment income	(6,503)	(4,419)
Total	(1,221,246)	(1,267,093)
Deficit on provision of services	**273,973**	**233,695**

Segmental Income

Income received on a segmental basis is analysed below:

	2019/20 **£000**	2018/19 £000
Place	(131,416)	(84,875)
Children, Families & Education (2018/19 restated - Note 43)	(223,522)	(254,872)
Health, Wellbeing and Adults	(71,787)	(79,531)
Gateway, Strategy and Engagement	(47,593)	(40,656)
Resources	(356,893)	(299,337)
HRA	(85,561)	(91,561)
Total Income Analysed on a segmental basis	**(916,772)**	(850,832)

2. ACCOUNTING STANDARDS ISSUED, NOT 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. This following new or amended standards have been published but not yet adopted by the 2019/20 code:

- **IFRS 16 Leases** - this will require local authorities that are lessees to recognise most leases on their balance sheet as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short term leases. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2024.

- **IAS 19 Employee Benefits** will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

Local Government Funding

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

Croydon Affordable Housing - long term lease of properties

During the period 2017/18 to 2019/20 the Council entered into a series of 80 year leases with Croydon Affordable Homes LLP (CAH LLP) and Croydon Affordable Tenures LLP (CAT LLP) with respect to 344 dwellings owned by the Council. The Council's judgement is that control of these properties did not pass to CAH LLP or CAT LLP, but instead remained with the Council. The properties therefore remain in the Council's balance sheet, with CAH LLP and CAT LLP as the landlord to the tenants. A capital receipt has therefore not been generated, as income has not arisen from the disposal of assets.

As part of the lease of properties to CAH LLP and CAT LLP, two external funders entered into leases with the Council and the LLPs which resulted in the payment to the Council of an up front lease premium, in return for guaranteed future rent income being paid back to the funders over a period of 40 years. The Council had judged that because the leases were linked with the initial long term lease, the most appropriate accounting treatment is to reflect this agreement as if the Council has raised finance directly from the funders, and has included this as a Long Term Liability in the Council's accounts.

Further information can be found in Note 43 - Prior Period Adjustment.

Schools Ownership

As set out in accounting policy 1.21, the Council has reviewed control of schools on a case by case basis, and recognised only those schools where the Council has the balance of control, as shown in the table below:

	number of schools	Value of Land & Buildings recognised £'000
Community Schools, Foundation Schools, Nursery Schools, Special Schools	**33**	304,721
Voluntary aided Faith Schools (excluded from balance sheet)	**16**	0

There are 16 voluntary aided schools within the borough for which the non-current assets have not been recognised within Croydon's accounts, based on the judgement that Croydon does not have control of these assets.

Group Boundary

Croydon has made judgements in accordance with accounting policy 1.1 about which entities are within the group boundary. The judgements made are set out in Note 40

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 Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a risk of adjustment in the forthcoming financial year are as follows:

Pension Fund Net Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. The actuaries Hymans Robertson LLP provide the Council with an estimation of the pension liability that considers these judgements. Details of the Pension Fund liability are provided in Note 42 (Pensions - IAS19 and Accounting Code of Practice disclosure notes).

The liabilities of the Pension Fund scheme attributable to the London Borough of Croydon are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover

Liabilities are discounted to their present value, using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bonds).

The assets of the scheme attributable to the London Borough of Croydon are included in the Balance Sheet at their fair value:

Quoted securities - current bid price or the last trade price depending upon the convention of the market
Unquoted securities - professional estimate
Unlisted securities - current bid price
Property - market value.

The difference between the two, the net liability, is a notional figure; the result of applying the measurement rules within IAS19. Their purpose is to provide a consistent framework of measurement for all Pension Funds to facilitate comparability. The result from the measurement rules would only become a reality if a Pension Fund invested all of its funds in high quality corporate bonds. This is not the case; the Pension Fund invests in a wide portfolio of assets utilising the skills of professional fund managers with the objective of securing a return sufficient to meet the obligations of the Fund as they fall due.

IAS19 requires the disclosure of the sensitivity of the results to the methods and assumptions used.
The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:
Change in assumptions at 31 March 2020:

	Approximate % increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	**9%**	132,863
0.5% increase in the Salary Increase Rate	**1%**	8,459
0.5% increase in the Pension Increase Rate	**8%**	123,692

Business Rates

Income from Business Rates will be affected in part by outstanding appeals that have been lodged, or may be lodged in the future. Appeals are made in respect of the rateable value (RV) given to the hereditaments by the Valuation Office Agency (VOA) for the 2010 rating list. The outcomes of appeals on valuation (including both appeals in progress and an estimate of potential future appeals) can only be estimated using methodologies and vulnerability of some types of property to a wide range of valuation opinion and assumptions. The property diversity and the scale of the estimating process therefore carry a degree of risk regarding the accuracy of the resulting appeals provision computed for the Collection Fund within the Statement of Accounts. Croydon has set an appeals provision based on the following judgements:

- ►the outcome of outstanding 2010 list appeals will follow the same average outcomes as previous 2010 appeals,
- ►appeals against the 2017 list (both existing and future) will continue to be below the level experienced in 2010 and lower than the 4.7% appeal provision rates built into the 2018 multiplier,
- ►any other case specific appeal items will be absorbed within the appeal provision set for the 2017 list

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (contd)

Property, Plant and Equipment and Investment Properties

Property, Plant and Equipment and Investment Properties are held on the Balance Sheet at net book value. These assets are depreciated according to the depreciation policy set by the Council, as detailed in the Accounting Policies section of this Statement of Accounts. The useful economic lives of all assets are reviewed annually to ensure that accurate asset values are reflected on the Balance Sheet. This procedure together with the 5 year rolling valuation and formal review of valuation changes each year is being undertaken to minimise the risk of asset values being mis-stated on the Balance Sheet.

There is always uncertainty in estimating the useful economic life of an asset, but it is expected that drawing upon past experience of useful lives, undertaking annual reviews, and the detailed acquisition plans within the Capital Strategy will minimise the uncertainty.

Revaluations of property, plant and equipment and investment properties were provided by the Council's external valuers as part of the five year rolling programme. The remaining balance of operational properties was also reviewed to ensure values reflect current values. All valuations were as at 31 March 2020. Further details on revaluation methods can be found in Accounting Policies 1.4.1 (Property, Plant and Equipment) and 1.4.3 (Investment Properties)

Due to the outbreak of Covid-19 at the end of the financial year, the valuers have advised that valuations are provided on the basis of "material valuation uncertainty" as per the RICS Red Book Global. Further details are given in Note 12.

Estimated values may vary from the actual prices that could be achieved if an asset was disposed at the reporting date.

Fair Value Measurement

When the fair values of financial assets and liabilities cannot be measured based on quoted process in active markets, their fair value is measured using valuation techniques, such as quoted prices for similar assets, or a discounted cash flow model. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities.

Allowance for Credit Losses

The allowance is estimated based upon the Authority's past experience of collection rates in conjunction with a prudent view of the current economic climate and its possible impact on those collection rates.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

Material items of income and expense during the year are highlighted to help the reader understand movements in the Comprehensive Income and Expenditure Statement. For the purposes of this note, materiality is set at £15m.

Schools converting to academies

During 2019/20 two schools transferred from London Borough of Croydon ownership to academies owned by private organisations, These schools were transferred as finance leases and as a result their net book value of £38.95m has been de-recognised from property, plant and equipment.

This has resulted in a deficit of £38.95m in the Comprehensive Income and Expenditure Statement, though this is reversed back out through the MIRS to ensure a nil bottom line impact.

Pensions

The net liability on the Pension Fund has decreased by £180.3m as a result of a periodic actuarial review. It should be noted that this is not an assessment of the cash value of the funding difference; it is a notional sum that is reversed out through the Local Government accounting mechanism.

Pension Deficit Early Payment

During 2016/17 the Council took the decision to make an early payment of £33.192m towards the LGPS pension deficit. By making an early payment to the pension fund, this meant that revenue savings would be achieved by the council over the three year valuation period, reducing the deficit contribution amount required from the Council over this period.

This early payment has resulted in the pension liability being lower than the pensions reserve sum held in the "Unusable Reserves section of the balance sheet. This is because the charge to the Other Comprehensive Income & Expenditure Account to the Unusable Reserve will still be made over the three year valuation period (2017/18, 2018/19 and 2019/20).

Because the payment of liability was made ahead of the charge being made to the Other Comprehensive Income & Expenditure Account, a difference is therefore created between these two pension items, which is represented by a reduction in the council's cash. This difference reduces over the 3 year valuation period so that by 31 March 2020 it has reduced to £nil.

5. MATERIAL ITEMS OF INCOME AND EXPENSE AND PRIOR PERIOD ADJUSTMENTS (continued)

	2019/20 £'000
Pension Liability	(472,620)
Pension Reserve	(472,620)
Difference - reduction in cash	-

Refinancing of Long Term Debt

The Council holds a range of long term debt instruments including Lender Option Borrower Offer (LOBO) loans. The opportunity arose to re-finance this debt at a lower rate of interest. LOBO loans to the value of £100m were repaid, incurring a premium of £31.1m. Because the premium is lower than the interest cost saving, the premium will not be charged to the general fund in 2018/19; but will be held as an unusable reserve and charged to the general fund over the term of the loans (between 41 and 48 years). See note 23.4 for further details.

Acquisition and sale of Emergency Temporary Accommodation (ETA) Properties

Continued delivery of the Council's affordable housing strategy saw the purchase of houses during 2019/20. 81 of these properties were leased to Croydon Affordable Tenures LLP on 80 year lease terms, but with a 40 year break clause, yielding a premium of £29.3m. It has been decided to account for the Long Term lease of these properties to each LLP as a passthrough arrangement. A detailed description of this is given in Note 43.

Opening the Books - Review of Bad Debt

Under Accounting Policy 1.5.2, the council makes an allowance for credit loss for short term debtors, which reflects the estimate of debt that will not be paid. The Opening the Books review has resulted in the following increases in credit loss being charged to the 2019/20 financial year:

Area of Credit Loss reviewed	Debt Held 31.3.2020 £000's	Credit Loss - Loss - original £000's	Credit loss - revised £000's	Change in credit loss in 2019/20 £000's
Sundry Debt	42,555	(4,650)	(18,620)	(13,970)
Housing Benefit Overpayments	37,721	(14,037)	(25,229)	(11,192)
Housing Rents - general fund	14,149	(8,344)	(12,054)	(3,710)
Total	**94,425**	**(27,031)**	**(55,903)**	**(28,872)**

The cost to the General Fund has been met by the Capitalisation Direction granted to the Council by DLUHC.

Opening the Books - Review of Recharges to the Housing Revenue Account

The Housing Revenue Account (HRA) records income and expenditure relating to the Council's own housing stock for the benefit of tenants. It is a ringfenced fund, but the Council can make direct charges to the HRA for the provision of services to HRA tenants by other parts of the Council. A review of the basis of recharging to the HRA in the following change in 2019/20:

	£000's
Original recharge	17,293
Recalculated recharge	7,120
Reduction in recharge	**(10,173)**

The cost to the General Fund has also been by the Capitalisation Direction granted to the Council by DLUHC.

Capitalisation Directions used to balance the Council's General Fund

In 2020, the Council received permission from the Secretary of State to bring its General Fund into balance by charging up to £126m of revenue expenditure to capital. This is known as a Capitalisation Direction. The Council took the opportunity to remove a negative General Fund balance that had occurred during 2019/20, as well as set aside an earmarked reserve for smoothing costs associated with this review.

5. MATERIAL ITEMS OF INCOME AND EXPENSE AND PRIOR PERIOD ADJUSTMENTS (continued)

A further capitalisation direction of £9.439m was requested in January 2024 to address a historic amount that was required to be charged to the General Fund in 2019/20. This relates to a provision for a contract dispute. The overall use of the capitalisation direction in 2019/20 to fund revenue expenditure is set out in the table below:

Capitalisation Direction breakdown

	2017/18 £000's	2018/19 £000's	2019/20 £000's	All Years £000's
Transformation expenditure funded by flexible capital receipts removed due to the removal of CAH and CAT capital receipts	14,503	29,307	29,268	73,078
Opening the Books - credit loss			28,872	28,872
Opening the Books - HRA recharges			10,173	10,173
Minimum Revenue Provision required on capitalisation direction		640	2,904	3,544
Transfer to General Balances and earmarked reserves			10,333	10,333
Sub-total: Capitalisation Direction approved in principal	14,503	29,947	81,550	126,000
Request for capitalisation direction: contract dispute provision			9,439	9,439
Total Capitalisation Direction applied to the 2019/20 accounts	**14,503**	**29,947**	**90,989**	**135,439**

The Capitalisation Direction is being treated in accordance with the accounting policy set out under Revenue Expenditure Funded by Capital Under Statute (REFCUS).

6. EVENTS AFTER THE REPORTING PERIOD

The 19/20 Statement of Accounts was authorised for issue by the Director of Finance, Investment & Risk and Section 151 officer in October 2020.

Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The first UK cases of COVID-19 were confirmed at the end of January 2020. As the disease spread throughout the UK more and more containment measures were introduced by the Government until it was forced to put the country in lockdown. Whilst this has had only a small impact on the Council's financial position for 2019/20, it will have a major impact on the Council's finances for 2020/21 with additional costs incurred and income lost in responding to the pandemic.

The financial statements and notes have not been adjusted for the following events, which took place after 31 March 2020, relevant to as they provide information that is an understanding of the authority's financial position but do not relate to conditions at that date:

► On 23rd October 2020 the Council's external Auditors issued a Report in the Public Interest. The Report in the Public Interest was issued under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. The report was presented to the Council on Thursday 19 November 2020 and the report sets out serious concerns about the council's financial situation, its financial decision-making and governance and made 20 recommendations. The council fully accepts the findings of the report and is preparing a comprehensive action plan to address all the recommendations as part of the Council's Renewal Plan. The report can be found by using the following link:

www.croydon.gov.uk/council-and-elections/budgets-and-spending/reports-and-reviews/report-public-interest-2020

6. EVENTS AFTER THE REPORTING PERIOD (continued)

► On 11th November 2020 the Director of Finance, Investment & Risk (S151 Officer) issued the Section 114 notice under Section 114(3) of the Local Government Finance Act 1988. A S114 requires the S151 Officer, in consultation with the Council's Monitoring Officer to report to all the authorities' members if there is, or is likely to be an unbalanced budget. At the time of issuing the S114 notice there was a forecast general fund overspend at the end of the 2020/21 financial year in excess of £66m and with reserve balances at only £7.4m the Council was in a position not to cover its pressures.

► On 2nd December 2020, the Director of Finance, Investment & Risk (S151 Officer) issued a second Section 114 notice. This was a continuation of the initial notice issued on the 11 November 2020, and set out that it had not been possible to conclude a formal agreement on the capitalisation direction within the timescale set by law for the process, which is 21 days. The Section 114 notice from November 2020 and December 2020 were formally revoked in March 2021, following the receipt of a Capitalisation Direction from the Department of Levelling Up, Housing and Communities.

A Capitalisation Direction is set out in section 16(2) (b) of the Local Government Act 2003 which allows for revenue expenditure to be treated as capital expenditure, and funded from borrowing, and enabled the Council to achieve a balanced budget and outturn.

Capitalisation directions are also being applied to subsequent financial years, which are disclosed below as non adjusting post balance sheet events:

	£'000
2020-21 financial year	80,000
2021-22 financial year	64,400
2022-23 financial year	36,200

► On 26 January 2022 the Council's auditors published a second Report in the Public Interest in relation to the Fairfield Halls, raising concerns about how the project had been managed. The report highlighted historic failings into the council's financial, governance and legal arrangements for the Fairfield Halls refurbishment, with the auditors finding weakness in the procurement and contract management of the project. The report also highlights that significant amounts of money were spent withouth proper authorisation. The Council fully accepts the findings and the expenditure has now been accounted for correctly. The report can be found by using the following link:

www.croydon.gov.uk/council-and-elections/budgets-and-spending/reports-and-reviews/report-public-interest-fairfield-halls

► On 22 November 2022 the Council issued a third Section 114 notice. This set out a £73m risk faced by the Council regarding the accounting of leases with Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP. They generated a capital receipt, which was used to fund transformation expenditure in the General Fund. Removal of this capital receipt would therefore create a charge to the General Fund that could not be accommodated by existing reserves. The report also set out a risk of £74.6m arising from historic accounting errors and legacy adjustments. The Section 114 notice was removed when the Council set a balanced budget for 2023-24, with the risks identified being met from further capitalisation directions.

► On 12 July 2021, Cabinet agreed to review the future of Council's wholly owned company Brick by Brick (Croydon) Limited. This decision was that Brick by Brick complete 23 of the remaining 29 sites in their ownership, and return 6 sites back to the Council where construction had not yet commenced. The company would be closed once the remaining sites were completed and sold.

► Since the balance sheet date of these accounts, the Council has disposed of the following assets

	date of disposal	receipt £'000
Croydon Park Hotel	21 December 2021	24,900
Colonnades Retail Park	22 December 2023	29,421

6. EVENTS AFTER THE REPORTING PERIOD (continued)

► The valuation of certain council assets and liabilities has been subsequently reviewed after the balance sheet date. with material movements being set out in the table below

Type of Fixed asset	**Net Book Value at 31.3.2020 £'000**	**Net Book Value at 31.3.2021 £'000**	**Net Book Value at 31.3.2022 * £'000**
Council Dwellings	972,157	991,198	1,038,573
Other Land and Buildings	907,043	791,073	871,791
Assets Under Construction	0	21,390	401
Investment Properties	118,379	98,218	75,395
Sub-total Long Term Assets	**1,997,579**	**1,901,879**	**1,986,160**

* The 2021/22 statement of accounts have not yet been published in draft form, so this information is provisional only

The change in valuations of Council Dwellings and Other Land & Buildings reflects changes in their Fair Value
The Assets Under Construction value in 2020/21 represents the development on the former Taberner House site, which became operational during 2021/22.
The sale of investment priorities during 2021/22 resulted in a reduction of £17.381m, with all other changes being the result of changes in Fair Value.

Deferred Pension valuation under IAS19	**Value at 31.3.2020 £'000**	**Value at 31.3.2021 £'000**	**Value at 31.3.2022 * £'000**
Deferred Pension Asset value	1,015,827	1,233,244	1,380,958
Deferred Pension Obligation value	(1,488,447)	(1,933,326)	(1,874,770)
Deferred Pension Net value	**(472,620)**	**(700,082)**	**(493,812)**

The changes in Pension valuations have been assessed by the Council's actuary, who will have taken into account relevant factors that existed at each balance sheet date.

► Since the balance sheet date, the Council has also reviewed the provisions it holds for potential loss. The provision in relation to Business Rates appeal losses did materially change after the balance sheet event

Provision type	**Net Book Value at 31.3.2020 £'000**	**Net Book Value at 31.3.2021 £'000**	**Net Book Value at 31.3.2022 * £'000**
Business Rates appeals	4,417	12,781	4,165

Business rates appeals were increased during the pandemic in the face of potential claims of adverse circumstances affecting trading. However, legislation was passed that subsequently prevented this, allowing the appeal provision to reduce.

► 2020/21 saw the departure of the Council's Chief Executive. An exit package of £437k was disclosed in the 2020/21 accounts in relation to this. Four other officers left the Executive Leadership Team during 2020/21.

NOTES TO THE CORE FINANCIAL STATEMENTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note provides further details as to the make up of the relevant line in the Movement In Reserves Statement

2019/20	**General Fund Balance £'000**	**HRA Balance £'000**	**Earmarked Reserves Balance £'000**	**Capital Receipts Balance £'000**	**Capital Grants Unapplied Balance £'000**	**Major Repairs Reserve Balance £'000**	**Total Usable Reserves Balance £'000**
Balances b/f at 1 April 2019	**10,393**	**15,272**	**8,766**	**32,599**	**17,679**	**(1)**	**84,708**
Movement in reserves during 2019-20							
Surplus or deficit on the provision of services	(296,628)	22,654					(273,974)
Other Comprehensive Expenditure and Income							
Impairment / Revaluation gains and losses chargeable to							0
General Movement in available for sale financial instruments							0
Movement in pensions reserve							0
Total Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0
Total Comprehensive Expenditure and Income	**(296,628)**	**22,654**	**0**	**0**	**0**	**0**	**(273,974)**
Adjustments between accounting basis and funding basis							
Depreciation	29,285					12,323	41,608
Impairment and revaluation gains and losses chargeable to CI&E	64,598	79					64,677
Amortisation of intangible assets	2,680	59					2,739
Movements in the fair value of investment properties	2,141						2,141
Capital grants and contributions	(20,738)	(2,400)			(2,727)		(25,865)
Revenue expenditure funded from capital under statute	133,294	333					133,627
Net gain / loss on sale of non-current assets	38,915	(4,193)		10,216			44,938
Amount by which finance costs charged to the CI&E are different from finance costs chargeable in the year in accordance with statutory requirements	(644)						(644)
Reversal of items relating to retirement benefits debited or credited to the Expenditure Statement	29,669	2,189					31,858
Employer's pensions contributions and direct payments to pensioners payable in the year	22,114	1,631					23,745
Amount by which Council Tax and NNDR income credited to the CI&E is different from the amount taken to the General Fund in accordance with statutory requirements	9,679						9,679
Revaluation of investment property, transferred between reserves							0
Revaluation of investments held at Fair Value through Profit & Loss	(2,233)						(2,233)
Business Rate Supplement Revenue Account							0
Statutory provision for the repayment of debt	(16,434)						(16,434)
Capital expenditure charged to General Fund and HRA balances		(10,000)					(10,000)
Transfers in respect of Community Infrastructure Levy receipts	(5,280)				(1,168)		(6,448)
Transfer from Capital Receipts Reserve to Housing Capital Receipts Pool	3,537			(3,537)			0
Use of the Major Repairs Reserve to finance capital expenditure						(12,322)	(12,322)
Use of the Capital Receipts Reserve to finance capital expenditure				(19,035)			(19,035)
Compensated absences	(747)	(22)					(769)
Total Adjustments between accounting basis and funding basis under regulations	289,836	(12,324)	0	(12,356)	(3,895)	1	261,262
2019-20 Net Increase / Decrease before Transfers to / from Earmarked Reserves	(6,792)	10,330	0	(12,356)	(3,895)	1	(12,712)
Transfers to / from Earmarked Reserves	2,444		(2,444)				0
Other movements in reserves	(6,044)		6,044				0
Net Increase / (decrease) in reserves for the year	(10,392)	10,330	3,600	(12,356)	(3,895)	1	(12,712)
Balances c/f at 31 March 2020	**1**	**25,602**	**12,366**	**20,243**	**13,784**	**0**	**71,996**

NOTES TO THE CORE FINANCIAL STATEMENTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note provides further details as to the make up of the relevant line in the Movement In Reserves Statement

Revaluation Reserve Balance £'000	CAA Balance £'000	Financial Instruments Adjustment Account Balance £'000	Pensions Reserve Balance £'000	Deferred Capital Receipts Balance £'000	Collection Fund Adjustment Account Balance £'000	STACA Balance £'000	Pooled Investment Fund Adjustment Balance £'000	Total Unusable Reserves Balance £'000	Total Authority Reserves Balance £'000
658,650	**146,081**	**(32,021)**	**(664,018)**	**20,826**	**6,933**	**(3,966)**	**0**	**132,486**	**217,194**
								0	**0**
								0	**(273,974)**
								0	**0**
12,644								12,644	**12,644**
								0	**0**
			247,001					247,001	**247,001**
12,644	0	0	247,001	0	0	0	0	259,645	259,645
12,644	**0**	**0**	**247,001**	**0**	**0**	**0**	**0**	**259,645**	(14,329)
(8,059)	(33,548)							(41,607)	**1**
	(64,678)							(64,678)	**(1)**
	(2,740)							(2,740)	**(1)**
	(2,141)							(2,141)	**0**
	25,865							25,865	**0**
	(133,627)							(133,627)	**0**
(20,290)	(24,647)							(44,937)	**1**
		644						644	**0**
			(31,858)					(31,858)	**0**
			(23,745)					(23,745)	**0**
					(9,680)			(9,680)	**(1)**
								0	**0**
							2,233	2,233	**0**
								0	**0**
	16,434							16,434	**0**
	10,000							10,000	**0**
	6,448							6,448	**0**
								0	**0**
	12,322							12,322	**0**
	19,035							19,035	**0**
						770		770	**1**
(28,349)	(171,277)	644	(55,603)	0	(9,680)	770	2,233	(261,262)	0
									0
(15,705)	(171,277)	644	191,398	0	(9,680)	770	2,233	(1,617)	(14,329)
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
(15,705)	(171,277)	644	191,398	0	(9,680)	770	2,233	(1,617)	(14,329)
642,945	**(25,196)**	**(31,377)**	**(472,620)**	**20,826**	**(2,747)**	**(3,196)**	**2,233**	**130,868**	202,864

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note provides further details as to the make up of the relevant line in the Movement In Reserves Statement

Restated 2018/19	**General Fund Balance**	**HRA Balance**	**Earmarked Reserves Balance**	**Capital Receipts Balance**	**Capital Grants Unapplied Balance**	**Major Repairs Reserve Balance**	**Total Usable Reserves Balance**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Restated balances b/f at 1 April 2018 (Note 43)	**10,393**	**14,535**	**17,190**	**52,182**	**14,307**	**1,928**	**110,535**
Movement in reserves during 2018-19	0	0	0	0	0	0	0
Surplus or deficit on the provision of services (restated - Note 43)	(245,114)	11,419	0	0	0	0	(233,695)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0
Impairment / Revaluation gains and losses chargeable to	0	0	0	0	0	0	0
General Movement in available for sale financial instruments	0	0	0	0	0	0	0
Movement in pensions reserve	0	0	0	0	0	0	0
Total Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0
Total Comprehensive Expenditure and Income	**(245,114)**	**11,419**	**0**	**0**	**0**	**0**	**(233,695)**
Adjustments between accounting basis and funding basis							
Depreciation	23,985	0	0	0	0	12,791	36,776
Impairment and revaluation gains and losses chargeable to CI&E	16,333	133	0	0	0	0	16,466
Amortisation of intangible assets	2,034	43	0	0	0	0	2,077
Movements in the fair value of investment properties	356	0	0	0	0	0	356
Capital grants and contributions	(11,491)	0		0	92	0	(11,399)
Revenue expenditure funded from capital under statute	97,090	816	0	0	0	0	97,906
Net gain / loss on sale of non-current assets	43,286	(5,628)	0	14,104	0	0	51,762
Amount by which finance costs charged to the CI&E are different from finance costs chargeable in the year in accordance with statutory requirements	30,773	(98)	0	0	0	0	30,675
Reversal of items relating to retirement benefits debited or credited to the Expenditure Statement	29,584	2,472	0	0	0	0	32,056
Employer's pensions contributions and direct payments to pensioners payable in the year	20,437	1,777	0	0	0	0	22,214
Amount by which Council Tax and NNDR income credited to the CI&E is different from the amount taken to the General Fund in accordance with statutory requirements	(109)	0	0	0	0	0	(109)
Revaluation of investment property, transferred between reserves	0	0	0	0	0	0	0
Business Rate Supplement Revenue Account	0	0	0	0	0	0	0
Statutory provision for the repayment of debt	(9,581)	0	0	0	0	0	(9,581)
Capital expenditure charged to General Fund and HRA balances		(10,199)	0	0	0	0	(10,199)
Transfers in respect of Community Infrastructure Levy receipts	(8,555)	0	0	0	3,280	0	(5,275)
Transfer from Capital Receipts Reserve to Housing Capital Receipts Pool	2,013	0	0	(2,013)	0	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	0	0	(14,720)	(14,720)
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(31,674)	0	0	(31,674)
Compensated absences	535	2	0	0	0	0	537
Total Adjustments between accounting basis and funding basis under regulations	236,690	(10,682)	0	(19,583)	3,372	(1,929)	207,868
2018-19 Net Increase / Decrease before Transfers to / from Earmarked Reserves	(8,424)	737	0	(19,583)	3,372	(1,929)	(25,827)
Transfers to / from Earmarked Reserves	1,519	0	(1,519)	0	0	0	0
Other movements in reserves (restated - Note 43)	6,905	0	(6,905)	0	0	0	0
Net Increase / (decrease) in reserves for the year	0	737	(8,424)	(19,583)	3,372	(1,929)	(25,827)
Balances c/f at 31 March 2019	**10,393**	**15,272**	**8,766**	**32,599**	**17,679**	**(1)**	**84,708**

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note provides further details as to the make up of the relevant line in the Movement In Reserves Statement

Revaluation Reserve Balance £'000	CAA Balance £'000	Financial Instruments Adjustment Account Balance £'000	Pensions Reserve Balance £'000	Deferred Capital Receipts Balance £'000	Collection Fund Adjustment Account Balance £'000	STACA Balance £'000	Total Unusable Reserves Balance £'000	Total Authority Reserves Balance £'000
718,691	**253,599**	**(1,346)**	**(616,039)**	**2,463**	**6,824**	**(3,429)**	**360,763**	**471,298**
0	0	0	0	0	0	0	0	**0**
0	0	0	0	0	0	0	0	**(233,695)**
0	0	0	0	0	0	0	0	**0**
(26,702)	0	0	0	0	0	0	(26,702)	**(26,702)**
0	0	0	0	0	0	0	0	**0**
0	0	0	6,291	0	0	0	6,291	**6,291**
(26,702)	0	0	6,291	0	0	0	(20,411)	(20,411)
(26,702)	**0**	**0**	**6,291**	**0**	**0**	**0**	**(20,411)**	(254,106)
(7,959)	(28,817)	0	0	0	0	0	(36,776)	**0**
0	(16,465)	0	0	0	0	0	(16,465)	**1**
	(2,077)	0	0	0	0	0	(2,077)	**0**
0	(356)	0	0	0	0	0	(356)	**0**
	11,400	0	0	0	0	0	11,400	**1**
0	(97,906)	0	0	0	0	0	(97,906)	**0**
(24,743)	(45,382)	0	0	18,363	0	0	(51,762)	**0**
0	0	(30,675)	0	0	0	0	(30,675)	**0**
0	0	0	(32,056)	0	0	0	(32,056)	**0**
0	0	0	(22,214)	0	0	0	(22,214)	**0**
0	0	0	0	0	109	0	109	**0**
(637)	637						0	**0**
0	0	0	0	0	0	0	0	**0**
0	9,581	0	0	0	0	0	9,581	**0**
0	10,199	0	0	0	0	0	10,199	**0**
0	5,275	0	0	0	0	0	5,275	**0**
0	0	0	0	0	0	0	0	**0**
0	14,720	0	0	0	0	0	14,720	**0**
0	31,674	0	0	0	0	0	31,674	**0**
0	0	0	0	0	0	(537)	(537)	**0**
(33,339)	(107,517)	(30,675)	(54,270)	18,363	109	(537)	(207,866)	2
								0
(60,041)	(107,517)	(30,675)	(47,979)	18,363	109	(537)	(228,277)	(254,104)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
(60,041)	(107,517)	(30,675)	(47,979)	18,363	109	(537)	(228,277)	(254,104)
658,650	**146,082**	**(32,021)**	**(664,018)**	**20,826**	**6,933**	**(3,966)**	**132,486**	217,194

8. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2019/20.

	Balance at 1 April 2018 £000	Movement In 2018/19 £000	Balance at 31 March 2019 £000	Movement In 2019/20 £000	Balance at 31 March 2020 £000
General Fund - Non Schools					
Covid 19	0	0	0	8,420	8,420
Growth Zone	7,000	2,512	9,512	2,021	11,533
Selective Licensing	2,883	(1,166)	1,717	(1,717)	0
Revolving Investment Fund Reserve	3,199	(302)	2,896	(2,896)	0
Homes for the Future PFI	0	687	687	0	687
Financial Recovery Reserve	0	0	0	3,235	3,235
Other Reserves under £0.5m	7,364	(2,484)	4,880	(2,449)	2,431
Sub-total Non Schools	20,446	(753)	19,692	6,614	26,306
Draw Down of Reserves budgeted to be replaced on 1 April	(4,700)	(766)	(5,466)	5,466	0
General Fund - Schools:					
DSG Deficit (restated - Note 43)	(963)	(8,230)	(9,193)	(5,331)	(14,524)
Balances held by schools under a scheme of delegation	2,407	1,326	3,733	(3,148)	585
Total Earmarked Reserves	17,190	(8,423)	8,766	3,601	12,367

	Balance at 1 April 2018 £000	Movement In 2018/19 £000	Balance at 31 March 2019 £000	Movement In 2019/20 £000	Balance at 31 March 2020 £000
HRA:					
New Build Housing	11,400	(1,980)	9,420	0	9,420
Major Repairs Reserve	1,929	(1,929)	0	0	0
Contingency Reserve	3,135	2,716	5,851	10,331	16,182
Total	16,464	(1,193)	15,271	10,331	25,602

8. TRANSFERS TO / FROM EARMARKED RESERVES (continued)

8.1 Earmarked Reserves - Explanations

The Council has established various reserves for specific purposes. The amounts, purposes and objectives of these reserves are summarised below for all reserves over £0.5m:

Growth Zone Reserve (£11.533m)
Funding has been received from the MHCLG to fund initial set up and early life costs of Croydon's proposed Growth Zone. This funding will be used to meet borrowing costs of up-front investment until the Growth Zone can be supported by it's own revenue generation.

COVID 19 (£8.420m)
The Covid-19 Reserve has been established to hold the balance of the Covid19 Emergency grant which was received at the end of March 2020 from the government to support the pandemic response and recovery. £9.4m was received part of which was utilised in year.

Financial Recovery Reserve (£3.235m)
Created to manage the timing of financial pressures over the medium term.

Other Reserves (£2.431m)
This includes other reserves with a balance of less than £0.500m as at 31st March 2020.

Homes for the Future PFI (£0.687m)
Manage the costs and income in relation to the PFI contracts.

DSG Deficit
The DSG deficit is currently £14.524m and was previously £9.193m.

School Balances (£0.585m)
School balances have decreased by £3.148m to £0.585m. The decrease in reserves is largely due to a number of schools converting to academy status. There are twelve schools with a revenue deficit. Action plans are agreed with schools in deficit to ensure that they return to a balanced position.

NOTES TO THE CORE FINANCIAL STATEMENTS

9. OTHER OPERATING EXPENDITURE

This note details the component elements of the Other Operating Expenditure section of the Comprehensive Income and Expenditure Statement

	2019/20 £000	Restated 2018/19 £000
Levies	1,367	1,343
Payments of Housing capital receipts to Government pool	3,537	2,013
(Gain)/loss on disposal of non-current assets	34,721	37,658
Total	39,625	41,014

A levy is the act of an imposing or collecting an amount of money, as of a tax, by an authority. The money raised is used to meet expenditure on various projects. Some of the levies are often apportioned between various authorities. Levies are owed to the following authorities: the Financial Reporting Council - Preparers Levy; London Councils - London Boroughs Grants Scheme; Environment Agency; Lee Valley Regional Park Authority; and the London Pensions Fund Authority.

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

This note details the component elements of the Finance and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.

	2019/20 £000	Restated 2018/19 £000
Interest payable and similar charges	40,890	40,723
Interest receivable and similar income	(8,426)	(4,775)
Premium on early repayment of debt	336	618
Changes in fair value of investment properties	2,141	355
Other investment income	(218)	-
Gains/Losses on financial instruments classified as FV through P/L	(2,233)	-
Interest Cost on defined benefit obligation	41,780	41,055
Expected Return on Pension Assets	(25,286)	(24,638)
(Surplus) / deficit on trading undertakings	(154)	(87)
Total	48,830	53,251

11. TAXATION AND NON-SPECIFIC GRANT INCOME

	2019/20 £000	2018/19 £000
Credited to Taxation and Non-Specific Grant Income		
Recognised Capital Grants and Contributions	(16,875)	(8,854)
Council Tax Income	(180,057)	(171,813)
National Non-Domestic Rates (NNDR)	(58,653)	(86,078)
Revenue Support Grant	-	-
Non-service Related Government Grants (see Note 31)	(42,096)	(27,457)
Taxation and Non-Specific Grants	(297,681)	(294,202)

NOTES TO THE CORE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

2019/20	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total PPE Excluding frastructure £000	PFI Assets Included in PPE £000
Net Book Value at 1 April 2019	954,041	808,212	12,255	4,325	6,493	54,632	1,839,958	110,689
Gross Book Value at 1 April 2019	954,041	812,037	13,956	8,966	6,549	56,799	1,852,348	118,437
Additions	50,856	32,641	1,880	22	0	42,804	128,203	0
Revaluation increase/(decrease) recognised in the Revaluation Reserve	(28,333)	21,996	0	0	(2,355)	0	(8,692)	4,667
Revaluation increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	0	(13,697)	0	0	(961)	0	(14,658)	0
Derecognition - Disposals	(4,407)	(230)	0	0	0	0	(4,637)	0
Derecognition - Other	0	(39,967)	0	0	0	0	(39,967)	0
Assets reclassified (to)/from held for sale	0	28	0	0	0	0	28	0
Transfers/Reclassifications	0	100,283	0	0	(680)	(99,603)	0	0
Other Movements in cost or valuation	0	0	0	0	0	0	0	0
Gross book value 31 March 2020	972,157	913,091	15,836	8,988	2,553	0	1,912,625	123,104
Accumulated Depreciation and Impairment at 1 April 2019	0	3,825	1,701	4,641	56	2,167	12,390	7,748
Depreciation for year	11,875	18,386	3,736	651	81	0	34,729	4,500
Depreciation written out to the Revaluation reserve	(11,875)	(9,435)	0	0	(25)	0	(21,335)	(2,499)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	(5,748)	0	0	(82)	0	(5,830)	0
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	0	(2,167)	0	0	0	0	(2,167)	0
Derecognition - Disposals	0	0	0	0	0	0	0	0
Derecognition - Other	0	(1,013)	0	0	0	0	(1,013)	0
Transfers/Reclassifications	0	2,197	0	0	(30)	(2,167)	0	0
Other movements in Depreciation and Impairment	0	0	0	0	0	0	0	0
Accumulated Depreciation and Impairment 31 March 2020	0	6,045	5,437	5,292	0	0	16,774	9,749
Net book value 31 March 2020	972,157	907,046	10,399	3,696	2,553	0	1,895,851	113,355

12. PROPERTY, PLANT AND EQUIPMENT

2018/19 (Restated)	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total PPE Excluding Infrastructure £000	PFI Assets Included in PPE £000
Net Book Value at 1 April 2018	989,648	790,442	3,406	4,947	2,181	4,402	1,795,026	111,232
Gross Book Value at 1 April 2018	989,648	794,133	4,013	8,946	2,181	4,402	1,803,323	116,975
Additions	29,256	82,993	9,943	20	0	52,397	174,609	-
Revaluation increase/(decrease) recognised in the Revaluation Reserve	(58,320)	14,104	0	0	(398)	0	(44,614)	2,433
Revaluation increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	0	(26,048)	0	0	(44)	0	(26,092)	(971)
Derecognition - Disposals	(6,194)	0	0	0	0	0	(6,194)	0
Derecognition - Other	(349)	(54,442)	0	0	0	0	(54,791)	0
Assets reclassified (to)/from held for sale	0	(733)	0	0	0	0	(733)	0
Transfers/Reclassifications	0	2,030	0	0	4,810	0	6,840	0
Other Movements in cost or valuation	0	0	0	0	0	0	0	0
Gross book value 31 March 2019	954,041	812,037	13,956	8,966	6,549	56,799	1,852,348	118,437
Accumulated Depreciation and Impairment at 1 April 2018	0	3,690	607	3,999	0	0	8,296	5,743
Depreciation for year	12,327	16,311	1,094	642	22	0	30,396	4,128
Depreciation written out to the Revaluation reserve	(12,327)	(5,575)	0	0	(10)	0	(17,912)	(829)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	(9,683)	0	0	(44)	0	(9,727)	(1,294)
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	2,167	2,167	0
Derecognition - Disposals	0	0	0	0	0	0	0	0
Derecognition - Other	0	(830)	0	0	0	0	(830)	0
Transfers/Reclassifications	0	(88)	0	0	88	0	0	0
Other movements in Depreciation and Impairment	0	0	0	0	0	0	0	0
Accumulated Depreciation and Impairment 31 March 2019	0	3,825	1,701	4,641	56	2,167	12,390	7,748
Net book value 31 March 2019	954,041	808,212	12,255	4,325	6,493	54,632	1,839,958	110,689

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Infrastructure Assets

Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2019-20 **£'000**	**2018-19** **£'000**
NBV (modified historical costs)		
At 1 April	147,842	142,336
Additions	13,217	11,885
Derecognitions		
Depreciation	(6,880)	-6,379
Impairment		
Other movement in cost		
NBV at 31 March	154,179	147,842

Reconciliation with the total Property, Plant and equipment in the Balance Sheet

	2019-20 **£'000**	**2018-19** **£'000**
Infrastructure Assets	154,179	147,842
Other PPE assets	1,895,848	1,839,955
Total PPE assets	2,050,027	1,987,797

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Council Dwellings

Council dwellings are valued at less than market value, as directed by Government. See HRA Note 2 for more details.

Depreciation

The depreciation policy is set out under the Statement of Accounting Policies.

Revaluations

The Authority carries out a rolling programme to ensure all Property, Plant and Equipment required to be measured is revalued at least every five years. Valuation of Other Land and Buildings were carried out by external valuers Wilks Head & Eve. Additionally, an internal annual review was undertaken to determine if there were any material changes to Property Plant and Equipment as at 31 March 2020 for assets not revalued in 2019/20.

Using the valuation data from the rolling programme, as well as additional specific external revaluations obtained during 2019-20 the internal review identified there had not been a material change in the value of Land and Buildings.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

All valuations were carried out in accordance with the methodologies and bases for estimation set in the professional standards of the Royal Institution of Chartered Surveyors. All valuations were as at 31 March 2020.

The valuations of Council dwellings were undertaken externally by Wilks Head & Eve as at 31 March 2020.

Due to the outbreak of Covid-19 Wilks, Head & Eve added the following commentary "Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes... the current response to Covid-19 means that we are faced with an unprecedented set of circumstances…our valuations are therefore reported on the basis of material valuation uncertainty" as per VPS3 and "VPGA10 of the RICS Red Book Global. Consequently, less certainty - and a higher degree of caution - should be attached to our valuation than would normally be the case."

These valuations were carried out in accordance with the methodologies and bases for estimation set out in:

- the professional standards of the Royal Institution of Chartered Surveyors; and
- the Stock Valuation for Resource Accounting Guidance for Valuers 2016 from the MHCLG

The significant assumptions applied in estimating the current values are:

- There are no onerous conditions or restrictions which might affect the valuations
- Operational assets are valued using Depreciated Replacement Cost (DRC) for specialised properties, or Existing Use Value (EUV) for other properties
- Non operational properties are valued using fair value (FV)
- The external valuer uses a single, average rate to value land across the borough.

	Council Dwellings	**Other Land & Buildings**	**Vehicles & Plant**	**Infrastructure**	**Community**	**Surplus Assets**	**Assets Under Construction**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost		12,213	10,399	154,179	3,696		0	180,487
Valued at current value as at:								
31/03/2020	972,157	719,503				2,553		1,694,213
31/03/2019		129,980						129,980
31/03/2018		6,470						6,470
31/03/2017		21,508						21,508
31/03/2016		17,369						17,369
Total cost or valuation (NBV)	972,157	907,043	10,399	154,179	3,696	2,553	0	2,050,027

Other Land and Buildings carried at historical cost relates to properties purchased during 2019-20

Valuation Techniques Used To Determine Level Two Fair Value
Investment properties and surplus assets have been valued using either the Market or Income approaches to Fair Value. The valuations were carried out by external valuers Wilks Head & Eve.

Valuations have taken into account the following factors:

- existing lease terms and rentals relating to each property, including income produced
- independent research into market evidence including market rentals and yields, adjusted to reflect the nature of each tenancy or void

Highest and Best Use of Investment Properties
In estimating the fair value of Croydon's investment properties and surplus properties, the highest and best use of the properties is deemed to be their current use.

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable input

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

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

Measurement of fair value of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 March 2020. Note, that the majority of Property, Plant and Equipment is carried at current value in accordance with IAS 16 adaptation., and are not carried at fair value.

	Level 1 £000	Level 2 £000	Level 3 £000	31 March 2020 Total £000
Surplus Assets	0	2,553	0	2,553
Investment Properties	0	118,379	0	118,379
Assets held for Sale	0	650	0	650
Total non-financial assets held at Fair Value	**0**	**121,582**	**0**	**121,582**

	Level 1 £000	Level 2 £000	Level 3 £000	31 March 2019 Total £000
Surplus Assets	0	6,493	0	6,493
Investment Properties	0	98,979	0	98,979
Assets held for Sale	0	8,328	0	8,328
Total non-financial assets held at Fair Value	**0**	**113,800**	**0**	**113,800**

CAPITAL COMMITMENTS

Capital schemes with significant contractual commitments for future capital expenditure in 2020/21:

Department	**Capital Scheme**	**Estimated Total Cost**	
		2020-21 £000	**2019-20 £000**
Childrens, Families and Education	Special Educational Needs Capital Programme	18,807	24,534
Place	New Addington Regeneration	-	5,796
	Other Public Realm and infrastructure	8,336	10,559
	College Green		
	Growth Zone Programme	15,000	8,000
	Waste Programme		
	Affordable Housing LLP	40,000	7,273
Resources	ICT equipment and technical refresh	11,814	12,961
	Asset Strategy Programme	100,000	45,000
	Total Cost	193,957	**114,123**

13. HERITAGE ASSETS

The carrying value of heritage assets held by the authority is no longer judged to be material and consequently the Heritage Assets note will no longer be prepared as part of the authority's financial statements

14. INVESTMENT PROPERTIES

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal except for the properties in Imperial Way. The properties in Imperial Way were transferred to the London Borough of Croydon (LBC) from the London Borough of Sutton (LBS) due to a boundary change in 1994. Following an application to the High Court by LBS, the High Court decided that Sutton was entitled to all the rental income from the rent levels prevailing at the date of the boundary change and half from any subsequent increase. Consequently, LBC's only entitlement from its freehold interest in Imperial Way is one half of the rental produced from any increase in rental subsequent to the boundary change. The fair value of these properties in Imperial Way reflects this reduction in income entitlement.

The Authority has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

It is not possible to disclose the direct operating expenses arising from investment property; the expenses of property management are not yet separately recorded between property classes.

Investment property is measured at fair value. Valuation techniques and inputs into calculating the fair value of investment properties can be found in Note 12. The following table summarises the movement in the fair value of investment properties over the year:

	2019/20 Total £000	2018/19 Total £000
Balance at start of the year	98,979	29,714
Acquisitions	21,541	75,631
Net gains/losses from fair value adjustments	(2,141)	(356)
Transfers:		
to/from Property, Plant and Equipment	0	(6,840)
from assets held for sale	0	830
Other changes		
Balance at end of the year	118,379	98,979

15. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. Currently this is set at five years for every intangible asset.

The movement on Intangible Asset balances during the year is as follows:

	2019/20 Intangible Assets £000	2018/19 Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	26,231	20,336
Accumulated amortisation	(17,351)	(15,274)
Net carrying amount at start of year	8,880	5,062
Additions:		
Purchases	6,111	5,895
Amortisation for the period	(2,740)	(2,077)
Other changes - cost	(187)	0
Other changes - amortisation	187	0
Net carrying amount at end of year	12,251	8,880
Comprising:		
Gross carrying amounts	32,155	26,231
Accumulated amortisation	(19,904)	(17,351)
	12,251	8,880

There are no intangible assets that are individually material, i.e. with over £15 million gross carrying value, to the financial statements.

16. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instruments of another entity. Non exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The following categories of financial instrument (investments, lending and borrowing) are carried in the Balance Sheet:

FINANCIAL INSTRUMENTS BALANCES

	31 March 2020 £000	31 March 2019 Restated £000	31 March 2020 £000	31 March 2019 Restated £000
Financial Liabilities	Non-Current	Non-Current	Current	Current
Borrowings				
Financial liabilities at amortised cost	1,214,517	1,069,072	302,000	223,507
Service concessions and finance lease liabilities	74,329	76,600	1,691	1,691
Total borrowings	1,288,846	1,145,672	303,691	225,198
Creditors				
Financial liabilities at amortised cost	0	0	142,648	142,948
Creditors that are not a financial instrument	0	0	41,973	36,816
Cash and cash equivalents	0	0	39,994	12,750
Total Creditors	0	0	224,615	192,514

Financial Assets

	Non-Current		Current	
Financial Assets at Amortised Cost				
Investments			13,000	30,000
Loans and Receivables (2018/19 restated - Note 43)	9,985	85,107		
Debtors			294,111	162,482
Expected lifetime credit risk on loans to Brick By brick			(51,696)	
Cash and cash equivalents			39,479	39,800
Fair value through profit and loss				
Investments	47,233	45,000		
Debtors				
Debtors that are not financial instruments			18,977	16,144
Total Financial Assets	57,218	130,107	313,871	248,426

Financial Instruments Classified at Fair Value through Profit or Loss

Croydon Council holds £45m shares in a property fund, principally to secure service savings in relation to temporary accommodation. As this instrument in not structured to repay principal and interest, it is necessary to hold it at Fair Value through Profit or Loss

Notes

1. Financial liabilities at amortised costs: Under accounting requirements the carrying value of the financial instrument value is shown in the Balance Sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

2. All operational creditors and debtors are due for settlement within one year. Debtors and creditors falling within this definition are disclosed elsewhere in the Balance Sheet.

3. Total PFI and finance lease liabilities has decreased to £76.021m in 2019/20 (£78.291m in 2018/19)

16. FINANCIAL INSTRUMENTS (continued)

Income, Expense, Gains and Losses

	2019/20 Surplus or Deficit on the Provision of Services £'000	2019/20 Other Comprehensive Income and Expenditure £'000	2018/19 Surplus or Deficit on the Provision of Services £'000	2018/19 Other Comprehensive Income and Expenditure £'000
Net gains/losses on:				
Financial assets measured at FVPL	2,233		0	
Financial assets measured at amortised cost	0		0	
Investments in equity instruments designated FVOCI		0		0
Financial assets measured at FVOCI		0		0
Financial liabilities measured at FVPL	0		0	
Financial liabilities measured at amortised cost	0		0	
Total net gains/losses	0	0	0	0
Interest revenue:				
Financial assets measured at amortised cost	(8,426)		(4,775)	
Other financial assets measured at FVOCI	(1,397)		(890)	
Total interest revenue	**(9,823)**	0	**(5,665)**	0
Interest expense	**40,890**		**40,201**	
Fee income				
Financial assets or financial liabilities that are not at fair value through profit or loss	0		0	
Trust and other fiduciary activities	0		0	
Total fee income	0	0	0	0
Fee expense				
Financial assets or financial liabilities that are not at fair value through profit or loss	336		618	
Trust and other fiduciary activities				
Total fee expense	336	0	618	0

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of each class financial assets and liabilities which are carried in the Balance Sheet is disclosed below. Please see Note 1.4 in the Accounting Policies section for further information.

Methods and Assumptions in Valuation Technique

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

The rates quoted in this valuation were obtained by the Council's Treasury Management consultants, Link Asset Services(UK) Ltd, from the Money Markets on 31 March, using bid prices where applicable. The calculations are made with the following assumptions:

- ► For Public Works Loans Board (PWLB) debt, the discount rate used is the rate for new borrowing as per the rate sheet in force on 31 March;
- ► For other market debt and investments the discount rate used is the rates available for an instrument with the same terms from a comparable lender;
- ► No early repayment or impairment is recognised;
- ► Fair value calculations have been done for all instruments in the portfolio, but only those which are materially different from the carrying value have been disclosed;
- ► The fair value of trade and other receivables or instruments with a maturity of less than 12 months is taken to be the invoiced or billed amount.
- ► The fair value of funding raised for Croydon Affordable Homes and Croydon Affordable Tenures has been calculated internally. The discount rate is the calcualted external interest rate of the liability over its 40 year duration

16. FINANCIAL INSTRUMENTS (continued)

The fair values are calculated as follows:

FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

		31 March 2020		31 March 2019	
	Fair Value Hierarchy	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB - maturity	level 2	907,426	1,541,673	857,926	1,258,823
Lender Option Borrower Options (LOBOs)	level 2	20,000	54,626	39,500	65,184
Market Debt	level 2	517,574	267,940	381,082	398,001
Funding raised for Croydon Affordable Homes	level 2	71,516	64,001	13,756	9,947
Stock issues	level 1	0	0	315	318
Bank overdraft	level 2	39,994	39,994	61,651	61,651
Private Finance Initiative (PFI) Liability & leases	level 2	76,020	58,692	78,291	60,731
Financial Liabilities		1,632,530	2,026,926	1,432,521	1,854,655

Fair value is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The Fair value of the Croydon Affordable Homes funding and PFI liability is lower as the discount rate used is lower then the implicit rate used in the PFI and the external funding models.

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

		31 March 2020		31 March 2019	
	Fair Value Hierarchy	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Money Market Loans	level 1	39,479	39,479	39,800	39,800
Deposits with banks and other Local Authorities	level 2	13,000	13,000	30,000	30,000
Long-term debtors	level 2	9,985	31,537	85,107	85,107
Financial Assets		62,464	84,016	154,907	154,907

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a few fixed rate investments where the interest rate receivable is higher than the rates available for similar investments at the Balance Sheet date.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement as follows:

- Level 1: quoted process (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted process 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.

16. FINANCIAL INSTRUMENTS (continued)

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 March 2020.

	Level 1 £000	Level 2 £000	Level 3 £000	31 March 2020 Total £000
Financial Assets				
Investments and cash and cash equivalents	39,479	0	0	39,479
Long Term debtors	0	44,537	0	44,537
Total Financial Assets	**39,479**	**44,537**	**0**	**84,016**
Financial Liabilities				
PWLB Loans	0	1,541,673	0	1,541,673
LOBO Loans	0	54,626	0	54,626
Other Market Debt		267,940		267,940
Funding Raised for Croydon Affordable Homes		64,001		64,001
Long term creditors	0	98,686	0	98,686
Total Financial Liabilities	**0**	**2,026,926**	**0**	**2,026,926**

There were no transfers between Level 1 and Level 2 in 2019/20.

Measurement of fair value of financial instruments

The Council's finance team performs valuations of financial items for financial reporting purposes in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.
Valuation processes and fair value changes are discussed among the General Purposes and Audit committee and the Valuation team at least every year, in line with the Council's reporting date.

The valuation techniques used for material instruments categorised in Levels 2 and 3 are described below:

PWLB and LOBO Loans (Level 2)

The Council's treasury management advisors, Link Asset Services (UK) Ltd, carry out an assessment of the fair values of the PWLB and LOBO loans. These are estimated using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market interest rates of similar loans with similar risk. Link Asset Services (UK) Ltd have calculated the discount rate based on the equivalent new loan rate for the type of borrowing.

As the fair values have been calculated from observable market data, other than process for identical instruments, these are classified as level 2.

Reconciliation of liabilities arising from financing activities

2019-20

	01 April 2019 £'000	Financing cash flows £'000	Acquisitions £'000	Other non-cash changes £'000	31 March 2020 £'000
Long-term borrowings	1,069,072	145,445			1,214,517
Short-term borrowings	223,507	78,493			302,000
Lease and PFI liabilities	78,291	(2,271)			76,020
Total liabilities from financing activities	**1,370,870**	**221,667**	**0**	**0**	**1,592,537**

2018-19

	01 April 2018 £'000	Financing cash flows £'000	Acquisitions £'000	Other non-cash changes £'000	31 March 2019 £'000
Long-term borrowings	813,103	255,969			1,069,072
Short-term borrowings	107,204	116,303			223,507
Lease and PFI liabilities	80,406	(2,115)			78,291
Total liabilities from financing activities	**1,000,713**	**370,157**	**0**	**0**	**1,370,870**

17. DEBTORS

The amounts receivable at the reporting date are shown in the table below:

	2019/20 £000	Restated 2018/19 £000
Trade receivables	365,569	204,556
Prepayments	14,302	9,187
Other receivable amounts	35,711	36,573
Allowance for credit losses	(154,188)	(71,690)
Total	261,394	178,626

The aged debt status of debt arising from local taxation is not judged to be material.

18. CASH AND CASH EQUIVALENTS

	2019/20 £000	Restated 2018/19 £000
Cash held	39	34
Bank current accounts	(40,033)	(12,784)
Short-term deposits with building societies and Money Market Funds	39,479	39,800
Total	(515)	27,050

19. ASSETS HELD FOR SALE

	2019/20 £000	2018/19 £000
Balance at start of the year	8,328	16,329
Revaluation decrease recognised in the Surplus/Deficit	(6,321)	(133)
Reversal of loss recognised in the Surplus / Deficit	0	2,200
Asset additions	15	0
Assets Sold	(1,345)	(9,971)
Transfers to investment properties	0	(830)
Transfers from / (to) Property, Plant and Equipment	(27)	733
Balance outstanding at year end	650	8,328

20. CREDITORS AND RECEIPTS IN ADVANCE (RIA)

	2019/20 £000	Restated 2018/19 £000
Receipts in advance	22,956	16,281
Trade payables	142,579	142,948
Other payables	19,017	20,535
Total	184,552	179,764

21. PROVISIONS

	Highways Works £000	Insurance £000	HRA Water £000	NNDR Appeals £000	Other Provisions £000	Total £000
Balance at 1 April 2019	0	4,850	3,030	7,649	1,332	16,861
Amounts used in 2019/20	0	(1,599)	0	(4,920)		(6,519)
Provisions released in 2019/20	0	(364)	0	(1,912)	(137)	(2,413)
Additional provisions made in 2019/20	9439	1,705	0	3,600	2,248	16,992
Balance at 31 March 2020	9,439	4,592	3,030	4,417	3,443	24,921

Provisions that are expected to be settled within 1 year are held as short term, with the remainder being held as long term:	Short term £000	Long term £000	Total £000
Balance at 1 April 2019	3,529	13,332	16,861
Balance at 31 March 2020	**4,835**	**20,086**	24,921

Highways Maintenance Contract with Kier
The council entered into a Highways maintenance contract with Kier, beginning September 2011 and ran for 7 years. At the end of the contract term, the Council received a claim for unpaid works over and above the amounts already paid.
This claim has been settled in 2023/24 at a cost of £9.439m. A provision is therefore being created in the 2019/20 financial year

Insurance Provision
In line with most other Local Authorities, the Council aims to be self-insuring (i.e. meeting claims out of our own funds) for all but catastrophe risks for which cover is purchased on the external insurance market.

To this end, an insurance fund is maintained in order to underwrite a substantial proportion of the Council's insurable risks including damage to Council and school property and contents, consequential loss, theft, civic regalia, motor accidents and liability claims made by members of the public, customers or employees of the Council. The fund covers claims up to our excess of £250,000 (£125,000 for motor vehicles), with a maximum yearly exposure to £1.25 million on property and £1.25 million on liability. Premiums are paid into the fund by the Council service centres, with them being based on commercial rates. By utilising an insurance fund, external insurance premiums are kept to a minimum.

The self insurance fund is reviewed on an annual basis to ensure that it has sufficient balances to cover existing and potential future claims. The Insurance team also work closely with the Risk Management section to identify and manage risks in order to further reduce the likelihood of claims.

NNDR Appeals
The National Non-Domestic Rates (NNDR) appeals relate to appeals made by businesses to the Valuation Office Agency (VOA) to have their local rateable values reduced which in turn reduces the NNDR collectable by the Council. Croydon Council has a 64% share of all NNDR income after all relevant allowances, reliefs and costs of collection. The NNDR appeal provision is therefore Croydon's share of the expected loss in NNDR net income due to VOA appeals. The level of provision continues to be reviewed in relation to uncertainty around outstanding appeals, as well as future risk of appeals that could be in relation to the 2017 Valuation list.

HRA Water
A potential liability has arisen concerning the repayment of water charges for the period 2010-2016. The exact amount and timing is not yet known, but an amount has been set aside based on an initial estimate of costs, which is likely to be settled within the next 3 years.

Other Provisions
Other provisions are shown under this heading. No individual provision in this category exceeds £1.0m.

22. USABLE RESERVES

This section provides details of the Council's Useable Reserves, summarised below:

	2019/20 £000	Restated 2018/19 £000
General Fund	0	10,395
Earmarked reserves including Schools	12,367	8,766
Sub-total General Fund Balances	12,367	19,161
Housing Revenue Account	25,602	15,271
Capital receipts reserve	20,243	32,599
Capital grants unapplied	13,784	17,677
Major repairs reserve	-	-
Total Useable Reserves	71,996	84,708

22.1. General Fund

The General Fund Balance at 31 March 2020 is £nil (31 March 2019 was £10.395m)

22.2. Housing Revenue Account and Major Repairs Reserve

The Housing Revenue Account Balance at 31 March 2020 is £25.602m (31 March 2019: £15.271m). This is made up of the HRA surplus of £25.602m (31 March 2019: £15.271mm) and the Major Repairs Reserve of £nil (31 March 2019: £nil). Further detail are given in the HRA Statements

22.3. Earmarked Reserves

The Council keeps a number of reserves on the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans. See Note 8 for further details of earmarked reserves.

22.4. Capital Receipts Reserve

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

	General Fund £000	**Housing Revenue Account £000**	**2019/20 Total £000**	**Restated 2018/19 Total £000**
Balance brought forward	0	32,599	32,599	52,181
Mortgage repayments	0	0	0	0
Net surplus for year	0	32,599	32,599	52,181
Receipts from sales of assets during the year	273	10,105	10,378	14,341
Cost of disposals	(3)	(160)	(163)	(236)
Transfer to Housing Capital Receipts Pool	(3,537)		(3,537)	(2,013)
Transfer between General Fund & HRA to offset transfer to Housing Capital Receipts Pool	3,537	(3,537)	0	0
Balance of receipts after transfer	270	6,408	6,678	12,092
Balance on account before application of receipts	270	39,007	39,277	64,273
Financing of capital expenditure	0	(19,035)	(19,035)	(31,674)
Balance carried forward	270	19,972	20,242	32,599

22.5. Capital Grants Unapplied

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Reserve. These balances are a capital resource that is available to finance new capital expenditure but has yet to be applied for that purpose.

23. UNUSABLE RESERVES

	2019/20 £000	Restated **2018/19 £000**
Revaluation reserve	642,944	658,650
Capital adjustment account	(25,193)	146,081
Financial Instruments adjustment account	(31,377)	(32,021)
Pensions reserve	(472,620)	(664,018)
Deferred capital receipts	20,826	20,826
Collection Fund adjustment account	(2,747)	6,932
Short-term accumulating compensated absences account	(3,196)	(3,966)
Pooled Investment Fund Adjustment Account	2,233	-
	130,870	132,484

23.1. Revaluation Reserve

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

- ► Revalued downwards or impaired and the gains are lost;

23. UNUSABLE RESERVES (continued)

- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 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.

	2019/20		Restated 2018/19
	£000	£000	£000
Balance at 1 April		658,650	718,691
Revaluations upward	39,733		59,934
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(27,090)		(86,636)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		12,643	(26,702)
The difference in depreciation arising from a revaluation gain and the depreciation charged on the historic cost	(8,059)		(7,959)
Accumulated gain or loss on assets sold or scrapped	(20,290)		(24,743)
Write out revaluation reserve following transfer from investment property to Property Plant and Equipment	-		(637)
Amount written off to the Capital Adjustment Account		(28,349)	(33,339)
Balance at 31 March		642,944	658,650

23.2 Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are reversed. The reserve currently holds no balances.

23.3. Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

23. UNUSABLE RESERVES (continued)

	2019/20 £000	2019/20 £000	Restated 2018/19 £000
Balance at 1 April		146,082	253,599
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets (including HRA)	(41,607)		(38,944)
Revaluation losses on Property, Plant and Equipment	(38,023)		(39,923)
Impairment/revaluation gains reversing losses previously charged to Comprehensive Expenditure and Income	25,041		25,625
Amortisation of intangible assets	(2,740)		(2,077)
Revenue expenditure funded from capital under statute	(133,627)		(97,906)
Impairment of development loans to Brick by Brick	(51,696)		
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(44,938)		(70,125)
		(287,590)	(223,350)
Adjusting amounts written out of the Revaluation Reserve		28,350	33,339
Net written out amount of the cost of non-current assets consumed in the year		(259,240)	(190,011)
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	19,035		31,674
Use of the Major Repairs Reserve to finance new capital expenditure	12,322		14,720
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	22,984		11,400
Application of grants to capital financing from the Capital Grants Unapplied Account	9,330		5,275
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	16,434		9,581
Capital expenditure charged against the General Fund and HRA balances	10,000		10,199
		90,105	82,849
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(2,141)	(355)
Balance at 31 March		(25,194)	146,082

23.4. Financial Instruments Adjustment Account

This reserve allows for the timing differences in statutory requirements and proper accounting practices for borrowings and investments.

The Balance Sheet at 31 March 2020 shows a balance of £31.38m (£1.35m in 2018/19) representing the remaining premiums paid in respect of debt restructuring exercises carried out in 2003/04,2009/10 as well as in 2018/19. This balance is made up of General Fund and Housing Revenue Account provisions which will be written down in accordance with the guidance which was in force at the time the debt was repaid.

	2019/20 £000	2019/20 £000	2018/19 £000
Balance at 1 April		(32,021)	(1,347)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement			(30,859)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	644		185
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		644	(30,674)
Balance at 31 March		(31,377)	(32,021)

23.5. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service and updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer’s contributions to Pension Funds or eventually pays any pensions for which it is directly

23. UNUSABLE RESERVES (continued)

responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20 £000	2018/19 £000
Balance at 1 April	(664,018)	(616,039)
Actuarial gains or losses on pensions assets and liabilities	247,001	6,291
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(55,603)	(54,270)
Balance at 31 March	(472,620)	(664,018)

23.6. Deferred Capital Receipts Reserve

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

	2019/20 £000	2018/19 £000
Balance at 1 April	20,826	2,463
Transfer to the Capital Receipts Reserve upon receipt of cash	0	0
Additional Deferred Capital Receipts relating to disposal of the former Taberner House site	0	18,363
Balance at 31 March	20,826	20,826

23.7. Collection Fund Adjustment Account

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

	2019/20 £000	2018/19 £000
Balance at 1 April	6,933	6,824
Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	(9,680)	109
Balance at 31 March	(2,747)	6,933

23.8. Accumulated Absences Account

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

	2019/20 £000	2019/20 £000	2018/19 £000
Balance at 1 April		(3,966)	(3,428)
Settlement or cancellation of accrual made at the end of the preceding year	3,966		3,428
Amount accrued at the end of the current year	(3,196)		(3,966)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		770	(538)
Balance at 31 March		(3,196)	(3,966)

23.9. POOLED INVESTMENT FUND ADJUSTMENT ACCOUNT

The Pooled Investment Fund Adjustment Account is a statutory account which overrides the treatment of financial instruments held at Fair Value through the Profit and Loss (FVPL). It was introduced under Statutory Instrument 2018/1207 and remains until 2022/23. This transitional reserve absorbs changes in the valuation of financial instruments.

	20190/20 £000	2018/19 £000
Balance at 1 April	0	0
Gains / losses on valuation of financial instruments held at Fair Value Through Profit and Loss	2,233	0
Balance at 31 March	2,233	0

24. TRADING OPERATIONS

The Council has two trading operations in existence: Commercial Rents and Street Markets which are incorporated into the Comprehensive Income and Expenditure Statement. A review of materiality has determined neither are material enough to disclose in the Council's financial statements and both have therefore been removed.

25. AGENCY SERVICES

Business Improvement Districts

A Business Improvement District (BID) scheme may exist within a designated area of the Borough. Schemes are funded by a BID levy paid by Non-Domestic Ratepayers. The Council acts as agent under the schemes and the BID levy income is the BID body's revenue. The billing Authority does not account for the income and expenditure in its Comprehensive Income and Expenditure Statement since it is collecting the BID levy income as an agent on behalf of the BID body.

The Council currently acts as an agent for three BIDs:

The Croydon Town Centre bid was incorporated as Croydon Town Centre Bid Limited from 6 July 2007. Their tenure was extended to 31 March 2022, following a ballot of local businesses during 2016.

The New Addington Business Improvement District is a private sector initiative led by the Central Parade Business Partnership Limited. The New Addington BID is funded by local businesses; it was approved by ballot in December 2012 and commenced on 4 February 2013.

The Purley BID was established from the 1st March 2016 following a successful ballot of local businesses.

26. POOLED BUDGETS

Community Equipment Service

This agreements has been documented, approved by Cabinet and the Croydon Clinical Commissioning Group (CCG) and signed. The agreement commenced on 1 April 2004 for Croydon's integrated community equipment service (CCES). This agreement is hosted by the council.

	2019/20			2018/19		
	£000 Council	£000 Partner	£000 Total	£000 Council	£000 Partner	£000 Total
Croydon's Community Equipment Service						
Funding provided to the pooled budget	(1,190)	(1,065)	(2,255)	(1,184)	(992)	(2,176)
Expenditure met from the pooled budget	2,920		2,920	2,254		2,254
Net Expenditure	1,730	(1,065)	665	1,070	(992)	78

26. POOLED BUDGETS (continued)

Better Care Fund

This agreement commenced on 1st April 2014 and is hosted by the Croydon Clinical Commissioning Group.

Funding pooled by Croydon Council includes Disabled Facilities Grant and Adult Social Care grant monies. Additional funding is received by the Council from the pool to fund the delivery of agreed objectives set by the BCF Executive Group.

Any surplus or deficit is shared between the pool members pro rata'd on the proportion of funding they contributed to the pool.

	2019/20				2018/19			
	£000 Council	£000 Partner	£000 Unallocated	£000 Total	£000 Council	£000 Partner	£000 Unallocated	£000 Total
Better Care Fund								
Gross Income	(12,322)	(24,887)	0	(37,209)	(24,275)	(8,552)		(32,827)
Gross Expenditure	22,158	15,051	0	37,209	23,929	8,468		32,397
Net Expenditure	9,836	(9,836)	0	0	(346)	(84)	0	(430)

27. MEMBERS' ALLOWANCES

Total allowances paid to the Members of the Council was £1.595m in 2019/20 (£1.516m in 2018/19). The Council pays employer's national insurance on Members allowances, taking the total cost to £1.732m in 2019/20 (£1.648m in 2018/19)

28. OFFICERS' REMUNERATION

Out of more than 7,000 employees, the number whose remuneration, excluding on costs and allowances was £50,000 or more in bands of £5,000 was:

	2019/20		2018/19	
Remuneration Band	Schools	Non-Schools	Schools	Non-Schools
£200,000 - £204,999	0	0	0	1
£195,000 - £199,999	0	0	0	0
£190,000 - £194,999	0	1	0	0
£185,000 - £189,999	0	0	0	0
£180,000 - £184,999	0	0	0	0
£175,000 - £179,999	0	0	0	0
£170,000 - £174,999	0	0	0	0
£165,000 - £169,999	0	0	0	0
£160,000 - £164,999	0	0	0	0
£155,000 - £159,999	0	2	0	0
£150,000 - £154,999	0	0	0	1
£145,000 - £149,999	0	0	0	0
£140,000 - £144,999	0	0	0	1
£135,000 - £139,999	0	4	0	0
£130,000 - £134,999	1	1	1	0
£125,000 - £129,999	1	0	0	1
£120,000 - £124,999	0	0	1	2
£115,000 - £119,999	2	5	0	1
£110,000 - £114,999	4	0	0	0
£105,000 - £109,999	1	2	4	5
£100,000 - £104,999	1	0	0	4
£95,000 - £99,999	1	5	1	3
£90,000 - £94,999	1	0	0	2
£85,000 - £89,999	4	31	1	10
£80,000 - £84,999	6	16	4	17
£75,000 - £79,999	6	0	6	10
£70,000 - £74,999	12	40	14	9
£65,000 - £69,999	18	15	16	25
£60,000 - £64,999	23	6	28	26
£55,000 - £59,999	33	55	26	62
£50,000 - £54,999	70	158	64	130

The table above includes the members of the Executive Leadership Team listed on the following page.

28. OFFICERS' REMUNERATION (continued)

Executive Leadership Team	Jo Negrini Chief Executive	Shifa Mustafa Executive Director, Place	Richard Simpson Executive Director of Resources and Section 151 officer	Lisa Taylor Director of Finance ,Investment and Risk and Interim S151 Officer	Barbara Peacock Executive Director, People	Jacqueline Harris-Baker Director of Law and Monitoring Officer	Jacqueline Harris-Baker Executive Director of Resources and Monitoring Officer	Julian Ellerby Director, Strategy and Partnerships	Robert Henderson Executive Director of Children, Families & Education	Eleni Loannides Executive Director (Interim) Children ,Families and Education	Guy Van Dichele Executive Director (Interim) of Health, Wellbeing & Adults	Hazel Simmonds Executive Director of Gateway, Strategy & Engagement
Start date	29/04/2016	15/11/2016	06/09/2016	01/02/2019	25/07/2016	01/04/2017	01/02/2019	24/04/2017	27/11/2018	01/06/2018	01/06/2018	01/01/2019
Leave Date			06/03/2019		31/05/2018	31/01/2019		31/07/2018		29/11/2018		
	£	£	£	£	£	£	£	£	£	£	£	£
2019/20												
Basic Salary and allowances	189,165	156,060		124,393			153,936		148,886		197,171	137,700
Compensation for loss of Office												
Total Remuneration excluding Pension Contributions	**189,165**	**156,060**	**0**	**124,393**	**0**	**0**	**153,936**	**0**	**148,886**	**0**	**197,171**	**137,700**
Employer's Pension Contributions	29,193	24,085		19,216			23,795		22,986		11,983	21,252
Total Remuneration including Pension Contributions	**218,358**	**180,145**	**0**	**143,609**	**0**	**0**	**177,731**	**0**	**171,872**	**0**	**209,154**	**158,952**
2018/19												
Basic Salary and allowances	188,700	153,000	143,892	19,500	67,837	95,175	24,905	59,712	50,151	150,000	215,444	33,750
Compensation for loss of Office					53,808			30,000				
Total Remuneration excluding Pension Contributions	**188,700**	**153,000**	**143,892**	**19,500**	**121,645**	**95,175**	**24,905**	**89,712**	**50,151**	**150,000**	**215,444**	**33,750**
Employer's Pension Contributions	28,494	23,103	21,550	2,945	4,228	14,371	3,761	5,904	7,573	0	0	5,096
Total Remuneration including Pension Contributions	**217,194**	**176,103**	**165,442**	**22,445**	**125,873**	**109,546**	**28,666**	**95,616**	**57,724**	**150,000**	**215,444**	**38,846**

Remuneration total is gross payable before individuals' contribution to the Pension Fund. This includes basic salary and any contracted additions where applicable.

	2019-20	2018-19
Jo Negrini -Returning Officer	£	£
Salary	12,821	12,745
Pensions Employers Contribution	1,936	1,925
Excluded from amounts shown above	**14,757**	**14,670**

28. OFFICERS' REMUNERATION (continued)

Exit Costs

This note discloses employee exit packages in rising bands of £20,000 up to £100,000 and bands of £50,000 thereafter. The packages included in the bands are those that have been agreed by the Authority, i.e. those packages for which the Authority is demonstrably committed. The costs included in the exit packages include all relevant redundancy including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

2019/20	Total number of exit costs by cost band			Total cost of exit costs in each band		
	Compulsory Redundancies No.	Other Redundancies No.	Total No.	Compulsory Redundancies £	Other Redundancies £	Total £
£450,000 - £499,999	0	0	0	0	0	0
£100,000 - £149,999	1	0	1	121,539	0	121,539
£80,000 - £99,999	0	0	0	0	0	0
£60,000 - £79,999	1	2	3	60,995	144,880	205,876
£40,000 - £59,999	1	3	4	50,839	155,856	206,695
£20,000 - £39,999	2	6	8	52,775	160,972	213,746
£0 - £19,999	5	24	29	53,578	171,307	224,886
Total	10	35	45	339,726	633,015	972,742

2018/19	Total number of exit costs by cost band			Total cost of exit costs in each band		
	Compulsory Redundancies No.	Other Redundancies No.	Total No.	Compulsory Redundancies £	Other Redundancies £	Total £
£450,000 - £499,999	1	0	1	465,184	0	465,184
£100,000 - £149,999	0	1	1	0	101,049	101,049
£80,000 - £99,999	1	2	3	87,881	182,373	270,254
£60,000 - £79,999	1	0	1	77,952	0	77,952
£40,000 - £59,999	5	4	9	253,182	195,671	448,853
£20,000 - £39,999	2	3	5	52,476	93,175	145,651
£0 - £19,999	17	15	32	170,759	124,366	295,125
Total	27	25	52	1,107,435	696,633	1,804,068

29. EXTERNAL AUDIT COSTS

	2019/20 £000	2018/19 £000
Fees payable for other services during the year	12	10
	25	-
Fees payable with regard to external audit services for London Borough of Croydon	189	133
Fees payable in response to Public Objection to 2016-17 accounts	-	(3)
Fees Payable for teachers pension claim and pooling of housing capital receipts	8	7
Fees payable for the certification of HB returns for the year	11	11
Total for Croydon Council	245	158
Fees payable by Brick by Brick Croydon Limited for external audit services	28	24
Total Audit fees for the group	273	182

The Housing Benefit claim certification audit was completed by Mazars in 2018-19, and will also be completed by them for 2019/20.

30. DEDICATED SCHOOLS GRANT

The Council’s expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. Details of the deployment of DSG receivable for 2019/20 are set out in the following table:

30. DEDICATED SCHOOLS GRANT (continued)

	Central Expenditure £000	Individual Schools Budget £000	Total DSG 2019/20 £000
Final DSG for 2019/20 before academy recoupment	166		343,584
Academy figure recouped for 2019/20			(178,915)
Total DSG after academy recoupment for 2019/20			164,669
Plus: Brought forward from 2018/19			(9,193)
Less: Carry-forward to 2019/20 agreed in advance			
Agreed initial budget distribution in 2019/20	8,367	147,109	155,476
In year adjustments	0		
Final budget distribution for 2019/20	8,367	147,109	155,476
Less: actual central expenditure	(8,367)		(8,367)
Less: actual ISB deployed to schools		(161,633)	(161,633)
Carry-forward to 2020/21	0	(14,524)	(14,524)

31. GRANT INCOME

This note sets out the grants and contributions the Authority credited to the Comprehensive Income and Expenditure Statement. It includes the funding body, and a description of how the grant was used:

	2019/20 £000	2018/19 £000
Credited to Taxation and Non-Specific Grant Income		
Council Tax Income	180,057	171,813
Revenue Support Grant		-
National Non-Domestic Rates (NNDR)	58,653	86,078
Recognised Capital Grants and Contributions	16,875	8,854
Non-service Related Government Grants	42,096	27,457
	297,681	294,202
Taxation and Non-Specific Grants Credited to Services		
Home Office - contribution towards Unaccompanied Asylum Seeking Children costs	13,153	11,917
MHCLG - Growth Zone, Troubled Families, Care Act, Better Care Fund	10,406	10,332
Department for Education - Dedicated Schools Grant	159,682	168,660
Department of Health - Public Health Grant	20,785	22,129
Department for Work and Pensions - Housing Benefit Subsidy	168,151	172,122
Department for Work and Pensions - funding for welfare reform and reducing fraud and error	1,273	1,577
Home Office - Leaving Care support	3,061	2,779
Private Finance Initiative (PFI) - contribution from Central Government towards PFI costs	8,509	8,509
PE and Sport Grant	688	770
Education Funding Agency - Pupil Premium Grant	6,712	7,330
Skills Funding Agency - Adult Education	2,530	7,543
Department of Education -Staying Put Grant	551	540
Education Funding Agency - Universal Infant Free School Meals	2,019	2,044
Department of Education -Other		5,484
Youth Justice Board - Youth Offending Services	963	771
Other Grants	309	134
Sub Total - Service Grants and Contributions	398,792	422,641
Total Grants Income	696,473	716,843

The Council has received a number of grants and contributions that have yet to be recognised as income because they have conditions attached to them that may require the monies or property to be returned to the grantor. The balances are:

	2019/20 £000	2018/19 £000
Capital Grants Receipts in Advance		
Ministry of Housing, Communities & Local Government - Disabled Facilities Grant	2,420	2,275
Department for Transport - Local Pinch Point Funding to improve the highways network	0	1,800
Department for Transport - Main Pothole Action Fund	0	957
Department for Education - Schools Condition Funding	6,334	5,481
Department of Health - Adult Social Care	0	769
Department for Education - Universal Free School Meals	170	182
Department for Education - Childrens Centres and Early Years	0	129
Department for Education - Special Provision Capital Fund	3,031	969
Homes & Communities Agency - Council New Build Funding	339	339
Greater London Authority - Acquisition of new properties	3,475	0
Section 106 allocated receipts in advance	1,906	2,292
Other grants and contributions	701	550
Total	18,376	15,743

32. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or significantly influence the Council or to be controlled or significantly influenced by the Council. Disclosure of these independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Croydon Care Solutions Ltd, Brick By Brick Croydon Limited , Croydon Enterprise Loan Fund Limited and Octavo Schools Partnership:
Further information regarding Croydon's influence over these organisations can be found in the Group Interests section to these accounts, in Note 40.

During the year no Council Members, Executive Directors and Directors or their close relations or members of the same household have undertaken any material declarable transactions with the Council other than the individuals and transactions disclosed below. The Council compiled the existing declarations for Members by issuing a form at the end of the financial year requesting the disclosure of any related party transactions that had taken place within the year. Members of the Corporate Leadership Team were issued with standard letters requesting declaration of any potential related party transactions.

The note below has been prepared on a cash basis using the Council's payments system, as it is believed that any accruals are not of a material value. The amounts in the note below represent sums paid by the Council to the 3rd party. Only related party transactions totalling over £100,000 for any individual organisation are considered material and are detailed below:

Organisation	Related Party	Related Party Transactions	2019/20 payments / (income) £'000	2018/19 payments / (income) £'000
Academy Schools				
Oasis Academy Byron School	Cllr Margaret Bird	Croydon Council is responsible for passing on various funding streams to Academies which are regulated by the Schools funding formula. The council also sells support services to various academies which include utilities and other services.	140	192
Fairchildes Academy Primary	Cllr Oliver Lewis		233	626
John Ruskin College	Cllr Helen Pollard		-	109
	Cllr Tim Pollard		-	
Woodcote High School	Ian Parker		-	164
Quest Academy	Cllr Robert Ward		-	
New Valley Primary School	Cllr Steve O'Connell		-	34
Courtwood Primary School	Cllr Andy Stranack		129	
Non-Maintained Schools				
Saffron Valley Collegiate	Cllr Margaret Bird		3,271	5,106
Heavers Farm Primary	Cllr Robert Ward		24	3,398
Selsdon Primary	Cllr Robert Ward		2,084	2,815
Thomas Moore	Cllr Badsha Quadir		3,215	152
St Giles	Cllr Carlton Young		1,821	
Howard Primary	Cllr Joy Prince		1,590	
			12,507	12,596
Brick By Brick Croydon Limited	Shifa Mustafa Julia Pitt	Brick By Brick Croydon Limited is a limited company with the council as sole shareholder. The Council has provided provided debt funding only for residential led development across a range of sites through debt financing.		
		Loans made in year	77,722	1,785
		Loans repaid in year	-	-
		Loan balance at 31 March	141,273	63,551
		The Council charges Brick by Brick for services, planning fees, staffing and interest costs	-	4,043
		The Council has issued a letter of comfort to Brick by Brick, which provides them a guarantee that the Council will meet all creditors, liabilities and claims arising. Also, the Council will not require the repayment of loans that would prejudice the Company's financial viability.		

32. RELATED PARTY TRANSACTIONS CONTINUED

Organisation	Related Party	Related Party Transaction	2019/20 payments / (income) £'000	2018/19 payments / (income) £'000
CACFO Education Centre	Cllr Carlton Young - Chair of Trustees	Croydon Council is responsible for delegating a range of education funding in accordance with agreed funding formulas	4	157
Croydon Drop In Centre	Cllr Oliver Lewis - unpaid Director	Purchase of services from this charity by the Council, including the talkbus outreach service, funding healthy lifestyles and counselling services	317	326
Coast to Capital Board	Cllr Tony Newman	Local Enterprise Partnership awarding grants to business and public sector organisations.	-	266
London LGPS CIV Limited	Cllr Simon Hall	The collective investment vehicle for London Local Authority pension funds.		100
The Learning Tree Pre Sch Crosfield Nursery Elmwood Infant and Nurser	Cllr Simon Hall Cllr Maddie Henson Cllr Muhammad Ali	Croydon Council is responsible for delegating various funding streams to the Early Years Providers, as determined by the relevant sections of the Schools	262 1,461 1,631	239
Octavo Partnership Limited	Sarah Warman	Transfer of education funding for the delivery of specific projects, as well as purchase of schools services and consultancy.	1,444	1,258
Purley BID Community Interest company	Cllr Simon Brew - Board member	Collection and payment of a BID levy on business rates by the Council to the BID company	-	179
Onside	David Butler - Trustee (No longer a Director)	Grant payment to Croydon Onside Youth Zone for a project for a purpose built facility for 8-19 year olds and up to 25 for people with disabilities	-	25

	2019/20 £000	2018/19 £000
Receipts		
Pension Contributions - from the Council (employer's contributions)	24,001	21,702
Pension Contributions - from employees (deductions paid over)	8,765	7,889
Total Receipts	32,766	29,591

33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	General Fund £000	**Housing Revenue Account £000**	**2019/20 Total £000**	**Restated 2018/19 Total £000**
EXPENDITURE:				
Property, Plant and Equipment	90,564	50,856	141,420	186,494
Acquisition of investment properties	21,541	0	21,541	75,631
Assets Held for Sale	15	0	15	0
Revenue expenditure funded from capital under statute	42,305	333	42,638	67,959
Intangible assets	5,926	185	6,111	5,895
Property development loans	74,003	0	74,003	75,311
Capitalisation Direction	90,989	0	90,989	29,948
	325,343	51,374	376,717	441,238
FINANCED BY:				
Borrowing	286,619	16,427	303,046	367,969
Capital receipts	8,810	10,225	19,035	31,674
Capital receipts used to finance transformation expenditure	0	0	-	
Government grants and other contributions	29,914	2,400	32,314	16,675
Direct revenue contributions	0	10,000	10,000	10,200
Major Repairs Reserve	0	12,322	12,322	14,720
	325,343	51,374	376,717	441,238

The table above, giving a breakdown of capital expenditure and financing has been restated to include loans of a capital nature. These loans have been provided to organisations to develop property across the borough

EXPLANATION OF MOVEMENTS IN YEAR:	**General Fund £000**	**Housing Revenue Account £000**	**2019/20 Total £000**	**Restated 2018/19 Total £000**
Opening Capital Financing Requirement	1,144,509	322,497	1,467,006	1,034,998
Reincorporation of PFI capital expenditure				73,620
Increase in underlying need to borrow (unsupported by Government financial assistance)	286,619	16,427	303,046	367,969
MRP / Loans fund principal	(13,270)		(13,270)	(9,581)
Development Loans (unsupported by government financial assistance) repaid and used to reduce the Capital Financing Requirement	(47,654)		(47,654)	
Closing Capital Financing Requirement	1,370,204	338,924	1,709,128	1,467,006

34. LEASES

Council as lessor - operating leases

Leased out as investment properties

During 2019-20, the council purchased the freeholds of 60 Vulcan Way and 37-39 Imperial Way
Both sites were subsequently let as operating leases.

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

	2019/20 Total £000	2018/19 Total £000
Future minimum lease payments receivable at Balance sheet date		
Within One Year	5,676	4,059
Later than one Year but within five years	20,741	17,131
Later than five years	24,849	24,141

Subsequent to the balance sheet date of 31 March 2020; in June 2020, the leaseholders of the Croydon Park Hotel went into administration and have forfeited the lease. The values in the table above reflect the expected minimum lease payments at 31 March 2020 and have not been adjusted for this event.

Leased out as short term residential properties

As at 31 March 2019, the council had let 263 properties to Croydon Affordable Homes and Croydon Affordable Tenants. During 2019-20 the council entered into a lease agreement to lease a further 81 properties to Croydon Affordable Tenants. These properties are leased for the provision of emergency temporary accommodation, within the General Fund. The leases are of 80 years, but have a break clause at 40 years. Therefore, the future minimum lease payments have been calculated over the life of the non cancellable portion of the lease (40 years)

	2019/20 Total £000	2018/19 Total £000
Future minimum lease payments receivable at Balance sheet date		
Within One Year	672	346
Later than one Year but within five years	2,742	1,325
Later than five years	40,499	23,272

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

The Authority currently has three Private Finance Initiative (PFI) contracts. A review, under International Financial Reporting Interpretations Committee (IFRIC) 12 - Service Concessions, of the accounting treatment of three of the PFI contracts was undertaken in 2009/10. The review of the Street Lighting PFI was undertaken prior to its commencement in August 2011. This resulted in assets for the Ashburton Learning Village, Street Lighting and three of the four Adults for the Future PFI schemes being recognised on the Balance Sheet. One Adults Homes for the Future building was assessed as not qualifying for recognition on the Balance Sheet.

Adults Homes For The Future (formerly New4Old)

Two of the homes opened during 2010 and the other two homes opened during 2011. The care services to the users and residents of the facilities were outsourced to Care UK Ltd during 2011/12. The facilities, including management of all soft facilities are fully maintained by Caring 4 Croydon Ltd, a subsidiary of Care UK Ltd. In 2019-20 the payment to Caring 4 Croydon Ltd was £5.2m comprising £2.8m Annual Unitary Payment (AUP) and £1.2m lease payments; PFI credits of £2.868m were received. The annual payment to Caring 4 Croydon Ltd is index-linked to the Retail Price (RPI) index and consequently, will increase each year until contract expiration in 2038/39.

Ashburton Learning Village

The Ashburton Learning Village incorporates an eight form entry (1,200 capacity) secondary school (Oasis Academy Shirley Park) together with a new purpose built library and a headquarters for the Housebound Library service. The village also houses office and teaching space for the Music Service. The Authority's Community Strategy states the Council's commitment to make Croydon a learning place by recognising the importance of ensuring good education and lifelong learning opportunities for everyone living and working in Croydon. Ashburton Learning Village is an important part of the Community Strategy and fulfils a commitment within the strategy to rebuild Ashburton High School. The Authority has entered into a 30 year contract with Norwest Holst on a design, build and operate basis, that includes enhanced facilities, improved ICT and access to the National Grid for Learning. This is supported through the Government's PFI scheme. The PFI credits include £17.1m from the Department for Education and £4.7m from the Department for Culture, Media and Sport; depending on usage, the Council may pay £48m over the remaining 17 years of the contract.

Street Lighting

The Croydon and Lewisham Street Lighting PFI is a joint procurement project that has been developed to replace the ageing street lighting stock of both London Boroughs. The 25 year contract with Skanska-Laing started in August 2011. In 2019/20 the Annual Unitary Payment to Skanska-Laing was £11.0 m; PFI credits of £6.0m were received. The PFI credits are in excess of the AUP, the excess is held in an equalisation account to offset charges in future years that will exceed the PFI credit. The PFI credit is fixed at £6.0m each year whereas the AUP is index linked to the RPI and consequently, will increase each year until contract expiration in 2036/37.

Value of Assets Held	**Ashburton Learning Village £000**	**Adult Homes For The Future £000**	**Street Lighting £000**	**2019/20 Total £000**	**2018/19 Total £000**
Net book value as at 31 March 2019	32,113	34,498	44,078	110,689	111,234
Gross book value as at 31 March 2019	32,113	34,498	51,826	118,437	116,976
Additions					-
Revaluation	3,087	1,580	0	4,667	1,462
Gross book value as at 31 March 2020	35,200	36,078	51,826	123,104	118,438
Depreciation written out after revaluation	1,202	1,297		2,499	2,124
Depreciation as at 1 April 2019	0	0	(7,748)	(7,748)	(5,742)
Depreciation for year	(1,199)	(1,297)	(2,004)	(4,500)	(4,128)
Net book value as at 31 March 2020	35,203	36,078	42,074	113,355	110,692

Value of Liabilities	**Ashburton Learning Village**	**Adult Homes For The Future**	**Street Lighting**	**2019/20 Total £000**	**2018/19 Total £000**
Creditors as at 31 March 2019	(13,900)	(20,071)	(44,122)	(78,093)	(80,209)
"Drawdown" at start of operational period				0	-
Capital repayment	533	576	1,161	2,270	2,115
Lump sum contribution				0	0
Creditors as at 31 March 2020	(13,367)	(19,495)	(42,961)	(75,823)	(78,094)

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS (continued)

Repayment of Liabilities	**Ashburton Learning Village £000**	**Adult Homes For The Future £000**	**Street Lighting £000**	**2019/20 Total £000**	**2018/19 Total £000**
Within one year	562	611	1,264	2,437	2,270
Within two to five years	2,564	2,833	6,285	11,683	10,878
Within six to ten years	4,056	3,580	11,558	19,194	18,816
Within 11 to 15 years	5,263	5,829	17,696	28,788	27,076
Within 16 to 20 years	920	6,643	6,156	13,719	19,051
Within 21 to 25 years				0	-
Within 26 to 30 years					
Total	13,366	19,495	42,961	75,821	78,092

Interest Payments	**Ashburton Learning Village £000**	**Adult Homes For The Future £000**	**Street Lighting £000**	**2019/20 Total £000**	**2018/19 Total £000**
Within 1 year	715	1,174	3,820	5,709	5,875
Within 2 to 5 years	2,541	4,306	14,052	20,899	21,703
Within 6 to 10 years	2,326	3,559	13,863	19,749	21,911
Within 11 to 15 years	1,119	3,095	7,725	11,939	13,651
Within 16 to 20 years	37	1,091	595	1,723	2,753
Within 21 to 25 years				0	-
Within 26 to 30 years					
Total	6,738	13,225	40,056	60,020	65,893

Service Charge Payments	**Ashburton Learning Village £000**	**Adult Homes For The Future £000**	**Street Lighting £000**	**2019/20 Total £000**	**2018/19 Total £000**
Within 1 year	963	1,894	1,590	4,447	4,303
Within 2 to 5 years	4,202	8,165	6,942	19,310	18,692
Within 6 to 10 years	6,114	9,181	10,148	25,443	27,031
Within 11 to 15 years	7,188	13,067	12,071	32,326	31,688
Within 16 to 20 years	1,184	12,930	3,673	17,786	21,901
Within 21 to 25 years				0	-
Within 26 to 30 years					
Total	19,651	45,238	34,424	99,312	103,615

Lifecycle Payments	**Ashburton Learning Village £000**	**Adult Homes For The Future £000**	**Street Lighting £000**	**2019/20 Total £000**	**2018/19 Total £000**
Within 1 year	411	405	0	816	816
Within 2 to 5 years	1,643	1,621	0	3,264	3,264
Within 6 to 10 years	2,054	1,621	0	3,675	4,080
Within 11 to 15 years	2,054	2,026	0	4,080	4,080
Within 16 to 20 years	308	1,756	0	2,064	2,475
Within 21 to 25 years				0	-
Within 26 to 30 years					
Total	6,470	7,428	0	13,898	14,714

Contingent Rent	**Ashburton Learning Village £000**	**Adult Homes For The Future £000**	**Street Lighting £000**	**2019/20 Total £000**	**2018/19 Total £000**
Within 1 year			103	103	97
Within 2 to 5 years			449	449	438
Within 6 to 10 years			518	518	542
Within 11 to 15 years			249	249	324
Within 16 to 20 years			(63)	(63)	(48)
Within 21 to 25 years				0	0
Within 26 to 30 years				0	0
Total	0	0	1,255	1,255	1,352

36. IMPAIRMENT LOSSES

Restatement of 2018-19 impairment losses regarding Fairfield Halls refurbishment

During 2018-19, the authority recognised a total impairment of £2.2m relating to the refurbishment of Fairfield Halls

Following the start of the refurbishment, the council derecognised the carrying value of Fairfield Halls buildings (£20.9m) from Other land and buildings, as the individual components were due to be replaced.
The building was then transferred at nil value to assets under construction (please see note 12).

During 2018-19, the value of expenditure on Fairfield Halls was £40.0m, which is added to the asset's value.

The recoverable amount was assessed at 31 April 2019 by determining the expected cost to replace the building if it was rebuilt at its current state. This value was £37.9m

The carrying value was therefore adjusted downwards to ensure the asset is not carried at an amount above it's value.
The impairment charge does this, and is made up of the following items:

	£'000
Charge to the Revaluation Reserve	0
Charge to the Comprehensive Income and Expenditure Statement (CIES)	2,167
Total impairment relating to Fairfield Halls	2,167

It should be noted that the impairment charge to the CIES is not a proper charge to the General Fund, and is reversed out in the Movement In Reserves Statement against the Capital Adjustment Account unusable reserve.

There were no further impairments in 2019-20. As the building was revalued in 2019-20, the impairment from 2018-19 was reversed.

37. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The following items have been identified in accordance with accounting policy 1.13:

Municipal Mutual Insurance (MMI) - potential for future claims
In 1993, MMI ceased to accept new business, due to changes in insurance industry requirements. The appointed administrator has set a levy rate of 15%, and London Borough of Croydon is liable for this proportion of any future claim that pre-dates 1993. A likely amount cannot be estimated reliably, and the possibility does remain for the administrator to revise the levy rate, should the company's assets prove insufficient to meet liabilities.

Reinforced Autoclaved Aerated Concrete (RAAC)
In September 2023, there was widespread publicity about the use of reinforced autoclaved aerated concrete (RAAC) in public buildings. The Council has inspected all of its maintained schools and has confirmed none have RAAC present. However, survey work continues for some Council housing stock and operational buildings, where there is the possibility that some buildings may have used RAAC in their construction. An estimate of buildings affected and costs to mitigate the risks is not yet available.

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council’s management of treasury risks actively works to minimise the Council’s exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA’s Code of Treasury Management Practices and has written principles for overall risk management as well as written polices and procedures covering specific areas such as credit risk, liquidity risk and market risk.

The annual treasury management strategy for 2019/20 which incorporates the prudential indicators was approved by Council on 4 March 2020 and is available on the Council's website. Revisions to the Operational Boundary and the Authorised Borrowing Limit were approved by Council on 7 October 2020: The key issues the within the strategy were:

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

1. The Authorised Borrowing Limit for 2019/20 was set at £1,705.345m. This is the maximum limit of external borrowings or other long term liabilities.
2. The Operational Boundary was set at £1,655.345m. This is the expected level of debt and other long term liabilities during the year.
3. The maximum amounts of variable interest rate exposure was set at 20% of total debt, or up to 30% for the purposes of securing liquidity

These policies are implemented by the Council's treasury team. The Council maintains written policies for overall risk management, as well as written policies (Treasury Management Policies - TMPs) covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other Local Authorities. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council’s treasury advisers and to ensure lending is prudent.

Credit risk may also arise from lending by the authority to the Council owned company Brick by Brick Ltd. Development work is continuing across multiple housing sites, and following a management review it is expected the anticipated sales proceeds will not be sufficient to clear the outstanding debt. The Council has therefore made a lifetime credit risk impairment adjustment to the value of loans to group companies of £51.7m (nil in 2018-19) .

The following analysis summarises the Council’s potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amounts at 31 March 2020 £000	Historical Experience of Default %	Estimated Maximum Exposure to Default £000
Deposits with banks and other financial institutions	52,479	0	0
Bonds and other securities	0	0	0
Loans within the Group	141,966	0	51,696
Customers	0	0	0
Total	194,445	0	0

Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meets its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council’s policy is to ensure that not more than 25% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The sum owing of £67.733m has been invested in the banking sector and with other local authorities, and £289.437m is due to be repaid in less than one year.

Refinancing and Maturity Risk

The maturity structure of financial liabilities is as follows (at nominal value):

	At 31 March 2020 £000	At 31 March 2019 £000
Loans outstanding:		
PWLB	907,426	857,926
Market debt / LOBOs	260,575	217,389
Temporary borrowing	277,000	199,000
External Financing for Croydon Affordable Homes	71,516	13,756
Deferred purchases (PFIs)	76,020	78,291
Other		4,507
Total	1,592,537	1,370,869

	At 31 March 2020 £000	At 31 March 2019 £000
Less than 1 year	289,165	213,253
Between 1 and 2 years	129,750	42,431
Between 2 and 5 years	69,589	69,081
Between 5 and 10 years	55,944	59,255
More than 10 years	1,048,089	986,849
Total	1,592,537	1,370,869

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid/received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Authority is summarised below:
- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Comprehensive Income and Expenditure Statement.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Statement.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on instruments held at fair value.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on instruments held at fair value.

The Council has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget. This allows any adverse changes to be accommodated. The strategy will also advise on whether new borrowing taken out is to be at fixed or variable interest rates.

According to this assessment strategy, at 31 March 2020 if interest rates had been 1% higher, the financial effect would be:

	At 31 March 2020 £000	At 31 March 2019 £000
Decrease in fair value of fixed rate borrowing liabilities	(328,811)	(265,420)

(no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)
Note: the council does not hold any variable rate borrowings or investments at the end of the last reporting period.

Price Risk
The Council, excluding the Pension Fund, does not invest in equity shares or marketable bonds.

Foreign Exchange Risk
The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

39. TRUST FUNDS

The Council acts as trustee for various funds including trust fund legacies, prize funds, amenity funds of establishments and charity appeal funds. The principal funds are two trust fund legacies: .

- The Church Tenements Charities: Educational and Church Branches, which provides grants to young people for education purposes (£0.889m)
- The Frank Denning Memorial Charity, which provides travelling scholarships (£0.364m).

The funds are not assets of the Council and are not included in the Balance Sheet.

40. GROUP INTERESTS

The Council reviewed its group activities during 2019/20, including a review of the nature of the risks it was exposed to through its group trading activities and the amounts involved after eliminating intragroup transactions. The Council concluded that its group activities were sufficiently material to justify the preparation of Group Accounts. The Group Accounts and notes can be found in the section entitled "Group Accounts".

Group interests are detailed below:

Croydon Council owns a 100% stake in the development company Brick By Brick Croydon Limited , which was established to deliver housing across a number of Council owned sites in the Borough. Activity in 2019/20 continues to be material, and group accounts have been prepared with Brick By Brick Croydon Limited.

Croydon TH Limited – This is a 100% Council owned company. This company was established to take on the residential units from the Taberner House development and hold the block leases. It would act as an intermediary until the units are sold and also by having a separate company it keeps the tax considerations separate from the one from the commercial units as explained below for Croydon TH Commercial Ltd.

40. GROUP INTERESTS (continued)

Croydon TH Commercial Ltd – This is a 100% Council owned company. The company was established in connection with the commercial units on the Taberner site. It was planned that a separately company should be created to hold the commercial units due to the differing tax arrangements for commercial vs residential development and also to ring fence the activity between the commercial units and residential units.

Croydon Central Management Company – This is a 100% Council owned company. This company was established to provide management services to all residential and commercial units within the Taberner House development

Croydon Holdings Ltd – This is a 100% Council owned company. This company is linked to the Croydon Affordable Homes and Croydon Affordable Tenure companies and was designed to be a holding company for these subsidiaries.

Croydon Affordable Homes LLP - This is company is part of the Council's group structure but the Council does not directly own its shares. The Council owns this company through Croydon Holdings Ltd and London Borough of Croydon Holdings LLP. This company is designed to lease residential units to investors.

Croydon Affordable Homes (Taberner House) LLP - This is company is part of the Council's group structure but the Council does not directly own its shares. The Council owns this company through Croydon Holdings Ltd and London Borough of Croydon Holdings LLP. This company is designed to lease residential units to investors. No activity has taken place within this company since it was incorporated.

Croydon Affordable Tenures LLP - This is company is part of the Council's group structure but the Council does not directly own its shares. The Council owns this company through Croydon Holdings Ltd and London Borough of Croydon Holdings LLP. This company is designed to lease residential units to investors.

Croydon Affordable Dwellings LLP - This is company is part of the Council's group structure but the Council does not directly own its shares. The Council owns this company through Croydon Holdings Ltd and London Borough of Croydon Holdings LLP. This company is designed to lease residential units to investors. No activity has taken place within this company since it was incorporated.

Croydon Pension Nominee 1 Ltd - This is a 100% company owned by the Council. This company has been inactive and no transactions have taken place, but was designed to support residential and commercial property investments that the Council's Pension Fund could invest in.

Croydon Pension Nominee 2 Ltd - This is a 100% company owned by the Council. This company has been inactive and no transactions have taken place, but was designed to support residential and commercial property investments that the Council's Pension Fund could invest in.

Croydon Affordable Housing is a charity which holds 90% control of four Limited Liability Partnerships. The remaining 10% control of these is held by the London Borough of Croydon (Holdings) LLP, which is wholly controlled by the Council. A review of economic control has judged that the Council does not have control of either the Croydon Affordable Housing charity or the four Limited Liability Partnerships.

Croydon Council holds 40% of control of the board of Octavo Partnership Limited, which was created to deliver School Improvement services across the Borough of Croydon and beyond, and sells discretionary support services to schools directly whilst delivering statutory services on behalf of Croydon Council. Financial activity in 2019/20 is not considered material.

Croydon also owns a 100% stake in Croydon Enterprise Loan Fund Limited , which is a growth programme designed to support businesses in Croydon to access finance in order to start or grow a business. Group activity is not judged to be material.

Croydon owns a 100% stake in YourCare (Croydon) Ltd, a company that will carry out sales of aids to daily living equipment to the public. Turnover and balances are not considered material.

Group accounts are not being prepared for Croydon Care Solutions Ltd, Croydon Equipment Solutions Ltd and Croydon Day Opportunities Ltd, as these companies have not traded during 2019/20, and any sums are immaterial.

41. DATE OF ACCOUNTS BEING AUTHORISED FOR ISSUE AND BY WHOM

This Statement of Accounts was issued on 19 October 2020 by Lisa Taylor, Director of Finance, Investment & Risk and Section 151 officer. They have subsequently been updated on the 7th March 2024 by Jane West, Corporate Director of Resources

42. PENSIONS - IAS19 AND ACCOUNTING CODE OF PRACTICE DISCLOSURE NOTES

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The Local Government Pensions Scheme, administered by the London Borough of Croydon.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it was a defined contributions scheme - no liability for future payments of benefits is recognised in the Council's Balance Sheet and the Children, Young People and Learners revenue account is charged with the employer's contributions payable to the Teachers' Pension Scheme during the year.

In 2019/20, the Council paid £8.56m (2018/19: £7.434m) to Capita Teachers' Pensions in respect of teachers' retirement benefits, representing 21% (2018/19: 16.48%) of pensionable pay.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme; its members are the London Borough of Croydon and a number of Scheduled and Admitted bodies. A list of all member bodies is available in the Pension Fund Accounts.

The liabilities of the scheme attributable to the London Borough of Croydon are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their present value, using a discount rate of 2.4% (based on the indicative rate of return on high quality corporate bonds).

The assets of the scheme attributable to the London Borough of Croydon are included in the Balance Sheet at their fair value:
Quoted securities - current bid price or the last trade price depending upon the convention of the market
Unquoted securities - professional estimate
Unlisted securities - current bid price
Property - market value.

The change in the net pensions liability is analysed into seven components:

Current service cost - the increase in the present value of a defined benefit obligation resulting from employee service in the current period - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employee worked.

Past service cost - the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases) - debited / credited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

Interest cost - the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement - debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

The return on Fund assets - is interest, dividends and other revenue derived from the Fund assets, together with realised and unrealised gains or losses on the Fund assets, less any costs of administering the Funds (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the Fund itself - credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

42. PENSIONS - IAS19 AND ACCOUNTING CODE OF PRACTICE DISCLOSURE NOTES (continued)

Gains / losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

Actuarial gains and losses comprise:

- experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually

- the effects of changes in actuarial assumptions - are recognised in Other Comprehensive Income.

Contributions paid to the Pension Fund - cash paid as employer’s contributions to the Pension Fund.

Actuarial valuations are carried out every three years as required by legislation. The most recent valuation was undertaken by Hymans Robertson as at 31 March 2019. This identified a funding level of 88% which equates to a deficit of £164.6m.
The reported funding level is based on an assumed future investment return of 4.0%p.a. The Actuary has calculated that there is a 75% likelihood that the Fund's investments will achieve at least 4.0% p.a. over the next 20 years.
The actuary set contribution rates for each employer, after consideration of their relative risk profiles and funding time horizons.

Discretionary Benefits

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

Actuarial Assumptions	**31 March 2020**	**31 March 2019**
Financial assumptions		
Rate of increase in salaries *	1.90%	3.00%
Rate of increase of pensions	1.90%	2.50%
Discount rate	2.30%	2.40%
Split of assets between investment categories		
Equities	0.00%	0.00%
Debt Securities	0.00%	0.00%
Private Equity	9.00%	9.00%
Real Estate	15.00%	14.00%
Investment Funds and Unit Trusts	70.00%	75.00%
Cash / Liquidity	6.00%	2.00%
Life expectancy		
of a male (female) future pensioner aged 65 in 20 years time	22.5 (25.3) years	24.0 (26.2) years
of a male (female) current pensioner aged 65	21.9 (23.9) years	22.3 (24.4) years

Commutation of pension for lump sum at retirement	take 50% of additional tax-free cash up to HMRC limits for pre-April 2008 and 75% of the maximum tax-free cash for post-April 2008 service
Market value of total funds (£ millions)	1,257 as at 31 Mar 2020

* Salary increases are assumed to be 2% until 31 March 2019 reverting to the long term assumption shown thereafter.

42. PENSIONS - IAS19 AND ACCOUNTING CODE OF PRACTICE DISCLOSURE NOTES (continued)

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability

	31 March 2020			31 March 2019		
	Assets £000	**Obligations £000**	**Net (Liability) /Asset £000**	**Assets £000**	**Obligations £000**	**Net (Liability) /Asset £000**
Fair value of employer assets	1,060,753		1,060,753	956,337		956,337
Present value of funded liabilities		1,707,364	(1,707,364)		1,552,554	(1,552,554)
Present value of unfunded liabilities		17,495	(17,495)		19,822	(19,822)
Opening Position as at 31 March 2019 and 31 March 2018	**1,060,753**	**1,724,859**	**(664,106)**	**956,337**	**1,572,376**	**(616,039)**
Service cost:						
Current service cost *		65,232	(65,232)		55,460	(55,460)
Past service cost (including curtailments)		381	(381)		7,497	(7,497)
Effect of settlements	(912)	(3,671)	2,759	(969)	(3,859)	2,890
Total Service Cost	**(912)**	**61,942**	**(62,854)**	**(969)**	**59,098**	**(60,067)**
Net interest:						
Interest income on plan assets	25,286		25,286	24,638		24,638
Interest cost on defined benefit obligation		41,780	(41,780)		41,142	(41,142)
Impact of asset ceiling on net interest						
Total Net Interest	**25,286**	**41,780**	**(16,494)**	**24,638**	**41,142**	**(16,504)**
Total Defined Benefit Cost Recognised in Profit or (Loss)	**24,374**	**103,722**	**(79,348)**	**23,669**	**100,240**	**(76,571)**
Cashflows:						
Plan participants' contributions	9,720	9,720	0	8,876	8,876	0
Employer contributions	22,620		22,620	21,077		21,077
Contributions in respect of unfunded benefits	1,125		1,125	1,137		1,137
Benefits paid	(49,360)	(49,360)	0	(45,391)	(45,391)	0
Unfunded benefits paid	(1,125)	(1,125)	0	(1,137)	(1,137)	0
Expected Closing Position	**1,068,107**	**1,787,816**	**(719,709)**	**964,568**	**1,634,964**	**(670,396)**
Remeasurements:						
Changes in demographic assumptions		(40,725)	40,725			
Changes in financial assumptions		(142,949)	142,949		91,799	(91,799)
Other experience		(115,607)	115,607		(1,905)	1,905
Return on assets excluding amounts included in net interest	(52,280)		(52,280)	96,185		96,185
Changes in asset ceiling						
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(52,280)**	**(299,281)**	**247,001**	**96,185**	**89,894**	**6,291**
Exchange differences			0	0	0	0
Effect of business combinations and disposals			0	0	0	0
Fair value of employer assets	1,015,827		1,015,827	1,060,753		1,060,753
Present value of funded liabilities		1,472,956	(1,472,956)		1,707,364	(1,707,364)
Present value of unfunded liabilities **		15,491	(15,491)		17,495	(17,495)
Closing Position	**1,015,827**	**1,488,447**	**(472,620)**	**1,060,753**	**1,724,859**	**(664,106)**

* The service cost figures include an allowance for administration expenses of 1.1% of payroll.

** (31 March 2020) This liability comprises of approximately £14,957,000 in respect of LGPS unfunded pensions and £534,000 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 March 2020, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50% of the member's pension as at the date of the member's death.

42. PENSIONS - IAS19 AND ACCOUNTING CODE OF PRACTICE DISCLOSURE NOTES (continued)

The valuation of employer assets used in this analysis differs from the figures presented in the Pension Fund Statements in that it uses an estimate of returns (-0.1%) because it has to be prepared in advance of the year end, whereas the Pension Fund Accounts are prepared on the basis of actual and not assumed figures after the year's end. Regardless of this detail the movement in the value of these assets reflects the stagnation of the financial markets over the reporting period and beyond, a consequence of the continued global financial crisis. The schedule on the previous page shows a decrease in the funding level; the net liability has decreased from £664 million to £472 million. The principle driver for this movement is the increase in the present value of funded liabilities, relating to employee members of the scheme, deferred pensioners and pensioners.

It should be noted however that this IAS19 valuation is not an assessment of the cash value of the funding difference; it is a notional sum that is reversed out through the Local Government accounting mechanism.

IAS19 requires that the cost of retirement benefits is recognised in the Comprehensive Income and Expenditure Statement when the entitlement is earned, irrespective of when the benefits are actually paid. However, the charge the Council is required to make in its financial statements is equal to the actual contribution to the Pension Fund payable in the year. Consequently, a transfer is made to, or from, the Pensions Reserve to achieve this.

The other adjustment to the Pensions Reserve during the year represents the Experience / Actuarial gain or loss recognised during the year. The gain or loss calculated is taken directly to Other Comprehensive Income.

Consequently, the balance on the reserve represents the amount required to meet the estimated liability for future pensions, and the change in the reserve during the year represents the change in that liability.

Fair value of employers assets

The below asset values are at bid value as required under IAS19. Please note, where IAS19 asset splits were not available at the exact start and end dates, we have used the nearest IAS19 assets split prior to these dates.

	Period Ended 31 March 2020				**Period Ended 31 March 2019**			
Asset Category	**Quoted Prices in Active Markets £000**	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total Assets %**	**Quoted Prices in Active Markets £000**	**Quoted Prices not in Active Markets £000**	**Total £000**	**Percentage of Total Assets %**
Equity Securities:								
Consumer			0	0.0			0	0.0
Manufacturing			0	0.0			0	0.0
Energy and Utilities			0	0.0			0	0.0
Financial Institutions		121	121	0.0		127	127	0.0
Health and Care			0	0.0			0	0.0
Information Technology			0	0.0			0	0.0
Other			0	0.0			0	0.0
Debt Securities:								
Other								
Private Equity:								
All		91,854	91,854	9.0		93,261	93,261	8.8
Real Estate:								
UK Property		149,928	149,928	14.8		151,405	151,405	14.3
Overseas Property								
Investment Funds and Unit Trusts:								
Equities		342,397	342,397	33.7		437,545	437,545	41.2
Bonds		232,071	232,071	22.8		239,462	239,462	22.6
Hedge Funds								
Commodities								
Infrastructure		133,468	133,468	13.1		121,210	121,210	11.4
Other			0	0.0	0		0	0.0
Derivatives			0	0.0			0	0.0
Equivalents:								
All		65,989	65,989	6.5		17,743	17,743	1.7
Totals	**0**	**1,015,827**	**1,015,827**	**100**	**0**	**1,060,753**	**1,060,753**	**100**

43 PRIOR PERIOD ADJUSTMENTS

This disclosure note sets out details of Prior Period Adjustments that have been made to the 2019/20 accounts in accordance with accounting policy 1.3. Prior period adjustments have been made to the prior year comparator (2018/19) and additionally a third balance sheet is presented,to reflect the position of the year preceding the prior period.

Dedicated School Grants

A restated balance sheet has been presented to reflect the reclassification of the DSG deficit that had been included in the . closing balance for Debtors in 2018/19. CIPFA have issued guidance that clarifies that DSG deficits should be held as a negative reserve. Therefore all the required adjustments have been made to the affected 2018/19 opening and closing balances.

The Restated Balance Sheet for 1 April 2018 and 31 March 2019 shows the Council's position at the end of the year for all activities and services except the Pension Fund and trust funds, which are held on behalf of third parties. All internal transactions between funds have been eliminated.

The original 2018/19 Statement of Accounts included a £9.193m Deficit (2017/18 £0.963m) in Dedicated Schools Grant (DSG) as a Receipt in Advance on the balance sheet, on the basis it was an unadjusted non-material error. However the 2018/19 Balance Sheet has now been restated to reflect a change in the accounting treatment of the of Dedicated Schools Grant Deficit.

On the 30 January 2020 the Secretary of State for Education laid before Parliament the School and Early Years Finance (England) Regulations 2020. These regulations come into force on 21 February 2020 and are applicable to local authority accounting periods beginning on 1 April 2020. CIPFA released its Bulletin no.5 'Closure of the 2019/20 Financial Statements' in April 2020 in which it clarified how a DSG deficit should be treated. The new regulations are considered to provide a statutory basis for the holding and disclosing of negative earmarked reserves solely relating to the retained deficits arising from accumulated DSG expenditure. Therefore the 2017/18 and 2018/19 DSG Deficit has been reclassified and included as a negative earmarked reserve.

This restatement also changes the opening balances on the Movement in Reserves Statement, and comparative figures in other notes i.e. the Receipts in Advance balance, the Financial Instruments note and the Earmarked reserves balance. The table below shows the impact of the prior period adjustments in the 2018/19 accounts.

The tables in Note 43 list the amendments to the core statements relating to the £0.963m DSG deficit as at 1 April 2018 and £9.193m cumulative DSG deficit as at 31 March 2019:

Fairfield Halls Adjustment

The opening balances for 2019/20 accounts have been restated to reflect audit findings in regards to the Council's accounting of it asset Fairfield Halls. The Council has annually valued the asset as it was still owned by the Council, however at the same time the Council had lent money to its wholly owned Housing company Brick by Brick to carry out refurbishment works. The loans were accounted as Long Term Debtors and interest was being charged on the loans which was also accrued as no payment was received. As part of the 2019/20 audit of the draft accounts, the auditors sought further clarification and legal advice in regards to the accounting treatment and it was deemed incorrect. As the Council still owned the asset and the works carried out by Brick by Brick were on the Council's asset the capital expenditure should have been classified as contractual works rather than a loan. The Council had been lending funds to Brick by Brick to carry out works since 2016/17 and by the end of 2019/20 a total of £61.47m works had been incurred that was funded from the loans. Of the £61.47m, £40.03m related to years up to 2018/19 and as this is a material amount the Council has needed to carry out a Prior Period Adjustment.

As a result of this prior period adjustment, the opening balances of loans to Brick by Brick have been accounted for as capital expenditure and loan balances removed.

Croydon Affordable Homes LLP (CAH LLP) and Croydon Affordable Tenures LLP (CAT LLP)

Background

During 2017/18, 2018/19 and 2019/20, the Council entered into a series of lease arrangements with Croydon Affordable Homes LLP (CAH LLP) and Croydon Affordable Tenures LLP (CAT LLP), whereby the Council transferred control of 344 dwellings for a period of 80 years in return for an up front lease premium.Simultaneously, the Council and the two LLPs entered into another series of lease agreements with external funders (Canada Life Limited, and Legal & General) who paid a sum of money up front in return for future index linked repayments.
At the same time, the Council extended a loan facility to the LLPs, which was repaid by the LLP immediately, apart from a residual loan balance that would be repaid to the Council over a period of 40 years.

Proper accounting practices include a requirement that where a series of linked lease transactions occur, they must be presented as one transaction if the overall impact can only be understood as a whole. This is to ensure the accounts present the substance of the transaction rather than the legal form of the transaction, where there is a difference.

43 PRIOR PERIOD ADJUSTMENTS (continued)

Upon review of the transactions with CAH LLP and CAT LLP, the substance of these transactions would be more accurately presented by changing the accounting judgements used, and representing this change as a prior period adjustment.

The Nature of the reclassification

The section below sets out the items that have been reclassified in the 2019/20 statement of accounts

	Previous Judgement	Reclassified Judgement
Head lease of 344 dwellings by the Council to CAH LLP and CAT LLP	Finance lease, resulting in the derecognition of assets and a capital receipt to the Council	A passthrough, with control of properties remaining with the Council, but CAH LLP and CAT LLP acting as landlord. No capital receipt has been generated
Fund lease and underlease with external funders	CAH LLP and CAT LLP recognising a long term liability to repay the funders from future rental income	The Council recognising a long term liability to repay the funders from future rental income
Loan facility agreement	Recognised as a loan between the Council and the LLPs	The loan has been consolidated out of the Council's accounts

The Reason for the reclassification

The series of lease agreements were linked: they took place simultaneously (over 3 phases) and would not have existed on their own. Although the form of the fund lease and underlease transferred the landlord relationship between the Council, the LLPs and the funder, in substance the Council raised external finance which it is repaying over a period of 40 years with the rental income it receives.

The headlease is no longer judged to be a finance lease, as tests associated with the value of lease payments representing the assets value and the lease period representing the full useful life are no longer met.

CAH LLP and CAT LLP will however remain as third party entities, as the tenancy agreements between them and the tenants were not linked to the leases referred to above, and do reflect the substance of the transactions taking place.

The amounts being reclassified

As required by IAS8 and proper accounting practices, the Council has presented an amended balance sheet for the period preceding the prior year as if these changes had happened. As the first property transfers took place in 2017/18, there are no amounts preceding the 2017/18 financial year that require amendment. The following sections of this note will set out the key amounts being restated, and the impact on each core financial statement.

MOVEMENT IN RESERVES STATEMENT

	Original					Restated				
	General Fund Balance 2018/19 £'000	Earmarked Reserves 2018/19 £'000	Capital Receipts 2018/19 £'000	Revaluation Reserve 2018/19 £'000	Capital Adjustment Account 2018/19 £'000	General Fund Balance 2018/19 £'000	Earmarked Reserves 2018/19 £'000	Capital Receipts 2018/19 £'000	Revaluation Reserve 2018/19 £'000	Capital Adjustment Account 2018/19 £'000
Balance b/f at 1 April 2018	10,393	18,153	55,423	739,064	260,491	10,393	17,190	52,181	718,692	253,600
Surplus or (deficit) on provision of services	(224,452)					(245,114)				
Other Comprehensive Expenditure and Income				(27,321)					(42,956)	
Adjustments between accounting and basis under regulations	224,258		(22,824)	(34,056)	(91,127)	240,642		(19,583)	(17,085)	(107,517)
Transfers to/(from) Earmarked Reserves	194	(194)				8,424	(8,424)			
Balance c/f at 31 March 2019	10,393	17,959	32,599	677,687	169,364	14,345	8,766	32,598	658,651	146,083

43 PRIOR PERIOD ADJUSTMENTS (Continued)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The statements below set out the comprehensive income & expenditure items that have been affected by the Prior Period adjustments:

	Original			Adjustments			Restated		
	2018/19 Gross £000	2018/19 Income £000	2018/19 Net £000	DSG deficit £'000	Fairfield Halls £'000	CAT / CAT £'000	2018/19 Gross £000	2018/19 Income £000	2018/19 Net £000
Place	115,421	(68,631)	46,790		1,059	748	117,228	(68,631)	48,597
Children, Families & Education	357,500	(251,033)	106,467	8,230		10,339	376,069	(251,033)	125,036
Health, Wellbeing & Adults	197,697	(82,521)	115,176			13,348	211,045	(82,521)	128,524
Gateway, Strategy & Engagement	102,908	(42,042)	60,866			4,168	107,076	(42,042)	65,034
Resources	426,982	(315,046)	111,936			(26,327)	400,655	(315,046)	85,609
HRA	72,393	(91,561)	(19,168)				72,393	(91,561)	(19,168)
Net cost of services	1,272,901	(850,834)	422,067	8,230	1,059	2,276	1,284,466	(850,834)	433,632
Other operating expenditure			32,439			8,575			41,014
Financing and Investment Income & Expenditure			52,729			522			53,251
Taxation and Grant Income			(294,202)						(294,202)
(Surplus) or deficit on the provision of services			213,033						233,695
(Surplus) or deficit on revaluation of non-current assets			27,321		4,963	(5,582)			26,702
Other Comprehensive Income and Expenditure			21,030		4,963	(5,582)			20,411
Total Comprehensive Income and Expenditure			234,063						254,106

The adjustment columns reflect the impact of the Prior Period Adjustments in the Council's 2018/19 CIES.

43 PRIOR PERIOD ADJUSTMENTS (Continued)

BALANCE SHEET

The statements below set out the balance sheet items that have been affected by the Prior Period adjustments:

	Original 1 April; 2018 £000	Changes: DSG deficit adjustment £000	Fairfield Halls adjustment £000	CAH & CAT adjustment £000	Sub-total All adjustments £000	Restated 1 April 2018 £000
Other Land and Buildings	799,247		(34,012)	25,208	(8,804)	790,443
Long-term Debtors	54,895			(2,299)	(2,299)	52,596
Creditors and Receipts in Advance	(134,461)	(963)		(5,668)	(6,631)	(141,092)
Long-term borrowing	(879,776)			(13,733)	(13,733)	(893,509)
Net Assets	**502,767**	**(963)**	**(34,012)**	**3,508**	**(31,467)**	**471,300**
Earmarked Reserves	18,153	(963)			(963)	17,190
Capital Receipts Reserve	55,422			(3,241)	(3,241)	52,181
Usable Reserves	114,739	**(963)**	0	**(3,241)**	(4,204)	110,535
Revaluation Reserve	739,063		-31082	10,711	(20,371)	718,692
Capital Adjustment Account	260,492		-2930	(3,962)	(6,892)	253,600
Unusable Reserves	388,028	0	-34012	6749	(27,263)	360,765
Total Reserves	**502,767**	**(963)**	**(34,012)**	**3,508**	**(31,467)**	**471,300**

	Original 31 March 2019 £000	Brought forward from 2017/18 £000	Changes: DSG deficit adjustment £000	Fairfield Halls adjustment £000	CAH & CAT adjustment £000	Restated 31 March 2019 £000
Other Land and Buildings	765,930	(8,804)		(3,854)	54,939	808,211
Assets Under Construction	16,765			37,867		54,632
Long-term Debtors	170,056	(2,299)		(40,034)	(42,615)	85,108
Short-term Debtors	179,771	0	(1,145)		0	178,626
Creditors and Receipts in Advance	(157,150)	(6,631)	(7,085)		(18,092)	(188,958)
Long-term borrowing	(1,131,916)	(13,733)			(23)	(1,145,672)
Net Assets	**268,704**	**(31,467)**	**(8,230)**	**(6,021)**	**(5,791)**	**217,195**
Earmarked Reserves	17,959	(963)	(8,230)			8,766
Capital Receipts Reserve	32,599	(3,241)			3,241	32,599
Usable Reserves	**93,901**	**(4,204)**	**(8,230)**	**0**	**3,241**	**84,708**
Revaluation Reserve	677,685	(20,371)		(35,023)	5,277	627,568
Capital Adjustment Account	169,364	(6,892)		(5,011)	(14,308)	143,153
Unusable Reserves	**174,803**	**(27,263)**	**0**	**(40,034)**	**(9,031)**	**98,475**
Total Reserves	**268,704**	**(31,467)**	**(8,230)**	**(40,034)**	**(5,790)**	**183,183**

43 PRIOR PERIOD ADJUSTMENTS (Continued)

CASHFLOW STATEMENT

The statement below sets out the changes to the cashflow statement as a result of the Prior Period adjustments:

	Original	**Changes:**			**Sub-total**	Restated
	2018-19	DSG deficit adjustment	Fairfield Halls adjustment	CAH & CAT adjustment	All adjustments	2018-19
	£000	£000	£000	£000	£000	£000
OPERATING ACTIVITIES						
Net surplus or (deficit) on the provision of services	-213,033	-8,230	-1,059	-11,373	-24,614	-237,647
The surplus or deficit on the provision of services has been adjusted for the						
Depreciation	37,217		-1,109	668	668	37,885
Impairment and downward valuations	12,168		2,167	2,130	7,141	19,309
Increase/(decrease) in creditors	23,840			18,092	18,092	41,932
Carrying amount of non-current assets sold	122,280			-52,155	-52,155	70,125
Items included/excluded from net surplus or deficit on the provision of services:						
Proceeds from the sale of property, plant and equipment, investment property & intangible assets	-75,071			60,730	60,730	-14,341
INVESTING ACTIVITIES						
Purchase of property, plant and equipment, investment property	-231,238		-40,034		-40,034	-271,272
Purchase of short-term and long-term investments	-148,775	8,230	40,034	42,615	90,879	-57,896
Proceeds from the sale of property, plant and equipment, investment property & intangible assets	75,071			-60,730	-60,730	14,341
FINANCING ACTIVITIES						
Cash receipts from short-term and long-term borrowing	466,000			23	23	466,023
Net increase/(decrease) in cash and cash equivalents	68,459	0	0	0	0	68,459

HOUSING REVENUE ACCOUNT - INCOME AND EXPENDITURE STATEMENT

INTRODUCTION

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to Croydon Council's own housing stock. Income and expenditure on other housing services provided by the Council is recorded in the General Fund. The items recorded within the HRA are prescribed by statute because the Council has no general discretion to transfer sums into or out of the HRA, this type of account is known as ring fenced.

The ring fence was introduced by the Local Government and Housing Act 1989, to ensure that rents paid by Local Authority tenants accurately and realistically reflected the cost of providing the housing service.

	Note No.	2019/20 £000	2018/19 £000
Income			
Dwelling rents		(75,019)	(75,163)
Non-dwelling rents		(1,231)	(1,200)
Charges for services and facilities		(9,108)	(14,848)
Contributions towards expenditure		(203)	(53)
Total Income		(85,561)	(91,264)
Expenditure			
Repairs and maintenance		10,929	11,733
Supervision and management		28,310	40,549
Rents, rates, taxes and other charges		3,235	4,347
Allowance for debtors		703	835
Depreciation of non-current assets	2.1 & 3	12,321	12,791
Amortisation of intangible assets		59	43
Gain or loss on revaluation of non-current assets		79	132
Revenue expenditure funded from capital under statute	3 & 4	333	816
Total Expenditure		55,969	71,246
Net cost of HRA services as included in the whole-Authority Comprehensive Income and Expenditure Statement		(29,592)	(20,018)
HRA services share of Corporate and Democratic Core		576	489
HRA share of Pensions Reserve contributions not allocated to specific services	5	(163)	(169)
Net cost of HRA services		(29,179)	(19,698)
Gain or loss on sale of HRA non-current assets		(4,193)	(5,627)
Interest payable and similar charges		11,986	12,093
Interest and investment income		-	(1)
Pensions interest costs and expected return on pensions assets		1,133	1,814
Capital Grants & Contributions Receivable		(2,400)	-
(Surplus)/ deficit for the year on HRA services		(22,653)	(11,419)

THE MOVEMENT IN RESERVES ON THE HRA STATEMENT

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

	Note No.	2019/20 £000	2018/19 £000
HRA surplus balance brought forward		(15,272)	(14,535)
(Surplus)/deficit for the year on the HRA Comprehensive Income and Expenditure Statement		(22,653)	(11,419)
Amounts included in the HRA Comprehensive Income and Expenditure Statement but are required by statute to be excluded when determining the movement on the HRA balance for the year			
Transfer to/(from) Major Repairs Reserve	3		
Amortisation of intangible assets		(59)	(43)
Gain or loss on revaluation of non-current assets		(79)	(133)
Gain or loss on sale of HRA non-current assets		4,193	5,865
Capital Grants & Contributions Receivable		2,400	-
Revenue expenditure funded from capital under statute	3 & 4	(333)	(816)
Net charges made for retirement benefits in accordance with IAS19		(3,820)	(4,249)
		2,302	624
Amounts excluded in the HRA Comprehensive Income and Expenditure Statement but are required by statute to be included when determining the movement on the HRA balance for the year			
Amortisation of premiums and discounts		-	98
Capital expenditure funded by the Housing Revenue Account	3	10,000	10,199
Housing pooled capital receipt			(236)
		10,000	10,061
Contributions to/from reserves			
Short-Term Accumulating Compensated Absences (STACA)		22	(2)
Transfer to/from HRA Balances			
		22	(2)
Net additional amounts		12,324	10,683
(Increase)/decrease in HRA balance for the year		(10,329)	(736)
HRA balance carried forward		(25,601)	(15,271)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. NUMBER AND TYPE OF DWELLINGS IN THE HOUSING STOCK

Types of Property	**2019/20**	**2018/19**
Houses	**5,191**	5,207
Flats	8,274	8,268
Total Dwellings	13,465	13,475

2.1. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY ASSETS CATEGORY VALUES

2019/20	**Council Dwellings £000**	**Other Land and Buildings £000**	**Surplus Assets £000**	**Assets Held For Sale £000**	**Total £000**
Net book value as at 1 April 2019	954,041	14,401	244	1,345	970,031
Gross book value as at 1 April 2019	954,041	14,478	250	1,345	970,114
Additions	50,856				50,856
Revaluation increase/(decrease) recognised in the Revaluation Reserve	(28,333)	(472)	25		(28,780)
Revaluation increase/(decrease) recognised in Income and Expenditure		(123)			(123)
Derecognition - Disposals	(4,407)			(1,345)	(5,752)
Derecognition - Derecognitions					0
Transfers/Reclassifications					0
Other movements in cost or valuation		(448)			(448)
Gross book value as at 31 March 2020	972,157	13,435	275	0	985,867
Accumulated Depreciation and Impairment					
At 1 April 2019	0	77	6		83
Depreciation for year	11,875	442	6		12,323
Depreciation written out to the Revaluation Reserve	(11,875)	(422)	(12)		(12,309)
Depreciation written out to Income and Expenditure		(44)			(44)
Derecognition - Disposals					0
Transfers/Reclassifications					0
Other movements in depreciation and impairment					0
Accumulated Depreciation and Impairment at 31 March 2020	0	53	0	0	53
Net book value as at 31 March 2020	972,157	13,382	275	0	985,814

The Council is required to charge depreciation on all HRA properties, including non-dwelling properties.

Depreciation is charged on Council dwellings, excluding garages and parking spaces. It is calculated on the basis of their fair value which is then adjusted by the Existing Use Value - Social Housing factor.

2.2. PROPERTY, PLANT AND EQUIPMENT ASSETS CATEGORY VALUES

The depreciation charge in respect of HRA dwellings is a real charge in the HRA. Unlike depreciation charges in respect of other Local Authority assets, it is not offset against Minimum Revenue Provision (MRP) or reversed out.

The physical properties represented in the financial tables and their vacant possession value are disclosed below:

	31 March 2020	31 March 2019
Total Dwellings	13,465	13,475
Leaseholds	2,502	2,470
Garages	2,634	2,635
Parking Spaces	109	108
	18,710	18,688
	£M	**£M**
Vacant possession value of dwellings at 31 March 2020	£3,887	
Vacant possession value of dwellings at 31 March 2019	£3,814	£3,814
Vacant possession value of dwellings at 31 March 2018	£3,957	£3,957
Vacant possession value of dwellings at 31 March 2017		£3,626

The vacant possession value is the Authority's estimate of the total sum that it would receive if all the assets were sold on the open market.

For the Balance Sheet, Council dwellings are required, by the Housing Revenue Account (Accounting Practices) Directions 2007, to be valued in a way that reflects their occupation by sitting tenants enjoying rents at less than open market rents and tenants' rights including the Right to Buy. This reduction from vacant possession values is achieved by the application of an adjustment, known as Existing Use Value - Social Housing (EUV-SH) factor. It is calculated by Government at 25% giving a value of £3,814m x 25% = £954m as at 31 March 2019

The valuation of council dwellings as at 31 March 2020 was undertaken by Wilks Head & Eve. This led to an increase in the vacant possession value of £73m to £3,887m.The EUV-SH value was £3,887m x 25% = £972m as at 31 March 2020.

The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to Government of providing Council housing at less than market rents.

NOTES TO THE HOUSING REVENUE ACCOUNT

3. CAPITAL EXPENDITURE

	2019/20 £000	2018/19 £000
Expenditure		
Non-current assets (buildings)	50,856	29,163
Revenue expenditure funded from capital under statute	333	816
Intangible assets	185	80
	51,374	30,059
Financed By		
Borrowing	16,427	0
Capital receipts	10,225	5,139
Government grants and other contributions	2,400	0
Direct revenue contributions	10,000	10,200
Major Repairs Reserve	12,322	14,720
	51,374	30,059

Capital Receipts

	2019/20 £000	2018/19 £000
Balance brought forward	32,599	44,400
Mortgage repayments	0	0
Net surplus for year	0	0
Receipts from sales of assets during the year	10,105	13,777
Cost of disposals	(160)	(237)
Transfer to Housing Capital Receipts Pool (via General Fund)	(3,537)	(2,013)
Balance of receipts after transfer	6,408	11,527
Balance on account before application of receipts	39,007	55,927
Financing of capital expenditure	(19,035)	(23,328)
Balance carried forward	19,972	32,599

Major Repairs Reserve

Authorities are required by the Accounts and Audit (England) Regulations 2011 to maintain the Major Repairs Reserve (MRR), which controls an element of the capital resources required to be used on HRA assets or for capital financing

	2019/20 £000	2018/19 £000
Opening balance as at 1 April	0	1,929
Depreciation charge to HRA	12,322	12,791
Capital expenditure during the year	(12,322)	(14,720)
Other reserve adjustments	0	0
Closing balance as at 31 March	0	0

NOTES TO THE HOUSING REVENUE ACCOUNT

4. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute relates to expenditure on assets that do not belong to the Council.
The amounts are written out in the movement in reserves statement within the HRA.

5. HRA SHARE OF CONTRIBUTIONS TO THE PENSIONS RESERVE

The HRA contribution to the Pensions Reserve is based on the employer's contributions for the HRA as a proportion of the total employers' contributions to the Pension Fund and calculated in accordance with IAS19.

6. DEBTORS AND ALLOWANCE FOR CREDIT LOSSES

	2019/20		2018/19	
	Debtors	**Allowance for Credit Losses**	**Debtors**	**Allowance for Credit Losses**
	£000	**£000**	**£000**	**£000**
Housing Revenue Account rents	11,646	(7,036)	10,524	(6,330)
Housing Revenue Account lease holder service charges/major works	3,077		3,772	0
Housing Revenue Account other debtors	22		20	0
	14,744	(7,036)	14,316	(6,330)

COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

		2019/20			2018/19		
	Note No.	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
INCOME DUE							
Council Tax-payers	2		223,809	223,809		211,148	211,148
	1(a)		-	0			
Business Rates		118,670		118,670	121,185		121,185
Transition grant from MHCLG	1(b)	2,512		2,512	5,317		5,317
Crossrail Business Rate Supplement		3,237		3,237	3,514		3,514
Total Income		124,419	223,809	348,228	130,016	211,148	341,164
EXPENDITURE							
Charges to the Collection Fund:							
Changes in Provision for Bad and Doubtful Debts		1,038	2,348	3,386	(2,619)	1,594	(1,025)
Write-offs of Bad Debt		1,150	60	1,210	2,406	85	2,491
Changes in Provision for Appeals		(2,749)	-	(2,749)	(5,049)		(5,049)
Transfer to designated area (Growth Zone)		2,021		2,021	2,512		2,512
Cost of Collection		417	-	417	426		426
Cost of Collection - Crossrail		7		7	8		8
		1,884	2,408	4,292	(2,316)	1,679	(637)
Total Income less Charges		122,535	221,401	343,936	132,332	209,469	341,801
Precepts, Demands and Shares:	3						
London Borough of Croydon		59,762	180,026	239,788	78,025	167,359	245,384
Greater London Authority (GLA)		33,616	41,324	74,940	43,889	36,673	80,562
Housing, Communities and Local Government (CLG)		31,126	-	31,126			0
Greater London Authority (Crossrail)	1(b)	3,229	-	3,229	3,506		3,506
Adjustment relating to previous year agreed with MHCLG							
London Borough of Croydon		661		661			
Greater London Authority (GLA)		373		373			
(Surplus)/Deficit for year		6,232	(51)	6,181	(6,912)	(5,437)	(12,349)
Distribution of Previous Year's Collection Fund Surplus:							
London Borough of Croydon		2,519	4,061	6,580	3,927	4,841	8,768
Greater London Authority (GLA)		(49)	890	841	2,735	1,060	3,795
Housing, Communities and Local Government (CLG)		(2,403)	0	(2,403)	6,427		6,427
Total Distribution of Previous Year's Collection Fund Surplus		67	4,951	5,018	13,089	5,901	18,990
Movement of Collection Fund in the Year		6,299	4,900	11,199	6,177	464	6,641
Balance brought forward (surplus)/deficit		293	(5,702)	(5,409)	(5,884)	(6,166)	(12,050)
Balance carried forward (surplus)/deficit		6,592	(802)	5,790	293	(5,702)	(5,409)
Allocation of surplus							
Surplus declared in the January Delegation report to be distributed in the following year:							
London Borough of Croydon		1,725	(605)	1,121	(2,519)	(4,060)	(6,579)
GLA		970	(136)	834	49	(891)	(842)
CLG		305		305	2,403	0	2,403
Fund balance and deficit carried forward:							
London Borough of Croydon		1,662	(52)	1,610	257	(616)	(359)
GLA		933	(8)	925	129	(135)	(6)
CLG		995		995	(26)		(26)
		6,591	(801)	5,790	293	(5,702)	(5,409)

NOTES TO THE COLLECTION FUND

INTRODUCTION

This account summarises the transactions of the Collection Fund, the purpose of which is to receive Council Tax and Non-Domestic Rates and apply the proceeds. The Council, together with the Greater London Authority and the Ministry of Housing, Communities and Local Government, demands/precepts upon the Fund to meet its expenditure, from both Council Tax and Non-Domestic Rates. The amounts of the demands/precepts are set at the beginning of the year and cannot vary.

The account is a statutory Fund required by the Local Government Finance Act 1988, separate from the other revenue accounts of the Council, whose transactions are wholly prescribed by legislation. The Council has no discretion to determine which receipts and payments are accounted for within and outside the Fund.

The Collection Fund is consolidated into the Council's Balance Sheet; there is no requirement to prepare a separate Balance Sheet.

1 (a) NATIONAL NON-DOMESTIC RATES COLLECTABLE

The Council collects Non-Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform basis set nationally by Central Government. Prior to 1st April 2013, the total amount due, less certain allowances, was paid to a central pool administered by Central Government, which, in turn, paid Local Authorities their share of the pool, such shares being based on a standard amount per head of population.

In 2013/14, the administration of NDR changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectable rates due with the rest distributed to preceptors. 2018/19 saw the amount retained by Local Government increase to 100%: as London piloted a 100% retention pool. In 2019/20, the retention rate changes to 75%, which is consistent across England.

	2017-18	**2018-19**	**2019-20**
► Central Government	33%	0%	25%
► London Borough of Croydon	30%	64%	48%
► Greater London Authority	37%	36%	27%

The total Non Domestic Rateable Value as at 31 March 2020 was £319,337,473 (£323,313,283 at 31 March 2019). The multiplier for 2018/19 was set at 50.4p (49.3p for 2018/19) and the multiplier for small businesses was set at 49.10p (48.0p for 2018/19).

1 (b) CROSSRAIL BUSINESS RATE SUPPLEMENT

The Greater London Authority (GLA) introduced a business rate supplement (BRS) on 1 April 2010 to finance £4.1 billion of the costs of the £15.9 billion Crossrail project. This is levied at a rate of 2p (the BRS multiplier) on non-domestic properties in London with a rateable value of over £55,000 (i.e. £55,001 or more). The total amount collected less certain relief and other deductions is paid to the Greater London Authority.

2. COUNCIL TAX BASE

Council Tax is a banded capital value based property tax with a 25% discount where only one adult is liable. Under the arrangements for Council Tax, each domestic property within the Council's area was assigned to one of eight valuation bands based on the estimated market value at 1 April 1991. The income derives from the Tax levied according to which of the eight bands a property has been assigned.

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting Authorities and the Council for the forthcoming year and dividing this by the Council Tax Base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent). The basic amount of Council Tax so calculated for a Band D property, £1,716.82 for 2019/20 (£1,636.96 for 2018/19) is multiplied by the proportion specified for the particular band to give an individual amount due.

NOTES TO THE COLLECTION FUND

2. COUNCIL TAX BASE (continued)

Council Tax bills are based on the following proportions and property numbers for Bands A to H:

Council Tax Base 2019/20

Valuation Band	Number of Chargeable Dwellings	Band D Proportion	Band D Equivalent Dwellings	Council Tax £.pp	Council Tax Income £000
Band A	2,325	6/9	1,550	1,144.55	1,774
Band B	13,951	7/9	10,851	1,335.30	14,489
Band C	36,087	8/9	32,077	1,526.06	48,951
Band D	34,798	9/9	34,798	1,716.82	59,742
Band E	19,868	11/9	24,283	2,098.34	50,954
Band F	10,813	13/9	15,619	2,479.85	38,733
Band G	7,086	15/9	11,810	2,861.37	33,793
Band H	625	18/9	1,250	3,433.64	4,292
Total	125,553		132,238		252,728
Multiplied by estimated collection rate			97.50%		
Number of Band D equivalent dwellings			128,931		
Total of Demands/Precepts for year			246,410		
Adjustments during the year (including prior years)					(28,919)
Final collectable amount					223,809
Income per Collection Fund:					
Council Tax collectable					0
Council Tax benefits					0
Final collectable amount					223,809

NOTES TO THE COLLECTION FUND

3. DEMANDS AND PRECEPTS

The Collection Fund is required to meet in full during the financial year the precepts and demands made on it by precepting Authorities and its own requirement as the billing Authority. Croydon Council's only precepting body is the Greater London Authority (GLA). The GLA requirement includes the budgets of its five functional bodies i.e. the Mayor's Office for Policing & Crime the London Fire and Emergency Planning Authority, Transport for London and the London Legacy Development Corporation.

This item therefore comprises the precept informed to Croydon by the GLA and its own demand, determined as required by the 1992 Act before the start of the financial year. The Authority's own payment is made direct to the General Fund.

	2019/20 £.pp	2018/19 £.pp
Band D equivalent Council Tax charge		
Split thereof:		
Croydon	1,396.31	1,342.73
Greater London Authority	320.51	294.23
Total	1,716.82	1,636.96
Payment to Croydon:-		
Share of Band D equivalent Council Tax charge	1,396.31	1,342.73
Number of Band D equivalent dwellings	128,931	124,641
Total	180,027,645	167,359,210
Rounded to £000's	180,028	167,359
Payment to the Greater London Authority:-		
Share of Band D equivalent Council Tax charge	320.51	294.23
Number of Band D equivalent dwellings	128,931	124,641
Total	41,323,675	36,673,121
Rounded to £000's	41,324	36,673

GROUP STATEMENTS

GROUP MOVEMENT IN RESERVES STATEMENT

2019/20	General Fund Balance £000	Earmarked GF Reserves Balance £000	Total General Fund Balance £000	HRA Balance £000	Capital Receipts Balance £000	Capital Grants Unapplied Balance £000	Major Repairs Reserve Balance £000	Total Usable Reserves Balance £000	Total Unusable Reserves Balance £000	Total Authority Reserves Balance £000	Council's Share of ubsidiaries' Balance £000	Total Reserves Balance £000
Balance b/f at 1 April 2019	**10,393**	**8,766**	**19,159**	**15,272**	**32,598**	**17,677**	**0**	**84,706**	**132,486**	**217,192**	**(1,137)**	216,055
Movement in reserves during 2019/20:												
Surplus or (deficit) on provision of services	(296,712)		(296,712)	22,654				(274,058)	0	(274,058)	(720)	(274,778)
Other Comprehensive Expenditure and Income									259,645	259,645		259,645
Total Comprehensive Expenditure and Income	(296,712)	0	(296,712)	22,654	0	0	0	(274,058)	259,645	(14,413)	(720)	(15,133)
Adjustments between group accounts and authority accounts	83		83					83		83	(83)	0
Net increase or decrease before transfers	(296,629)	0	(296,629)	22,654	0	0	0	(273,975)	259,645	(14,330)	(803)	(15,133)
Adjustments between accounting basis and funding basis under regulations	289,836		289,836	(12,324)	(12,356)	(3,893)	0	261,263	(261,262)	1		1
Net increase/Decrease before Transfers to Earmarked Reserves	(6,793)	0	(6,793)	10,330	(12,356)	(3,893)	0	(12,712)	(1,617)	(14,329)	(803)	(15,132)
Transfers to/(from) Earmarked Reserves	(3,600)	3,600	0					0		0		0
Net increase/(decrease) in reserves for the year	(10,393)	3,600	(6,793)	10,330	(12,356)	(3,893)	0	(12,712)	(1,617)	(14,329)	(803)	(15,132)
Balance c/f at 31 March 2020	0	12,366	12,366	25,602	20,242	13,784	0	71,994	130,869	202,863	(1,940)	200,923

Restated 2018/19 (Note 43)	General Fund Balance £000	Earmarked GF Reserves Balance £000	Total General Fund Balance £000	HRA Balance £000	Capital Receipts Balance £000	Capital Grants Unapplied Balance £000	Major Repairs Reserve Balance £000	Total Usable Reserves Balance £000	Total Unusable Reserves Balance £000	Total Authority Reserves Balance £000	Council's Share of ubsidiaries' Balance £000	Total Reserves Balance £000
Restated balance b/f at 1 April 2018	**10,393**	**17,190**	**27,583**	**14,535**	**52,181**	**14,305**	**1,929**	**110,533**	**360,763**	**471,296**	**(479)**	470,817
Movement in reserves during 2018/19:												
Surplus or (deficit) on provision of services	(245,174)		(245,174)	11,419				(233,755)	0	(233,755)	(596)	(234,351)
Other Comprehensive Expenditure and Income				0				0	(20,411)	(20,411)		(20,411)
Total Comprehensive Expenditure and Income	(245,174)	0	(245,174)	11,419	0	0	0	(233,755)	(20,411)	(254,166)	(596)	(254,762)
Adjustments between group accounts and authority accounts	62		62					62		62	(62)	0
Net increase or decrease before transfers	(245,112)	0	(245,112)	11,419	0	0	0	(233,693)	(20,411)	(254,104)	(658)	(254,762)
Adjustments between accounting basis and funding basis under regulations	236,688		236,688	(10,682)	(19,583)	3,372	(1,929)	207,866	(207,866)	0		0
Net increase/Decrease before Transfers to Earmarked Reserves	(8,424)	0	(8,424)	737	(19,583)	3,372	(1,929)	(25,827)	(228,277)	(254,104)	(658)	(254,762)
Transfers to/(from) Earmarked Reserves	8,424	(8,424)	0					0		0		0
Net increase/(decrease) in reserves for the year	0	(8,424)	(8,424)	737	(19,583)	3,372	(1,929)	(25,827)	(228,277)	(254,104)	(658)	(254,762)
Balance c/f at 31 March 2019	10,393	8,766	19,159	15,272	32,598	17,677	0	84,706	132,486	217,192	(1,137)	216,055

Full details of the adjustments between accounting basis and funding basis under regulations are shown in Note 7

Further details about the movements in earmarked reserves can be found in Note 8, and details around movements in all reserves can be found in Note 22 and 23.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	Note/Page No.	2019/20 Gross £000	Income £000	Net £000	Restated 2018/19 (Note 43) Gross £000	Income £000	Net £000
Gross expenditure, income and net expenditure of continuing operations							
Place		283,850	(154,393)	129,457	117,837	(68,583)	49,254
Children, Families & Education		365,308	(223,522)	141,786	376,068	(251,032)	125,036
Health, Wellbeing & Adults		193,035	(71,787)	121,248	211,045	(82,521)	128,524
Gateway, Strategy & Engagement		100,616	(47,593)	53,023	107,076	(42,042)	65,034
Resources		424,563	(356,892)	67,671	400,654	(315,046)	85,608
HRA		56,380	(85,561)	(29,181)	72,394	(91,561)	(19,167)
Net cost of services		1,423,752	(939,748)	484,004	1,285,074	(850,785)	434,289
Other operating expenditure	9			39,625			41,014
Financing and Investment Income and Expenditure	10			48,830			53,251
Taxation and Non-Specific Grant Income	11			(297,681)			(294,202)
(Surplus) or Deficit on Provision of Services				274,778			234,352
(Surplus) or deficit on revaluation of non-current assets				(12,644)			26,702
Remeasurement of the net defined benefit liability				(247,001)			(6,291)
Other Comprehensive Income and Expenditure				(259,645)			20,411
Total Comprehensive Income and Expenditure				15,133			254,763

GROUP BALANCE SHEET

The Balance Sheet shows the Council's position at the end of the year for all activities and services except the Pension Fund and trust funds, which are held on behalf of third parties. All internal transactions between funds have been eliminated.

	Note No.	31-Mar-20		Note 43 Restated 31 March 2019	Note 43 Restated 1 April 2018
		£000	£000	£000	£000
Operational Assets (Property, Plant and Equipment)	12				
Council dwellings		972,157		954,042	989,648
Other land and buildings		907,498		808,673	790,943
Vehicles, plant, furniture and equipment		10,530		12,410	3,406
Infrastructure		154,179		147,841	142,336
Community assets		3,696		4,325	4,947
Total Operational Assets (Property, Plant and Equipment)			2,048,060	1,927,291	1,931,280
Non-Operational Assets (Property, Plant and Equipment)					
Assets under construction				54,631	4,402
Surplus assets not held for sale		2,553		6,493	2,181
Total Non-Operational Assets (Property, Plant and Equipment)			2,553	61,124	6,583
Total Property, Plant and Equipment			2,050,613	1,988,415	1,937,863
Heritage Assets	13	3,696		3,696	3,696
Investment property					
Investment property	14	118,379		98,979	29,714
Intangible Assets	15				
Software		12,251		8,880	5,062
Assets under construction					
Long-term Investments					
Non-property investments	Grp 4 &16	47,233		45,000	45,001
Investments in Associates and Joint Ventures					
Long-term Debtors	Grp 4 &16	9,985		2,965	21,309
Long-term Assets			2,242,157	2,147,935	2,042,645
Short-term Investments					
Non-property investments excluding cash equivalents	Grp 4 &16	13,000		30,000	5,000
Assets held for sale (< 1 year)	19	121,024		99,145	48,951
Inventories		1,112		771	689
Short-term debtors, payments in advance and provision for doubtful debts	Grp 5	121,659		176,326	137,843
Cash and cash equivalents	Grp 6	39,479		39,800	29,507
Current Assets			296,274	346,042	221,990
Bank overdraft	Grp 6	(17,374)		(10,322)	(20,311)
Short-term borrowing	Grp 4 &16	(303,691)		(225,198)	(107,204)
Short-term creditors and receipts in advance	Grp 7	(190,334)		(199,515)	(141,092)
Short-term provision	21	(4,835)		(3,529)	(3,424)
Current Liabilities			(516,234)	(438,564)	(272,031)
Long-term Creditors					
Provisions	21	(20,086)		(13,332)	(11,900)
Long-term borrowing	Grp 4 &16	(1,288,846)		(1,145,672)	(893,509)
Deferred capital creditors		(12,859)		(11,656)	(10,504)
Other non-current liabilities					
Net pensions liability	42	(472,620)		(652,954)	(593,911)
Other long term liabilities		(8,483)		-	
Capital grants receipts in advance	31	(18,377)		(15,743)	(11,959)
Long-term Liabilities			(1,821,271)	(1,839,357)	(1,521,783)
Net Assets			200,926	216,056	470,821
Usable reserves					
General Fund	22.1	0		10,395	10,395
Share of Brick by Brick reserves	Grp 8	(1,940)		(1,136)	(479)
Housing Revenue Account	22.2	25,602		15,271	14,535
Earmarked reserves	22.3	12,367		8,766	17,190
Capital receipts reserve	22.4	20,243		32,599	52,181
Capital grants unapplied	22.5	13,784		17,677	14,305
Major repairs reserve	22.2	-		0	1,929
			70,056	83,572	110,056
Unusable Reserves					
Revaluation reserve	23.1	642,944		658,650	718,692
Capital adjustment account	23.3	(25,193)		146,081	253,600
Financial Instruments adjustment account	23.4	(31,377)		(32,021)	(1,347)
Pensions reserve	23.5	(472,620)		(664,018)	(616,039)
Deferred capital receipts	23.6	20,826		20,826	2,463
Collection Fund adjustment account	23.7	(2,747)		6,932	6,824
Short-term accumulating compensated absences account	23.8	(3,196)		(3,966)	(3,428)
Pooled Investment Fund Adjustment Account		2,233			
			130,870	132,484	360,765
Total Reserves			200,926	216,056	470,821

Signed: Jane West

Corporate Director of Resources and Section 151 Officer

Jane West

7 March 2024

GROUP CASH FLOW STATEMENT

	Note	2019/20		Restated 2018/19 Note 43	
OPERATING ACTIVITIES	**No.**	**£000**	**£000**	**£000**	**£000**
Net (surplus) or deficit on the provision of services					
Net surplus or (deficit) on the provision of services	1A & 7		(274,777)		(234,353)
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements					
Depreciation	7,12 &32.2	41,700		36,904	
Impairment and downward valuations	7	64,678		16,465	
Amortisations	7,15&23.3	2,740		2,077	
Increase/(decrease) in creditors		1,215		55,869	
(Increase)/decrease in debtors		2,963		35,507	
(Increase)/decrease in inventories and assets held for sale		(84,646)		(79,719)	
Movement in pension liability	1B,7 & 23.5	55,603		54,270	
Carrying amount of non-current assets sold	23.3	44,938		70,125	
Provisions		8,059		1,538	
Movements in the value of investment properties	7,10,14 & 23.3	2,141		355	
Other non-cash movements		446		(39,666)	
			139,837		153,725
Items included/excluded from net surplus or deficit on the provision of services:					
Pension deficit pre-payment	5			-	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	22.4	(10,377)		(14,341)	
Payment of local taxation to major preceptors		(2,522)		(84,068)	
Any other items for which the cash effects are investing or financing cash flows		(4,638)		(15,618)	
			(17,537)		(114,027)
Net cash inflow/(outflow) from operating activities			(152,477)		(194,655)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment, investment property and intangible assets		(168,341)		(273,413)	
Purchase of short-term and long-term investments		(25,656)		(57,896)	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets		10,377		14,341	
Capital grants		23,020		9,014	
Proceeds from short-term and long-term investments		44,117		8,618	
Net cash inflow/(outflow) from investing activities			(116,483)		(299,336)
FINANCING ACTIVITIES					
Cash receipts from short-term and long-term borrowing		504,846		538,321	
Payment of local taxation to major preceptors		2,518		84,068	
Cash payments for the reduction of the outstanding liabilities		0		-	
to finance leases and on-Balance Sheet PFI contracts (Principal)		(2,270)		(2,116)	
Repayments of short-term and long-term borrowing		(243,507)		(106,000)	
Net cash inflow/(outflow) from financing activities			261,587		514,273
Net increase/(decrease) in cash and cash equivalents			(7,373)		20,282
Cash and cash equivalents at the beginning of the reporting period			29,478		9,196
Cash and cash equivalents at the end of the reporting period	18		22,105		29,478
Cash held	Grp 6	22,659			2,462
Bank current accounts	Grp 6	(40,003)			(12,784)
Short-term deposits with building societies and Money Market Funds	Grp 6	39,449			39,800
Cash and cash equivalents as at 31 March			22,105		29,478

NOTES REGARDING THE GROUP ACCOUNTS

The Group Accounting Policies
The Group Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and using the line-by-line consolidation method for subsidiaries under IFRS 10, Consolidated Financial Statements There are no material subsidiaries or associated organisations excluded from the Group Accounts. There are no material differences in the accounting policies of the Council or any of the companies or organisations forming part of the Group Accounts

Basis of Consolidation
The group financial statements have been prepared by consolidating Croydon Council's single entity accounts with Brick by Brick Croydon Limited, a separate development company that is a 100% subsidiary of the Council. There are no other entities controlled by Brick by Brick Croydon Limited.

Brick by Brick Croydon Limited - nature of activity and risks
The Company is a development company established by the London Borough of Croydon to deliver housing led development across the borough.

In 2019-20 the company recognised a loss of £0.8m. A number of sites are completed and being actively marketed

Brick by Brick Independent Audit Report 2019-20
Ensors Accountants LLP, the independent auditors of Brick by Brick have stated they are unable to "express an opinion on the… financial statements of the company", due to being unable to obtain sufficient evidence to provide a basis for an audit opinion.
The specific risks identified by Ensors Accountants LLP included:
1) There is limited evidence for loans advanced by the parent being supported by the terms of any agreements
2) There is a material uncertainty in respect of going concern and consequently the net realisable value of work in progress
3) The company is engaged in the speculative construction of residential properties for resale. Both future sale proceeds and costs to complete projects are inherently uncertain
4) Material errors were identified in the timing of recognising construction costs and by extension determining the accuracy of creditors and work in progress. Control weaknesses were identified between reconciling project costing records and the financial accounting records

Brick By Brick Croydon Limited - Loans between the parties
The Council has provided funding to Brick By Brick Croydon Limited to undertake development activity relating to a variety of sites around the borough. Loan balances, interest owed on these balances, and the provision of support services by Croydon Council to Brick By Brick Croydon Limited have been eliminated from the group statements.

At 31 March 2020, the balance of loans outstanding from Brick By Brick Croydon Limited to Croydon Council are set out below, along with the financial activity between the Council and Brick by Brick Croydon Limited:

	2019/20 £'000	**2018/19 £'000**
Site Acquisition		499
Development Costs	132,075	58,052
Interest	9,198	5,000
Total loans	**141,273**	**63,551**

	2019/20 £'000	**2018/19 £'000**
Staff costs	-	540
Planning fees	-	-
Other running costs	-	8
Interest Costs	-	3,353
Utility costs	-	142
Total inter-group activity	**-**	**4,043**

These sums have been eliminated from the group statements.

2. Group prior period adjustments

The 2018/19 group accounts were restated to reflect the change in treatment of the Dedicated School Grant deficit and for the treatment of expenditure on the renovation of Fairfield Halls. Further details of the prior period adjustments are given in Note 43

The 2018/19 group accounts are also restated to reflect prior period adjustments within the 2019-20 Brick by Brick accounts. and the changes in the treatment of expenditure on Fairfield Halls. These changes are as follows, which includes, where appropriate, the amendments due to the Dedicated School Grant :

		Original 2018-19 £'000	Restated 2018-19 £'000
Group MIRS	Balance b/f at 1 April 2018 - General Fund balance	7,738	10,393
	Balance b/f at 1 April 2018 - Earmarked Reserves	18,153	17,190
	Balance b/f at 1 April 2018 - Capital receipts	55,422	52,182
	Balance b/f at 1 April 2018 - Total usable reserves	112,082	110,535
	Balance b/f at 1 April 2018 - Total unusable reserves	388,028	360,763
	Balance b/f at 1 April 2018 - council's share of subsidiary	(512)	(479)
	Balance b/f at 1 April 2018 - Total reserves	499,598	470,820
	Surplus or (deficit) on provision of services - GF	(227,115)	(245,174)
	Surplus or (deficit) on provision of services - subsidiaries	677	(596)
	Other Comprehensive Expenditure and Income -- Unusable reserves	(21,030)	(20,411)
	Adjustments between group accounts and authority accounts - General Fund balances	-	62
	Adjustments between group accounts and authority accounts - Council's share of subsidiaries balance	-	(62)
	Adjustments between accounting basis and funding basis under regulations - General Fund	224,258	236,690
	Adjustments between accounting basis and funding basis under regulations - Capital Receipts	(22,824)	(19,583)
	Adjustments between accounting basis and funding basis under regulations - Unusable reserves	(192,195)	(207,866)
	Transfers / to / from reserves - General Fund	194	8,424
	Transfers / to / from reserves - Earmarked reserves	(194)	(8,424)
	Balance c/f at 31 March 2019 - General Fund	5,075	10,395
	Balance c/f at 31 March 2019 - earmarked reserves	17,959	8,766
	Balance c/f at 31 March 2019 - total usable reserves	88,581	84,710
	Balance c/f at 31 March 2019 - total unusable reserves	174,805	132,486
	Balance c/f at 31 March 2019 - subsidiaries	(1,189)	(1,136)
	Balance c/f at 31 March 2019 - total reserves	262,197	216,060
Group CI&E	Place	46,794	49,254
	Children, Families & Education	106,467	125,036
	Health, Wellbeing & Adults	115,176	128,524
	Gateway, Strategy & Engagement	60,866	65,034
	Resources	111,786	85,608
	Other operating expenditure	32,439	41,014
	Financing and Investment Income and Expenditure	56,215	53,251
	(Surplus) or deficit on revaluation of non-current assets	27,321	26,702
	Total Comprehensive Income and Expenditure	237,403	254,762
Group Balance Sheet	Other land and buildings	767,864	808,673
	Vehicles, plant, furniture and equipment	12,356	12,410
	Assets under construction	123,218	54,631
	Long term Debtors	66,471	2,965
	Assets held for sale (< 1 year)	8,328	99,145
	Short-term debtors, payments in advance and provision for doubtful debts	177,880	176,326
	Cash & cash equivalents	90,721	39,800
	Bank overdraft	(61,651)	(10,322)
	Short-term creditors and receipts in advance	(166,034)	(199,515)
	Long-term borrowing	(1,131,916)	(1,145,672)
	General Fund reserve	7,732	10,395
	Share of Brick by Brick reserves	(1,189)	(1,136)
	Earmarked reserves	17,959	8,766
	Revaluation Reserve	677,685	658,650
	Capital Adjustment Account	169,364	146,081
Group Cash Flow	Net surplus or (deficit) on the provision of services	(213,710)	(234,353)
	Depreciation	37,276	36,904
	Impairment and downward valuations	12,168	16,465
	Increase/(decrease) in creditors	33,232	55,869
	(Increase)/decrease in debtors	36,046	35,507
	(Increase)/decrease in inventories & Assets held for sale	(81)	(79,719)
	Carrying amount of non-current assets sold	122,280	70,125
	Proceeds from the sale of property, plant and equipment,	(75,071)	(14,341)
	Purchase of property, plant and equipment	(309,333)	(273,413)
	Purchase of short-term and long-term investments	(76,476)	(57,896)
	Proceeds from the sale of property, plant and equipment,	75,071	14,341
	Cash held	34	2,462
	Bank current accounts	(59,663)	(61,685)

NOTES REGARDING THE GROUP ACCOUNTS

The following notes relate to the Group Structure, as described in Note 40 of the accounts. These notes detail where the group accounts are materially different from the single entity accounts. Where there is no material difference between the single and group entities, please refer to the relevant note for the single entity

3. GROUP ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Valuation of Brick by Brick assets under construction
The company applies a valuation to its work in progress based on the stage of completion of the project and in accordance with the project development plan agreed at the outset of the project. All valuations are performed by employees of the company who are qualified surveyors who are best placed in judging the stage of completion for all individual projects. In estimating the carrying value of work in progress the directors also have to estimate whether each project will be profitable or not in order that the financial statements reflect the carrying value at the lower of cost and net realisable value.

All other assumptions about the future and major sources of estimation uncertainty are the same as the single entity accounts. These can be found in Note 4 of the single entity accounts - "Assumptions made about the future and other major sources of estimation uncertainty"

4. GROUP FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity. Non exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The following categories of financial instrument (investments, lending and borrowing) are carried in the Balance Sheet:

The material differences between the group accounts and the single entity accounts are included below. Other details of the group's financial instruments are materially the same as the single entity's, which are explained in Note 16, "Financial Instruments" of the single entity accounts.

FINANCIAL INSTRUMENTS BALANCES

	31 March 2020 £000	31 March 2019 Restated £000	31 March 2020 £000	31 March 2019 Restated £000
<u>Group Financial Liabilities</u>	Non-Current	Non-Current	Current	Current
Borrowings				
Financial liabilities at amortised cost	1,224,767	1,069,072	302,000	223,507
Service concessions and finance lease liabilities	74,329	76,600	1,691	1,691
Total borrowings	1,299,096	1,145,672	303,691	225,198
Creditors				
Financial liabilities at amortised cost	0	0	140,754	153,505
Creditors that are not a financial instrument	0	0	49,580	46,011
Cash and cash equivalents	0	0	39,479	39,800
Total Creditors	0	0	229,813	239,316

<u>Group Financial Assets</u>	Non-Current		Current	
Financial Assets at Amortised Cost				
Investments			13,000	30,000
Loans and Receivables (2018/19 restated - Note 43)	9,985	21,556		
Debtors			97,471	158,718
Cash and cash equivalents			40,033	12,784
Fair value through profit and loss				
Investments	47,233	45,000		
Debtors				
Debtors that are not financial instruments			24,186	17,608
Total Financial Assets	57,218	66,556	174,690	219,110

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

	Fair Value Hierarchy	31 March 2020 Carrying Amount £000	Fair Value £000	31 March 2019 Carrying Amount £000	Fair Value £000
Money Market Loans	level 1	54,733	54,733	88,701	88,701
Deposits with banks and other Local Authorities	level 2	13,000	13,000	30,000	30,000
Long-term debtors	level 2	9,985	21,556	9,985	21,556
Financial Assets		77,718	89,289	128,686	140,257

5. GROUP DEBTORS

The amounts receivable at the reporting date are shown in the table below:

	2019/20 £000	Restated 2018/19 £000
Trade receivables	220,625	200,792
Prepayments	14,371	9,327
Other receivable amounts	40,851	37,897
Allowance for credit losses	(154,188)	(71,690)
Total	121,659	176,326

The aged debt status of debt arising from local taxation is not judged to be material.

6. GROUP CASH AND CASH EQUIVALENTS

	2019/20 £000	Restated 2018/19 £000
Cash held	22,659	2,462
Bank current accounts	(40,033)	(12,784)
Short-term deposits with building societies and Money Market Funds	39,479	39,800
Total	22,105	29,478

7. GROUP CREDITORS AND RECEIPTS IN ADVANCE (RIA)

	2019/20 £000	Restated 2018/19 £000
Receipts in advance	22,956	16,281
Trade payables	142,579	142,948
Other payables	19,017	29,730
Total	184,552	188,959

8. GROUP RESERVES

The council's reserves in the group accounts are the same as the single entity accounts. These are included in Note 22 (Usable Reserves) and Note 23 (Unusable Reserves) of the single entity accounts

The group accounts includes the Brick By Brick reserves

Brick By Brick usable reserves	2019/20 £000	2018/19 £000
Retained earnings / (losses)	**(1,940)**	-1,137

Brick By Brick unusable reserves	2019/20 £	2018/19 £
Called up share capital	**100**	100

Croydon Pension Fund

31st March 2020

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REPORT OF THE AUDITOR

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PENSION FUND ACCOUNTS

FUND ACCOUNT

	Notes	2019/20 £'000	2018/19 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	52,208	47,808
Individual Transfers in from Other Pension Funds		14,179	11,584
		66,387	**59,392**
Benefits			
Pensions	9	(46,540)	(43,431)
Commutation, Lump Sum Retirement and Death Benefits	9	(10,310)	(8,923)
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		(10,641)	(5,445)
Refunds to Members Leaving Service		(128)	(349)
		(67,619)	**(58,148)**
Net additions/(withdrawals) from dealings with members		**(1,232)**	**1,244**
Management Expenses	10	**(11,425)**	**(8,167)**
		(12,657)	**(6,923)**
RETURNS ON INVESTMENTS			
Investment Income	11	9,425	5,469
Taxes on Income (Irrecoverable Withholding Tax)	11	0	(1)
Profit and loss on disposal of investments and changes in the market value of investments	13	1,912	120,171
Net returns on investments		**11,337**	**125,639**
Net increase/(decrease) in the Fund during the year		**(1,320)**	**118,716**
Net assets at the start of the year		1,258,159	1,139,443
Net assets at the end of the year		**1,256,839**	**1,258,159**

PENSION FUND ACCOUNTS

NET ASSETS STATEMENT

	Notes	31 March 2020 £'000	31 March 2019 £'000
Investments held by the Fund Managers:			
Equities - segregated funds	13	150	150
Equities - pooled funds	13	425,959	516,037
Private equity funds	13	114,466	114,703
Infrastructure funds	13	167,135	145,358
Fixed Interest funds	13	288,816	282,419
Pooled Property funds	13	177,291	178,566
Total Investments held by the Fund Managers		1,173,817	1,237,233
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	9,809	6,452
Investment income due	13	1,271	1,557
Total Other Balances held by the Fund Managers		11,080	8,009
Total Assets held by the Fund Managers		1,184,897	1,245,242
Current Assets	16	93,415	15,064
Current Liabilities	17	(21,473)	(2,147)
Net Assets of the fund available to fund benefits		**1,256,839**	**1,258,159**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the fund which does take into account such obligations is dealt with in note 22.

NOTES TO THE PENSION FUND ACCOUNTS

1. GENERAL INFORMATION

In addition to acting as a Local Authority, Croydon Council administers the Local Government Pension Scheme. As a Local Authority it is accountable to the residents of the London Borough of Croydon for its stewardship of public funds. As an administering authority for the LGPS it is accountable both to employees who are members of the Pension Fund, and to past employees in receipt of a pension, for its stewardship of pension assets. The two roles, and the relevant interest groups, are significantly different. Consequently, the Pension Fund accounts are presented as a supplementary statement to clearly demonstrate the distinction.

The London Borough of Croydon Pension Fund (the Fund) operates a contributory Career Average Revalued Earnings (CARE) scheme whose purpose is to provide benefits to all of the Council's employees, with the exception of teaching and NHS staff, and to the employees of admitted and scheduled bodies who are members of the Fund. These benefits include retirement pensions and lump sums, ill-health retirement benefits and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:
the Local Government Pension Scheme Regulations 2013, (as amended);
the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, (as amended);
the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The financial statements have been prepared in accordance with the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice on Local Authority Accounting in the United Kingdom is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Below is a list of the admitted and scheduled bodies contributing to the Fund:

Admitted:
AXIS Europe plc (Housing Repairs), Brick by Brick Croydon Limited, Capita Secure Information Solutions Limited, Conway Construction & Training Ltd, Churchill Services Limited, Croydon Citizen's Advice Bureau, Croydon Equipment Services Limited, Croydon Community Mediation, Croydon Voluntary Action, Ground Control Limited, Impact Group Limited, Keyring Living Support Networks, London Hire Services Limited, Octavo Partnership Limited, Hats Group Ltd, Olive Dining Limited, Roman Catholic Archdiocese of Southwark, Skanska Construction UK Limited, Sodexo Limited, National Cleaning Service Limited, Veolia Environmental Services (UK) Recycling Limited (Croydon), Vinci Facilities Limited, Veolia Environmental Services (UK) Recycling Limited (SLWP1) & (SLWP2), Wallington Cars & Couriers Limited, Westgate Cleaning Services Limited, Arthur Mckay Limited, Greenwich Leisure Limited, Idverde Limited

Scheduled:
Meridian (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School, ARK Oval Primary Academy, Atwood Primary School, BRIT School, Broadmead Primary Academy, Castle Hill Academy, Chesnut Park Primary School, Chipstead Valley Primary School, Coulsdon College, Crescent Primary Academy, Croydon College, David Livingstone Academy, Orchard Park High School, Fairchildes Academy Community Trust, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Purley Way) Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), Harris Invictus Academy Croydon, Harris Primary Academy Haling Park, Heathfield Academy, New Valley Primary, Norbury Manor Business and Enterprise College, Oasis Academy Byron, Oasis Academy Arena, Oasis Academy Coulsdon, Oasis Academy Ryelands, Oasis Academy Shirley Park, Pegasus Academy Trust, Quest Academy, Riddlesdown Collegiate, Robert Fitzroy Academy, Rowdown Primary School, Shirley High School Performing Arts College, South Norwood Academy, St Chad's Catholic Primary School, Davidson Primary Academy, Krishna Avanti Primary School, St Cyprian's Greek Orthodox Primary School Academy, St James the Great RC Primary and Nursery School, St Joseph's College, St Mark's COE Primary School, St Mary's Infants School, St Mary's Junior School, St Thomas Becket Catholic Primary School, Winterbourne Junior Boys, West Thornton Primary Academy, Wolsey Junior Academy, Paxton Academy, Woodcote High School, The Woodside Academy, STEP Academy Trust, St Aidans Catholic Primary, Kingsley Primary Academy
Folio Education Trust, Courtwood Primary, Monks Orchard Primary, Keston Primary, Glibert Scott, Manor Trust
The Beckmead Trust, Tudor Academy

1. GENERAL INFORMATION (continued)

Management of the Fund

The London Borough of Croydon has a statutory responsibility to administer and manage the London Borough of Croydon Pension Fund on behalf of all the participating employers of the Fund in Croydon and the past and present contributing members and their dependents.

The Council is also responsible for making decisions governing the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Committee. The Pension Committee's responsibilities include reviewing and monitoring the Fund's investments: selecting and deselecting investment managers and other relevant third parties and establishing investment objectives and policies. The Pension Committee is made up of eight voting Members of the Council, two pensioner representatives (one voting), and a non-voting employee representative.
In addition, the Committee is supported by officers and external advisors.

2. INVESTMENT STRATEGY STATEMENT

This is published on the Croydon Pension Scheme web page
http://www.croydonpensionscheme.org/croydon-pension-fund/about-us/forms-and-publications

3. BASIS OF PREPARATION

Going Concern

The Pension Fund Accounts have been prepared on a going concern basis. That is the accounts assume that the Fund will continue in operational existence for the foreseeable future. This means, in particular, that the accounts assume that there is no intention to curtail significantly the scale of operations.

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 gives administering authorities the option to disclose information about retirement benefits by reference to the actuarial report. Note 22 refers.

Note 1 (general information) above refers to the International Financial Reporting Standards applicable to this set of accounts. There are no standards issued that have not been adopted in preparation of this statement of accounts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. Pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

- ► **Interest income**: Interest income is recognised in the fund account as it accrues.
- ► **Dividend income**: Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- ► **Distributions from pooled funds**: Distributions from pooled funds are recognised by our fund managers at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a financial asset.
- ► **Movement in the net market value of investments**: Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are recharged at year end from the Authority to the Pension Fund.

Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged to the Fund.

The cost of obtaining investment advice from the external advisors is included in oversight and governance costs.

Investment management expenses

All investment management expenses are accounted for an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. A proportion of the Council's costs representing management time spent by officers on investment management are recharged to the Fund.

Financial assets

A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. The majority of the Fund's financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. Any gains and losses arising from changes in the fair value are recognised in the change in market value in the Fund Account.

Quoted securities and Pooled Investment Vehicles have been valued at bid price. Quoted securities are valued by the Fund's custodian; Bank of New York Mellon. Pooled Investments, Private Equity Funds, Infrastructure Funds and Pooled Property Funds are quoted by their fund managers.

Loans and receivables consist of cash at bank, other balances investment balances and contributions receivable. They are initially recognised at fair value and subsequently at amortised cost. Impairment losses are recognised where appropriate, although no impairment has been deemed necessary.

Derivatives

Derivatives are valued at fair value on the following basis: assets at bid price and liabilities at offer price.
Changes in the fair value are included in the change in market value in the Fund account.
The value of open futures contracts is determined using exchange prices at the reporting date.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the year end.

Cash and cash equivalents

Cash comprises cash in hand and term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted by the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see Note 22).

Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential plc as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 21).

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of many private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used.

Covid-19 impact

The ongoing impact of Covid-19 has created even greater uncertainty in establishing the asset values of illiquid assets. It should be noted that at the reporting date 36.5% of the Fund's assets are illiquid in nature.

6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER 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 in the forthcoming year.

Actuarial present value of promised retirement benefits

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 fund managers with expert advice about the assumptions to be applied.

The effects on the net pension liability can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £171m. A 0.5% increase in the salary increase assumption would result in a £11m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £159m increase to the pension liability.

Unquoted private equity and infrastructure investments

Due to the nature of private equity and infrastructure assets it is difficult to assess their true value until the assets are realised. Assumptions are made in the valuation of Unquoted private equities and infrastructure investments. Investment managers use the guidelines published by various bodies including the Financial Accounting Standards Board, the British Venture Capital Association and the Institutional Limited Partners Association.
The value of unquoted private equities and infrastructure at 31 March 2020 was £282m (2019: £260m).
There is a risk that these investments may be under or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

Property and Infrastructure Funds

The ongoing impact of the COVID-19 pandemic has created an unprecedented set of circumstances on which to base judgement. As such, the Fund property and infrastructure allocations as at 31 March 2020, are difficult to value according to preferred accounting policy. Valuations are therefore reported on the basis of ‘material valuation uncertainty’ Consequently, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2019 which calculated the total accrued liabilities to be £1,423m (2016: £1,203m). The market value of the Fund's assets at the valuation date was £1,258m (2016: £877m). The Fund deficit was therefore £165m (2016: £326m) producing a funding level of 73% (2016: 73%). The next triennial valuation will be effective as at 31 March 2022.

The contribution rates payable for 2019/20 were set at the Actuarial Valuation effective 31 March 2016.

The table below shows the contribution rates payable by each employer for 2019/20:

	% of pay	Additional sum £
London Borough of Croydon Pool		
London Borough of Croydon	16.1	*
Octavo Partnership Limited	16.1	6,000
Further Education Bodies		
Croydon College	17.5	793,000
Coulsdon College	18.3	60,000
(Community) Admission Bodies		
Croydon Voluntary Action	18.9	38,000
Croydon Citizens Advice Bureau	30.6	6,000
Croydon Community Mediation	18	4,000
Admission Bodies		
Impact Group Limited	19.6	-
London Hire Services Limited	19.2	-
Churchill Services Limited	19.7	-
Veolia Environmental Services (UK) Recycling Limited (Croydon)	21.7	-
Fusion Lifestyle	22.5	-
Hats Group Ltd	29.8	-
Wallington Cars & Couriers Limited	15.5	-
Vinci Facilities Limited	0	-
Skanska Construction UK Limited	21.2	-
Sodexho Limited	15	-
Ground Control Limited	0	-
Carillion Integrated Services Limited	20.7	-
Quadron Services Limited	27.1	-
AXIS Europe plc (Housing Repairs)	25.5	-
Capita Secure Information Solutions Limited	24.6	-
Keyring Living Support Networks	28.6	-
Westgate Cleaning Services Limited	30	-
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	15.5	-
Roman Catholic Archdiocese of Southwark	31.4	-
Croydon Equipment Services Limited	15.1	-
Arthur Mckay Limited	30.2	-
Greenwich Leisure Limited	19.9	-
Nationwide Cleaning Services Limited	34.2	-
Brick by Brick Croydon Limited	20.7	-
Conway Construction & Training Ltd	32.2	-
Olive Dining Limited	29.1	-

* The London Borough of Croydon paid a lump sum of £33,192,000 to the Fund during 16/17. This payment was sufficient to meet in full the monetary elements of £11,795,000 p.a. that were due as the Secondary Rates over three years.

Academies	% of pay	Additional sum £
Harris Academy (South Norwood)	16.8	12,000
BRIT School	16.6	22,000
Harris City Academy (Crystal Palace)	15.2	-
St Joseph's College	18.7	32,000
St Cyprian's Greek Orthodox Primary School	18.7	7,000
Norbury Manor Business and Enterprise College	18.2	29,000
Woodcote High School	18.8	40,000
St James the Great R.C Primary	20.0	41,000
Meridian (Addington) High Academy	18.5	29,000
Riddlesdown Collegiate	18.1	57,000
Shirley High School of Performing Arts College	18.3	34,000
Oasis Academy Byron	18.7	8,000
Robert Fitzroy Academy	15.5	300
St Thomas Becket RC Primary	19.6	15,000
Aerodome Primary Academy	17.7	12,000
Oasis Academy Coulsdon	18.0	48,000
Oasis Academy Shirley Park	18.0	83,000
Harris Academy (Purley)	17.3	35,000
The Quest Academy	17.4	33,000
ARK Oval Primary Academy	18.2	2,000
Pegasus Academy Trust	17.2	52,000
Gonville Academy	18.4	12,000
West Thornton Primary Academy	18.1	26,000
David Livingstone Academy	17.2	-
Applegarth Academy	18.2	11,000
Harris Primary Academy Benson	19.9	22,000
Harris Academy Primary Kenley	18.5	7,000
Forest Academy	18.1	9,000
Castle Hill Academy	18.5	18,000
Wolsey Junior Academy	18.1	24,000
Atwood Primary School	19.1	21,000
Winterbourne Junior Boys	19.8	19,000
Oasis Academy Ryelands	18.1	32,000
Chipstead Valley Primary School	18.7	31,000
Fairchildes Primary School	17.8	61,000
Broadmead Primary Academy	18.1	56,000
Rowdown Primary School	18.9	19,000
St Mark's COE Primary School	17.8	11,000
New Valley Primary	18.5	10,000
Archbishop Lanfranc School	19.4	107,000
Harris Invictus Academy Croydon	17.4	-
Harris Primary Academy Haling Park	15.2	-
Paxton Academy	15.0	-
Edenham High School	18.6	117,000
St Mary's Infants School	19.1	34,000
St Mary's Junior School	18.5	16,000
Heathfield Academy	16.8	-
Crescent Primary Academy	16.6	16,000
Oasis Academy Arena	15.9	2,000
Good Shepherd Catholic Primary	17.5	30,000
South Norwood Academy	17.9	37,000
Chesnut Park Primary School	15.9	-
St Chad's Catholic Primary School	26.9	49,604
St Aidan's Catholic Primary School	25.9	14,939
Davidson Primary School	26.0	48,690
Krishna Avanti Primary School	19.1	-
The Woodside Academy	29.4	64,471
Kingsley Primary Croydon	19.2	77,000
STEP Academy Trust	18.4	-
Harris Purley Way	23.9	-
Tudor Primary Academy	19.2	26,000
Folio Education Trust	18.8	-
Courtwood	15.1	-
Monks Orchard	21.8	19,000
Keston Primary	20.1	19,000
Gilbert Scott	15.1	-
Manor Trust	18.2	-
The Beckmead Trust	18.2	-

NOTES TO THE PENSION FUND ACCOUNTS

Employees in the scheme are required by the Local Government Pension Scheme Transitional Regulations 2014 to make contributions to the Fund by deductions from earnings. The contribution rate payable is determined by the pay band applicable to each individual employee.
The pay bands for 2019/20 are detailed below:

Band	2019/20 Range £	Contribution Rate %
1	0 -14,400	5.5%
2	14,401-22,500	5.8%
3	22,501-36,500	6.5%
4	36,501-46,200	6.8%
5	46,201-64,600	8.5%
6	64,601-91,500	9.9%
7	91,501-107,700	10.5%
8	107,701-161,500	11.4%
9	161,501+	12.5%

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants.

	2019/20	2018/19	% change
Contributing members	10,064	9,811	2.6%
Deferred pensioners	10,923	10,936	(0.1%)
Pensioners	8,285	7,903	4.8%
Total	29,272	28,650	2.2%

8. CONTRIBUTIONS

By Authority:	2019/20 £'000	2018/19 £'000
Administering Authority	32,766	29,591
Scheduled bodies	15,813	14,242
Admitted bodies	3,629	3,975
	52,208	47,808

By Type	2019/20 £'000	2018/19 £'000
Employees normal contributions	13,965	12,746
Employers:		
Normal contributions	34,759	30,679
Deficit recovery contributions	2,616	2,488
Augmentation contributions	868	1,895
	52,208	47,808

9. BENEFITS

By Authority	2019/20 £'000	2018/19 £'000
Administering Authority	48,945	45,902
Scheduled bodies	3,542	2,954
Admitted bodies	4,363	3,498
	56,850	52,354

By Type	2019/20 £'000	2018/19 £'000
Pensions	46,540	43,431
Commutation and lump sum retirement benefits	9,076	8,248
Lump sum death benefits	1,234	675
	56,850	52,354

NOTES TO THE PENSION FUND ACCOUNTS

10. MANAGEMENT EXPENSES

	2019/20 £'000	2018/19 £'000
Administration	1,676	1,083
Oversight and Governance	1,041	674
Investment management	8,708	6,410
	11,425	8,167

Included in oversight and governance expenses is £25,000 (2019: £16,170) in respect of audit fees. Some investment managers charge fees within the fund's net asset value and these (implicit) fees are not easily identifiable. Investment management fees have been adjusted to reflect the implicit fees charged by managers and a corresponding adjustment has been made to the change in market value. For 2020 the implicit fee was £7,949,000 (2019: £5,776,000) Included in the investment management expenses are £801,571 (2019: £108,000) in respect of transaction costs.

11. INVESTMENT INCOME

	2019/20 £'000	2018/19 £'000
Equity dividends- segregated funds	(10)	(6)
Pooled Equity Income	676	152
Pooled Fixed Income	3,064	206
Pooled Property funds income	5,462	5,048
Interest on cash deposits	233	69
Total before taxes	9,425	5,469
Taxes on income		(1)
Total	9,425	5,468

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General Investment Management Limited (LGIM) and London LGPS CIV Limited underlying manager Henderson Global Investors (LCIV Henderson)
Private equity	Knightsbridge Advisors LLC, Pantheon Ventures LLP, Access Capital Partners and North Sea Capital
Infrastructure	Equitix Limited, Temporis Capital Limited and Green Investment Group Management Limited (GIGM), Access Capital Partners, I-Squared Capital
Fixed Interest	Aberdeen Standard Investments, Wellington Management Company LLP and London LGPS CIV Limited underlying manager PIMCO (LCIV PIMCO)
Property	Schroder Investment Management Limited and M&G Investment Management Limited
Cash	Cash is invested by the in-house team

All managers have discretion to buy and sell investments within the constraints set by the Pension Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which pla maximum accountability for performance against that benchmark on the investment manager. ThePension Committee has authorised the Executive Director of Resources and Section 151 Officer to exercise delegated powers to vary the Pension Fund' target asset allocation between asset classes as is deemed necessary.

The market value and proportion of investments managed by each fund manager at 31 March 2020 was as follows

	2020		2019	
	Market £'000	Market %	Market £'000	Market %
LGIM	425,959	36.2%	457,993	37.0%
London LGPS CIV Limited (LCIV)	150	0.0%	150	0.0%
LCIV PIMCO	84,104	7.2%	84,066	6.7%
LCIV Janus Henderson	----	0.0%	58,044	4.7%
Pantheon Ventures LLP (Pantheon)	60,899	5.2%	66,559	5.4%
Knightsbridge Advisors LLC (Knightsbridge)	35,581	3.0%	30,692	2.5%
Access Capital Partners (Access)	32,673	2.8%	28,095	2.3%
North Sea Capital	4,829	0.4%	3,069	0.2%
I-Squared Capital	18,619	1.6%	7,132	0.6%
Equitix Limited	78,071	6.7%	65,140	5.3%
Temporis Capital Limited (Temporis)	28,627	2.4%	34,367	2.8%
Green Investment Bank (GIGM)	22,302	1.9%	25,007	2.0%
Aberdeen Standard Investments (Aberdeen)	132,328	11.3%	131,228	10.6%
Wellington Management Company LLP (Wellington)	72,385	6.2%	67,125	5.4%
Schroder Investment Management Limited (Schroders)	115,351	9.8%	118,321	9.6%
M&G Investment Management Limited (M&G)	61,939	5.3%	60,245	4.9%
Total investments	**1,173,817**	**100.0%**	**1,237,233**	**100.0%**

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2019 £'000	Purchases and derivative payments £'000	Sales and derivative receipts £'000	Change in market value £'000	Market value 31 March 2020 £'000
Equities - segregated funds	150	0	0	0	150
Equities - pooled funds	516,037	250,360	(318,229)	(22,209)	425,959
Private equity funds	114,703	9,728	(23,500)	13,535	114,466
Infrastructure funds	145,358	31,933	(19,226)	9,070	167,135
Fixed Interest funds	282,419	3,129	(1,282)	4,550	288,816
Pooled Property funds	178,566	5,359	(3,533)	(3,101)	177,291
	1,237,233	**300,509**	**(365,770)**	**1,845**	**1,173,817**
Cash deposits	6,452			67	9,809
Investment income due	1,557				1,271
Net investment assets	**1,245,242**	**300,509**	**(365,770)**	**1,912**	**1,184,897**

Included in the purchases and sales figures of equities in pooled funds is £249,922,223 which relates to a switch from the LGIM FTSE World Developed ExTobacco Index (unhedged) to the LGIM FTSE World Developed ExTobacco Index (hedged).

	Market value 01 April 2018 £'000	Purchases and derivative payments £'000	Sales and derivative receipts £'000	Change in market value £'000	Market value 31 March 2019 £'000
Equities - segregated funds	150				150
Equities - pooled funds	578,812	119,902	(251,204)	68,527	516,037
Private equity funds	95,253	14,160	(17,343)	22,633	114,703
Infrastructure funds	113,728	28,837	(13,034)	15,827	145,358
Fixed Interest funds	192,407	80,264	(744)	10,492	282,419
Pooled Property funds	134,352	49,133	(7,585)	2,666	178,566
	1,114,702	**292,296**	**(289,910)**	**120,145**	**1,237,233**
Cash deposits	8,603			26	6,452
Investment income due	1,465				1,557
Amounts payable for purchases					-
Net investment assets	**1,124,770**	**292,296**	**(289,910)**	**120,171**	**1,245,242**

14. ANALYSIS OF INVESTMENTS

		2020			2019		
		UK £'000	Foreign £'000	Total £'000	UK £'000	Foreign £'000	Total £'000
Equities-segregated funds							
London CIV	Unquoted	150	-	150	150	-	150
Total equities		150	-	150	150	-	150
Equities - pooled funds							
LGIM	unit trust	-	425,959	425,959	-	457,993	457,993
Emerging market equities - pooled funds							
LCIV Janus Henderson	managed fund	-	-	-	-	58,044	58,044
Total equities - pooled investments		-	425,959	425,959	-	516,037	516,037
Private equity funds							
Pantheon	managed fund	-	60,899	60,899	-	66,559	66,559
Knightsbridge	managed fund	-	35,581	35,581	-	30,692	30,692
Access	managed fund	-	13,157	13,157	-	14,383	14,383
North Sea Capital	managed fund	-	4,829	4,829	-	3,069	3,069
Total private equity funds		-	114,466	114,466	-	114,703	114,703
Infrastructure funds							
Equitix Limited	managed fund	78,071	-	78,071	65,140	-	65,140
Temporis	managed fund	27,322	1,305	28,627	34,367	-	34,367
GIGM	managed fund	22,302	-	22,302	25,007	-	25,007
Access	managed fund	-	19,516	19,516	-	13,712	13,712
I Squared	managed fund	-	18,619	18,619	-	7,132	7,132
Total infrastructure funds		127,695	39,440	167,135	124,514	20,844	145,358
Fixed interest funds							
Aberdeen	unit trust	132,328	-	132,328	131,228	-	131,228
Wellington	managed fund	-	72,385	72,385	-	67,125	67,125
LCIV PIMCO	managed fund	-	84,104	84,104	-	84,066	84,066
Total Fixed Interest funds		132,328	156,489	288,817	131,228	151,191	282,419
Pooled property funds							
Schroders	managed fund	115,351	-	115,351	118,321	-	118,321
M&G	managed fund	61,939	-	61,939	60,245	-	60,245
Total pooled property funds		177,290	-	177,290	178,566	-	178,566
Total investments		**437,463**	**736,354**	**1,173,817**	**434,458**	**802,775**	**1,237,233**

15. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

	2020		2019	
	Market £'000	% of Total Net assets	Market £'000	% of Total Net assets
Standard Life SLI Absolute Return Global Bond Strategies	66,659	5.3%	66,221	5.3%
Standard Life Corporate Bond	65,669	5.2%	65,007	5.2%
Wellington Sterling Core Bond Plus Portfolio	72,385	5.8%	67,125	5.3%
LCIV PIMCO Global Bond Fund	84,104	6.7%	84,066	6.7%
LGIM FTSE Ex Tobacco World Equity Index	425,959	33.9%	457,993	36.4%

16. CURRENT ASSETS

	2020 £'000	2019 £'000
Cash balances	82,124	5,528
Other Local Authorities - Croydon Council	7,462	6,245
Other Entities and Individuals	3,829	3,291
	93,415	15,064

17. CURRENT LIABILITIES

	2020 £'000	2019 £'000
Other Local Authorities - Croydon Council	(19,612)	(862)
Other entities and individuals	(1,861)	(1,285)
	(21,473)	(2,147)

The amount due to Croydon Council relates to transactions between the Fund and the Council all of which were settled through the Pension Fund bank account after the year end.

18. INFORMATION IN RESPECT OF MATERIAL TRANSACTIONS WITH RELATED PARTIES

Related Parties

Related parties include:

a. Councillors and their close families
b. certain Officers and Managers
c. entities controlled by, and associates and joint ventures of, the Scheme itself
d. companies and businesses controlled by the Councillors or their close families

Councillor Hall, the Vice Chair of the Pensions Committee is the Council Shareholder Representative for the London LGPS CIV Limited.

Officers and Managers

Related parties under this heading include:

a. key management (senior officers) of the Fund and their close families
b. companies and businesses controlled by the key management of the Fund, or their close families.

The key management personnel of the fund during the year were the Director of Finance, Investment and Risk (Section 151 Officer) and the Head of Pensions and Treasury.

During the year a charge of £124k (2019: £125k) was made to the Fund for their services.

The only other financial relationship that either Councillors or officers and managers have with the Fund is as prospective or actual pensioners for those who are scheme members. For further details please refer to Note 33 of the London Borough of Croydon's Statement of Accounts 2019/20.

19. DETAILS OF STOCK RELEASED TO THIRD PARTIES UNDER A STOCK LENDING ARRANGEMENT

There was no stock released to third parties under a stock lending arrangement.

20. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £102.3m at 31 March 2020 (2019:£93.9m) based on:

USD 46.4m at exchange rate 1.24 equals £37.4m (2019: £50.7m)
EUR 48.4m at exchange rate 1.13 equals £42.8m (2019: £35.1m)
GBP £22.1m (2019: £8.1m)

These commitments related to outstanding call payments due on Private Equity, Infrastructure and Property investments. The amounts 'called' by these funds are both irregular in size and timing over a period of usually 3 to 6 years from the date of the original commitment.

21. DETAILS OF ADDITIONAL CONTRIBUTIONS NOT INCLUDED IN PENSION FUND ACCOUNTS

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), there were no additional contributions included in the Pension Fund Accounts since all Additional Voluntary Contributions (AVCs), in total £172,017 for 2019/20 (£172,000 in 2018/19), are sent directly to the relevant AVC provider.
The value at 31 March 2020 of separately invested additional voluntary contributions was £1.72m (£1.81m in 2018/19).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

London Borough of Croydon Pension Fund ('the Fund) Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated April 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried ou demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £1,258 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £165 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target withi time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 Mar 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Aged 45 at the 2019 Valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Robert McInroy
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Croydon Pension Fund ('the Fund').

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 Mar 2020 £m	31 Mar 2019 £m
Active members	624	853
Deferred members	478	486
Pensioners	732	683
Present Value of Promised Retirement Benefits*	1,834	2,022

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 (and 31 March 2019) include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

22. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS (continued)

Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £183m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £46m.

Financial Assumptions

Year ended	31 Mar 2020 %p.a.	31 Mar 2019 %p.a.
Pensions Increase Rate	1.9%	2.5%
Salary Increase Rate	1.9%	3.0%
Discount Rate	2.3%	2.4%

Longevity Assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	23.9 years
Future Pensioners (assumed to be age 45 at the latest formal	22.5 years	25.3 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation Assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in Pensions Increase Rate	9%	159
0.5% increase in Salary Increase Rate	1%	11
0.5% decrease in the Real Discount Rate	9%	171

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional Notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert McInroy FFA

29-Jun-20

For and on behalf of Hymans Robertson LLP

23. EVENTS AFTER THE REPORTING PERIOD

During the first quarter after the reporting period global markets recovered to some degree and the Fund has experienced a gain of between 5-10%. The economic environment remains extremely uncertain due to Covid-19 and this uncertainty is expected to continue for the foreseeable future. The diversification of the Fund's assets has meant that the Fund has been fairly resilient to date and is well placed to deal with the headwinds ahead.

24. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2019/20

Asset Class	**Benchmark**	**Weighting**
UK and Overseas Listed Equities	FTSE Dev ex Tobacco NetTax (UKPN)	42% + / - 5%
Fixed Interest Securities	Bank of America Merrill Lynch Sterling non gilts all stocks index Bank of America Merrill Lynch Sterling Broad Market index Barclays Aggregate - Credit Index Hedged (GBP)	23% + / - 3%
Property	IPD All Properties index	10% + / - 3%
Private Rental Sector Property	IPD All Properties index	6%
Private Equity	CPI +5%	8%
Infrastructure	CPI +5%	10%
Cash and Short Term Deposits		1%
Total		**100%**

24. FINANCIAL INSTRUMENTS (Continued)

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. heading. The carrying value for Pension Funds is the same as the Fair Value.

31 March 2020

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	288,816	-	-
Equities - segregated funds	150	-	-
Pooled property funds	177,291	-	-
Private equity funds	114,466	-	-
Infrastructure funds	167,135	-	-
Global equities - pooled investments	425,959	-	-
Other investment balances	-	11,080	-
Current Assets	-	93,415	-
Total Financial Assets	**1,173,817**	**104,495**	**-**
Financial Liabilities			
Current liabilities	-	-	(21,473)
Total Financial Liabilities	**-**	**-**	**(21,473)**
Net Assets	**1,173,817**	**104,495**	**(21,473)**

31 March 2019

	Designated as fair value through profit and loss £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Fixed Interest funds	282,419	-	-
Equities - segregated funds	150	-	-
Pooled property investments	178,566	-	-
Private equity funds	114,703	-	-
Infrastructure funds	145,358	-	-
Global equities - pooled investments	516,037	-	-
Other investment balances	-	8,009	-
Current Assets	-	15,064	-
Total Financial Assets	**1,237,233**	**23,073**	**-**
Financial Liabilities			
Current liabilities	-	-	(2,147)
Total Financial Liabilities	**-**	**-**	**(2,147)**
Net Assets	**1,237,233**	**23,073**	**(2,147)**

24. FINANCIAL INSTRUMENTS (Continued)

Net Gains and Losses on Financial Instruments

	31 March 2020 £'000	31 March 2019 £'000
Financial assets		
Designated at fair value through profit and loss	1,845	120,145
Financial assets at amortised cost	67	26
	1,912	**120,171**
Financial liabilities		
Designated at fair value through profit and loss	-	-
Financial liabilities at amortised cost	-	-
	-	**-**
Total	**1,912**	**120,171**

Valuation of financial instruments carried at fair value

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

Level One

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level Two

Financial instruments at Level 2 are those whose quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.
The pooled investment vehicles for global equities and fix interest funds are classified as Level 2 as the fund valuations are based on the market prices of the underlying investments using evaluated price feeds.

Level Three

Financial instruments at Level 3 are those where at least one input, that could have a significant effect on the instrument's valuation, is not based on observable market data.

These instruments include various unquoted equity investments, Private Equity Funds, Infrastructure Funds and Pooled Property Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the General Partners to the funds in which the London Borough of Croydon Pension Fund has invested.

The General Partners use a variety of methods and assumptions based on market conditions existing at the statement of financial position date which is usually at the end of December. Valuations are then rolled forward to the 31 March.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December.

Valuations in Pooled Property Funds are carried out by qualified surveyors with relevant qualifications from the Royal Institute of Chartered Surveyors. All assets have been classified as level 3 as the inputs are considered to be unobservable and developed by the valuer using best information available where there is little or no market activity at the valuation date.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

24. FINANCIAL INSTRUMENTS (Continued)

Values at 31 March 2020	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial Assets at fair value through profit and loss				
Fixed Interest funds		288,816		288,816
Global equities - segregated funds			150	150
Pooled property investments			177,291	177,291
Private equity funds			114,466	114,466
Infrastructure funds			167,135	167,135
Global equities - pooled investments		425,959		425,959
Financial Assets at amortised cost				
Other investment balances	11,080			11,080
Current Assets	93,415			93,415
Total Assets	104,495	714,775	459,042	1,278,312
Financial Liabilities at amortised cost				
Current liabilities	**(21,473)**	-	-	**(21,473)**
Net financial assets	**83,022**	**714,775**	**459,042**	**1,256,839**

Values at 31 March 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial Assets at fair value through profit and loss				
Fixed Interest funds		282,419		282,419
Global equities - segregated funds			150	150
Pooled property funds			178,566	178,566
Private equity funds			114,703	114,703
Infrastructure funds			145,358	145,358
Global equities - pooled investments		516,037		516,037
Financial Assets at amortised cost				
Other investment balances	8,009			8,009
Current Assets	15,064			15,064
Total Assets	23,073	798,456	438,777	1,260,306
Financial Liabilities at amortised cost				
Current liabilities	**(2,147)**	-	-	**(2,147)**
Net financial assets	**20,926**	**798,456**	**438,777**	**1,258,159**

24. FINANCIAL INSTRUMENTS (Continued)

Fair Value- Basis of Valuation

The basis of the valuation of each class of investment is set out in the table below. There has been no change in valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Asset type	Valuation hierarchy level	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting valuations
Pooled global equities	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Fixed income funds	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled property funds	Level 3	Closing bid price where bid and offer prices are published. Valuations of properties within the funds are carried out by qualified chartered surveyors with the relevant qualification from the Royal Institution of Chartered Surveyors.	Direct comparison with sales of similar properties. Discount rates and cash flow projections as part of income capitalisation approach.	Real Estate values can be affected by a number of factors including changes to global or local economic conditions, financial conditions of tenants, availability of debt financing, changes in interest rates, operational expenses, planning and environmental laws and other government legislation.
Private equity	Level 3	Annually at fair value using the net asset value per share (or its equivalent) as a practical expedient (ASC Topic 820, Fair Value Measurement) or market approach in accordance with International Private Equity and Venture Capital Valuation Guidelines.	Discount rates and futures cash flow projections. Evaluation based on recent market activity of comparable companies.	Events which can affect the assumptions and inputs used in determining valuations. These . include risk-free and benchmark interest rates, credit spreads and inflation rates. Expected price volatilities and correlations
Infrastructure	Level 3	Annually at fair value in accordance with IFRS 13 and International Private Equity and Venture Capital Valuation Guidelines	Discount rates and futures cash flow projections. Evaluation based on recent market activity of comparable companies.	Events which can affect the assumptions and inputs used in determining valuations. These include risk-free and benchmark interest rates, credit spreads and inflation rates. Expected price volatilities and correlations.

24. FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Fair Value Measurements within Level 3 assets

2019/2020	Market value 01 April 2018 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2019 £'000
Private Equity Funds	114,703			9,728	(23,500)	23,500	(9,965)	114,466
Infrastructure Funds	145,358			31,933	(19,226)	19,226	(10,156)	167,135
Pooled Property Funds	178,566			5,359	(3,533)	3,533	(6,634)	177,291
Unquoted Equity	150							150
Total assets	438,777	----	----	47,020	(46,259)	46,259	(26,755)	459,042

2018/2019	Market value 01 April 2018 £'000	Transfers to Level 3 £'000	Transfers out of Level 3 £'000	Purchases £'000	Sales £'000	realised gains/losses £'000	Unrealised gains/losses £'000	Market value 31 March 2019 £'000
Private Equity Funds	95,253			14,160	(17,343)	17,343	5,290	114,703
Infrastructure Funds	113,728			28,837	(13,034)	13,034	2,793	145,358
Pooled Property Funds	134,352			49,133	(7,585)	7,585	(4,919)	178,566
Unquoted Equity	150							150
Total assets	343,483	----	----	92,130	(37,962)	37,962	3,164	438,777

Sensitivity analysis of Level 3 assets

Due to the increased uncertainty brought about by Covid-19, 10% has been used to measure the sensitivity of all level 3 assets. For 2019 the bid/offer spread of 5% for Pooled Property Funds was used for all level 3 assets.

Level 3 Asset	Market value 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Private Equity Funds	114,466	125,913	103,019
Infrastructure Funds	167,135	183,849	150,422
Pooled Property Funds	177,291	195,020	159,562
Unquoted Equity	150	165	135
Total	**459,042**	**504,946**	**413,138**

Level 3 Asset	Market value 31 March 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Private Equity Funds	114,703	120,438	108,968
Infrastructure Funds	145,358	152,626	138,090
Pooled Property Funds	178,566	187,494	169,638
Unquoted Equity	150	158	143
Total	**438,777**	**460,716**	**416,838**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions. A risk register is maintained and reviewed bi-annually.

Market Risk

This is the risk that financial loss could arise as a result of fluctuations in interest rates, foreign exchange rates, credit spreads and equity and commodity prices. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuers or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Price risk - sensitivity analysis

The following table demonstrates the change in net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	**Value £'000**	**Value on Increase £'000**	**Value on Decrease £'000**
At 31 March 2019	1,237,233	1,360,956	1,113,510
At 31 March 2020	**1,173,817**	**1,291,199**	**1,056,435**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk is monitored and assessed against the strategic asset allocation benchmark.

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Fixed interest funds, cash at bank and cash held by Fund managers are exposed to interest rate risk.

Assets exposed to interest rate risk	Value £'000	Value on 1% Increase £'000	Value on 1% Decrease £'000
At 31 March 2019	294,399	264,959	323,839
At 31 March 2020	**380,749**	**376,942**	**384,556**

Currency risk

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

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

During the year 50% of the equities held by LGIM were fully hedged to £GBP.

Currency exposure - asset type	**Asset Value as at 31 March 2020 £'000**
Overseas equities securities (unhedged portion)	212,221
Overseas Private Equity and Infrastructure	153,906
Overseas fixed interest	156,489
Overseas Private Equity and Infrastructure (outstanding commitments)	80,202
Total assets	602,818

Currency risk - sensitivity analysis

The following table demonstrates the change in value of overseas assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value £'000	Value on 10% weakening of pound £'000	Value on 10% strengthening of pound £'000
At 31 March 2019	888,574	977,431	799,717
At 31 March 2020	**602,818**	**663,100**	**542,536**

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk that parties in whom the Fund invests may fail to pay amounts that are due to the Pension Fund. For example an entity in which the Pension Fund invests may fail. This risk is minimised by investing in specialist fund managers across different asset classes and geographical regions. Additionally there is a risk that an admitted body will be unable to meet its contributions obligations. Contribution receipts are monitored monthly and, if necessary, remedial action is taken.

Credit risk also represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council investments in money market funds with a AAA rating from a leading rating agency and also with other local authorities.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £82.1m (£5.5m at 31 March 2019). This was held with the following institutions:

Summary	**Rating at 31 March 2020**	**Balances as at 31 March 2020 £'000**	**Balances at 31 March 2019 £'000**
Money Market Funds	AAA		
Goldman Sachs Sterling Liquid Reserves Fund		4,326	3,439
Deutsche Managed Sterling Fund		2,450	-
Insight Liquidity Funds		11	-
JPMorgan Sterling Liquidity Fund		9,727	-
Aberdeen Standard Liquidity Fund		2	-
Other Local Authorities		65,000	-
Current Account			
NatWest Bank		608	2,089
Total		82,124	5,528

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings including cash invested in money market funds. The Fund defines liquid assets as assets that can be converted to cash within three months. Non-liquid assets are those assets which will take longer than three months to convert into cash. All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

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

GLOSSARY OF TERMS

ACCOUNTING POLICIES
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting polices define the process whereby transactions and other events are reflected in financial statements.

ACCRUALS
An accounting principle where income and expenditure are taken into account in the year in which they are earned or incurred, rather than when monies are received and/or invoices are actually paid.

ACTUARIAL VALUATION
The Actuary reviews the assets and liabilities of the Pension Fund every three years and reports to the Council on the Fund's financial position and recommended employers' contribution rates.

ACTUARY
An independent professional who advises on the financial position of a Pension Fund.

ALLOWANCE FOR DOUBTFUL DEBT
An amount set aside to cover money owed to the Council where it is considered doubtful that payment will be received.

AMORTISATION
The equivalent of depreciation for intangible assets.

BALANCES
The amount of money on the various funds of the Council left over at the end of the financial year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

BUDGET
A forecast of the Council's planned expenditure and income, either over a set period or for a specific project.

CAPITAL EXPENDITURE
Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

CAPITAL RECEIPTS
Monies received from the sale of the Council's assets such as land and buildings. These receipts are used to pay for additional capital expenditure.

CIPFA
The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of Local Government and public service finance. The Institute produces advice, codes of practice and guidance to Local Authorities on best practice.

COLLECTION FUND
A Fund operated by the billing Authority into which all receipts of Council Tax and National Non-Domestic Rates are paid. The Fund must be maintained separately from the Authority's General Fund.

COMMUNITY ASSETS
Assets that the Authority intends to hold in perpetuity that have no determinable useful life and that may have restrictions on their disposal. Examples are parks and historic buildings.

CONTINGENT ASSETS
Contingent assets are possible assets arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITIES
Possible losses that arise from past events which will only be confirmed by one or more uncertain future events not wholly within the Council's control.

COUNCIL TAX
A system of local taxation on domestic property introduced from 1st April 1993. It is set by both the billing and precepting Authorities at a level determined by the Council Tax base for the area.

COUNCIL TAX BASE
An amount calculated by the billing authority, by applying the band proportions to the total properties in each band in order to ascertain the number of band D equivalent properties in the Authority's area. The Tax base is also used by the precepting and some levying bodies in determining their charge to the area.

GLOSSARY OF TERMS

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

DEBTORS
Amounts owed to the Authority for goods and services provided at the date of the Balance Sheet.

DEDICATED SCHOOLS GRANT (DSG)
Funding received by Local Authorities to meet specific school related costs. Much of this funding is delegated directly to schools, and managed by schools locally.

DEPRECIATION
A provision made in the accounts to reflect the value of assets used during the year. Depreciation forms part of the capital charge made to service revenue accounts and is covered by International Accounting Standard (IAS) 16.

EARMARKED RESERVES
Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish a provision.

EVENTS AFTER THE REPORTING PERIOD
Events after the Reporting Period are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

FAIR VALUE
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FINANCE AND OPERATING LEASES
A finance lease is one that transfers a substantial proportion of the risks and rewards of a non-current asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

FINANCIAL INSTRUMENT
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

GENERAL FUND (GF)
The Council's main revenue account that covers the net cost of all services other than the provision of Council housing for rent.

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.

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE
Gross Expenditure and Gross Income arise from the provision of services as shown in the General Fund and exclude the Direct Services/Labour Organisation accounts. Net Expenditure is the cost of service provision after the income is taken into account.

HERITAGE ASSETS
These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

HOUSING REVENUE ACCOUNT (HRA)
A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local Authorities are not allowed to make up any deficit on or transfer any surplus to the HRA from the General Fund.

IAS19
The International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

GLOSSARY OF TERMS

IMPAIRMENT
This is where the value of an asset falls below the carrying value in the accounts and so to reflect the commercial reality of the situation a charge is made in the running costs.

INFRASTRUCTURE ASSETS
Non-current assets that cannot be easily disposed of, expenditure on which is only recovered by continued use of the asset. Examples include highways and footpaths.

INTANGIBLE ASSETS
Non-current assets, which do not have a physical form but provide an economic benefit for a period of more than one year. Examples include software licences.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB). Local Authorities moved to accounting on an IFRS basis in 2010/11, a year after Central Government and the National Health Service.

INVESTMENT PROPERTIES
Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm’s length.

LEASE
A lease is a contractual agreement, where the lessee (user) pays the lessor (owner) for use of an asset. These assets are usually property, buildings, vehicles or equipment

LEVIES
Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by Local Authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount that the Council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes. In the accounts the MRP is included within capital financing charges.

NATIONAL NON-DOMESTIC RATES (NNDR)
The charge payable on all business premises, calculated by multiplying the rateable value of the property by a nationally set rate multiplier. The Tax is collected by Croydon and is allocated between central government, the Greater London Authority and Croydon council in accordance with the business rates retention regulations.

NET BOOK VALUE
The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET REALISABLE VALUE
The open market value of an asset less the expenses to be incurred in realising the asset.

NON-CURRENT ASSETS
These are tangible and intangible assets that yield benefit to the Council and the services it provides for a period of more than a year.

NON-OPERATIONAL ASSETS
Non-current assets held by the Council but not used or consumed in the delivery of services. Examples include investment properties and assets that are surplus to requirements.

OPERATIONAL ASSETS
Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

OUTTURN
Actual income and expenditure for a financial year.

PAST SERVICE COST
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

PRECEPT
A charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own Council Tax in the same way as a London Borough. Croydon then collects the Tax for them.

GLOSSARY OF TERMS

PRIVATE FINANCE INITIATIVE (PFI)
Government initiative under which the Council buys the services of a private sector to design, build, finance and operate a public facility.

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

PUBLIC WORKS LOAN BOARD (PWLB)
A Central Government agency which provides long and medium-term loans to Local Authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local Authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

RELATED PARTIES
Related Parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior officers.

RESERVES
The amounts held by way of balances and funds that are free from specific liabilities or commitments. The Council is able to earmark some of its reserves towards specific projects, whilst leaving some free to act as a working balance.

REVENUE EXPENDITURE
The regular day to day running costs incurred in providing services. Examples include salaries, wages and running costs.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
Expenditure that is treated by the regulations as capital expenditure but which does not meet the definition of capital expenditure in the Statement of Recommended Practice.

REVENUE SUPPORT GRANT (RSG)
The main grant payable to support Local Authorities’ revenue expenditure. A Local Authority’s RSG entitlement is intended to make up the difference between a Council's Retained Business Rates and it's Settlement Funding Assessment.

RIGHT TO BUY
The Council is legally required to sell Council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to Housing, Communities and Local Government (HCLG) under pooling arrangements.

SETTLEMENT FUNDING ASSESSMENT
The main channel of Government funding which includes Retained Business Rates and Revenue Support Grant. There are no restrictions on what Local Authorities can spend it on.

SORP
The Statement of Recommended Practice. Its aims are to specify the principles and practices of accounting required to prepare a Statement of Accounts which represents a 'true and fair view' of the financial position and transactions of a Local Authority.

SUPPORT SERVICES
Activities of a professional, technical and administrative nature, which are not Local Authority services in their own right, but support front line services.

TANGIBLE ASSETS
Physical assets such as land, buildings and equipment that provide an economic benefit for a period of more than one year.

TRADING OPERATION
An activity of a commercial nature that is financed substantially by charges to recipients of the service.

Grant Thornton

London Borough of Croydon

Audit progress report and sector updates

29 February 2024

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Your key Grant Thornton team members are:

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Key Audit Partner
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E: paul.dossett@uk.gt.com

This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

https://www.grantthornton.co.uk/industries/public-sector/local-government/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact your Engagement Lead.

Progress at February 2024

Financial Statements Audit

Historic issues

The Committee are well aware of the historic issues which have delayed the 2019/20 accounts including the consequences of two public interest reports, numerous section 114 reports, a complete overhaul of political and managerial leadership, Government intervention and a number of complex accounting issues. The 19/20 accounts final audit report is presented to this meeting.

Dealing with the backstop

Page 11 of this progress report sets out the details of DLUHC's proposals to address the local audit backlog. In respect of the London Borough of Croydon our proposals are as follows:

- Complete the 19/20 audit by 31 March 2024
- Complete the 20/21 audit by 30 September 2024
- Continue discussion with the Council and other stakeholders about the completion of the 21/22 and 22/23 accounts.

23/24 and beyond

Under the DLUHC proposals, the 2023/24 accounts must be published and audited by 31 May 2025 or a further backstop will be implemented. It will be vital for taxpayer accountability that the Council is able to prepare accounts that can be audited in full by this deadline. We will work constructively with management to make sure this is achieved.

Value for Money

We aim to complete all 2022/23 value for money audit reviews by 31 March 2023. Our ambition is to then complete all 2023/24 value for money audit reviews by 31 December 2024. Our 22/23 for the London Borough of Croydon is presented to the meeting of the Audit and Governance Committee on March 14th 2024.

From current trends around inflation, employee cost pressures and service demand, we anticipate that risks around financial sustainability and reserves will require consideration across most local government value for money reviews both for 2022/23 and 2023/24. Arrangements for governance and improving economy, efficiency and effectiveness will also be reviewed. The current estimated financial trajectory of the sector is shown within the sector update in this report.

Where there are lesson to be learnt from the findings for our 2022/23 value for money reviews, we will seek to share them on a timely basis, to inform future practice.

Grants

We are working closely with officers to complete the outstanding work on the Council's returns by 30th June 2024.

In respect of Teachers Pensions the following returns are outstanding 2020-2021, 2021-2022 and 2022-2023, for which queries are with officers for response. We have also recently agreed to pick up the work for 2018-2019 as this work was not undertaken by the predecessor reporting accountant.

With regards to Housing Benefit subsidy, the DWP requested further work to be completed on the 2021-2022 return, which is near to completion. We will then work with officers to complete the work required on the 2022-2023 return.

Progress at February 2024

The status of work on Pooling Housing Capital receipts is that the 2020-2021, 2021-2022 and 2022-2023 is outstanding. Work is in progress on 2021 and 2022 but we are yet to commence testing on 2023.

Progress at February 2024 (cont.)

Other areas

Certification of claims and returns

See update on page 4-5.

Meetings

We continue to meet with senior officers at the Council on a regular basis in what is always a constructive dialogue. We recognise the significant issues that need to be addressed at the Council.

Events

We provide a range of workshops and network events, including Chief Accountants workshops for the 2023/24 accounts which were held in February 2024.

Audit Fees

PSAA have published their scale fees for 23/24 [2023/24 auditor appointments and audit fee scale – PSAA](#) .

For the London Borough of Croydon these fees are £586,341 for the Council audit, and £86, 884 for the Pension Fund. These fees are derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.

Audit Deliverables

Below are some of the audit deliverables planned for 2022/23 .

21/22 and 22/23 Deliverables	Planned Date*	Status
Audit Plan We are required to issue an audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 and 2022/23 financial statements.	July 2024	TBC
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee.	September 2024	TBC
Auditors Report This includes the opinion on your financial statements.	September 2024	TBC
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	March 2024**	

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period. However, our expectation is to complete all necessary work by 30/09/2024. All of the above is in the context of the financial statements for 21/22 and 22/23 being subject to the DLUHC backstop.

**The 21/22 Auditors Annual Report was reported to the Audit and Governance Committee in April 2023

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date*	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.	October 2024	ongoing
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee.	March 2025	TBC
Auditors Report This includes the opinion on your financial statements.	March 2025	TBC
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	November 2024 and March 2025**	

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period. However, our expectations is to complete all necessary work by 31/05/2025

** The NAO consultation require auditors to deliver an annual VFM report by 30 November of each year. This may be a complete report, a progress report or a risk assessment depending on local circumstances

Audit Deliverables

Below are some of the audit related deliverables planned for 2023/24.

2023/24 Audit related deliverables	Planned date*	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	30th November	To commence in July
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	31st December	To commence in July
Pooling of housing capital receipts - certification This is the report we submit to the Department for Levelling Up, Housing and Communities ("DLUHC") based upon the mandated agreed upon procedures we are required to perform.	Mid February 2025	To commence in November

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up-to-date summary of emerging national issues and developments to support you. We show the current estimated financial trajectory of the sector and we cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

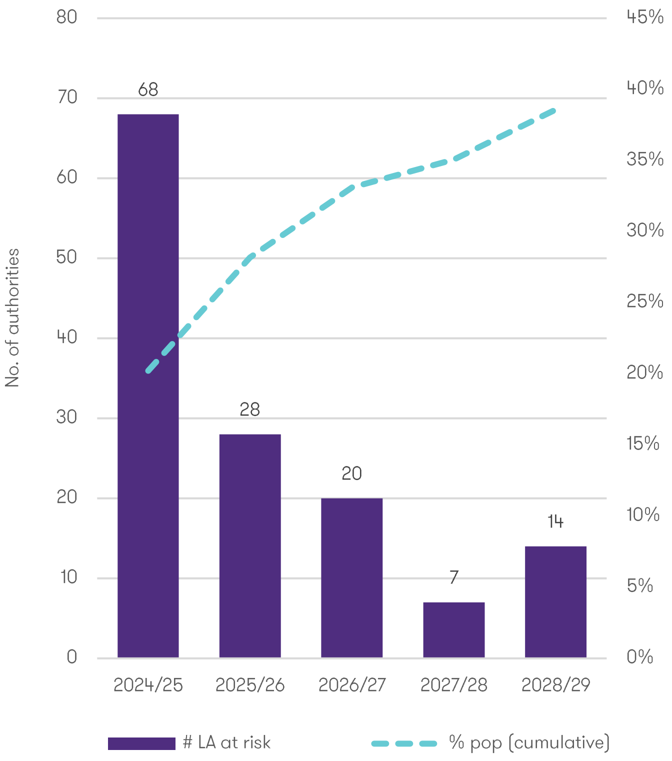
Local government

The financial trajectory of the sector

This is taken from the Grant Thornton/CIPFA Financial Foresight model, which provides long-term forecasts (revenue income and expenditure) for all councils in England. These forecasts are based on multiple assumptions relating to financial, demographic and economic factors. Councils at risk are defined by the level of usable reserves being less than 5% of net revenue expenditure.

The year at risk graph on the left represents the most recent update of the assumptions including the impact of the Autumn Statement and draft 2024/25 finance settlement. The graph on the right provides the position before this most recent update. This highlights that the year at risk for many councils has moved forward to 2024/25. The graph at the bottom of the page highlights the forecast depletion of reserves nationally, as councils manage ongoing financial pressures.

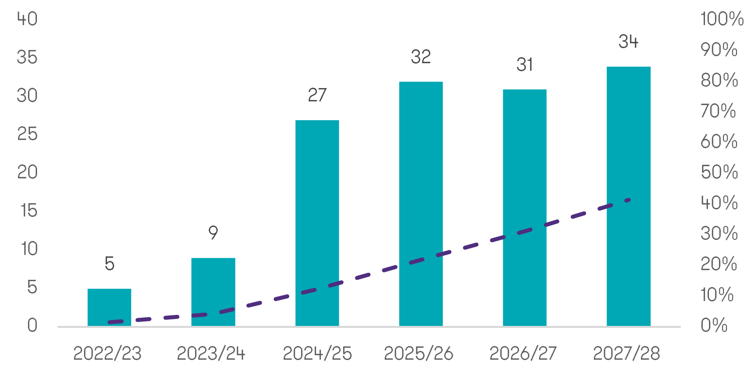
Year at risk (based on Jan 2024 forecast)



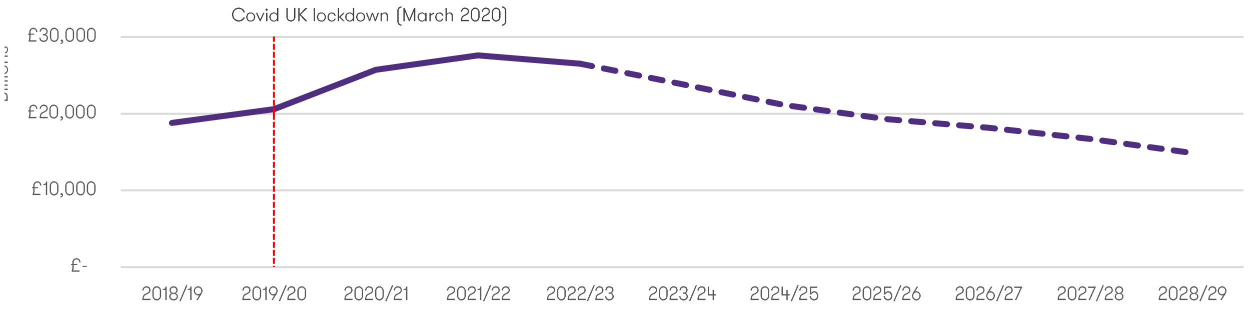
Assumptions

-tve	Inflation continues to add pressure throughout 24/25
-tve	Employee cost pressures continue as a result of the COLC
+tve	Demand across key cohorts slowing

Year at risk (Historic Position)



Level of reserves



Source: Financial Foresight (Grant Thornton and CIPFA)

Addressing the delay in local audit

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk). Further details can be found in the 'Sector update' section of this report on Pages 16 to 19. Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

On 8th February 2024, DLUHC and the NAO both issued consultations on measures to address the delay in local audit. Consultations are open until 7th March 2024 and relate to:

- DLUHC - changes to the Accounts and Audit Regulations 2015 to introduce a backstop date of 30 September 2024 for the publication of audited accounts up to and including 2022/23, and a series of future backstop dates covering the remainder of the PSAA appointment period; and
- NAO - changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.

The FRC, as shadow system leader, is facilitating the consultations. CIPFA/LASAAC are expected to go live on their proposals for time limited changes to the Financial Reporting Code for English bodies shortly.

To have your say, navigate to the consultations here:

The DLUHC landing page is here - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)

The NAO landing page is here - Code of Audit Practice Consultation - National Audit Office (NAO)

Grant Thornton report: preventing failure in local government

Grant Thornton's December 2023 report Preventing Failure in Local Government offers prescriptions for remedies to support better health across the local government sector. The report looks at the opportunities that councils and their key internal and external players have to prevent failure, noting that the chain (of good governance) is only as strong as its weakest link.

The Audit Committee is listed as one of the key internal bodies with a role to play in preventing failure, along with the Executive, the Overview and Scrutiny Committee and the golden triangle of Chief Executive Officer; Finance Director; and Monitoring Officer. **Opportunities for the Audit Committee to make a difference surround:**

- focusing on risk management alone (not having multiple roles);
- independence (having an independent chair and at least one independent member);
- specialist training and support for members of the committee;
- direction over internal audit (setting the standard for strategic risk focus and timeliness); and
- curiosity and asking the right questions.

Sharing the Auditor's Annual Report with full council is also listed as important. The challenge for Audit Committees will be not only to maximise their own opportunities to prevent failure, but knowing the right questions to ask about whether the Executive and other committees and the three key statutory officers are making the most of their opportunities as well.

For insight into effective questions to ask, read the full report from Grant Thornton here: How can further local authority failures be prevented? (grantthornton.co.uk)

Mitigating financial distress in Local Authorities

On 29th January 2024, a report by the Levelling Up, Housing and Communities Committee highlighted that in the last six years, eight local authorities have issued a section 114 notice, whereas none had done so in the eighteen years before that.

Income related issues were highlighted in the report around the below-inflation cap on increasing council tax rates (referendum thresholds) and formulaic weaknesses with the business rates retention scheme. Council tax especially was singled-out as regressive, long overdue for reform, and contributing to a disproportionately negative impact on funding levels in the most deprived areas of the country.

Expenditure related issues were listed in the report as surrounding social care; special educational needs and disabilities; and homelessness. The report highlighted that for children's social care, even the Competition and Markets Authority has recognised that the level of competition in the market is "not working as well as it should be" at maintaining prices at reasonable levels for local authority purchasers.

The report shows that nearly one in five Leaders and Chief Executives of other local authorities who have not already issued an S114 notice do assess themselves as being at "tipping point" due to lack of funding.

Whilst most of the recommendations in the report are aimed at Government, there are some **key takeaways for local authorities while they wait for any change that may come:**

- have we set Council Tax at the highest level possible without a referendum? Future changes could see referendum thresholds increased or removed. Are Councils doing all they can now to maximise this source of income?
- are we collaborating as effectively as we can with other local authorities to influence market prices for the services we buy in?

For insight into effective questions that Audit Committees can ask, read the full report here *Financial distress in local authorities (parliament.uk)

Learning from the Office for Local Government

On 15th February 2024, the Secretary of State for Levelling up, Housing and Communities set out, in an open letter to the Chief Executive of Oflog, the strategic remit for Oflog for the financial years 2024 to 2027, and the Office's priorities for the financial year 2024/25. The priorities are to:

- inform;
- warn;
- support; and
- engage.

Using the new Local Authority data explorer tool (launched in July 2023), the Office can currently use metrics on waste management, planning, adult social care, roads, adult skills and corporate/finance to compare any one authority with the English median, CIPFA nearest neighbours and trends over time. The Office is expected to develop a new early warning system to identify local authorities that are at risk of serious failure (but have not raised the alarm themselves) and to conduct 'early warning conversations' with local authorities at risk. It will also be offering a programme of webinars to share best practice between local authorities, and to help improve performance, productivity and value for money.

Local Authorities and their members can familiarise themselves now with the data explorer metrics already publicly available. **Challenge questions for Audit Committees to ask include:**

- are the metrics consistent with our own benchmarking?
- are we showing early warning signs?
- what arrangements will we be making to make best use of the learning that will be on offer?

For a full copy of the remit letter and for access to data explorer metrics for your Local Authority see here:

Remit letter from DLUHC Secretary of State to the Oflog Chief Executive - GOV.UK (www.gov.uk)
About - Local Authority Data Explorer

New workbook to support councillors in their work on community leadership

On 8th February 2024, the Local Government Association published a new workbook for Councillors, covering community leadership.

Effective community leadership matters because communities that are engaged tend to have happier, healthier people and lower levels of crime and anti-social behaviour. Declining voting and increased social detachments from local areas are also a concern. Councillors are in the unique position of being able to interface between citizens and the council and demonstrate directly what they have achieved for the people they represent.

The workbook shows that for effective community leadership, councillors need to:

- listen to and involve their local communities;
- build vision and direction;
- work effectively with partners;
- make things happen;
- stand up for communities;
- empower communities;
- be accountable; and
- use resources effectively.

With challenge questions; case studies; guidance, hints and tips; and a dedicated section for the opposition, the workbook makes for interesting reading for any councillor – new or already established.

A councillor’s workbook on community leadership | Local Government Association

Making the most of levelling-up funds to local government

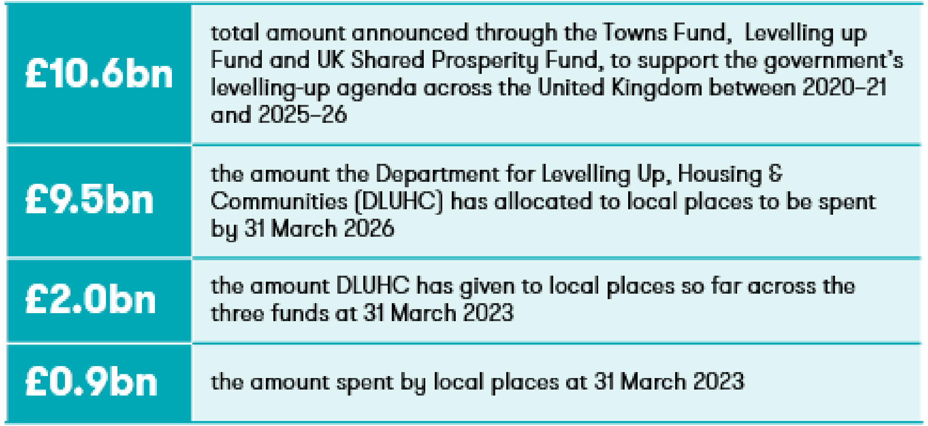
In November 2023, the National Audit Office published its report on whether the Department for Levelling Up, Housing and Communities' levelling up funds are likely to deliver value for money. The three significant funds are the Towns Fund (Town Deals and Future High Streets Fund programmes); the Levelling Up Fund (local priorities with a visible impact); and the UK Shared Prosperity Fund (to increase life chances and build pride in place). Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. However, less than half of the monies given to local places across the three schemes by 31 March 2023 had been spent. Because under current arrangements the funds are time limited, there is a risk that some projects may never be started and others, in the haste to complete, may include sub-optimal decisions.

Many of the delay factors are beyond Local Authorities' control: rising costs, skills shortages and supply issues in the construction industry. However, the report does highlight that there are things Local Authorities can do to help with unblocking.

Key questions that Audit Committees can ask are:

- do we know which of our projects are on track and which are at risk?
- have all projects got their main contractor in place?
- has full advantage been taken of the ability to move money between sub-projects within individual bids?
- is advantage being taken of the ability to make changes to the scope and scale of projects without seeking approval if the changes do not exceed a 30% threshold?
- are projects being prioritized? So that those that can complete to time, do complete to time?

For the full report and an insight into wider recommendations for the Department, see *Levelling up funding to local government (nao.org.uk)



£10.6bn	total amount announced through the Towns Fund, Levelling up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020–21 and 2025–26
£9.5bn	the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026
£2.0bn	the amount DLUHC has given to local places so far across the three funds at 31 March 2023
£0.9bn	the amount spent by local places at 31 March 2023

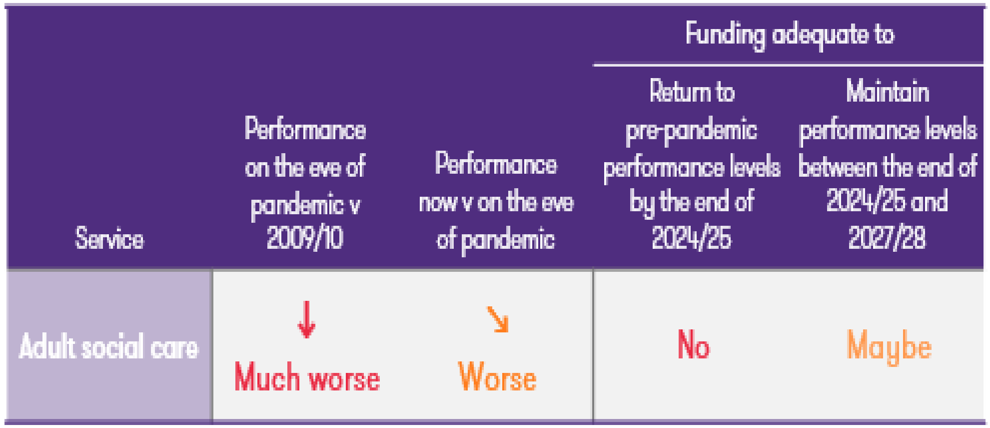
Helping to avoid the "doom loop" for adult social care

In October 2023, the annual Institute for Government / Chartered Institute of Public Finance and Accountancy (CIPFA) public services stocktake revealed that adult social care services are likely to be performing worse in 2027/28 than they were on the eve of the Covid-19 pandemic, and much worse than they were in 2009/10. The report describes the impact across nine different public services of successive governments' short-term policy making; under-investment in capital; and workforce crisis. For adult social care, it highlights that under current funding arrangements, a return to pre-pandemic levels of performance seems unlikely. The report describes a "doom loop" for adult social care, resting on:

- staffing problems and capacity being worse than they were before the pandemic: Vacancy rates in 2022/23 sat at 9.9%. They were 6.7% in 2019/20;
- growing demand: Since 2015/16, the number of requests for adult social care support from new clients has increased by 22.1% for 18–64-year-olds;
- erosion of cash settlements: Settlements announced in 2021 and 2022 have been eroded over time, due to higher than anticipated pay awards and national inflation; and
- sector-specific inflation: Unit costs of adult social care packages are now much higher than they were before the pandemic. According to a survey of directors of adult social services, this has been driven by increasing complexity of care needs, staffing costs and wider inflationary pressures.

There has been no immediate sign of relief from central government. The Autumn Statement in November 2023 made no new funding available for public services, and spending increases beyond April 2025 of less than 1% in real terms are expected.

Audit Committees can help by asking the right questions. What steps do their entities take to make sure staff costs are managed effectively – with as high a ratio as possible being on substantive staff, for stronger consistency and continuity? What assumptions about future funding are their entities making in their budgets? What are the procurement and brokerage arrangements for purchasing care packages in what is, at present, a supplier's market?



			Funding adequate to	
Service	Performance on the eve of pandemic v 2009/10	Performance now v on the eve of pandemic	Return to pre-pandemic performance levels by the end of 2024/25	Maintain performance levels between the end of 2024/25 and 2027/28
Adult social care	↓ Much worse	↘ Worse	No	Maybe

For the full report and a sense of how other public services are faring as well, see [Performance Tracker 2023 | Institute for Government]

Grant Thornton

grantthornton.co.uk

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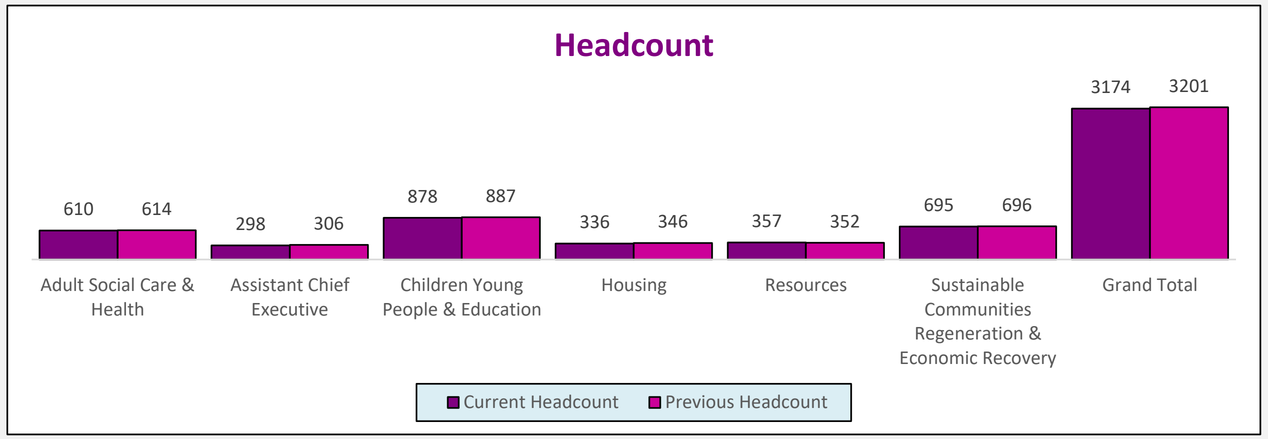
Headcount & FTE				
Directorate	Current Headcount	Previous Headcount	Current FTE	Previous FTE
Adult Social Care & Health	↓ 610	614	↓ 578.4	582.3
Assistant Chief Executive	↓ 298	306	↓ 285.9	293.5
Children Young People & Education	↓ 878	887	↓ 827.3	835.7
Housing	↓ 336	346	↓ 319.9	329.3
Resources	↑ 357	352	↑ 343.9	339.8
Sustainable Communities Regeneration & Economic Recovery	↓ 695	696	↑ 609.7	608.1
Grand Total	↓ **3174**	**3201**	↓ **2965.1**	**2988.8**

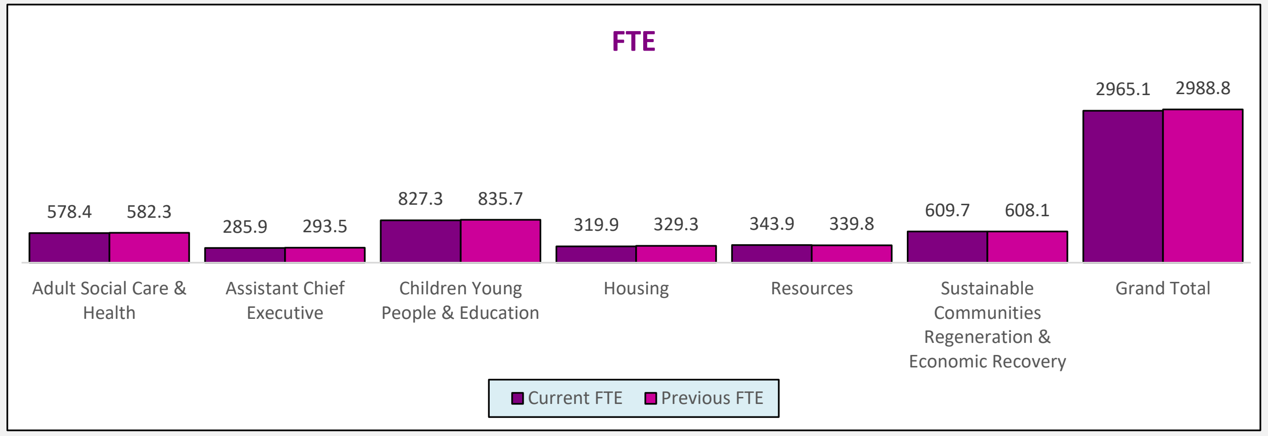
These figures include only members of staff that are employed by LBC with a FTE value

The green arrows indcate that there is an increase in headcount and FTE

The red arrows indicate there is a decrease in headcount and FTE

Yellow Arrows indicate the has been no change in headcount or FTE





Starters & Leavers				
Directorate	Leavers by Directorate	Starters by Directorate	Difference	Gain/Loss
Adult Social Care & Health	52	59	↑ 7	↑ 1.15%
Assistant Chief Executive	39	45	↑ 6	↑ 2.01%
Children Young People & Education	145	142	↓ -3	↓ -0.34%
Housing	51	32	↓ -19	↓ -5.65%
Resources	41	28	↓ -13	↓ -3.64%
Sustainable Communities Regeneration & Economic Recovery	77	72	↓ -5	↓ -0.72%
Grand Total	**405**	**378**	↓ **-27**	↓ **-0.85%**

The green arrows indcate that there is an increase in starters over leavers

The red arrows indicate there is a decrease in starters over leavers

Yellow Arrows indicate the has been no change in starters or leavers

Directorate	Average FTE	Leavers FTE	Natual Leavers FTE	Enforced Leavers FTE	Natural Leavers Turnover	Enforced Leavers Turnover	Overall Turnover Rate
Adult Social Care & Health	581.5	47.8	43.8	4	7.5%	0.7%	8.2%
Assistant Chief Executive	298.6	37.7	36.8	1	12.3%	0.3%	12.6%
Children Young People & Education	831.6	139	135.5	3.5	16.3%	0.4%	16.7%
Housing	348.0	49	40.2	8.8	11.6%	2.5%	14.1%
Resources	339.3	38.7	37.7	1	11.1%	0.3%	11.4%
Sustainable Communities Regeneration & Economic Recovery	604.6	68.6	54.6	14	9.0%	2.3%	11.3%
Grand Total	**3003.5**	**380.8**	**348.5**	**32.3**	**11.6%**	**1.1%**	**12.7%**

Note: All FTE(Average) is taken from the FTE of employees for the rolling year from Jan23 to Dec23

Directorate	Current Natural Turnover	Previous Natural Turnover	Current Enforced Turnover	Previous Enforced Turnover	Current Overall Turnover Rate	Previous Turnover Rate
Adult Social Care & Health	↑ 7.5%	7.2%	→ 0.7%	0.7%	↑ 8.2%	7.9%
Assistant Chief Executive	↑ 12.3%	11.1%	→ 0.3%	0.3%	↑ 12.6%	11.4%
Children Young People & Education	↑ 16.3%	16.2%	→ 0.4%	0.4%	→ 16.7%	16.7%
Housing	↑ 12%	10.7%	↑ 3%	2.5%	↑ 14.1%	13.2%
Resources	↑ 11.1%	10.8%	↓ 0.3%	2.0%	↓ 11.4%	12.8%
Sustainable Communities Regeneration & Economic Recovery	↓ 9.0%	9.2%	→ 2.3%	2.3%	↓ 11.3%	11.6%
Grand Total	↑ **11.6%**	**11.3%**	↓ **1.1%**	**1.3%**	↑ **12.7%**	**12.6%**

Note: this table shows the overall breakdwon percentages of natural and enforced turnover

The green arrows indcate that there is an increase of staff turnover

The red arrows indicate there is a decrease in staff turnover

Yellow Arrows indicate the has been no change in staff turnover

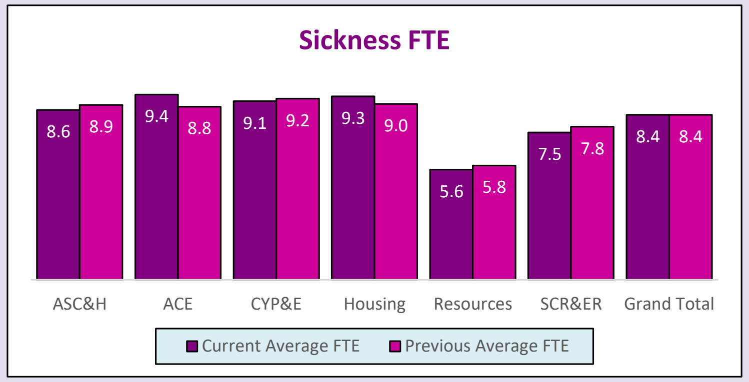
Sickness Overall					
Directorate	FTE (Average)	Current Sick Days	Previous Sick Days	Current Average FTE	Previous Average FTE
ASC&H	581.5	↑ 5025	5192	↑ 8.6	8.9
ACE	298.6	↓ 2817	2625	↓ 9.4	8.8
CYP&E	831.6	↑ 7562	7712	↑ 9.1	9.2
Housing	348	↓ 3252	3119	↓ 9.3	9.0
Resources	339.3	↑ 1902	1994	↑ 5.6	5.8
SCR&ER	604.6	↑ 4532	4687	↑ 7.5	7.8
Grand Total	**3003.5**	↑ **25089**	**25329**	→ **8.4**	**8.4**

Note: All FTE(Average) is taken from the FTE of employees for the rolling year from Jan23 to Dec23

The green arrows indicate there is a decrease in sickness absences or average sickness FTE

The red arrow indicates there is an increase in sickness absences or average sickness FTE

The yellow arrow indicates there is no change in sickness absences or sickness FTE

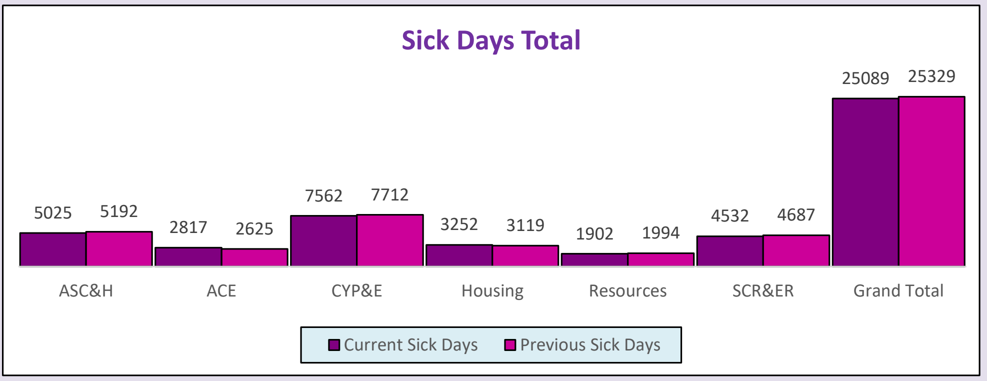

Sickness FTE

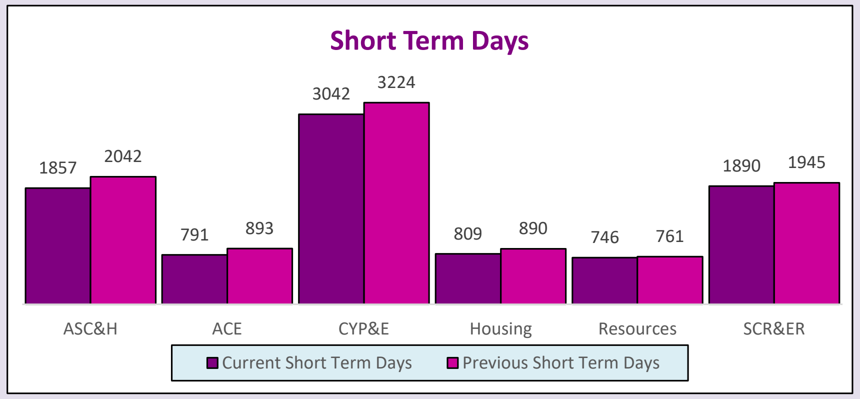
Directorate	Current Short Term Days	Previous Short Term Days	Current Long Term Days	Previous Long Term Sick Days
ASC&H	↑ 1857	2042	↓ 3168	3150
ACE	↑ 791	893	↓ 2025	1732
CYP&E	↑ 3042	3224	↓ 4521	4488
Housing	↑ 809	890	↓ 2443	2230
Resources	↑ 746	761	↑ 1156	1233
SCR&ER	↑ 1890	1945	↑ 2642	2742
Grand Total	↑ **9134**	**9754**	↓ **15955**	**15575**

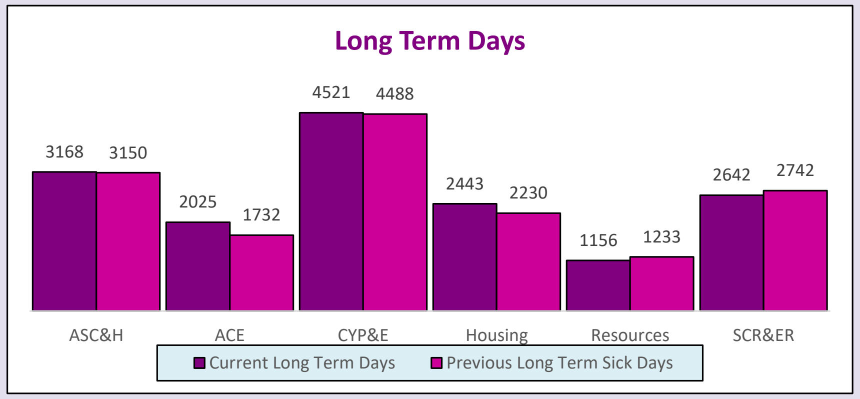
The green arrows indicate there is a decrease in sickness short term or long term days

The red arrow indicates there is an increase in sickness short term or long term days

The yellow arrow indicates there is no change in sickness short or long term days


Sick Days Total


Short Term Days

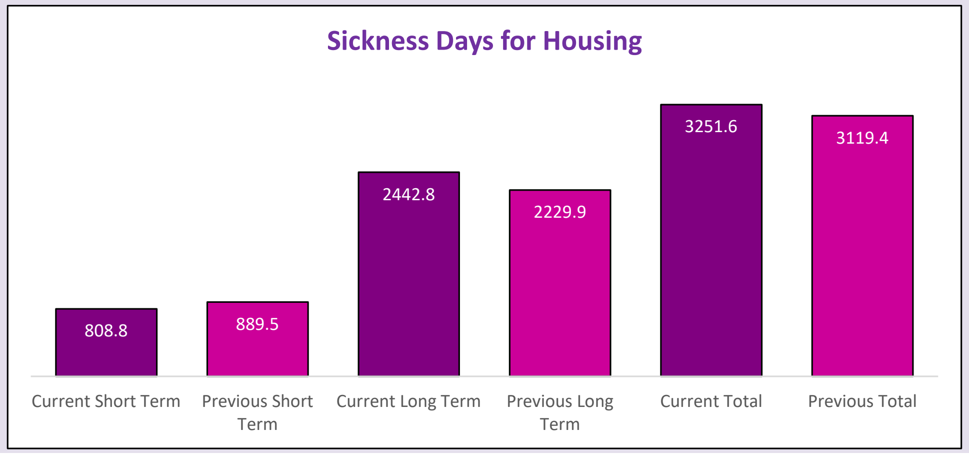

Long Term Days

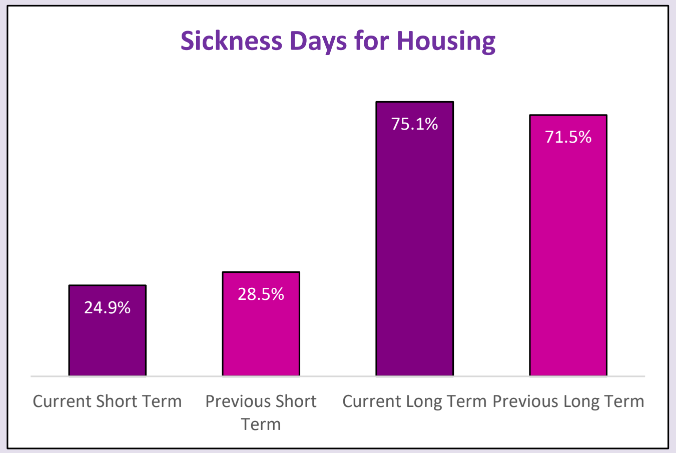
Directorate	Housing ▾					
Sickness Days	Current Short Term	Previous Short Term	Current Long Term	Previous Long Term	Current Total	Previous Total
Days Lost	↑ 808.8	889.5	↓ 2442.8	2229.9	↓ 3251.6	3119.4
Percentage of Days Lost	↑ 24.9%	28.5%	↓ 75.1%	71.5%	100.0%	100.0%

The green arrows indicate there is a decrease in sickness short term or long term days

The red arrow indicates there is an increase in sickness short term or long term days

The yellow arrow indicates there is no change in sickness short or long term days


Sickness Days for Housing


Sickness Days for Housing

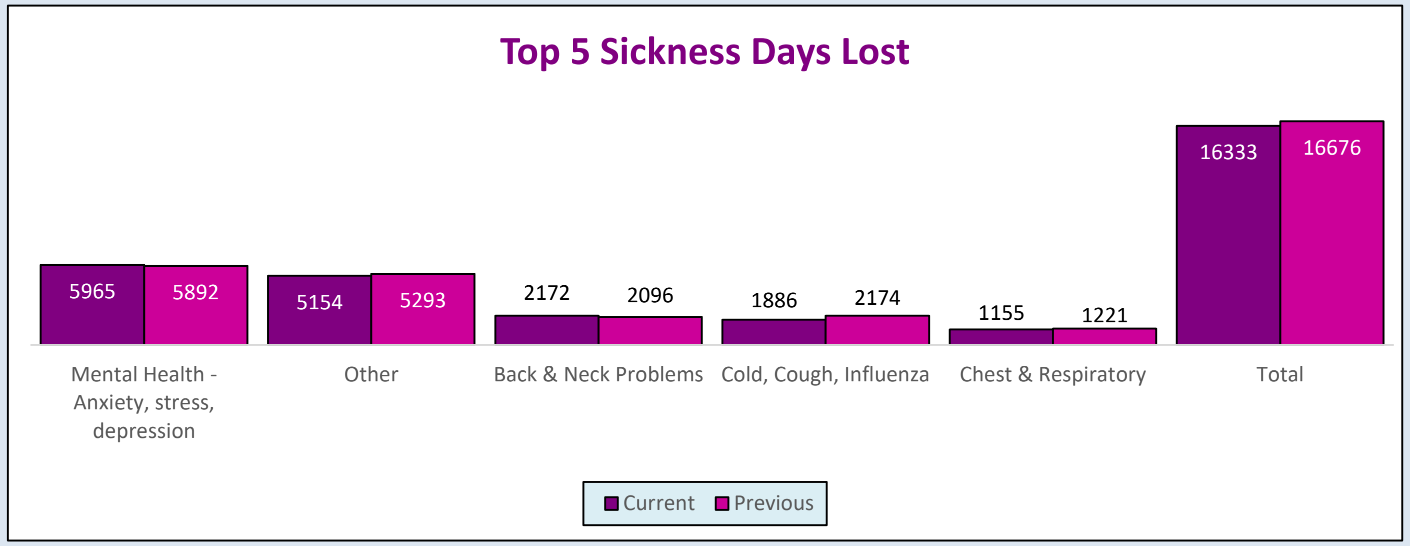
The green arrows indicate there is a decrease in sickness short term or long term days

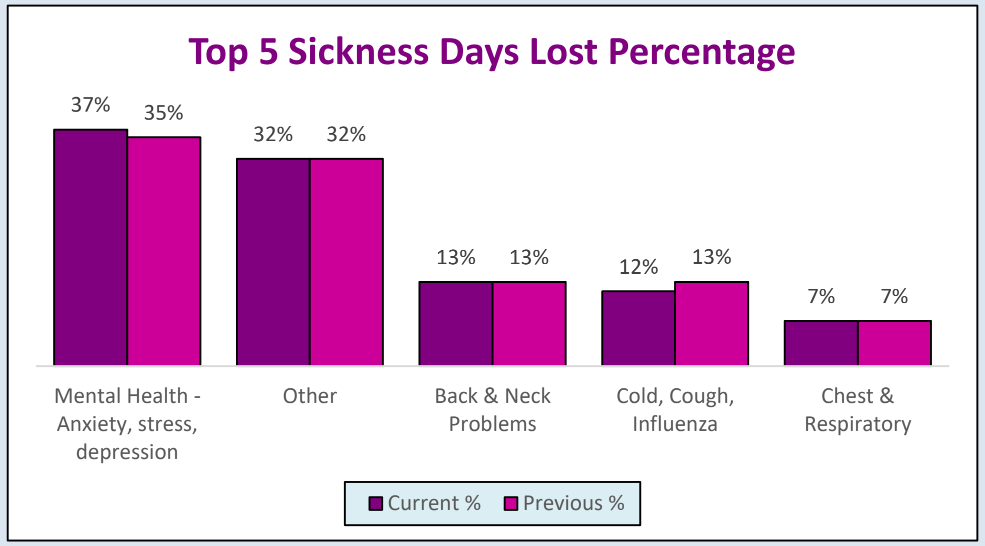
The red arrow indicates there is an increase in sickness short term or long term days

The yellow arrow indicates there is no change in sickness short or long term days

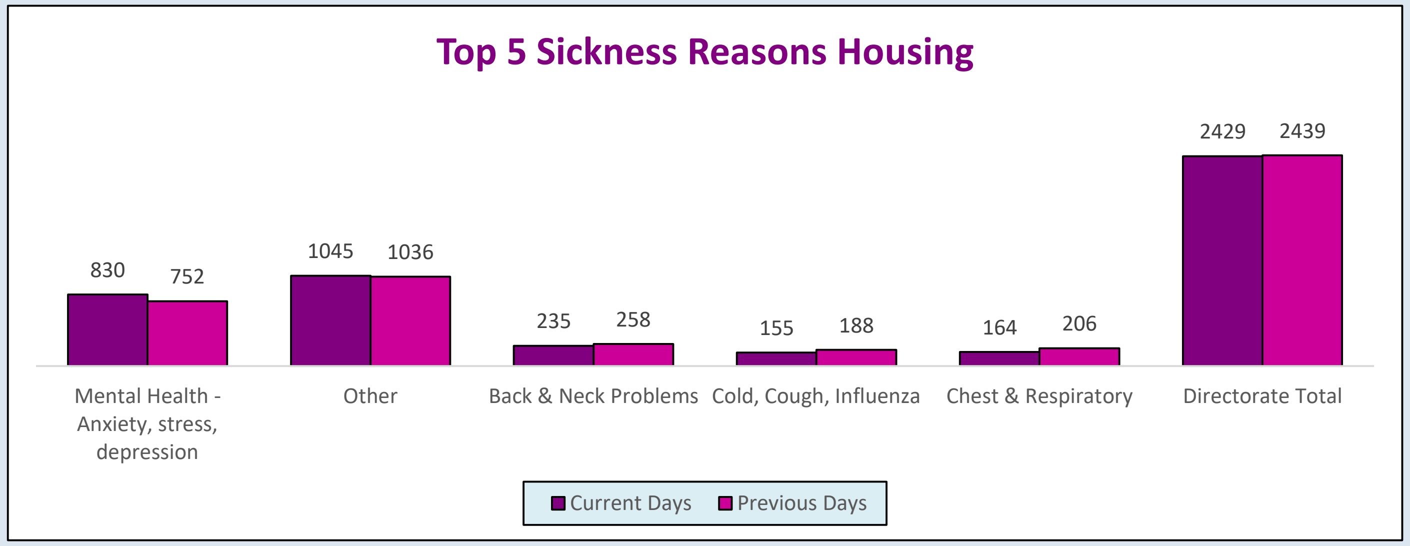
Note: Due to rounding up formatting some of the percentages may present totals as 99% or 101%

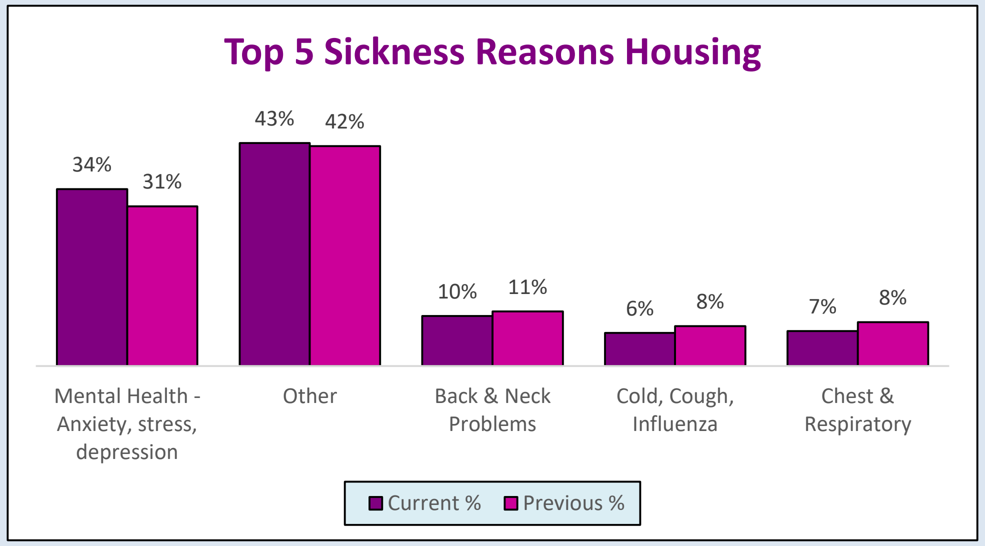
Top 5 Sickness Reasons	Current	Previous	Current %	Previous %
Mental Health - Anxiety, stress, depression	↓ 5965	5892	↓ 37%	35%
Other	↑ 5154	5293	→ 32%	32%
Back & Neck Problems	↓ 2172	2096	→ 13%	13%
Cold, Cough, Influenza	↑ 1886	2174	↑ 12%	13%
Chest & Respiratory	↑ 1155	1221	→ 7%	7%
Total	↑ 16333	16676	100%	100%


Top 5 Sickness Days Lost


Top 5 Sickness Days Lost Percentage

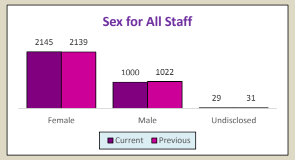
Directorate	Housing			
Top 5 Reasons	**Current Days**	**Previous Days**	**Current %**	**Previous %**
Mental Health - Anxiety, stress, depression	↓ 830	752	↓ 34%	31%
Other	↓ 1045	1036	↓ 43%	42%
Back & Neck Problems	↑ 235	258	↑ 10%	11%
Cold, Cough, Influenza	↑ 155	188	↑ 6%	8%
Chest & Respiratory	↑ 164	206	↑ 7%	8%
Directorate Total	↑ 2429	2439	100%	100%

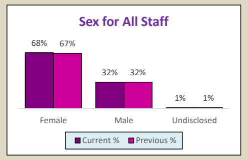

Top 5 Sickness Reasons Housing


Top 5 Sickness Reasons Housing

Tables and graphs for the whole council

Sex	Current	Previous	Current %	Previous %
Female	↑ 2145	2139	↑ 68%	67%
Male	↓ 1000	1022	→ 32%	32%
Undisclosed	↑ 29	31	→ 1%	1%
Total	↓ **3174**	**3192**	**100%**	**100%**

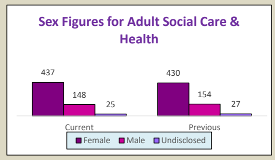

Sex for All Staff

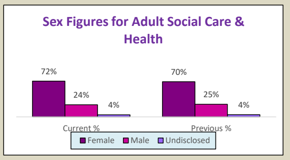

Sex for All Staff

Key
The green arrows pointing up indicate a rise in headcount and disclosue rate
The red arrow point down indicates a decrease in staff and disclosure rate
The yellow arrow shows no change
Note: Undisclosed is the reverse where a green arrow would be lower as would indicate a decrease in undisclosed figures.
Additional note: Due to rounding up formatting some of the percentages may present totals as 99% or 101%

Tables and graphs per directorate

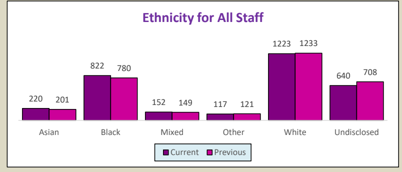
Directorate	Adult Social Care & Health			
Sex	Current	Previous	Current %	Previous %
Female	↑ 437	430	↑ 72%	70%
Male	↓ 148	154	↓ 24%	25%
Undisclosed	↑ 25	27	↑ 4%	4%
Total	↓ **610**	**611**	**100%**	**100%**

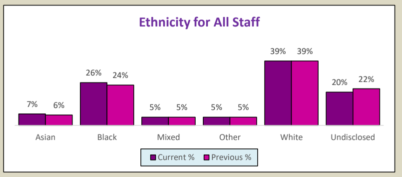

Sex Figures for Adult Social Care & Health


Sex Figures for Adult Social Care & Health

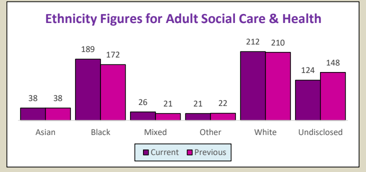
Directorates
Adult Social Care & Health
Assistant Chief Executive
Children Young People & Education
Housing
Resources
Sustainable Communities Regeneration & Economic Recovery

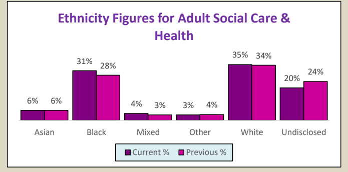
Ethnicity	Current	Previous	Current %	Previous %
Asian	↑ 220	201	↑ 7%	6%
Black	↑ 822	780	↑ 26%	24%
Mixed	↑ 152	149	→ 5%	5%
Other	↓ 117	121	→ 5%	5%
White	↓ 1223	1233	→ 39%	39%
Undisclosed	↑ 640	708	↑ 20%	22%
Total	↓ **3174**	**3192**	**100%**	**100%**


Ethnicity for All Staff

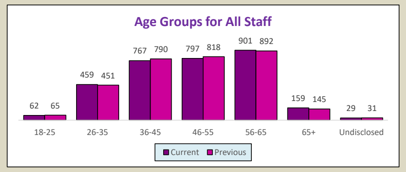

Ethnicity for All Staff

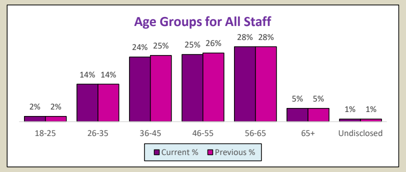
Directorate	Adult Social Care & Health			
Ethnicity	**Current**	**Previous**	**Current %**	**Previous %**
Asian	→ 38	38	↑ 6%	6%
Black	↑ 189	172	↑ 31%	28%
Mixed	↑ 26	21	↑ 4%	3%
Other	↓ 21	22	↓ 3%	4%
White	↑ 212	210	↑ 35%	34%
Undisclosed	↑ 124	148	↑ 20%	24%
Total	↓ **610**	**611**	**100%**	**100%**


Ethnicity Figures for Adult Social Care & Health

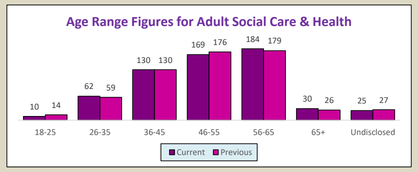

Ethnicity Figures for Adult Social Care & Health

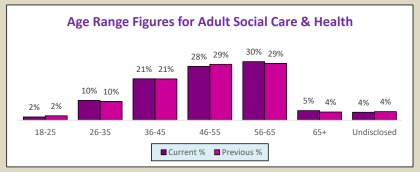
Age Groups	Current	Previous	Current %	Previous %
18-25	↓ 62	65	→ 2%	2%
26-35	↑ 459	451	→ 14%	14%
36-45	↓ 767	790	↓ 24%	25%
46-55	↓ 797	818	↓ 25%	26%
56-65	↑ 901	892	→ 28%	28%
65+	↑ 159	145	→ 5%	5%
Undisclosed	↑ 29	31	→ 1%	1%
Total	↓ **3174**	**3192**	**100%**	**100%**


Age Groups for All Staff

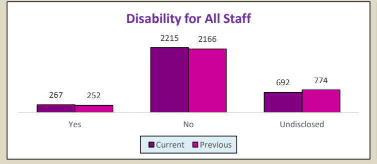

Age Groups for All Staff

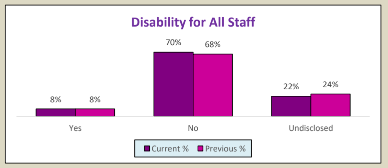
Directorate	Adult Social Care & Health			
Age Groups	**Current**	**Previous**	**Current %**	**Previous %**
18-25	↓ 10	14	↓ 2%	2%
26-35	↑ 62	59	↑ 10%	10%
36-45	→ 130	130	↑ 21%	21%
46-55	↓ 169	176	↓ 28%	29%
56-65	↑ 184	179	↑ 30%	29%
65+	↑ 30	26	↑ 5%	4%
Undisclosed	↑ 25	27	↑ 4%	4%
Total	↓ **610**	**611**	**100%**	**100%**


Age Range Figures for Adult Social Care & Health

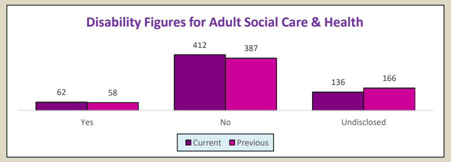

Age Range Figures for Adult Social Care & Health

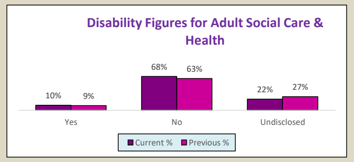
Disability	Current	Previous	Current %	Previous %
Yes	↑ 267	252	→ 8%	8%
No	↑ 2215	2166	↑ 70%	68%
Undisclosed	↑ 692	774	↑ 22%	24%
Total	↓ **3174**	**3192**	**100%**	**100%**


Disability for All Staff

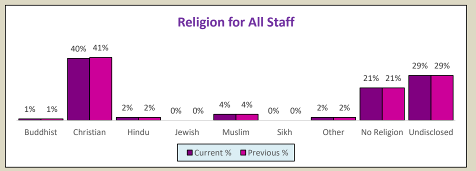

Disability for All Staff

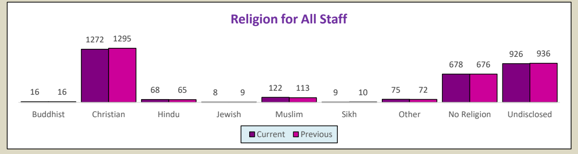
Directorate	Adult Social Care & Health			
Disability	**Current**	**Previous**	**Current %**	**Previous %**
Yes	↑ 62	58	↑ 10%	9%
No	↑ 412	387	↑ 68%	63%
Undisclosed	↑ 136	166	↑ 22%	27%
Total	↓ **610**	**611**	**100%**	**100%**


Disability Figures for Adult Social Care & Health

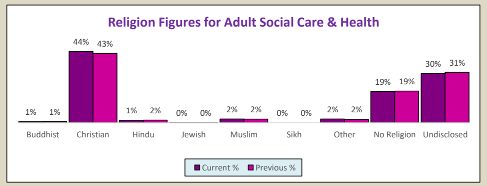

Disability Figures for Adult Social Care & Health

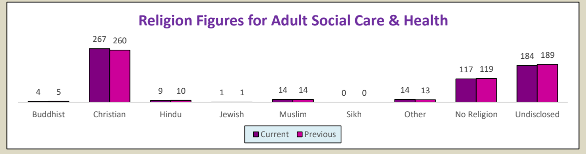
Religion	Current	Previous	Current %	Previous %
Buddhist	→ 16	16	→ 1%	1%
Christian	↓ 1272	1295	↓ 40%	41%
Hindu	↑ 68	65	→ 2%	2%
Jewish	↓ 8	9	→ 0%	0%
Muslim	↑ 122	113	→ 4%	4%
Sikh	↓ 9	10	→ 0%	0%
Other	↑ 75	72	→ 2%	2%
No Religion	↑ 678	676	→ 21%	21%
Undisclosed	↑ 926	936	→ 29%	29%
Total	↓ **3174**	**3192**	**100%**	**100%**


Religion for All Staff

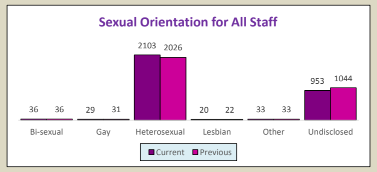

Religion for All Staff

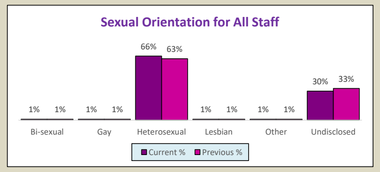
Directorate	Adult Social Care & Health			
Religion	**Current**	**Previous**	**Current %**	**Previous %**
Buddhist	↓ 4	5	↓ 1%	1%
Christian	↑ 267	260	↑ 44%	43%
Hindu	↓ 9	10	↓ 1%	2%
Jewish	→ 1	1	↑ 0%	0%
Muslim	→ 14	14	↑ 2%	2%
Sikh	→ 0	0	→ 0%	0%
Other	↑ 14	13	↑ 2%	2%
No Religion	↓ 117	119	↓ 19%	19%
Undisclosed	↑ 184	189	↑ 30%	31%
Total	↓ **610**	**611**	**100%**	**100%**


Religion Figures for Adult Social Care & Health

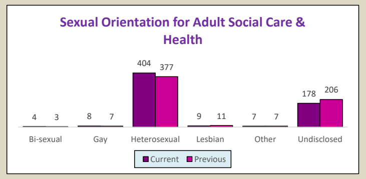

Religion Figures for Adult Social Care & Health

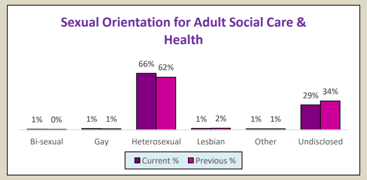
Sexual Orientation	Current	Previous	Current %	Previous %
Bi-sexual	→ 36	36	→ 1%	1%
Gay	↓ 29	31	→ 1%	1%
Heterosexual	↑ 2103	2026	↑ 66%	63%
Lesbian	↓ 20	22	→ 1%	1%
Other	→ 33	33	→ 1%	1%
Undisclosed	↑ 953	1044	↑ 30%	33%
Total	↓ **3174**	**3192**	**100%**	**100%**


Sexual Orientation for All Staff


Sexual Orientation for All Staff

Directorate	Assistant Chief Executive			
Sexual Orientation	**Current**	**Previous**	**Current %**	**Previous %**
Bi-sexual	↑ 4	3	↑ 1%	0%
Gay	↑ 8	7	↑ 1%	1%
Heterosexual	↑ 404	377	↑ 66%	62%
Lesbian	↓ 9	11	↓ 1%	2%
Other	→ 7	7	↑ 1%	1%
Undisclosed	↑ 178	206	↑ 29%	34%
Total	↓ **610**	**611**	**100%**	**100%**


Sexual Orientation for Adult Social Care & Health


Sexual Orientation for Adult Social Care & Health

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