For General Release

REPORT TO:	**GENERAL PURPOSES & AUDIT COMMITTEE** **18 JULY 2018**
SUBJECT:	**AUDIT FINDINGS REPORTS FOR CROYDON COUNCIL AND THE CROYDON PENSION FUND 2017-18 ACCOUNTS**
LEAD OFFICER:	**RICHARD SIMPSON EXECUTIVE DIRECTOR OF RESOURCES** **(Section 151 Officer)**
CABINET MEMBER:	**COUNCILLOR SIMON HALL, CABINET MEMBER FOR FINANCE AND RESOURCES**
WARDS:	**ALL**

CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:

The preparation and publication of the Council's final accounts provides assurance that the Council's overall financial position is sound. This underpins service delivery that enables the achievement of the Council's priorities and forms a key strand to the Council's overall Financial Strategy.

Strong financial governance and stewardship ensures that the Council's resources are aligned to enable the priorities, as set out in the Corporate Plan 2015 -2018, to be achieved for the residents of our borough and further enables medium to long term strategic planning considerations based on this strong financial foundation and stewardship.

FINANCIAL IMPACT:

There are no direct financial implications arising from this report.

FORWARD PLAN KEY DECISION REFERENCE NO.:

Not a key decision

1. RECOMMENDATIONS

The Committee is asked to:

1.1 Note the ISA 260 (International Standards on Auditing) Reports for the Council and the Pension Fund issued by the Council's external auditors, Grant Thornton (Appendix 1 and 2 respectively).

1.2 Approve the letters of representation (in Appendix 3 and 4) on behalf of the Council and the Pension Fund.

1.3 Approve the final accounts (Appendix 5) based on the adjustments recommended in the Audit Findings report for the Council (set out in Appendix 1), together with any minor changes identified under paragraph 1.4.

1.4 Authorise the Executive Director Resources (S151 Officer) and Chair of General Purposes and Audit Committee to sign off the Council's 2017/18 accounts and agree any changes identified between this meeting date and the 31st July 2018, as detailed in paragraph 3.4 of this report.

2. EXECUTIVE SUMMARY

2.1 The Auditors have issued the ISA 260 Reports for the 2017/18 final accounts for the Council and for the Pension Fund, which includes the Value for Money report prepared for the Council. The reports are specifically aimed at those charged with governance. The reports include the Council's management responses to the recommendations.

3. INTERNATIONAL STANDARD ON AUDITING (ISA) 260 REPORTS

3.1 Grant Thornton have now completed their audit of the accounts for the Council and for the Pension Fund and have produced ISA 260 Reports for each, which they are required to issue to General Purposes & Audit Committee as the Council Committee charged with governance for the organisation.

The principle purposes of the reports are:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and General Purposes & Audit Committee;
- to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities;
- to provide General Purposes & Audit Committee with recommendations for improvement arising from the audit process; and
- to notify the General Purposes and Audit Committee of any adjustments to be made to the accounts.

The ISA 260 Reports are attached as Appendix 1 and 2 for the Council and Pension Fund respectively.

Financial Statements

3.2 Grant Thornton is anticipating being able to issue unqualified opinions on both the Council's Accounts and the Pension Fund Accounts for 2017/18 by the end of July, by which time the Accounts and the Letters of Representation will have been signed by the Executive Director of Resources (Section 151 Officer) on behalf of the Council.

3.3 The ISA 260 Reports detail the matters arising from the audit of the financial statements that the auditor is required to report upon to the General Purposes & Audit Committee.

3.4 Due to the timetable for completing the accounts, external audit of the accounts and presentation to this General Purposes and Audit Committee the adjustments to the accounts detailed in the ISA 260 reports will be undertaken post this committee and before the statutory deadline of the 31st July 2018. The committee can see the adjustments to be made in the ISA 260 report. If there are any further adjustments identified post this committee the Chair of this Committee will be briefed accordingly.

3.5 There were no adjustments resulting from the audits that impacted upon the available revenue reserves of the Council as reported in the financial statements.

Value for Money Report

3.6 The Value for Money report for the Council sets out the Auditors' conclusion on the Council's arrangements for securing value for money. The judgement covers three themes; Informed decision making, Working with Partners and other third parties and Sustainable resource deployment. This report is part of the overall Audit Findings report.

3.7 The report comments that in all significant respects except Children's Social Care, as a result of the recent Ofsted inspection the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the Council's use of resources for the year ending 31 March 2018. The report does note that the Council faces significant financial pressures in the coming years, but confirmed that the Council has strong plans in place for significant growth within the borough and is developing innovative mechanisms to fund and deliver projects.

Auditor Recommendations

3.8 The Auditor has set out 6 recommendations as a result of their review of the Council's accounts, which are set out in Appendix A to the ISA 260 report. They cover accounting for new complex transactions, asset valuations, managing the budget for the People Department, a clear reserves strategy and the funding of transformation.
There was one recommendations in relation to the Pension Fund accounts relating to new starters statutory notification letters. This is set out in Appendix A to the ISA 260 report.

Adjustments to the Draft Accounts

3.9 The review of the draft Accounts has identified a number of non material change to be made to the accounts, these are detailed in appendix C of the ISA260 Report and will be made to the draft accounts presented to this Committee before the statutory deadline of the 31st July 2018.

4 CONSULTATION

4.1 The accounts were place on the Council's website stating that the Accounts were open to public scrutiny during the period from 1st June 2018 to 13th July 2018. The community had the opportunity with this arrangement to look at the accounts and raise queries with the Council. Additionally the community had the opportunity to raise queries with the auditors directly, which was publicised in the same notice.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 There are no direct financial considerations arising from this report.

5.2 There are no implications arising from this report of new policy or spending decisions.

Approved by Lisa Taylor –Director of Finance, Investment and Risk and Deputy S151 Officer.

6. COMMENTS OF THE BOROUGH SOLICITOR AND MONITORING OFFICER

6.1 The Accounts and Audit (England) Regulations 2015 requires the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published by no later than the 31st of July each year from 2018.

Approved by Sandra Herbert, Head of Corporate Law.

7. HUMAN RESOURCES IMPACT

7.1 There are no immediate Human Resources considerations that arise from the recommendations of this report for London Borough of Croydon staff.

Approved by Sue Moorman – Director of Human Resources

8. EQUALITIES IMPACT

8.1 An Equalities Impact Assessment has not been carried out as this report does not require a new policy or spending decision. The contents of this report do not have any equalities implications.

9. ENVIRONMENTAL IMPACT

9.1 There are no implications arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no implications arising from this report.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

11.1 This is a statutory requirement.

12. OPTIONS CONSIDERED AND REJECTED

12.1 None.

CONTACT OFFICER: Richard Simpson, Executive Director of Resources (Section 151 Officer) ext 61848

BACKGROUND PAPERS: None

APPENDICES: Appendix1 LB Croydon General Fund Audit Findings
Appendix 2 Croydon Pension Fund Audit Findings
Appendix 3 Croydon General Fund Letter of Representation
Appendix 4 Croydon Pension Fund Letter of Representation
Appendix 5 Statement of Accounts 2017/18

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Grant Thornton

Audit Findings

Year ending 31 March 2018

London Borough of Croydon

18 July 2018

Contents

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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.

Headlines

This table summarises the key issues arising from the statutory audit of the London Borough of Croydon ('the Council') and the preparation of the Council and group's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Council and group's financial statements give a true and fair view of the Council and group's financial position and Council and group's expenditure and income 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 Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), 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 completed on site during June and July 2018. Our findings are summarised on pages 4 to 16. We have identified a number of adjustments to the financial statements that are detailed in Appendix C. None of the adjustments identified have impacted on the reported deficit for the year or General Fund position for the Council. 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. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the General Purposes and Audit Committee meeting on 18 July 2018, as detailed in the draft audit opinion accompanying this report. These outstanding items are summarised on page 4. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, 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')	Our review of your value for money arrangements remains on-going and we will provide an update to the General Purposes and Audit Committee on our final conclusion. From our work completed so far, we have identified one matter that will impact on the final conclusion that we issue: In September 2017, Ofsted issued a report on the inspection of your services for children in need of help and protection that rated the Council as "inadequate". We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in the draft audit opinion accompanying this report. Our findings are summarised on pages 17 to 27.
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 • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

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 the Chief Finance Officer.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 your business and is risk based, and in particular included:

- gaining an understanding of significant changes to the Group structure and obtaining supporting evidence to corroborate accounting transactions and disclosures within the financial statements;
- evaluation of identified components to assess the significance of each component and to determine the planned audit response based on a measure of the materiality and significance of the component as a percentage of the group's: current assets, total assets, current liabilities, total liabilities, equity, income and expenditure. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- full scope audit procedures on the Council, which represents 100% of the group's income, 100% of its expenditure and 93% of its net assets;
- issuing group instructions to our colleagues at Grant Thornton UK LLP in respect of their full scope audit of Brick By Brick Croydon Limited for the year ended 31 December 2017, using the results of their full scope audit together with additional follow-up audit procedures around work in progress expenditure for the period 1 January 2018 to 31 March 2018. Brick By Brick Croydon Limited represents 0% of the total income of the group, 0.007% of its expenditure and 7% of its total net assets.
- gaining an understanding of and evaluating the group's internal controls environment including its IT systems and controls; and
- substantive testing of the income, expenditure and net assets for each significant component. Testing undertaken covered 99.4% of group income, 99.9% of group expenditure and 99.6% of group assets and 98.5% of group liabilities..

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the General Purposes and Audit Committee meeting on 18 July 2018, as detailed in the draft audit opinion accompanying this report. These outstanding items include:

- receipt and review of outstanding sample items for our testing of debtors, creditors, revenues, non-pay operating expenses and external schools payroll expenditure;
- receipt and review of evidence for our testing of Council Tax reliefs;
- receipt and review of breakdown of petty cash;
- completion of review of accounting for Private Finance Initiative (PFI liabilities);
- completion of review of accounting treatment for LOBO loans;
- completion of review of significant judgements and assumptions made in respect of property, plant and equipment land and building valuations;
- details of income and expenditure and assets and liabilities in 2017/18 for group interests of the Council that have not been consolidated into the group financial statements;
- completion of review of the accounting for the transfer of properties to Croydon Affordable Homes LLP, including receipt of the legal advice obtained by the Council;
- receipt of management representation letter;
- final senior management quality review processes;
- review of the final set of financial statements; and
- review of the Whole of Government Accounts consolidation pack.

Summary (continued)

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.

Our assessment of the value of materiality, performance materiality and trivial matters has been adjusted from the amounts communicated in our Audit Plan dated 15 March 2018 because we have recalculated them based upon the outturn position reported in the draft 2017/18 financial statements. We detail in the table below our assessment of materiality for the London Borough of Croydon.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£23,483,000	£23,481,000	• In calculating materiality, we have considered the users the financial statements and the extent to which they place reliance on the financial statements.
Performance materiality	£17,612,000	£17,611,000	• In calculating performance materiality, we have considered the Council's control environment and the likelihood of material misstatements of the financial statements arising.
Trivial matters	£1,000,000	£1,000,000	• We have considered the level at which audit misstatements would be of interest to members of the General Purposes and Audit Committee in discharging their duties.
Materiality for specific transactions, balances or disclosures	• Disclosures of senior officer salaries - £10,000 • Related party transactions - £4,000,000	• Disclosures of senior officer salaries - £10,000 • Related party transactions - £4,000,000	• We have identified these as disclosures where misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users.

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

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.

Going concern commentary

Management's assessment process	Auditor commentary
Management have prepared a medium term financial strategy covering up to 2020/2021, which indicates that the Council will continue to deliver a balanced budget over that period.	• We are satisfied regarding the appropriateness of management’s process for formulating their going concern assessment.
Work performed	**Auditor commentary**
Detail audit work performed on mgmts. assessment	• We have reviewed the medium term financial strategy and considered the reasonableness of the assumptions on which it is based. • We note that your reserves have fallen significantly over the last two years, with total general fund and earmarked reserves standing at £28.5 million as at 31 March 2018, compared to £50.8 million as at 31 March 2016 and £40.8 million as at 31 March 2017. While your reserves have capacity to fund some overspends, they would not be sufficient in the event of significant recurrent overspends over the medium term. • Despite the risks posed by the low level of your reserves, it is clear that you remain a going concern for the period to 31 July 2019, the period covered by our review of your going concern assessment.
Concluding comments	**Auditor commentary**
	• We have identified no events or conditions in the course of the audit that we consider may cast significant doubt on your ability to continue as a going concern. • We are satisfied with the appropriateness of management’s going concern assessment process. As such we plan to issue an unmodified audit report in respect of going concern.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including the London Borough of Croydon, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the London Borough of Croydon.
2	**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. You face external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – gained an understanding of the significant accounting estimates, judgements applied and decisions made by management and consider their reasonableness; – obtained a full listing of journal entries, identified and then tested unusual journal entries for appropriateness; and – evaluated the rationale for any changes in accounting policies or significant unusual transactions that came to out attention during the course of the audit. • Our work has not identified any issues in respect of this risk.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** You re-value your Council dwellings annually and its other classes of land and buildings on a quinquennial basis to ensure that their carrying value is not materially different from fair value. This the includes the valuation of council dwellings, other land and buildings and surplus assets not held for sale components of your property, plant and equipment. This represents a substantial estimate by management in the core financial statements and group accounts, due to the size of the valuation and the sensitivity of the valuation to changes in the changes in significant judgments. We therefore identified the valuation of land and buildings as a significant risk, which was one of the most major assessed risks of material misstatement. and a key audit matter for the audit.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – reviewed management's processes and assumptions for the calculation of the estimate; – reviewed the competence, expertise and objectivity of the valuation specialists used; – reviewed the instructions issued to valuation experts and the scope of their work; – considered the completeness and accuracy of the information supplied by you to the valuation experts; – discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions; – reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; – tested revaluations made during the year to ensure they were input correctly into the your fixed assets register; and – evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. • Our audit work in relation to this risk remains in progress. We will provide and update to you at the General Purposes and Audit Committee meeting of our conclusion in respect of this risk.
4	**Valuation of pension fund net liability** The Authority annually engages an actuary to value its net pension fund liability in respect of the Local Government Pension Scheme. Due to its size and sensitivity to changes in key assumptions, this represents a substantial estimate by management in the Council's financial statements and the group accounts. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – gained an understanding of the processes and controls put in place by management to ensure that the net pension fund liability was not materially misstated and evaluating the design of the associated controls; – reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; – gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and – reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. • Our audit work has not identified any issues in respect of this risk.

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
7 **Employee remuneration** Payroll expenditure represents a significant percentage (26%) of the Council's gross revenue expenditure. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** • We undertook the following procedures in relation to this risk: – documented our understanding of processes and key controls over the transaction cycle; – undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; – evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; – tested payroll expenditure for your main payroll for the year using a substantive analytical review; – substantively tested a sample of payroll payments to schools employees paid through external payrolls. • Our audit work has not identified any issues in respect of this risk.
8 **Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (58%) of the Council's gross revenue expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** • We undertook the following procedures in relation to this risk: – evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; – gained an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls; and – tested a sample of post-year end payments to test the completeness of expenditure recorded in the financial statements. • From our testing of your year end creditors balance, we identified a £3,000 creditor balance included in your creditors listing on your Accounts Payable system that should have been written out because there were no invoices outstanding with this supplier as at the year end. We also identified a £1,135 s.106 receipts in advance balance that management were not able to provide us with supporting evidence for due to this balance having not been properly referenced when it was first recorded. We have evaluated both of these errors and concluded that neither of these matters are indicative of a wider material misstatement in your year end reported creditors position. • Our audit work has not identified any other issues in respect of this risk.

Reasonably possible audit risks – new risks identified

This section provides commentary on new reasonably possible risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Risks identified	Commentary
9 **Setup of Croydon Affordable Homes LLP** During the year, you set up Croydon Affordable Homes LLP (CAH LLP), a new not-for-profit body that manages a portfolio of affordable accommodation for homeless families. CAH LLP entered into a number of leases with the Council to acquire 96 non-HRA properties under an 80 year lease. This was funded through a combination of a loan from the Council and Housing Revenue Account Right To Buy capital receipts and enabled you to recognise a £21.9 million flexible capital receipt.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – gained an understanding of the transactions entered into with CAH LLP and of your arrangements for management oversight over those transactions; – reviewed the accounting treatment and significant accounting judgements made in respect of the transactions with CAH LLP; – reviewed governance arrangements for CAH LLP and its parent, Croydon Affordable Housing Ltd, to consider whether they fall under the control of the Council; – reviewed governance arrangements and transactions for the two entities set up to hold the Council's equity interest in CAH LLP, London Borough of Croydon Holdings LLP and Croydon Holdings Ltd, to consider whether they should be consolidated within your group accounts; and – review of the legality of the use of HRA Right To Buy capital receipts to fund a portion of this transaction. • Our review of the accounting treatment applied for these transactions remains in progress and we await receipt of the legal advice received by the Council. • You recognised in your draft accounts a provision of £2,000k premium that you received in respect of a financing transaction between CAH LLP and a third party, Canada Life. We have noted that this does not satisfy the requirements to account for as a provision and you have decided to recognise this as income instead. • We have noted that no disclosure was provided in the accounts of the judgement made by management that the leases entered into with Croydon Affordable Homes LLP have resulted in the transfer of control of the properties, even though you retain some of the benefits from their future operation including a share of the net income from rental of the properties and rights of nomination of tenants. • Our audit work in relation to this risk remains in progress. We will provide and update to you at the General Purposes and Audit Committee meeting of our conclusion in respect of this risk.

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Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Brick By Brick Croydon Limited	Grant Thornton (UK) LLP	• The statutory audit of Brick By Brick Croydon Limited for the year ended 31 December 2017 was completed on 3 May 2018. • An unqualified conclusion was issued in respect of Brick By Brick Croydon Limited's financial statements. • The audit was undertaken by Grant Thornton (UK) LLP and the group audit team has had full access to the component auditor's work papers.	• No audit findings material to the group financial statements were noted during the audit Brick By Brick Croydon Limited. • Management have opted to restate the group financial statements in respect of an immaterial prior period adjustment identified during the audit of Brick By Brick Croydon Limited.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• You have four principal revenue streams: – taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied; – grant income is recognised in accordance with the terms of the grant, whether specific or non-specific – income from social housing dwelling rents is recognised evenly over the period to which it relates; and – income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed.	• We have no concerns with your revenue recognition policies or with the application of those policies. The revenue recognition policies adopted are in line with the CIPFA Code of Practice.	● Green

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Assessment

- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
Valuation methods	• Council dwellings are valued at their current value, determined using the basis of existing use value for social housing. • Other land and buildings are valued at their current value, determined as the amount that would be paid for the asset in its existing use, or at the depreciated replacement cost, depending upon the nature of the asset. • Surplus assets and investment property are valued at fair value, estimated at the highest and best use from a market participant's perspective with respect to property market valuation data. • The actuarial valuation of the net pension liability was determined based upon an assessment of the future payments that will be made in relation to retirement benefits, discounted to their value at current prices and netted off against the fair value of pension assets based upon their market value at the year end. • The fair value of financial assets disclosed in note 16 is determined based upon market data of conditions as at 31 March 2018. • The fair value of financial liabilities disclosed in note 16 has been determined on a new loans basis, based upon the net present value of a liability on equivalent terms entered on the prevailing market borrowing rate as at 31 March 2018.	• We have not identified any issues in relation to any of the valuation methods used to calculate significant valuations in the financial statements. • Our audit work in relation to review of your asset revaluations remains in progress. We will provide and update to you at the General Purposes and Audit Committee meeting of our conclusion in respect of this risk. • We are not aware of any significant changes in valuation methods used compared to previous years.	Green

Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies (continued)

Accounting area	Summary of policy	Comments	Assessment
Other judgements and estimates	• Other key estimates and judgements include: – Useful life of Property, Plant and Equipment – Impairments – Doubtful debt provision – Expenditure accruals – NNDR appears provision – Private Finance Initiative (PFI) liability – Judgements around recognition of schools land and buildings on the Balance Sheet – Judgements around which entities to consolidate within the Group financial statements	• We have not identified any issues in relation to any of the other significant judgements and estimates reflected in the financial statements.	● Green
Consolidation of Brick By Brick Croydon Limited	• You have consolidated the financial position and financial performance of Brick By Brick Croydon Limited into your financial statements on the basis of the outturn position reported the company's audited statutory accounts for the year ended 31 December 2017. • This is a change in approach from the prior year, when you included expenditure of Brick By Brick Croydon for January – March within the group financial statements. • You have restated the 2016/17 comparative group accounts to reflect the new basis of preparation adopted in 2017/18.	• We are satisfied that the general basis of consolidation adopted is materially reasonable. • We have identified a number of adjustments to errors in the consolidation process, which are set out in Appendix C. • We note that it was not necessary for management to restate the group financial statements because the restatement posted by management was immaterial.	● Amber
Other critical policies	• You have adopted accounting policies that are consistent with the CIPFA Code of Practice.	We have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years.	● Green

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Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the General Purposes and Audit Committee in our Audit Plan dated 15 March 2018. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from you, including specific representations in respect of the group, which is included in the General Purposes and Audit Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests in respect of your cash, borrowings and investment balances as at 31 March 2018. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6	**Disclosures**	• Our review identified a number of errors and omissions in the discloses provided within the financial statements. These are detailed in Appendix C.
7	**Audit evidence and explanations**	• All information and explanations requested from management was provided.
8	**Significant difficulties**	• We experienced no significant difficulties in performing the audit.

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. • No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to draft audit report in the General Purposes and Audit Committee papers accompanying this report.
2	**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 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. We have nothing to report on these matters.
3	**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 £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed and we plan to undertake the WGA review in August 2018, after the conclusion of the audit.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of the London Borough of Croydon in our auditor’s report, as detailed in the draft audit opinion accompanying this report as we have not yet completed our review of your WGA consolidation pack.

Value for Money

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether you have proper arrangements in place.

The guidance 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:

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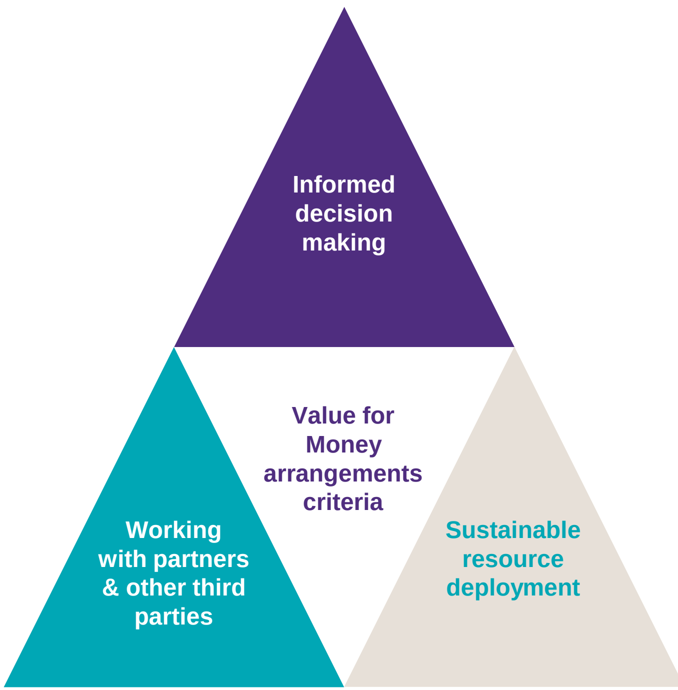

Risk assessment

We carried out an initial risk assessment in March 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 15 March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £26.1 million, compared to £40.8 million as at 31 March 2017 and £50.8 million as at 31 March 2016. This represents 9.8% of your budget requirement for 2018/19 which is low relative to other London Boroughs and to the levels of reserves that you have historically held. This highlights the importance of taking firm action to ensure that spending is contained within the budget going forward.
- During 2017/18, you commenced the operation of the "One Croydon" Outcomes Based Commissioning Alliance Agreement with NHS Croydon CCG to develop an Integrated Health and Social Care system for the over 65s population in Croydon.
- In September 2017, Ofsted issued a report on the inspection of your services for children in need of help and protection that you are "inadequate".
- We consider that the outcome of the Ofsted inspection of your children's' services is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.
- In all respects other than the issues noted by Ofsted in relation to your children's' services, we have concluded from our work completed we have no matters to report around your arrangements for securing economy, efficiency and effectiveness in your use of resources

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 19 to 26.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement which are as follows:

- you should ensure that you continue to take action to prevent overspends from arising for the People department;
- you should identify alternative means for funding transformation expenditure in the longer term once flexible capital receipts are no longer available to fund this expenditure; and
- you should ensure that a clear strategy is in place for maintaining your reserves at a sustainable level.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the Ofsted inspection of children's' services, you had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found in the paper accompanying this report.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment:

Significant risk	Findings
1 **Ofsted inspection of children's services** Ofsted issues a report on your children's services in September 2017 that gave a rating of 'inadequate' and you are currently subject to follow up review by Ofsted. In response to this you have implemented an Improvement Plan to address the concerns that Ofsted raised. We have reviewed progress made in implementing the changes to your arrangements requested by Ofsted. We have also considered your performance against your internal objectives and targets in delivering a safe and reliable children's service.	On 4 September 2017, Ofsted published a report on their findings from inspection of your services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board that rated you as "inadequate". The key findings of the report are as follows: - there had been a significant deterioration in the quality of service provision in relation to children's services since the previous inspection in 2012; - management oversight of social care practice was weak; - the workloads of social workers in some teams were high; - there was been a lack of challenge from the Local Safeguarding Children Board; and - the failings identified left some children at risk of severe harm including risk of sexual exploitation. Your members and senior officers have accepted all the shortfalls found by Ofsted and following the inspection developed an immediate action plan in response to their findings. An Improvement Plan has been developed that sets out how you will improve your children's services and a Children's Improvement Board, chaired by an independent chair, has been setup to provide oversight of the change required. A Children's Services Improvement Team chaired by the Chief Executive has also been established to ensure that the actions within the Improvement Plan are operationalised and are making the necessary impact, and advise the Improvement Board on the overall implementation of the Improvement Plan. Following the inspection, the Department for Education issued a statutory direction under section 497A (4B) of the Education Act 1996 to appoint a commissioner to undertake a review of your capacity and capability to improve your children's services and to recommend whether control of these services remain with the Council. The commissioner subsequently reported in January 2018 that the control of children's social care in Croydon should be left under the control of the Council. The report noted that you had taken action to setup appropriate arrangements to deliver the improvements to children's services required but noted that "it is very early days and the scale of the challenge is just beginning to be understood".

Key findings (continued)

	Significant risk	Findings
1	**Ofsted inspection of children's services** Continuation of risk noted on page 19.	A revised direction was published by the Department for Education in January 2018 that required you to agree arrangements for intensive peer support with the London Borough of Camden. Camden received a rating of "good" in the most recent rating of their children's services by Ofsted and the sharing of their expertise will be useful in supporting Croydon's improvement journey. The peer support proposals were submitted to the Minister of State for Vulnerable Children and Families in April 2018 and approved. A revised statutory direction was then published by the Secretary of State in May 2018 requiring you to co-operate with Camden Council on the proposals and setting out the arrangements for monitoring and reporting progress against these Ofsted undertook a follow-up monitoring visit in March 2018 and noted that "senior leaders and managers in Croydon are progressing well in implementing their improvement plan and they have quickly responded to issues identified in the first monitoring visit. The local authority has invested a significant amount of additional resources to improve the quality of children's services." However, they also found that "the quality of practice for vulnerable adolescents continues to be highly variable and, in some cases, remains inadequate." **Conclusion** It is clear from the findings of Ofsted that there are deficiencies in the quality of your children's services. You have acknowledged this and are working hard to address their findings. Your initial progress, as noted by Ofsted in their monitoring visit in March 2018, has been promising. It is clear that you now have appropriate plans and governance structures in place to support the changes required. However, significant progress is still required in order to rectify all of the concerns that Ofsted have noted. You believe that addressing the concerns of Ofsted will take two to three years, and you are only still in the early stages of this improvement journey. **On the basis of the work completed we have concluded that you do not have adequate arrangements for achieving economy, efficiency and effectiveness in relation to your children's services functions.**

Significant risk	Findings
2 **Budget position and medium term financial planning** In light of the increasing funding pressures that you face, there is a risk that you will not be able to generate new revenue streams or deliver saving cuts of sufficient scale to maintain a balanced budget over the medium term. We have reviewed recent performance against the budget and considered the reasonableness of the significant assumptions upon which your medium term financial planning has been based.	**Revenue outturn position for 2017/18** In common with the majority of other local authorities in London and nationally, you have faced significant financial challenges in recent years as a result of reductions in government funding at a time of increases in demand for services, particularly around children's services and social care. You provide services to a large and varied demographic, including many individuals with complex needs, and this has made your capacity to weather these funding reductions all the more stretched. In 2017/18 this pressure has continued and you have also faced additional challenges as a result of additional investment in your children's services in response to your Ofsted inspection and costs incurred in supporting unaccompanied asylum seeking children and as a result of national policies on welfare reform. As a result of these pressures you have reported an outturn position for 2017/18 of a deficit of £5.0 million. This reflects an overall overspend of £6.8 million at a department level and £6.3 million of exceptional items, offset by an underspend of £8.0 million at a corporate level. The exceptional items reported relate to expenditure incurred that you consider should be funded by the government, including costs associated with the introduction of universal credit and costs related to unaccompanied asylum seeking children. The overspend at a departmental level was primarily due to an overspend of £8.8 million for the People department, which arose due to increases in the number of external placements and specialist foster care placements for looked after children and an increase in the cost of section 17 B&B places for customers of the care planning service. When the exceptional items are considered as well, the total overspend for the People department was £15.6 million. Due to the nature of the services that the People department provides, which face a high level of external scrutiny around quality of care and increasing demand, it is harder to prevent overspends in this area of your service than for your other departments. Though there have been significant efforts by management to control costs in this area, the People department has been a persistent area where overspends have occurred, reporting overspends of £10.0 million in 2016/17, £9.7 million in 2015/16 and £7.8 million in 2014/15. You have plans in place for managing expenditure in the People department going forward including an additional investment of £10 million in your 2018/19 budget and recent progress made in greater integration between health and social care through the One Croydon Alliance are showing promising results. However, it remains critical to your financial health that you continue to take action to control costs in this area. Recommendation: **You should ensure that you continue to take action to prevent overspends from arising for the People department.** During the year you utilised £14.5 million of flexible capital receipts to fund transformation expend, as is permitted by a statutory direction published by the Ministry of Housing, Communities & Local Government in March 2016. You plan to use a further £6.0 million of such funding in 2018/19 to fund further transformation. This has allowed you to fund a variety of schemes that you expect to reduce future demand and to generate revenue savings in the longer term. This has also allowed you to fund additional costs incurred as a result of the need to respond to the findings of Ofsted on your children's services. This expenditure has been funded primarily from capital receipts received from the transfer of properties to Croydon Affordable Homes LLP.

	Significant risk	Findings
2	**Budget position and medium term financial planning** Continuation of risk noted on page 21.	Though the majority of this expenditure was used to fund transformation projects that would not have been undertaken had funding not been available, or to fund costs associated with transformation of children's services that were not previously foreseen, some element of these receipts were used transformation expenditure that was originally forecast within the 2017/18 budget to be funded from the revenue budget. Had these capital receipts not been available, then these expenditure elements would have been born by the general fund and the deficit for the year increased. Due to the non-recurrent nature of capital receipts, over the longer term it will be necessary to fund transformation expenditure from the revenue budget once and you should consider options for how this will be financed. **Recommendation: You should identify alternative means for funding transformation expenditure in the longer term once flexible capital receipts are no longer available to fund this expenditure.** **Capital outturn position for 2017/18** During the year, you have delivered a variety of significant capital schemes including, but not limited to, the commencement of the New Addington Leisure Centre, the restoration of Old Ashburton Library and the refurbishment of Fairfield Halls. You have also continued construction of new housing through your wholly-owned development company Brick By Brick Croydon Ltd, which you expect to both improve housing provision within Croydon and generate you a good return on your investment. Your capital outturn spend for 2017/18 was £140 million, compared to your revised capital programme for the year of £222 million. This represents an underspend of 32% against the budget, which is attributable mainly to slippage in the delivery of schemes. This compares to an underspend against the capital budget of 45% in 2016/17 and 27% in 2015/16. For the Housing Revenue Account capital programme, total expenditure was £26 million compared to a budget of £31 million, giving a total underspend of 16%. This included urgent fire safety works following the Grenfell fire. Overall, while there was some slippage against the capital budget for 2017/18, this was at a reduced level compared to the previous year and we have noted no value for money concerns in respect of your outturn capital performance.

Significant risk	Findings

2 **Budget position and medium term financial planning**

Continuation of risk noted on page 21.

Reserves and financial position

As a result of the financial pressures that you have faced, your reserves have reduced significantly over the recent years. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £26.1 million, compared to £40.8 million as at 31 March 2017 and £50.8 million as at 31 March 2016. This represents 9.8% of your budget requirement for 2018/19 which is low relative to other London Boroughs and to the levels of reserves that you have historically held. This highlights the importance of taking firm action to ensure that spending is contained within the budget going forward.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

London Borough of Croydon - financial position: key performance measures

Measure	London Borough of Croydon	Average for London Boroughs	Ranking relative to other London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	26,139	102,647	32 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	28,546	112,924	32 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	114,739	253,592	26 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	9.8%	28.9%	32 / 32
Current ratio (current assets / current liabilities)	0.72	1.50	28 / 32

This analysis highlights that as at 31 March 2018, you had the lowest total general fund and earmarked reserves of all 32 London Boroughs and that relative to your peers you were in a below average financial standing. While direct comparison between different Councils can be misleading due to differences in funding from central government and the needs of the demographic served as well as other local factors, this nevertheless highlights an area which you need to continue to address.

We note that the majority of reserves were used for the reasons they were earmarked for example Street Lighting PFI reserve, were reserves to reduce in 2018/19 to a similar extent to the reductions in reserves that arose during 2016/17 and 2017/18, you would be very close to breaching your statutory duty to deliver a balanced budget. You have budgeted for a £4.7 million increase in reserves in 2018/19, which is funded from the council tax collection fund surplus as at the end of 2017/18, and a further £4.7 million increase in reserves has been forecast 2019/20. If achieved, this will boost your reserves position further and provided you with greater capacity to respond to future demand pressures. You have a number of actions in place to increase your income in future years which your forecasts indicate will cover growth in demand. This will go some way to strengthening your reserves position, though this would still leave your reserves at a low level and you would continue to be subject to risk around your continued financial resilience.

Recommendation: You should ensure that a clear strategy is in place for maintaining your reserves at a sustainable level.

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Significant risk	Findings
2 **Budget position and medium term financial planning** Continuation of risk noted on page 21.	**<u>2018/19 budget and medium term financial planning</u>** In February 2018, you approved a two year budget covering 2018/19 and 2019/20 which indicates that you will continue to deliver a balanced budget in both periods. While attainment of your savings targets will be challenging, the majority of these savings have been identified and these targets are not unreasonable compared to the historical trend of savings that you have achieved in recent years. You have appropriate infrastructure and frameworks in place to support the delivery of planned savings, including monthly monitoring for high risk areas, and the challenge you face is in ensuring that each of your departments take ownership for supporting the delivery of your savings plans. Your current medium term financial plan (MTFP) only covers the period up to 31 March 2020 and you are in the process of agreeing your next four year MTFP with final agreement planned for Autumn 2018. We note your plans to base your MTFP on assumptions that are consistent with the Local Government Association guidance and to grow your income base. As your continue to experience increased development within your borough, you are expecting growth in your Council Tax base, increased revenue from your growth zone, increased fees and charges and increased revenue from Brick by Brick Croydon Ltd. You are also looking at other developments that may increase future revenue streams. You have made use of the flexible capital receipts to fund transformation expenditure in 2017/18 and you are expecting a further £30 million of capital receipts which will be available to you to use flexibly within the directions of the scheme. Given your current low level of your reserves, understanding your future savings requirement and your assumptions for income growth are of particular significance to maintaining your financial standing going forward. You have a number of actions in place that aim to address the risk associated with a low level of reserves and it is important that the progress and impact of those actions continue to be monitored closely. **<u>Conclusion</u>** Your reserves are now at a very low position and you face a number of clear risks to your continued financial health. You have plans in place to take appropriate action to manage cost pressures, increase income sources and address the level of your reserves. The progress and impact of your actions are vital to enable you to deliver a balanced budget over the medium term. **On the basis that you delivered a balanced budget in 2017/18 and can reasonably expect to do so in 2018/19, we have concluded that the risk that we identified in respect of your budget position has been sufficiently mitigated and that you have proper arrangements.**

Significant risk	Findings
3 **Health and social care integration** You are seeking to deliver wide ranging changes and greater integration to ensure financial sustainability of adult health and social care services. This project is complex and high profile, but there are significant benefits to improved service delivery and financial savings. We have reviewed your progress to date in implementing the planned integration and considered its arrangements for monitoring and managing risks and to ensure that benefits from integration are realised.	Health and social care services both in Croydon and nationwide face enormous pressure. There are a number of initiatives to bring together services in new ways and deliver genuine and effective collaboration between the NHS, local authorities and other providers. The challenge faced by Croydon is particularly acute. The local hospital trust, Croydon Health Services NHS Trust (CHS), is in severe financial difficulties and your local CCG is also in deficit. Provision of social care services is an area where you face significant financial pressure, due to rising demand at a time of reduced funding. Closer integration with the NHS creates opportunities for improved management of demand and therefore reductions in the budget pressures that you face, while also providing better outcomes for patients through more joined-up working. Health and social care integration therefore reflects a key area of transformation that will be crucial to your longer term financial stability. We have considered below some of the key initiatives you are participating in to deliver an integrated service. **Outcomes Based Commissioning** During 2016/17 you commissioned, jointly with NHS Croydon CCG, a 10 year contract to develop an Integrated Health and Social Care system for the over 65s population in Croydon. This arrangement commenced from 1 April 2017 and involves an overall budget of around £180 million per annum, of which £42 million is funded from yourselves. The "One Croydon" Outcomes Based Commissioning (OBC) Alliance Agreement awards service contracts to a variety of providers and you act as both a commissioner and provider of services. This arrangement does not constitute a separate entity, but is instead a strategic alliance between the Council and CCG for delivery of joined up priorities. The aim is for all partners to come together and provide high quality, safe, seamless and personalised care to older people in Croydon to help them stay independent. The service is commissioned based on outcomes that you are looking to see delivered, and these are a key measure in determining the contract pricing and structure. Croydon as an area faces particular challenges, including a growing and ageing population, and the financial challenges already mentioned. The model is planned to deliver substantial savings and ensure services are commissioned effectively within available resources. The implementation of the Alliance Agreement has progressed well, with no significant unforeseen challenges arising to date. This is a positive reflection of the planning and monitoring structures put in place to support this transition. As a reflection of your confidence in the new arrangements during 2017/18, you agreed to an extension of the Alliance Agreement beyond just over 65s to allow potential for a whole system transformation for health and social care. This is an ambitious goal, but if achieved successfully will allow you to improve both the quality of the care that you provide and improved financial resilience around social café services. The OBC model is new and remains in an early stage. It will take some time to see the true impact of the changes, but the plans do demonstrate the work you are doing to deliver services differently and work in partnership with other providers. Success factors will be not only the achievement of challenging financial targets, but delivering a truly integrated and effective service, however, there are clear risks to the position that have been appropriately identified and must be robustly monitored.

Significant risk	Findings
3 **Health and social care integration** Continuation of risk noted on page 25.	**Sustainability and Transformation Plans (STP)** You are part of the South West London STP. This aims to bring together the various organisations and ensure the delivery of quality services, address future health challenges and deliver within the limited resources available. The original STP plan was submitted on 21 October 2016 and reflects the challenges you face and proposes a number of solutions to deal with these at both the South West London level and the Croydon level. Failures within one part of the system can easily have a knock on implication for another part, so it is critical that all work together effectively to deliver for the areas. During 2017/18, the STP plans have continued to develop. In July 2017, NHS England rated the South West London STP as "making progress" from their review of STP arrangements nationally, highlighting that the arrangements continued to be early stages and in need of further development. A refreshed STP was published in November 2017 that reflects feedback received from stakeholders during the year and has been developed to strengthen the focus on partnership, prevention and keeping people well, and to reflect that the greatest influences on health and well-being are factors such as education, employment, housing, healthy habits and social connections. The plans have moved into the implementation stage. While you have not formally committed to any financial plans as part of the control total for the STP, your involvement in the One Croydon Alliance Agreement is aligned with the priorities of the STP and forms a core pillar of the new operating structure for provision of healthcare in Croydon. There have been a number of reports to the Health and Wellbeing Board and the Health and Social Care Scrutiny Sub-Committee detailing the work to date and the plans in place. The overall governance arrangements appear sound. It is not clear at this stage how effective they will be at delivering genuine joined up care. The STP requires much closer working between the NHS and local authorities, and you have arrangements in place to pursue this. The continued provision of effective social care is critical to preventing people from needing hospital stays and reducing delayed transfers of care. Balancing the financial challenge with ongoing increases in demand is a recognised national issue, and additional funding is being earmarked. However, it will be critical to ensure funds are appropriately targeted, and that both yourselves and the NHS consider the holistic picture when making financial and non-financial decisions over service provision. This is challenging, particularly in light of NHS England's increasing focus on short term, year end deficit positions. **Conclusion** **On the basis of the work completed we have concluded that the risk was sufficiently mitigated and that you have proper arrangements.**

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Independence and ethics

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, managers and network firms 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

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:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit grant	24,894	Self-Interest (because this is a recurring fee)	Grant Thornton UK LLP were appointed by Public Sector Audit Appointments Ltd (PSAA) to undertake this work on behalf of the London Borough of Croydon and this engagement is subject to PSAA's ethical compliance regime. The expected fee for this work is the scale fee set by PSAA and will be subject to variation based upon the level of additional housing benefit testing identified as required. 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 £24,894 in comparison to the total fee for the audit of £172,860 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee (subject to variation depending on the level of additional housing benefit testing identified as required); there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The fee is a recurrent subscription and thus gives high self-interest threat. However, the fee for this work is negligible in comparison to the total fee for the audit and in particular Grant Thornton UK LLP's turnover overall. It is also a fixed fee with no contingent element. We consider that these factors all mitigate the perceived self-interest threat to an acceptable level. CFO Insights does not provide any advice; the tool provides only information and insight that to help inform decision making by officers. It is the responsibility of your officers who use this service to undertake informed interpretation of the information provided. The team that operates this service is separate to the audit team.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your. None of the services provided are subject to contingent fees.

We do not believe that the previous services detailed above will impact our independence as auditors.

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Action plan

We have identified 6 of recommendations for the Council 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 2018/19 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
1	● Medium	• During the year, the Council established Croydon Affordable Homes LLP to manage a portfolio of affordable accommodation. • While detailed consideration was undertaken in relation to the legal and budget implications of the new arrangements, no detailed analysis was undertaken prior to the setup of Croydon Affordable Homes in relation to how the transactions arising from the setup of the new LLP should be accounted for within the financial statements. • If the financial reporting implications of complex transactions are not considered prior to them being entered into, there is a risk of unforeseen consequences arising when the year end financial statements are prepared.	• Ensure that when planning for complex transactions going forward, financial reporting advice is sought on the accounting treatment for those transactions within the year end statutory financial statements. **Management response** • Independent external advice was obtained in relation to the legal and financing aspects of these transactions. In future, financial reporting advice will be sought at an appropriate point ahead of complex transactions being undertaken; we will also ensure that we engage external auditors earlier in the process.
2	● Medium	• We identified from review of your revaluations that there were a small number of assets which have not been revalued since 2012. • This falls outside of your accounting policy of revaluing land and buildings on a five-year rolling cycle. • If land and buildings are not revalued on a sufficiently regular basis, then there is a risk of misstatement of the asset valuations reported in the financial statements arising.	• Ensure that all land and buildings assets are revalued at least every five years, in accordance with your accounting policy. **Management response** • Management will put in place a review in January each year to ensure that all land and buildings that aren't de-minimus are revalued at least every five years in accordance with our accounting policy.

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
3	Medium	• In our review of information provided to the valuer it was identified that in the listing of HRA properties provided to the valuer, an incorrect property that had been disposed of had been removed from the listing, and therefore the listing was not entirely representative of the HRA portfolio held. • In addition, it was identified that the valuer's report included a community asset, due to the asset having been incorrectly included on the list to be revalued in the year and the valuer revalued the asset as a result. Under the CIPFA Code of Practice, community assets should be carried at amortised cost and not revalued. Your officers identified this and did not post the revaluation adjustment for this asset the accounts. However this is a further example of a weakness in the information provided to the valuer. • If there are errors in the data sent to your valuer, there is a risk that incorrect valuations could be produced.	• Ensure that data sent to the valuers to support the revaluation of land and buildings is accurate and free from error. **Management response** • Management will review the current process and work with the assets team to ensure that property data sent to the valuers is accurate.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
4	High	• You should ensure that you continue to take action to prevent overspends from arising for the People department.	**Management response** • It is recognised that across local government there are huge pressures on demand for both adult's and children's social care. Over 80% of councils experienced overspends in 2017/18 and the National Audit Office report on financial sustainability published in March 2018 recognised this as a huge challenge. In 2017/18, the major area of overspend in Croydon was in children's social care. This was clearly made worse by our Ofsted judgement and the increase in demand experienced by the service across the year. Adult social care came within £0.5m of balancing its budget in 2017/18, a huge achievement. • The management structure has been changed in the last few months so that there is no longer a People department; there are now separate children's and adults departments which are given a clearer line of sight and focus for the executive directors. Also, the 2018/19 budget includes £19.5m of growth across both areas and only £5m of savings, reflecting the pressures faced in 2017/18. Work is also ongoing to ensure budget holders receive the right training and support and also that we continue to improve the way we forecast to further align activity, demand and finance information so that we have more accurate projections. • The Financial Strategy 2018/22 will set out the expected demand and demographic pressures on social care as this is clearly the major financial risk to the Council.

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
5	High	• You should ensure that a clear strategy is in place for maintaining your reserves at a sustainable level.	**Management response** • This Council has for over a decade had a low level of reserves compared to other councils in London. The Council's low level of funding compared to inner London boroughs and changing demographics have clearly made this hugely challenging in this period. Earmarked reserves have reduced over the last 2 years and this is principally because they have been used for the purposes they were earmarked for in line with the budget and financial strategy. • As part of the new Financial Strategy for 2018/22 there will be a number of strategies for ensuring reserves are maintained at a sustainable level. Principally these are: – the use of flexible capital receipts to fund transformation; – the earmarking of dividends from Brick by Brick Croydon Limited to reserves; and – the use of surpluses from the collection fund to invest into reserves if required; £4.7m has been identified as part of the 2018/19 budget to go back into reserves as the first stage of this.
6	Medium	• You should identify alternative means for funding transformation expenditure in the longer term once flexible capital receipts are no longer available to fund this expenditure.	**Management response** • As a Council, we have taken the opportunity in 2017/18 to use flexible capital receipts to fund transformation expenditure. This has clearly supported us to deliver revenue savings over the medium term and also helped us invest in longer term projects in social care such as the One Croydon Alliance and Children's improvement. We do anticipate that we will receive £30m+ of additional capital receipts over the period of the next financial strategy covering the period 2018 - 2022 and therefore believe this is still a legitimate way of managing the need for investment in transformation of the Council to ensure we remain financially sustainable in the long term. Clearly, given our low level of reserves, the use of reserves to finance transformation expenditure is not a viable option at this point. This will continue to be kept under review.

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Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2016/17 financial statements, which resulted in 8 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note that 7 of the 8 recommendations raised have been resolved.

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	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• There is a variance of £1.6m between Council tax revenues for the Collection Fund between the Northgate revenues system and the general ledger. • If reconciling differences between Northgate and the general ledger are not resolved this could lead to misstatement of Collection Fund revenues recognised within the accounts.	• This variance of £1.6m remains, however management have investigated the cause of this difference and gained satisfaction that it is not indicative of any misstatement. • This is due to historical adjustment posted to the general ledger in 2013/14 to release outstanding credit balances, however the accounts in question were not closed on the Northgate system, resulting in a variance arising.
2	X	• Our review of annual member declarations identified that declarations for five members had not been obtained by your central finance team at the time of commencement of the audit. These were subsequently located and shared with the audit team. • If annual declarations are not obtained then there is a risk that potential related party transactions could remain undisclosed in the financial statements.	• For 2017/18, member declarations have been obtained in respect of all members. However, in respect of your senior officers, declarations were not obtained for two of your senior officers who have since departed the Council.
3	✓	• Our testing of debtors identified one debtor balance where VAT had been incorrectly excluded. Further investigation showed that this arose in an extremely rare set of circumstances.in that it was a manual debtor in a wholly owned subsidiary. We therefore concluded it was not appropriate to extrapolate the error. • If the VAT treatment is not correctly recorded for all debtors then this could lead to misstatement of the accounts and non-compliance with tax legislation.	• No such issues have been identified from our debtors testing completed for 2017/18

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	✓	• The bad debt provision for Housing Revenue Account rent arrears debtors does not reflect the actual rates of collection of HRA rent arrears experienced in 2016/17 and recent years. • We estimate that were the bad debt provision recalculated based on actual rates of collection then an increase in the provision of between £1m and £2m would be required. • If bad debt provisions are not estimated on an accurate basis then this could lead to misstatement of the accounts.	• For 2017/18 a revised approach has been taken to estimating the bad debt provision for Housing Revenue Account rent arrears debtors. We have noted no concerns from our review of the adequacy of the provision estimate as part of the current year audit.
5	✓	• Our IT auditors performed a review of IT security controls at the Council and at the interface with the shared service provider. Their work highlighted a number of issues. Which are summarised below. A number of default accounts and passwords were in place, and excessive privileges were assigned to those accounts. A review of access rights highlighted a number of separation of duties risks. Users are assigned default or excessive user rights Gaps or weaknesses in audit logs Excessive responsibilities given to system administrator accounts. • We have shared the detailed findings in a separate document to management.	• Improvements in your IT security controls in these areas were noted from the review of our IT auditors for 2017/18.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	✓	• Your finance team does not have a clear process for identifying fully depreciated plant and equipment and infrastructure assets that have been taken out of use. • The Council's policy has been to write out of the gross cost and accumulated balance values for such assets once they are fully depreciated, in cases where they do not hold the detailed asset level records to determine whether they are still in use or not. • This is not an approach that is compliant with the CIPFA Code of Practice as it is a requirement to hold assets on the Fixed Asset Register until they are taken out of use rather than until they are fully depreciated. • If assets are written out of the Fixed Asset Register when they are fully depreciated rather than when they are disposed of then this could lead to misstatement in the disclosure note to the accounts, although there is no effect on the main statements	• A clear policy has been introduced for identifying and writing out fully depreciated assets that have been taken out of use.
7	✓	• We noted some differences between the draft bank reconciliation working paper supplied and the cash balance in the accounts. During the audit process your finance team updated the bank reconciliation to provide us with sufficient evidence. • If the bank reconciliation is not clearly documented when initially completed this could lead to errors going unnoticed and lead to delays in the audit process.	• No such issues have been noted from our review of the year end bank reconciliation as at 31 March 2018.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
8	✓	• Supporting documentation was not obtained to support all areas of the Council Tax base calculation for 2016/17. This data is drawn from a live database and no download from the live system of the data used was retained. • We have compared the calculation of the Council Tax base to live data from the Council Tax system and note no material differences, and we are satisfied that the Council tax base calculation was materially correct. • If supporting data for the Council Tax base is not maintained then this could leave the calculation open to challenge.	• For 2017/18, appropriate supporting evidence in respect of the Council Tax base calculation has been retained.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments – Council financial statements

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 – Council financial statements
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.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	Correction of accounting for lease premium received in respect of the setup of Croydon Affordable Homes LLP: - DR provisions - £2,000k - CR cost of services income: Place - £2,000k	£(2,000)	£2,000	£(2,000)
2	Correction of classification of revaluation gains taken to surplus / deficit on provision of services: - DR other operating expenditure - £45,454k - CR cost of services - £45,454k	£45,454 £(45,454)	No impact	No impact
	Overall impact	**£(2,000)**	**£2,000**	**£(2,000)**

Other omissions	Detail	Adjusted?
Movement in Reserves Statement (MIRS)	• Within the Movement in Reserves Statement, a column should be included to provide a total for the combined value of total General Fund and Earmarked General Fund Reserves. This is also applicable to the group MIRS.	✓
Comprehensive Income and Expenditure Statements (CIES)	• Within the Comprehensive Income and Expenditure Statement, no prior year comparative figures were disclosed for gross income and gross expenditure within cost of services. This is also applicable to the group CIES.	✓
Balance Sheet	• On the Balance Sheet, a sub-total should be added to show the total value of operational and non-operational property, plant and equipment.	✓
Collection Fund	• On the Collection Fund, no prior year comparative disclosure was provided of the split of the prior year comparatives between Business Rates and Council Tax.	✓

Audit Adjustments – group financial statements

Impact of adjusted misstatements – group financial statements

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.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	Correction of classification of work in progress property assets: - DR inventories- £30,050k - CR assets held for sale - £30,050k	No impact	£30,050k £(30,050)k	No impact
2	Correction of adjustment to consolidate Brick By Brick Croydon Limited: - DR inventories - £4,531k - CR long term borrowings - £4,531k - DR general fund - £2,573k - CR bank overdraft - £2,573k	No impact	£4,531k £(4,531)k £2,573k £(2,573)k	No impact
3	Correction of accounting for lease premium received in respect of the setup of Croydon Affordable Homes LLP: - DR provisions - £2,000k - CR cost of services income: Place - £2,000k	£(2,000)	£2,000	£(2,000)
4	Correction of classification of revaluation gains taken to surplus / deficit on provision of services: - DR other operating expenditure - £45,454k - CR cost of services - £45,454k	£45,454 £(45,454)	No impact	No impact
	Overall impact	**£(2,000)**	**£2,000**	**£(2,000)**

Other omission	Detail	Adjusted?
Group Movement in Reserves Statement	• The group movement in reserves statement did not include line items for 'adjustments between group accounts and authority accounts' and 'net increase or decrease before the transfers', as is required by the CIPFA Code of Practice	✓
Group Cash Flow Statement	• The group cash flow statement had been prepared based upon the Council financial statements and did not reconcile to the group cash position.	✓

Audit Adjustments – Misclassification and disclosure changes

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	Adjusted?
Expenditure and Funding Analysis (EFA)	Within Note 1A 'Expenditure and Funding Analysis', the EFA reconciliation for the General Fund and Housing Revenue Account (HRA) includes line transfers to/from earmarked reserves. As the statutory earmarked reserves form part of the statutory General Fund, the opening and closing General Fund and HRA balances reported in the EFA should include earmarked reserves.	✓
Expenditure and Funding Analysis (EFA)	Within Note 1B 'Note to the Expenditure and Funding Analysis', no description of material reconciling items within the Expenditure and Funding Analysis was provided.	✓
Accounting Policies	Within Note 1.1 'Basis of Preparation – Single Entity and Group Accounts' and Note 40 'Group Interests, it was disclosed that the Council has "joint economic control" of Croydon Affordable Homes LLP. However, your officers have concluded that the Council does not have "joint economic control" of this entity.	✓
Accounting Policies	Note 1.20 'Overheads' had not been updated to reflect the requirements of the revised structure of the Comprehensive Income and Expenditure Statement introduced in 2016/17.	✓
Accounting Policies	Note 1.21 'Schools' did not clarify that the transfer of school land and buildings is accounted for as a loss on disposal of an asset, or of the fact that the schools are consolidated in the Council's accounts, including the income, expenditure, surplus or deficit of each school. The note also did not clarify how management have considered the Council's rights and obligations in respect of school land and buildings in assessing which school assets to recognise on the Balance Sheet.	✓
Critical Judgements In Applying Accounting Policies	Within Note 4 'Critical Judgements In Applying Accounting Policies', no disclosure was provided of the judgement that the leases entered into with Croydon Affordable Homes LLP have resulted in the transfer of control of the properties.	✓
Material Items of Income and Expense	Within Note 5 'Material Items of Income and Expense and Prior Period Adjustments', no disclosure was provided of the accounting treatment for the pension early prepayment.	✓
Adjustments Between Accounting Basis and Funding Basis under Regulations	Within Note 7 'Adjustments Between Accounting Basis and Funding Basis under Regulations', the adjustment to reverse out employer' pensions contributions and direct payments to pensioners payable in the year of £19,221k was included in the figure reported for the 'reversal of items relating to retirement benefits debited or credited to the Expenditure throughout for consistency' line and the 'reversal of items relating to retirement benefits debited or credited to the Expenditure throughout for consistency' line incorrectly reported as nil.	✓
Taxation and Non-Specific Grant Income	Within Note 11 'Taxation and Non-Specific Grant Income' and Note 31 'Grant Income', Council Tax Income is overstated by £35,305k and National Non-Domestic Rates (NNDR) income is understated by £35,305k.	✓
Property, Plant and Equipment	No disclosure was provided within Note 12 'Property, Plant and Equipment' of the significant assumptions made in estimating the valuation of land and buildings.	✓

Audit Adjustments – Misclassification and disclosure changes

Disclosure omission	Detail	Adjusted?
Property, Plant and Equipment	Within Note 12 'Property, Plant and Equipment' no prior period comparatives were provided in relation to the fair value hierarchy disclosure table.	✓
Property, Plant and Equipment	Within Note 12 'Property, Plant and Equipment' no disclosure was provided of the effective dates of revaluation of land and buildings.	✓
Financial Instruments	Within Note 16 'Financial Instruments' the bank overdraft is disclosed as being a Level 1 financial liability, however it is a Level 2 financial liability.	✓
Financial Instruments	Within Note 16 'Financial Instruments' the value for total PWLB borrowings is understated by £6,000k and other borrowings are overstated by £6,000k.	✓
Financial Instruments	Within Note 16 'Financial Instruments' the disclosure of long term debtors reported in the note should be adjusted from £54,895k rather than £46,696k to £54,895k to be consistent with the Balance Sheet The prior year figure for long term debtors should be changed from nil to £22,619k to be consistent with the Balance Sheet.	✓
Financial Instruments	Within Note 16 'Financial Instruments' no disclosure was provided of the fair value of Private Finance Initiative (PFI) liabilities.	✓
Debtors	We noted that within Note 17 'Debtors, Payments In Advance (PIA) And Allowance For Doubtful Debt', the prior year comparative figures for 2016/17 were restated to rectify an error in the classifications within the note. The heading "restated" should be included above the retated figures and narrative disclosure of the basis of the restatement provided.	✓
Pooled Budgets	Within Note 26 'Pooled Budgets', the London Borough of Croydon's share of the gross income and gross expenditure of the Better Care Fund were disclosed as £10,293k and £10,254k respectively, but should have been stated as £15,803k and £15,764k respectively.	✓
External Audit Costs	Note 29 'External Audit Costs' included disclosure of fees payable to Mazars in respect of certification of claims and returns. As these do not relate specifically to fees paid to the external auditor these fees should not be disclosed in the note.	✓
External Audit Costs	No disclosure was provided within Note 29 'External Audit Costs' or in the group accounts of audit fees of £24k for the statutory audit of Brick By Brick Croydon Limited. We would expect the accounts to include disclosure of total audit fees for all entities consolidated within the group accounts.	✓
Grant Income	No disclosure of Housing Benefit Subsidy Income of £187,026k for 2017/18 and £236,116k for 2016/17 was provided within Note 31 'Grant Income'.	✓
Related Party Transactions	Within Note 32 'Related Party Transactions', the disclosures of transactions in 2017/18 with Academy schools and Stanley People's Initiative should be amended from £6,226k and £0 respectively to £1,267k and £14k and respectively.	✓
Related Party Transactions	No disclosure was provided in Note 32 'Related Party Transactions' of transactions occurring and outstanding balances with Brick By Brick Croydon Limited and other entities within the group.	✓

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Audit Adjustments – Misclassification and disclosure changes

Disclosure omission	Detail	Adjusted?
Group Interests	Within Note 40 'Group Interests', no disclosure was provided of the Council's interests in Croydon Care Solutions Ltd and its subsidiaries, London Borough of Croydon Holdings LLP and Croydon Holdings Ltd.	✓
Group Accounts	The group accounts should be referenced as being primary financial statements rather than supplementary financial statements.	✓
Notes Regarding the Group Accounts	Within the 'Notes Regarding the Group Accounts', no accounting policy is disclosed in respect of property work in progress assets of Brick By Brick Croydon Limited	✓
Notes Regarding the Group Accounts	Within the 'Notes Regarding the Group Accounts', no disclosure note has been provided in respect of the property work in progress assets of Brick By Brick Croydon Limited.	✓

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	£172,860	£172,860
Council Audit – response to objection by a local elector to the 2016-17 financial statements	£40,000	TBC
Audit of Brick By Brick Croydon Limited	£24,000	£24,000
Grant Certification	£24,894	£24,894
Total audit fees (excluding VAT)	**£261,754**	**£261,754**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

We have proposed an additional fee of £40,000 in respect of our response to following up an objection made by a local elector to the financial statements for the year ended 31 March 2017. This fee is an estimate and the final fee will be confirmed on completion of our response to the objection and will be subject to agreement by PSAA.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Non-audit services	
CFO Insights subscription	£10,000
	£10,000

Grant Thornton

Audit Findings

Year ending 31 March 2018

Croydon Pension Fund

18 July 2018

Contents

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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.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Croydon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 10. We have not identified any adjustments to the Fund's reported financial performance and position detailed within the Fund Account and the Net Assets Statement. We have identified a number of amendments to the disclosures set out in the notes to the accounts, which are detailed in Appendix B. We have also raised one recommendation for management as a result of our audit work in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the General Purposes and Audit Committee meeting on 16 July 2018, as detailed in Appendix D. These outstanding items include: - completion of a trend analysis of benefit payments; - receipt and review of management explanations for variances noted from our analytical review comparisons of contributions and benefit payments; - receipt and review of third party confirmation of the investments held with North Sea Capital; - receipt and review of the Pension Scheme Annual Report; - receipt of the management representation letter - senior management quality review processes; and - review of the final set of financial statements.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings 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.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 your Pension Fund's business and is risk based, and in particular included:

- an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- controls testing of benefit payments to new pensions and of starters, leavers and changes of circumstance processed on the pension admin system; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the General Purposes and Audit Committee meeting on 16 July 2018, as detailed in Appendix D. These outstanding items include:

- completion of a trend analysis of benefit payments;
- completion of cutoff testing of investment purchases and sales;
- receipt and review of outstanding evidence for our testing of contributions and investment purchases;
- receipt and review of management explanations for variances noted from our analytical review comparisons of contributions and benefit payments;
- receipt and review of third party confirmation of the investments held with North Sea Capital;
- receipt and review of the Pension Scheme Annual Report;
- receipt of the management representation letter
- senior management quality review processes; and
- review of the final set of financial statements.

Summary (continued)

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.

Our assessment of the value of materiality, performance materiality and trivial matters has been adjusted from the amounts communicated in our Audit Plan dated 15 March 2018 because we have recalculated them based upon the outturn position reported in the draft 2017/18 financial statements. We detail in the table below our assessment of materiality for Croydon Pension Fund.

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	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£11,314,000	• In calculating materiality, we have considered the users the financial statements and the extent to which they place reliance on the financial statements.
Performance materiality	£7,920,000	• In calculating performance materiality, we have considered the Fund's control environment and the likelihood of material misstatements of the financial statements arising.
Trivial matters	£566,000	• We have considered the level at which audit misstatements would be of interest to management and to members of the General Purposes and Audit Committee in discharging their duties.
Materiality for specific transactions, balances or disclosures	• Disclosures of senior officer salaries - £10,000 • Related party transactions - £400,000	• We have identified these as disclosures where misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users.

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 commentary

Management's assessment process	Auditor commentary
• Management have assessed that the Fund has sufficient resources to meet its liabilities as they fall due for the foreseeable future.	• We are satisfied regarding the appropriateness of management's process for formulating their going concern assessment.
Work performed	**Auditor commentary**
Detail audit work performed on management's assessment	• We have considered the financial position of the Fund and undertaken a review to identify any possible indicators of any circumstances or events that could indicate that the Fund is no longer a going concern.
Concluding comments	**Auditor commentary**
	• We have identified no events or conditions in the course of the audit that we consider may cast significant doubt on your ability to continue as a going concern. • We are satisfied with the appropriateness of management's going concern assessment process. As such we plan to issue an unmodified audit report in respect of going concern.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the London Borough of Croydon as the Administering Authority of Croydon Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Croydon Pension Fund. Though we have rebutted this risk, we have still tested all revenue streams to a material extent. Our audit work has not identified any issues in respect of revenue recognition.
2	**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 identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – gained an understanding of the significant accounting estimates, judgements applied and decisions made by management and consider their reasonableness; – obtained a full listing of journal entries, identified and then tested unusual journal entries for appropriateness; and – evaluated the rationale for any changes in accounting policies or significant unusual transactions that came to out attention during the course of the audit. • Our work has not identified any issues in respect of this risk.
3	**Change in accounting system** During the year there has been a change in the accounting system used for the pension fund. There is therefore a risk that data may not have been transferred over correctly from the old system.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – documented the controls in place to manage the transfer of data to the new system; and – tested the completeness of the transfer of data to the new system. • Our work has not identified any issues in respect of this risk.

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Significant audit risks (continued)

	Risks identified in our Audit Plan	Commentary
4	**The valuation of Level 3 investments is incorrect** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** • We undertook the following procedures in relation to this risk: – gained an understanding of the Fund's process for valuing Level 3 investments and evaluating the design of the associated controls; – reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments; and – for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts as at 31 December 2017 for individual investments, agreeing these to fund manager reports at that date and reconciling those values to the valuations reported at 31 March 2018 with reference to known movements in the intervening period. • Our work has not identified any issues in respect of this risk. Following receipt in July 2018 of the final investment valuations as at 31 March 2018, management have posted an adjustment to increase the valuation of private equity and infrastructure assets reported on the Net Assets Statement by £8,052k. This adjustment is set out in Appendix B.

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary

5 **Contributions**

Contributions from employers and employees' represents a significant percentage (68%) of the Fund's revenue.

We therefore identified occurrence of contributions as a risk requiring particular audit attention.

Auditor commentary

- We undertook the following procedures in relation to this risk:
  - evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
  - gained an understanding of the Fund's system for accounting for contributions income and evaluate the design of the associated controls;
  - tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and
  - rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners and noted no unusual trends.
- Our work has not identified any issues in respect of this risk.

6 **Pension Benefits Payable**

Pension benefits payable represents a significant percentage (81%) of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention:

Auditor commentary

- We undertook the following procedures in relation to this risk:
  - evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
  - gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls;
  - untaken controls testing in respect of a sample of benefit payments to new pensioners who commenced receipt of pension payments during 2017/18; and
  - rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.
- Our work has not identified any issues in respect of this risk.

7 **The valuation of Level 2 investments is incorrect**

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We identified valuation of level 2 investments as a risk requiring particular audit attention.

Auditor commentary

- We undertook the following procedures in relation to this risk:
  - gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;
  - reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; and
  - for a sample of investments, tested the valuation by obtaining independent information from custodian/manager on units and unit prices.
- Our work has not identified any issues in respect of this risk.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Contributions and investment income are included on an accruals basis. All settlements for buying and selling investments are accrued on the day of trading. Interest on deposits is accrued if not received by the end of the financial year.	The revenue recognition policies are appropriate and in accordance with the CIPFA Code of Practice and International Financial Reporting Standards (IFRS).	● Green
Judgements and estimates	• Key estimates and judgements include: – the assumptions within the IAS26 calculation of the present value of future retirement benefits; – the assumptions within the triennial valuation; and – valuation of Level 3 investments.	We are satisfied that in all significant respects, judgements and estimates have been disclosed appropriately and adequately in accordance with appropriate accounting policies.	● Green
Other critical policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. We consider the Fund's accounting policies are appropriate and consistent with previous years.	● Green

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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.

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	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the General Purposes and Audit Committee in our Audit Plan dated 15 May 2018. We have not been made aware of any frauds during the period in respect of the Fund and no issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Pension Fund.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances as at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, with the exception of our requests sent to Goldman Sachs and North Sea Capital. We have undertaken appropriate alternative procedures to gain assurance regarding the existence and valuation of your Goldman Sachs Money Markey Fund balance as at 31 March 2018. We are continuing to follow-up the North Sea Capital confirmation and will require it to be returned to us before we can conclude the audit.
6	**Disclosures**	• Our review identified a number of disclosure omissions or required adjustments in respect of the financial statements. These are detailed in Appendix B.
7	**Significant difficulties**	• We have experienced no significant difficulties in performing our audit work.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Scheme Annual Report on whether the financial statements included therein are consistent with the audited financial statements. • We propose to issue our ‘consistency’ opinion on the Pension Scheme Annual Report in late July alongside our main opinion on the financial statements.

Independence and ethics

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. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

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 Pension Fund. No non-audit services were identified.

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 misstatement
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.

	Detail	Fund Account £'000	Net Assets Statement £' 000
1	Management have updated the valuations of private equity and infrastructure investments based upon the final valuations from fund managers received in July. The draft financial statements were prepared prior to these valuations having been finalised. The required adjustments are as follows: - DR infrastructure investments - £1,666k - DR private equity investments - £6.416k - CR profit and loss on disposal of investments and changes in the market value of investments - £8,052k	£(8,052)k	£1,666k £6,416k
	Overall impact	**£(8,052)k**	**£8,052k**

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Audit Adjustments

Disclosure omission	Detail	Adjusted?
Croydon's Role as a Pension Administering Authority	• The section 'Croydon's Role as a Pension Administering Authority' on page 98 should be moved to a note to the accounts to make clear that these disclosures form part of the audited statement of accounts.	✓
Net Assets Statement	• There should be a footnote beneath the Fund Account to explain that the statements do not take account of liabilities to pay future benefits and t reference where the actuarial present value of promised retirement benefits is disclosed	✓
Net Assets Statement	• On the face of the Net Assets Statement, it was disclosed that the Fund holds property investments, however these investments are pooled property funds and not direct property investments.	✓
General Principles	• Within Note 1 'General Principles', it was disclosed that the financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2017/18 Code of Practice on Local Authority Accounting There are, however, other sections of the Code that need to be followed where relevant, compliance with the Code should not be restricted to sections 6.5.1-6.5.5.	✓
Sources of Estimation Uncertainty	• No disclosures was provided within Note 6 'Assumptions Made About The Future and Other Sources of Estimation Uncertainty' of estimation uncertainty relating to the valuation of private equity and infrastructure investments.	✓
Fund Information	• The numbers of contributing members, deferred pensioners and pensioners disclosed in Note 7 'Fund Information' were incorrect. It was stated that total numbers of contributing members, deferred pensioners and pensioners as at 31 March 2018 were 9,524, 9,399 and 6,482 respectively. However, there were actually 9,701, 9,463 and 7,492 pensioners respectively in these categories as at the year end.	✓
Benefits	• Within Note 9 'Benefits', no disclosure has been provided of benefits payable analysed between the administering authority, scheduled bodies and admitted bodies, as is required by para 6.5.5.1 of the CIPFA Code of Practice. • You have not amended the note to provide this disclosure because you did not record benefits payable during 2017/18 in a form that allows such an analysis to be prepared. This constitutes an unadjusted misstatement to the financial statements and has been noted in the Pension Fund letter of representation. • Your officers have confirmed that they plan to disclose such an analysis within the note in the accounts for 2018/19.	X

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Audit Adjustments (continued)

Disclosure omission	Detail	Adjusted?
Related Party Transactions	• Note 19 ‘Information in Respect of Material Transactions With Related Parties’ was not updated for 2017/18 from the prior year.	✓
Financial Instruments	• Within Note 25 ‘Financial Instruments’, £578,812k of pooled investments were disclosed as Level 1 investments, however we would consider these to be Level 2 investments because though quoted market prices are available for the underlying investments of these funds, the funds themselves are not listed.	✓

Action plan

We have identified one recommendations for the Pension Fund 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 2018/19 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
1	● Medium	• We have noted from our testing of controls around new starters into the scheme that statutory notifications of membership in the scheme had not been sent to two new starters who have been employed since April 2017 and September 2017 respectively. • In both cases, these letters were no sent because the individuals in question are employed over external payrolls and the payroll providers did not notify the Council that they had joined the scheme.	• Ensure that statutory notification letters for all new starters are sent out in a timely manner. **Management response** • To ensure that all new starters have been identified the team will need to be able to reconcile records held on Altair with locally held payroll records. For this to happen the team are rolling out local access to the system through i-Connect and this will allow other scheme employers to verify the accuracy of records.

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Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£21,000	£21,000
Total audit fees (excluding VAT)	**£21,000**	**£21,000**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Non Audit Fees

No other services have been provided.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of the London Borough of Croydon on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of the London Borough of Croydon (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The Executive Director of Resources and Section 151 officer is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Executive Director of Resources and Section 151 officer's and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources and Section 151 officer. The Executive Director of Resources and Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director of Resources and Section 151 officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director of Resources and Section 151 officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The General Purposes and Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

[Signature]

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

2nd Floor
St John's House
Haslett Avenue West
Crawley
RH10 1HS

[Date]

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RESOURCES DEPARTMENT

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Grant Thornton UK LLP
2nd Floor
St Johns House
Haslett Avenue West
Crawley
RH10 1HS

Our ref:
Date: 18 July 2018

Dear Sirs

London Borough of Croydon
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of the London Borough of Croydon and its subsidiary undertaking, Brick By Brick Croydon Limited, for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

i Except as disclosed in the group and parent Council financial statements:
    a there are no unrecorded liabilities, actual or contingent
    b none of the assets of the group and parent Council has been assigned, pledged or mortgaged
    c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

ii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

iii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

iv All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

v We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

vi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

vii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

viii We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

ix We have provided you with:
    a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
    b. additional information that you have requested from us for the purpose of your audit; and
    c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

x We have communicated to you all deficiencies in internal control of which management is aware.

xi All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xii We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xiii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
    a. management;
    b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the group and parent Council financial statements.

xiv We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

xv We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xvi We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

xvii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

i The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's General Purposes and Audit Committee on 18th July 2018.

Yours faithfully

Name.................................

Position..............................

Date.................................

Name.................................

Position..............................

Date.................................

Signed on behalf of the London Borough of Croydon

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Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Our ref: LOR2
Date: 18 July 2018

Dear Sirs

Croydon Pension Fund
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Croydon Pension Fund ('the Fund) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

ii Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent

b none of the assets of the Fund have been assigned, pledged or mortgaged

c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

iii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

iv All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

v We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

vi We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatement brought to our attention as it is immaterial to the results of the Fund and its financial position at the year-end and for the reasons noted on the schedule in Appendix A.

vii The financial statements are free of material misstatements, including omissions.

viii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

ix We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

x We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xi We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

xii We have communicated to you all deficiencies in internal control of which management is aware.

xiii All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xv We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

   a. management;
   b. employees who have significant roles in internal control; or
   c. others where the fraud could have a material effect on the financial statements.

xvi We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xvii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xix We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xx We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxi We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's General Purposes and Audit Committee at its meeting on 18 July 2018.

Yours faithfully

Name................................

Position..............................

Date.................................

Name................................

Position..............................

Date.................................

Signed on behalf of London Borough of Croydon Council as the administering body of Croydon Pension Fund.

Appendix A – Unadjusted misstatements schedule

Details of misstatement	Reason that management have not adjusted the financial statements in respect of the misstatement identified
No disclosure has been provided within the financial statements of benefits payable analysed between the administering authority, scheduled bodies and admitted bodies. This disclosure is required by paragraph 6.5.5.1 of the CIPFA Code of Practice 2017/18.	Benefits payable were not recorded in a form that allows such an analysis to be prepared. It is planned that such an analysis will be disclosed within the Pension Fund accounts in future years.

Statement of Accounts 2017/18

31 May 2018

CROYDON
www.croydon.gov.uk

COMMUNITY LANGUAGES

If you find it easier to read large print, use an audio tape or Braille or would prefer to communicate in a language other than English, please do so. Interpreters and translators can be provided ☎ 020 8726 6000.

Bengali

যদি ইংরাজী ছাড়া অন্য কোনো ভাষায় সহজে যোগাযোগ করতে পারেন তবে দয়া করে তাই করুন। দোভাষী এবং অনুবাদকের [ট্রান্সলেটর] ব্যবস্থা করা যেতে পারে। টেলিফোন করুন 020 8726 6000.

Chinese

如果你覺得使用除英語以外的另一種語言溝通更容易溝通的話，可作這樣選擇的。若有需要，你可以得到傳譯員及翻譯員的幫助。請撥打電話號碼 020 8726 6000 查詢。

Francais

Vous avez la possibilité de communiquer dans une autre langue que l'anglais, si cela est plus facile pour vous. Des interprètes et traducteurs sont à votre disposition: 020 8726 6000.

Gujarati

અંગ્રેજી સિવાયની બીજી કોઈ એક ભાષામાં તમે આસાનીથી વાતચીત કરતા હો તો એવું કરવા વિનંતી છે. દુભાષિયાની અને ભાષાંતરકારની સગવડ તમને મળી શકે છે. આ માટે ટેલિફોન નંબર 020 8726 6000 ઉપયોગ કરો.

Hindi

यदि आपको अंग्रेज़ी के अलावा किसी और भाषा में आसानी से बात कर सकते हैं तो कृपया अवश्य करें। दोभाषिया और अनुवादक का प्रबन्ध किया जा सकता है। टैलिफोन : 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 வழங்கப்படுவார்கள்.
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 olanağı sağlayabiliriz. Yazılı ve sözlü tercüman temin edilir.
Telefon 020 8726 6000

Urdu

اگر آپ انگریزی کے علاوہ کسی دوسری زبان میں بات کرنے میں آسانی محسوس کرتے ہیں تو برائے مہربانی
ایسا ہی کیجئے۔ آپ کیلئے ترجمان اور مترجم کا انتظام کیا جا سکتا ہے۔ ٹیلیفون نمبر ہے
020 8726 6000.

CONTENTS

CONTENTS

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 Executive Director of Resources and Section 151 Officer;

- to approve the Statement of Accounts.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTOR OF RESOURCES AND SECTION 151 OFFICER

The Executive 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 2018.

In preparing the Statement of Accounts, the Executive 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.

LONDON BOROUGH OF CROYDON AND LONDON BOROUGH OF CROYDON PENSION FUND
FINANCIAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018

CERTIFICATE of the Executive 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 2017/18 prepared in accordance with the accounting policies stated.

Richard Simpson,
Executive Director of Resources and Section 151 officer

Cllr Stephen Mann
Chair, General Purposes and Audit Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON

We have audited the financial statements of the London Borough of Croydon (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2018 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account - Comprehensive Income and Expenditure Statement, the Movement in Reserves on the HRA Statement, the Collection Fund, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cashflow Statement and all notes to the financial statements, including the Accounting Policies to the Core Financial Statements and the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18

In our opinion, the financial statements:

- ► give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- ► have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- ► have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

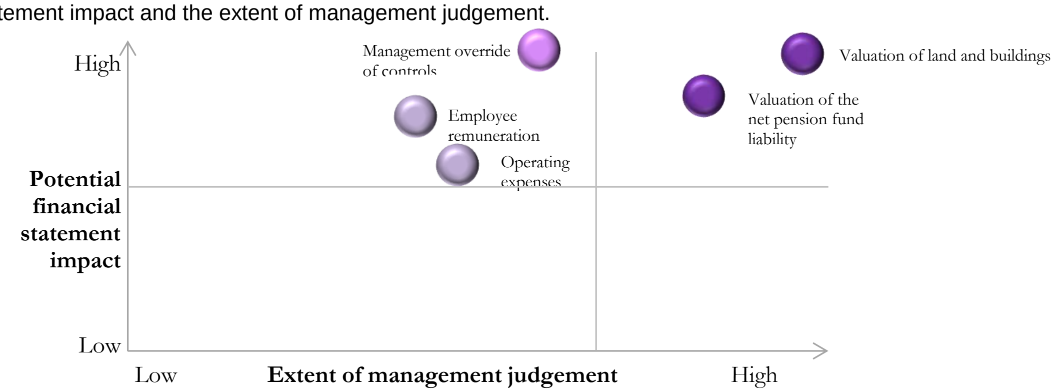
- the Executive Director of Resources and Section 151 officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources and Section 151 officer has not disclosed in the financial statements any identified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

Overview of our audit approach

- Overall materiality: £23,483,000, which represents 2% of the group's gross expenditure;
- Key audit matters were identified as
  - o Valuation of land and buildings
  - o Valuation of the net pension fund liability
- We performed a full scope audit of the Authority
- We issued group instructions to colleagues at Grant Thornton UK LLP in respect of their full scope audit of Brick by Brick Croydon Limited for the year ended 31 December 2017 and carried out targeted procedures on the subsidiary's expenditure for the three months to 31 March 2018

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON (CONTINUED)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter - Group and Authority
Risk 1 Valuation of property, plant and equipment
The Authority re-values its Council dwellings annually and its other classes of land and buildings on a quinquennial basis to ensure that their carrying value is not materially different from fair value. This includes the valuation of council dwellings, other land and buildings and surplus assets not held for sale components of the Authority's property, plant and equipment. This represents a substantial estimate by management in the core financial statements and group accounts, due to the size of the valuation and the sensitivity of the valuation to changes in the changes in significant judgements. We therefore identified the valuation of land and buildings as a significant risk, which was one of the most major assessed risks of material misstatement,

How the matter was addressed in the audit - Group and Authority
Our audit work included, but was not restricted to:

- review of management's processes and assumptions for calculation of the valuation estimate;
- evaluating the competence, objectivity and capabilities of the Authority's valuation experts;
- consideration of the completeness and accuracy of the data supplied by the Authority to the valuation experts;
- discussions with the Authority's valuation experts about the basis on which the valuation was carried out, challenging the key assumptions;
- for a sample of assets revalued in the year, agreeing the valuation in the valuer's reports to the Authority's asset register and the financial statements; and
- considering the adequacy of management's assessment to determine whether the carrying value of property, plant and equipment not revalued in year was not materially different to its current value
  The Authority's accounting policy on the valuation of property, plant and equipment is shown in note 1.4 to the core financial statements and related disclosures are included in notes 12 and 14 to the core financial statements.

Key observations
We obtained sufficient audit assurance to conclude that;

- the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable;
- the valuation of land and buildings recognised in the financial statements is reasonable

Risk 2 Valuation of the net pension fund liability
The Authority annually engages an actuary to value its net pension fund liability in respect of the Local Government Pension Scheme. Due to is size and sensitivity to changes in key assumptions, this represents a substantial estimate by management in the core financial statements and group accounts. We therefore identified the valuation of the net pension fund liability as a significant risk, which was one of the most major assessed risks of material misstatement.

How the matter was addressed in the audit - Group and Authority
Our audit work included, but was not restricted to:

- gaining an understanding of the processes an controls put in place by management to ensure that the net pension fund liability was not materially misstated and evaluating the design of the associated controls;
- evaluation of the competence, objectivity and capabilities of the Authority's actuary who carried out the pension fund valuation;
- gained an understanding of the basis on which the IAS 19 valuation was carried out;
- evaluating the appropriateness of the significant assumptions used by management and their actuary in arriving at a valuation of the net pension fund liability; and
- verifying the consistency of the pension fund gross asset and gross liability figures and associated disclosures in the notes to the core financial statements with the actuarial report from the actuary.

The Authority's accounting policy on the valuation of the net pension fund liability is shown in note 1.10 to the core financial statement and related disclosures are included in note 42 to the core financial statements.

Key observations
We obtained sufficient audit assurance to conclude that;

- the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable;
- the valuation of the net pension liability recognised in the financial statements is reasonable

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON (CONTINUED)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.
Materiality was determined as follows:

Materiality Measure	Group	Authority
Financial statements as a whole	£23,483,000 which is 2% of the Group's gross net cost of services expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year 31 March 2017 as we did not identify any significant changes in the Group or the environment in which it operates.	£23,481,000 which is 2% of the Authority's gross net cost of services expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the Authority or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality	75% of financial statement materiality
Specific materiality	No specific materiality has been set in relation to the Group Accounts	Senior officers remuneration disclosures: £10,000 Related party transactions disclosures: £1,000,000
Communication of misstatements to the General Purpose and Committee	£1,000,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£1,000,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Gaining an understanding of significant changes to the Group structure and obtaining supporting evidence to corroborate accounting transactions and disclosures within the financial statements;
- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on a measure of the materiality and significance of the component as a percentage of the group's: current assets, total assets, current liabilities, total liabilities, equity, income and expenditure. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Full scope audit procedures on the Authority, which represents 100% of the group's total income, 99.95% of its total expenditure and 94% of its net assets;
- Issuing group instructions to colleagues at Grant Thornton UK LLP in respect of their full scope audit of Brick by Brick Croydon Limited for the year ended 31 December 2017, using results of their full scope audit together with additional sample testing by the group audit team of work in progress expenditure of Brick by Brick Croydon Limited for the period of 1 January 2018 to 31 March 2018. Brick by Brick Croydon Limited represents 0% of the total income of the group, 0.05% of its expenditure and 6% of its total net assets;
- Gaining an understanding of and evaluating the Authority's internal control environment, including its financial and IT systems and controls; and
- Substantive testing of the income, expenditure and net assets for each significant component. Testing undertaken covered 99.4% of Group income, 99.9% of Group expenditure, 99.6% of group assets and 98.5% of group liabilities.

There was no significant changes in the scope of the audit or procedures performed in respect of key audit matters identified compared to the prior year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON (CONTINUED)

Other information

The Executive Director of Resources and Section 151 officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages1 to 5 and 9 to 16 and the Annual Governance Statement, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Our opinion on other matter required by the Code of Audit Practice is unmodified

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Executive Director of Resources and Section 151 officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 4 to 5, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure the one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources and Section 151 officer. The Executive Director of Resources and Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director of Resources and Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources and Section 151 officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by group or the Authority.

The General Purposes and Audit Committee is Those Charged with Governance.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON (CONTINUED)

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

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

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

Other matters which we are required to address
We were appointed by Audit Commission on 26 July 2012 for a period of five years. This engagement was extended by Public Sector Audit Appointments Ltd to continue for the year ended 31 March 2018. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group of the Authority and we remain independent of the group and the Authority in conducting our audit.

Our audit opinion is consistent with the additional report to the General Purposes and Audit Committee.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion
On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion
In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matter:

In September 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board. The overall judgement was that children's services were rated as inadequate.

Following consideration of Ofsted's report, the Secretary of State for Education concluded that the Authority was failing to deliver children's services to an adequate standard and appointed a commissioner to review whether the most effective way of securing and sustaining improvement in Croydon is to remove the control of children's social care from the Authority for a period of time. The commissioner reported in January 2018 and recommended that the Authority retain responsibility for provision of children's services. The commissioner highlighted that significant challenges remain and that "the scale of the challenge is just beginning to be understood".

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON (CONTINUED)

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor Practice determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority out in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

St Johns House
Haslett Avenue West
Crawley
West Sussex
RH10 1HS

NARRATIVE STATEMENT 2017/18

INTRODUCTION

I am pleased to introduce the Council's Statement of Accounts for 2017/18. This statement summarises the Council's financial performance during 2017/18 showing expenditure on all services during the year and the Council's financial position as at 31 March 2018. 2017/18 marks the first year local authorities are required to complete their accounts by 31 May and publish them by 31 July.

CHALLENGES

The Council has met the challenge of reductions in grant since 2010 and maintained a robust financial position. 2017/18 was the second year of a four year funding agreement agreed with government. The purpose of this agreement which was accepted by Croydon was to help local authorities prepare to become more self sufficient by 2020 which will mark the end of current comprehensive spending review. The multi-year settlements would provide funding certainty and stability and therefore enabling the authority to plan more proactively. The grant received in 2017/18 resulted in a £12.9m (11.2%) reduction compared to the previous year.

During 2017/18 the Council has continued to experience an increase in demand for services, particularly in the People department. Significant effort has been made to manage these pressures and bring them under control without bringing in short term measures that could have an adverse impact on long term costs. In year the Council has continued to fund a number of exceptional items which we believe should be funded by the government including Unaccompanied Asylum Seeking Children, no recourse to public funds and costs associated with appeal rights exhausted. We have also funded essential Fire Safety works from our capital programme. We are continuing to lobby the government in relation to fair funding of these areas.

As a result the final budget position for the Council is £5.032m overspend.

The Council faced and continues to face a number of financial challenges, a selection of which are shown below:

- ► Chronic underfunding of adults and childrens social care
- ► Significant growth in demand for services, both from demographic pressures, such as an aging population and changes to the make-up of the Croydon population
- ► Impact of welfare reform
- ► Underfunding of new duties, such as Health Visiting, Deprivation of Liberty, the Homelessness Reduction Act and Universal Credit
- ► Failure to properly fund the direct and indirect costs of Croydon’s status as the gateway authority for Unaccompanied Asylum Seeking Children (UASC)
- ► The delivery of the outcomes from a recent Ofsted inspection in Children’s Social Care which has required significant investment in services for children in need of help and protection, children looked after and care leavers.

PERFORMANCE

During 2017/18 the council has made significant improvements in a number of service areas. Below are examples of our key major achievements and improvements :

Education and Learning

- ► An important starting point for learning is the Early Years Foundation Stage which is crucial to ensuring future success. Croydon’s performance in the Early Years Foundation Stage at age 5 improved significantly from 64.7% in 2015 to 73.4% in 2017. Performance in Croydon has been better than the national average for the past 2 years. The national average in 2017 was 70.7%.
- ► 85.7% of our secondary schools are judged to be Good or Outstanding by Ofsted, which is higher than the national average. Almost 50% of secondary aged pupils attend an Outstanding School, significantly higher than the national average of 27%.
  84.4% of our Primary schools are judged as being good or better.

NARRATIVE STATEMENT 2017/18

Roads, Transport and Streets

- ► Town centre improvements including upgrading East Croydon bus station to provide new shelters, better lighting, signage, improved pedestrian access, seating and tree planting has been completed.
- ► Extending the 20mph limit across 80% of the borough.
- ► Continuation of our public realm programme to enhance and improve the public space including the cycle network.

Housing

- ► Helped over a 1,000 of Croydon's most severely affected families avoid homelessness
- ► The shortage of affordable housing across Greater London continues to have an impact on Croydon's costs relating to homelessness. There has been a concerted effort to manage the demand for emergency and temporary housing through targeted interventions at earlier stages as well as through changing the messaging around the homelessness journey. This has led to an overall reduction in the number of families housed in bed and breakfast (B&B) accommodation and other types of temporary housing. These efforts have contributed to the ongoing success of lobbying to central government to secure additional funding for both the 2017/18 financial year and for future years, including £579k related to Croydon's work as a Universal Credit pilot authority in 2017/18 and an increased allocation of Flexible Homelessness Support Grant agreed for 2019/20.
- ► Successful prevention work has reduced the number of new placements in B&B which has fallen by 24% from 108 per month a year ago to 82. Intervention events held for households in (B&B) have resulted in 81 households moving out of B&B to other housing solutions. As a result, we are ahead of our target of reducing B&B households to 750 by the end of the year.
- ► 105 empty properties have been returned to use during 2017/18.
- ► Brick by Brick, the housing development company established by the council, has obtained planning permission on over 30 sites throughout the borough with many more at pre-application stage, and work has started on a number of these sites.
- ► Work is progressing on a number of initiatives to meet the ongoing lack of affordable long-term accommodation in the private sector. During 2017/18 46 units of private rented accommodation for homeless families were secured through this route.
- ► A new charitable body has been set up to oversee our new LLP, Croydon Affordable Homes. Croydon Affordable Homes will acquire 250 two & three bedroomed properties to create a portfolio of affordable accommodation for homeless families. So far, completions have been achieved on 40 properties with a further 148 awaiting completion

Independence

- ► Assisted more than 8,000 residents become more financially independent and supported over 180 into employment
- ► The homelessness prevention trailblazer project, working closely with the Department for Work and Pensions proactively managed the impact of new welfare and benefit changes on customers and helps to prevent homelessness.
- ► Local family offer with targeted approach towards families at risk of financial and housing instability and working with families in a co-ordinated way to achieve positive outcomes.
- ► Croydon Choice – choice based lettings service launched which has been live for over a year now. In that time, around 300 homes have been let, attracting a total of 58,451 bids from registered applicants.
- ► The Council has developed an in-house community reablement team as part of a wider transformation of the way we provide reablement and other support services for older people. Our performance in enabling older people leaving hospital to remain at home is now well above target and exceeds the London and England averages.

Clean and Green/Don't Mess with Croydon

- ► Croydon continues its efforts in creating and maintaining a cleaner, greener environment, with the Don't Mess With Croydon campaign continuing to impact on waste crime and street cleanliness. Local residents and businesses continue to work closely with the Council to improve their local environment. As at the end of March 2018, we had successfully prosecuted 196 offenders under the Don't Mess With Croydon clampdown.
- ► The team of dedicated Street Champions continues to grow and numbers over 330.The number of Community Clean-ups has increased to over 100 this year and we have encouraged over 300 people to sign up as community champions.
- ► The number of fly-tips collected within 48 hours has increased. The performance represents a year-on-year improvement and is significantly higher than the 3% of fly tips collected within 48 hours in 2014,80% of fly tips are cleaned up within the 24 hour period. Croydon has seen a 21% fall in the number of recorded fly-tips across the borough over a six-month period this year, compared with last year's figures.
- ► Subscriptions to the green garden waste collection service have increased and the household reuse and recycling centres continue to recycle the vast majority of materials.
- ► New Addington and East Croydon have introduced street vacuums as part of an ongoing £1.3m council investment in new cleaning equipment.
- ► With the publication of the five-year draft Air Quality Action Plan, earlier in the year, the council began the process of reducing air pollution that affects the health and well-being of everyone in Croydon.
- ► In February 2018, the council started to plant 700 trees on the borough's streets. This is the start of annual planting until 2023 as part of a drive to improve local air quality, particularly in the central and northern wards around the borough.
- ► To enhance future service delivery the Council has sourced a new waste contract, as part of the South London Waste Partnership (SLWP). This will harmonise waste collection services across Croydon, Kingston, Merton and Sutton, realising substantial cost savings for the four boroughs and securing a robust set of KPIs with more ambitious targets than Croydon's current contract. The new contract will take effect in April 2018 for Street Cleansing services, and October 2018 for waste collection services.

Leisure and Culture

- ► A new leisure services partnership commenced in March 2018, and will see the leisure centres' gym facilities refurbished to provide state-of-the-art facilities. As a result of the new contract, which will also see the council make savings of over £1m by 2021, this partnership we will deliver first class leisure facilities across the borough, encouraging more people to use them and enjoy a healthier lifestyle, along with creating new employment opportunities for local people and bringing the wider benefits of the Better brand to the residents of Croydon. These include significant investment in facilities and widening active participation through more use of the borough's parks

GOING CONCERN

Accounts drawn up under the Code assume that a Local Authority's services will continue to operate for the foreseeable future. The Council maintained strong financial controls, which have been has demonstrated by the early identification and management of financial risks during the year. A balanced budget has been set for 2018/19, and despite the tough financial climate, the Council continues to deliver against it's financial targets and will continue to do so in accordance with its medium term financial strategy.

GENERAL FUND RESERVES AND BALANCES 2017/18

Table 1 overleaf shows the Council's balances and useable reserves at 31 March 2018 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. During 2017-18, overall useable reserves have reduced by £1.2m, as set out below:

GENERAL FUND RESERVES AND BALANCES 2017/18 CONTINUED

Table 1 - Movement in Reserves and Balances

Reserves and Balances	2015/16 £m	2016/17 £m	2017/18 £m
General Fund Balances	10.7	10.7	10.4
Earmarked Reserves excluding schools	40.1	30.1	13.7
Capital Receipts Reserve	31.8	46.0	55.4
Capital Grants Unapplied	8.3	10.8	14.3
Housing Revenue Account	13.6	13.8	16.4
Total	**104.5**	**111.4**	**110.2**

Further details about reserves can be found in Note 8, and Note 22.

TRANSFORMATION

The Council has been making use of new guidance on use of flexible capital receipts which were published by the MHCLG in March 2016. This allows local authorities to use capital receipts to fund the up-front set up or implementation costs of projects that will generate future ongoing savings and/or transform service delivery. Table 2 below provides details of the transformation projects that have been funded from capital receipts during 2017/18

Table 2 - Transformation Projects

	2017/18 £'000
Housing Initiatives	580
Adult Social Care new Initiatives	3,119
Childrens Services	3,230
Environment Projects	556
Demand Management	2,510
Transformation programme including ICT	4,508
Total	**14,503**

To date £14.5m of projects have been funded from the flexible capital receipts with a further £6m earmarked to be funded in future years.

Further details about the projects will be provided in the outturn report to the General Purposes and Audit Committee.

HOUSING REVENUE ACCOUNT (HRA)

The final outturn shows a surplus of £1.981m which has been transferred to HRA reserves. The variances to budget that are on-going will be included in the budget planning for 2018/19. Capital expenditure totalled £26.325m.

Despite income to the HRA in 2016/17 and 2017/18 reducing due to the 4 year period of enforced 1% rent reduction a surplus position has been reached in both 2016/17 and 2017/18. The increase in the reserve balances is expected to prove essential over two further years of reducing rents alongside the completion of the sprinkler programme and other fire safety works planned for 2018/19. New affordable housing for Croydon is now expected to be delivered by partner organisations Brick by Brick Ltd and Croydon Affordable Homes LLP, hence the move to simplifying the reserve balances presented. Table 3 below shows the HRA balances and reserves as at 31 March 2018 compared with previous years:

Table 3 - Housing Revenue Account Balances and Reserves

Balances and reserves	2015/16 £m	2016/17 £m	2017/18 £m
Housing Revenue Account balances	11.817	12.555	14.535
Major Repairs Reserve	1.785	1.294	1.929
Total	**13.6**	**13.8**	**16.5**

CAPITAL

The original approved capital programme (excluding the Housing Revenue Account) totalled £386m, which was amended during the year to £222m to reflect both programme slippage and re-profiling of schemes.
Outturn capital spend was £140m, with the resultant underspend of £72m (32%) mainly attributable to slippage in the delivery of schemes.
The impact of slippage from 2017/18 into the 2018/19 capital programme will be considered as part of the first Financial Performance report for 2018/19 to Cabinet.

Capital schemes in 2017/18 included the delivery of:

- Education Estates Strategy
- Commencement of the New Addington Leisure Centre
- Restoration of Old Ashburton Library
- Improvements to the Public Realm
- Commencement of Growth Zone
- House building by the councils wholly owned development company Brick by Brick
- Refurbishment of the Fairfield Halls
- Financing for Affordable Homes

PENSION FUND

The Council's Pension Fund increased in value during 2017/18 by 2.5%. Table 4 below shows the change in the value of the Council's Pension Fund in 2017/18:

Table 4 – Pension Fund Performance 2017/18

Detail of Composition of Net Assets	2016/17 £m	2017/18 £m	Net Increase / (Decrease) £m	Change %
Total Investments	1,046.186	1,106.620	60.434	5.8%
Other balances held by Fund Managers	2.697	1.465	(1.232)	(45.7%)
Debtors	3.090	4.052	0.962	31.1%
Cash Held by:				
Fund Managers	17.460	8.603	(8.857)	(50.7%)
London Borough of Croydon	36.164	17.380	(18.784)	(51.9%)
Creditors	(1.542)	(6.759)	(5.217)	338.3%
Net Assets at Year End	**1,104.055**	**1,131.361**	**27.306**	**2.5%**

Other balances held by Fund Managers comprises outstanding trades, outstanding dividends and tax reclaimable.
The net value of the Fund has increased by 2.5% over the reporting period. The diversified nature of the investment strategy has ensured that the fund has been able to deliver growth throughout the year, albeit in aggregate, performance was marginally below the benchmark set. In response to a changing macro-economic landscape, the strategic asset allocation has been reviewed. 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 reported a surplus of £12.050m as at 31st March 2018 (£12,190m in the previous year). The overall surplus was a result of continued buoyancy in the council tax base, and continued improvements in collection rates, although the Council continues to face risks around appeals from businesses about their rateable value, which determines the level of business rates payable.

COLLECTION FUND CONTINUED

A council tax surplus of £5.902m and business rates surplus of £13.086m was declared in January 2018. The difference between the amount declared in January 2018 and the year-end position will be carried into 2018/19 and will be distributed to preceptors as part of the 2019/20 budget cycle.

COUNCIL TAX

The Council monitors performance targets in relation to the amount of debt collected in the initial year of billing (2017/18 debt collected in 2017/18). The target set for 2017/18 was 97.00% and the actual performance was 97.08%, an increase of 0.08%.

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

Table 5 – Council Tax Collection performance against target

	Target – 2017/18	Actual – 2017/18	Variance
Percentage	97.00%	97.08%	0.08%
Cash - £m	179.611	179.790	0.179

NATIONAL NON-DOMESTIC RATE (NNDR) COLLECTION

The target set for 2017/18 was 98.75% and the actual performance was 99.17%, an increase of 0.42%.

Table 6 – NNDR Collection performance against target

	Target – 2017/18	Actual – 2017/18	Variance
Percentage	98.75%	99.17%	0.42%
Cash - £m	115.569	115.973	0.404

Conclusion

An outturn report will be presented to the Council's General Purposes and Audit Committee in July 2018.
This will provide further details on the Council's financial performance and delivery against our Financial Strategy.

I hope that you find the following accounts useful and informative in helping you to understand how the Council manages its finances on your behalf, and how we ensure your money is spent wisely.

Richard Simpson
Executive Director Resources
Section 151 Officer

Croydon Council

EXPLANATION OF THE ACCOUNTING STATEMENTS

Movement in Reserves Statement

The movement in reserves held by an Authority is analysed between ‘usable’ (those that can be used to fund expenditure or reduce local taxation) and 'unusable'.

The surplus or deficit on the provision of services represents the accounting cost of providing services, but does not represent the statutory amounts that must be charged to the General Fund and the Housing Revenue Account for the purpose of setting Council Tax and dwelling rents. These are shown by the Net Increase / Decrease before Transfers to Earmarked Reserves and are calculated after entering all the adjustments that are required to move from the economic (accounting) basis to the funding basis.

Subsequent to this, discretionary movements to and from earmarked reserves are recorded.

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, at the Balance Sheet date, the values of those assets and liabilities recognised by the Council. The net assets of the Council, assets less liabilities, are represented by reserves that are reported within two categories:

- ► usable reserves, as stated above, that can be used to fund expenditure or reduce local taxation; and
- ► unusable reserves, that recognise unrealised gains and losses and timing differences.

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 (ie borrowing) to the Council.

Expenditure and Funding Analysis

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

MOVEMENT IN RESERVES STATEMENT

2017/18	General Fund Balance £000	HRA Balance £000	Earmarked GF Reserves 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 2017	**10,727**	**12,555**	**33,426**	**45,999**	**10,828**	**1,290**	**114,825**	293,909	408,734
Movement in reserves during 2017/18:									
Surplus or (deficit) on provision of services	(98,386)	12,227					(86,159)	0	(86,159)
Other Comprehensive Expenditure and Income							0	178,193	178,193
Total Comprehensive Expenditure and Income	(98,386)	12,227	0	0	0	0	(86,159)	178,193	92,034
Adjustments between accounting basis and funding basis under regulations	80,779	(10,247)	0	9,424	3,479	638	84,073	(84,074)	(1)
Net increase/Decrease before Transfers to Earmarked Reserves	(17,607)	1,980	0	9,424	3,479	638	(2,086)	94,119	92,033
Transfers to/(from) Earmarked Reserves	17,273	0	(17,273)	0	0	0	0	0	0
Net increase/(decrease) in reserves for the year	(334)	1,980	(17,273)	9,424	3,479	638	(2,086)	94,119	92,033
Balance c/f at 31 March 2018	10,393	14,535	16,153	55,423	14,307	1,928	112,739	388,028	500,767

2016/17	General Fund Balance £000	HRA Balance £000	Earmarked GF Reserves 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 2016	**10,677**	**11,817**	**47,520**	**31,777**	**8,377**	**1,785**	**111,953**	366,709	478,662
Movement in reserves during 2016/17:									
Surplus or (deficit) on provision of services	(84,357)	13,971					(70,386)	0	(70,386)
Other Comprehensive Expenditure and Income							0	458	458
Total Comprehensive Expenditure and Income	(84,357)	13,971	0	0	0	0	(70,386)	458	(69,928)
Adjustments between accounting basis and funding basis under regulations	70,313	(13,233)	0	14,222	2,451	(495)	73,258	(73,258)	0
Net increase/Decrease before Transfers to Earmarked Reserves	(14,044)	738	0	14,222	2,451	(495)	2,872	(72,800)	(69,928)
Transfers to/(from) Earmarked Reserves	14,094	0	(14,094)	0	0	0	0	0	0
Net increase/(decrease) in reserves for the year	50	738	(14,094)	14,222	2,451	(495)	2,872	(72,800)	(69,928)
Balance c/f at 31 March 2017	10,727	12,555	33,426	45,999	10,828	1,290	114,825	293,909	408,734

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

	Note No.	2017/18 Gross £000	2017/18 Income £000	2017/18 Net £000	2016/17 Net £000
Gross expenditure, income and net expenditure of continuing operations					
Place		126,936	(69,859)	57,077	43,115
People		597,618	(346,618)	251,000	193,964
Resources and Chief Executive		374,354	(321,863)	52,491	50,921
HRA		75,136	(92,396)	(17,260)	(16,223)
Exceptional Items					
Net cost of services		1,174,044	(830,736)	343,308	271,777
Other operating expenditure	9			(11,368)	55,305
Financing and Investment Income and Expenditure	10			45,288	48,122
Taxation and Grant Income	11			(291,069)	(304,818)
(Surplus) or Deficit on Provision of Services				86,159	70,386
(Surplus) or deficit on revaluation of non-current assets				(152,929)	(124,201)
Remeasurement of the net defined benefit liability				(25,263)	123,743
Other Comprehensive Income and Expenditure				(178,192)	(458)
Total Comprehensive Income and Expenditure				(92,033)	69,928

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-18 £000	£000	31 March 2017 £000
Operational Assets (Property, Plant and Equipment)	12			
Council dwellings		989,648		907,057
Other land and buildings		799,247		710,716
Vehicles, plant, furniture and equipment		3,406		2,193
Infrastructure		142,336		141,717
Community assets		4,947		5,205
Total Operational Assets (Property, Plant and Equipment)			1,939,584	1,766,888
Non-Operational Assets (Property, Plant and Equipment)				
Assets under construction		4,402		1,101
Surplus assets not held for sale		2,181		19,947
Total Non-Operational Assets (Property, Plant and Equipment)			6,583	21,048
Heritage Assets	13	3,696		3,153
Investment Properties				
Investment Properties	14	29,714		24,498
Intangible Assets	15			
Software		5,062		5,331
Assets under construction				
Long-term Investments				
Non-property investments	16	45,001		31,501
Investments in Associates and Joint Ventures				
Long-term Debtors	16	54,895		22,619
Long-term Assets			2,084,535	1,875,038
Short-term Investments				
Non-property investments excluding cash equivalents	16	5,000		95,000
Assets held for sale (< 1 year)	19	16,329		16,261
Inventories		689		78
Debtors, Payments In Advance (PIA) And Allowance For Doubtful Debt	17	140,664		118,398
Cash and cash equivalents	18	29,000		9,745
Current Assets			191,682	239,482
Bank overdraft	18	(20,311)		(19,165)
Short-term borrowing	16	(107,204)		(165,194)
Short-term creditors and receipts in advance	20	(134,461)		(113,416)
Short-term provision	21	(3,424)		(5,004)
Current Liabilities			(265,400)	(302,779)
Long-term Creditors				
Provisions	21	(13,900)		(9,722)
Long-term borrowing	16	(879,776)		(802,748)
Deferred capital creditors		(10,504)		(10,785)
Other non-current liabilities				
Net pensions liability	42	(593,911)		(561,060)
Capital grants receipts in advance	31	(11,959)		(18,692)
Long-term Liabilities			(1,510,050)	(1,403,007)
Net Assets			500,767	408,734
Usable reserves				
General Fund	22.1	10,395		10,727
Housing Revenue Account	22.2	14,535		12,555
Earmarked reserves	8	16,153		33,426
Capital receipts reserve	22.4	55,422		45,999
Capital grants unapplied	22.5	14,305		10,828
Major repairs reserve	HRA 3	1,929		1,290
			112,739	114,825
Unusable reserves				
Revaluation reserve	23.1	739,063		627,439
Capital adjustment account	23.2	260,492		258,732
Financial Instruments adjustment account	23.3	(1,347)		(1,531)
Pensions reserve	23.4	(616,039)		(594,252)
Deferred capital receipts	23.5	2,463		4
Collection Fund adjustment account	23.6	6,824		7,289
Short-term accumulating compensated absences account	23.7	(3,428)		(3,772)
			388,028	293,909
Total Reserves			500,767	408,734

Signed: Richard Simpson,
Executive Director of Resources and Section 151 officer

31 May 2018

CASH FLOW STATEMENT

	Note No.	2017/18 £000	2017/18 £000	2016/17 £000	2016/17 £000
OPERATING ACTIVITIES					
The cash flows for operating activities include the following, in 2016-17 included only as memorandum items					
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities					
Interest Paid		36,954		36,739	
Interest and investment property rental income Received		(2,579)		(4,505)	
Net (surplus) or deficit on the provision of services	1A & 7		86,159		70,386
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements					
Depreciation	7,12 &32.2	(34,519)		(43,159)	
Impairment and downward valuations	7 & 9	45,454		(13,115)	
Amortisations	7,15 & 23.2	(3,161)		(3,762)	
(Increase)/decrease in creditors		(20,765)		5,109	
Increase/(decrease) in debtors		22,266		(8,472)	
Increase/(decrease) in inventories		613		(77)	
Movement in pension liability	1B,7 & 23.4	(47,050)		22,903	
Carrying amount of non-current assets sold	23.2	(69,581)		(63,347)	
Provisions		(2,598)		157	
Movements in the value of investment properties	7,10,14 & 23.2	5,416		815	
Other non-cash movements		(1,904)		(10,197)	
			(105,829)		(113,145)
Items included/excluded from net surplus or deficit on the provision of services:					
Pension deficit pre-payment	5	-		33,192	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	22.4	36,407		24,627	
Any other items for which the cash effects are investing or financing financing cash flows		22,154		65,469	
			58,561		123,288
Net cash (inflow)/outflow from operating activities			38,891		80,529
INVESTING ACTIVITIES					
Purchase of property, plant and equipment, investment property		64,573		60,669	
Purchase of short-term and long-term investments		65,774		112,852	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(36,407)		(24,627)	
Capital grants		(1,915)		(40,027)	
Proceeds from short-term and long-term investments		(109,997)		(121,682)	
Net cash (inflow)/outflow from investing activities			(17,972)		(12,815)
FINANCING ACTIVITIES					
Cash receipts from short-term and long-term borrowing		(179,500)		(138,944)	
Cash payments for the reduction of the outstanding liabilities to finance leases and on-Balance Sheet PFI contracts (Principal)		1,972		1,569	
Repayments of short-term and long-term borrowing		138,500		51,359	
Net cash (inflow)/outflow from financing activities			(39,028)		(86,016)
Net (increase)/decrease in cash and cash equivalents			(18,109)		(18,302)
Cash and cash equivalents at the beginning of the reporting period			9,420		27,722
Cash and cash equivalents at the end of the reporting period			(8,689)		9,420
Cash held	18		145		70
Bank current accounts	18		(20,456)		(19,235)
Short-term deposits with building societies and Money Market Funds	18		29,000		9,745
Cash and cash equivalents as at 31 March			8,689		(9,420)

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 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the 2017/18 Code), and the Service Reporting Code of Practice (SeRCOP), both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The 2017/18 Code includes the statutory provisions for the preparation of financial statements and the requirements of existing IFRS pronouncements, except to the extent that they conflict with statute. Additional guidance within the 2017/18 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 2017/18 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 Expenditure and Funding Analysis note shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement

Single Entity Financial Statements

The financial statements presented by a parent, an investor in an associate or a venturer in a joint venture (jointly controlled entity) 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 2017/18 financial year. It has concluded that there are material interests in subsidiaries and jointly controlled entities, 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 Affordable Homes Charity & LLP - Croydon holds 1% voting rights for this charity: who then wholly control Croydon Affordable Homes LLP. An assessment of economic control has determined that the Council has joint economic control of Croydon Affordable Homes LLP.
- Octavo Partnership - the Council has 40% ownership of this Partnership, and would otherwise be accounted for as an associate under IFRS12 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 IFRS12.

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 2017/18 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 that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- 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 (ie 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.

Principal and Agent

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. The two main instances where this occurs are in relation to Council Tax and Business Rates whereby the Council is collecting Council Tax and Business Rates income on behalf of itself and preceptors (Greater London Authority in Council Tax and the Ministry of Housing, Communities and Local Government (MHCLG) and Greater London Authority in relation to Business Rates). 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. ACCOUNTING POLICIES (continued)

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 2017/18 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.

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, ie 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.

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. ACCOUNTING POLICIES (continued)

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 (ie repairs and maintenance) is charged as an expense when it is incurred.

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 Account. Where gains are credited to the Comprehensive Income and Expenditure made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets 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
► surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

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.

1. ACCOUNTING POLICIES (continued) - POLICIES 1.5 to 1.8 RELATE TO THE BALANCE SHEET

1.4. NON-CURRENT ASSETS (continued)

1.4.1. Property, Plant and Equipment (continued)

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
► 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. 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. 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.

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.

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. ACCOUNTING POLICIES (continued) - POLICIES 1.5 to 1.8 RELATE TO THE BALANCE SHEET

1.4.1a. School Land & Buildings

School land and buildings are included within the financial statements except for:

- those schools that have converted to an academy (academies are granted 125 year leases at a peppercorn rent)
- Voluntary controlled and voluntary aided schools where the assets are vested in the school's trustees.

Each school is assessed on a case by case basis. See accounting policy 1.21 for further information.

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.

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.

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. The useful economic lives of intangible assets are reviewed at the end of each reporting period and revised if necessary.

1. ACCOUNTING POLICIES (continued) - POLICIES 1.5 to 1.8 RELATE TO THE BALANCE SHEET

1.4.5. Investments in Associates

The Authority's single entity financial statements record the actual dividend received or receivable. The interest in associates is set out in Note 40 Group Interests

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

1.4.6. 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 previously 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 (ie 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 [England only]. 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) (England and Wales)]. 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.

1.5. 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 fair value of the consumption to be received. An allowance for doubtful debts is estimated based upon past experience.

1. ACCOUNTING POLICIES (continued) - POLICIES 1.5 to 1.8 RELATE TO THE BALANCE SHEET

1.5. CURRENT ASSETS (continued)

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 fair value 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 and employed by transfers through the Movement in Reserves Statement. See Note 22 for further details.

Unusable Reserves

These are established by the impact of accounting and statutory arrangements and are kept to manage the accounting process; 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.

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.

1. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

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 for classification.

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

The Council as Lessee

Finance Leases

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 thepresent 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.

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 (eg 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 (ie 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).

1. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

1.9. LEASES (continued)

The Council as Lessor (continued)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal isnot 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 (England and Wales) or Capital Receipts Reserve (Scotland)] 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 (England and Wales).]

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 (eg 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 the 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 such 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, eg 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.

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.

1. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

1.10. EMPLOYEE BENEFITS (continued)

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 – ie 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 2.5% (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), ie 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.

► 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. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

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.

Financial Assets

Financial assets are classified into two types

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

Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

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

1. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

1.11. FINANCIAL INSTRUMENTS (continued)

Available-for-Sale Assets (continued)

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:
► instruments with quoted market prices – the market price
► other instruments with fixed and determinable payments – discounted cash flow analysis
► equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

The inputs to the measurement techniques are categorised in accordance with the following three levels:
► Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
► Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
► Level 3 inputs – unobservable inputs for the asset.

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.
Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

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 (eg 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 is:

- ► a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority;
- ► a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- ► the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised within the financial statements, but are disclosed in the notes to the accounts.

Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised within the financial statements, but are disclosed in the notes to the accounts.

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, Comprehensive Income and Expenditure Statement for consistency, 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 People Department, Place Department Resources and Chief Executive Department , as well as the Housing Revenue Account (HRA).

1. ACCOUNTING POLICIES (continued) - POLICIES 1.9 ONWARDS RELATE TO THE OTHER STATEMENTS

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.

► Anuity method for unsupported borrowing and PFI debt, over a repayment period of 50 years

1.18. 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 2017/18 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.

1.19. BORROWING COSTS

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

1.20. OVERHEADS

All overhead and support service costs are fully recharged to the service expenditure headings shown in the Comprehensive Income and Expenditure Statement in order to provide a consistent basis for all statutory financial disclosures.

Expenditure on the Corporate and Democratic Core and costs which by their nature are not distributable (Non-Distributed Costs) are recognised separately in the accounts.

1.21. SCHOOLS

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

1A. Expenditure Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the Authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices.The Expenditure and Funding Analysis 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.

2017/18	Net Expenditure Chargeable to the GF and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
People	204,743	46,256	250,999
Place	30,595	26,481	57,076
Resources and Chief Executive	14,406	38,085	52,491
HRA	(29,167)	11,907	(17,260)
Non service related	1,780	(1,780)	-
Net cost of services	**222,357**	**120,949**	**343,306**
Other operating expenditure	1,356	(12,725)	(11,369)
Financing and Investment Income and Expenditure	68,714	(23,426)	45,288
Taxation and Non-Specific Grant Income	(276,803)	(14,266)	(291,069)
(Surplus)/Deficit	**15,624**	**70,532**	**86,156**
Opening GF and HRA Balance	(23,282)		
Add Surplus on General Fund and HRA Balance in year	15,624		
Transfers to/from Earmarked Reserves	(17,273)		
Closing General Fund and HRA balance 31 March 2018	**(24,931)**		

2016/17	Net Expenditure Chargeable to the GF and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
People	189,771	4,192	193,963
Place	34,817	8,298	43,115
Resources and Chief Executive	35,644	15,277	50,921
HRA	(19,759)	3,536	(16,223)
Non service related	4,590	(4,590)	0
Net cost of services	**245,063**	**26,713**	**271,776**
Other operating expenditure	1,426	53,879	55,305
Financing and Investment Income and Expenditure	49,626	(1,504)	48,122
Taxation and Non-Specific Grant Income	(282,809)	(22,008)	(304,817)
Other Income and Expenditure	**(231,757)**	**30,367**	**(201,390)**
(Surplus)/Deficit	**13,306**	**57,080**	**70,386**
Opening GF and HRA Balance	(22,494)		
Add Surplus on General Fund and HRA Balance in year	13,306		
Transfers to/from Earmarked Reserves	(14,094)		
Closing General Fund and HRA balance 31 March 2017	**(23,282)**		

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.

2017/18	Adjustments for Capital Purposes £000	Net change for the pensions adjustments £000	Other Differences £000	Total Adjustments between funding and Accounting basis £000
People	31,806	14,726	(276)	46,256
Place	20,381	6,109	(8)	26,482
Resources and Chief Executive	28,115	10,022	(52)	38,085
HRA	9,169	2,745	(8)	11,906
Non Service Related	0	(1,780)	0	(1,780)
Net cost of services	**89,471**	**31,822**	**(344)**	**120,949**
Other Income and Expenditure				
Other operating expenditure	- 12,725	0	0	(12,725)
Financing and Investment Income and Expenditure	(38,469)	15,228	(185)	(23,426)
Taxation and Non-Specific Grant Income	(14,731)	0	466	(14,265)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit	**23,546**	**47,050**	**(63)**	**70,533**

2016/17	Adjustments for Capital Purposes £000	Net change for the pensions adjustments £000	Other Differences £000	Total Adjustments between funding and Accounting basis £000
People	17,697	(14,929)	1,424	4,192
Place	13,503	(5,236)	31	8,298
Resources and Chief Executive	25,780	(10,559)	55	15,276
HRA	7,192	(3,681)	25	3,536
Non Service Related	0	(4,590)	0	(4,590)
Net cost of services	**64,172**	**(38,995)**	**1,535**	**26,712**
Other Income and Expenditure				
Other operating expenditure	53,879	-	-	53,879
Financing and Investment Income and Expenditure	(17,411)	16,092	(185)	(1,504)
Taxation and Non-Specific Grant Income	(17,150)	-	- 4,857	(22,007)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit	**83,490**	**(22,903)**	**(3,507)**	**57,080**

1C Expenditure and Income Analysed by Nature

	2017/18 £000	2016/17 £000
Expenditure		
Employee benefits expenses	345,289	266,705
Other service expenses	973,897	832,032
Depreciation amortisation and impairment	(45,454)	60,037
Loss on disposal of non-current assets	30,715	40,763
Interest payments	37,601	37,184
Precepts and Levies	1,356	1,426
Total	1,343,404	1,238,147
Income		
Fees and charges and other service income	(385,480)	(388,558)
Income from Council tax and Business Rates	(225,507)	(218,343)
Government grants and contributions	(638,574)	(555,633)
Interest and investment income	(7,687)	(5,226)
Total	**(1,257,248)**	(1,167,761)
Deficit on provision of services	**86,156**	**70,386**

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 2017/18 code:

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

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

- **IAS 7 Statement of Cash Flows (disclosure initiative)** - this will potentially require some additional analysis of cash flows from financing activities in future years. If the standard had been applied in 2017/18, there would have been no additional disclosure because the Council does not have activities which would require additional disclosure.

- **IAS 12 Income Taxes (recognition of deferred tax assets for unrealised losses)** - this applies to deferred tax assets related to debt instruments measured at fair value. None of the Council's subsidiary companies in the Group Accounts have such debt instruments.

- **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. Authorities can elect to treat low value and short term leases as an expense on a straight line or other systematic basis.

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.

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.

Pension Liabilities

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).

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	**40**	293,555
Voluntary aided Faith Schools	**16**	0

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 2018 for which there is a risk of adjustment in the forthcoming financial year are as follows:

Pension Fund Net Liability

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 2.5% (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 2018:

	Approximate % increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	146,107
0.5% increase in the Salary Increase Rate	1%	14,978
0.5% increase in the Pension Increase Rate	8%	129,584

Property, Plant and Equipment

Property, Plant and Equipment 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.

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 Doubtful Debts

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 AND PRIOR PERIOD ADJUSTMENTS

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

Schools converting to academies
During 2017/18 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 £24.48m has been de-recognised from property, plant and equipment.
This has resulted in a deficit of £24.48m in the Consolidated 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 increased by £100.8m 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 Pre-payment
During 2017-18 the Council took the decision to make a further payment of £11.094m towards the LGPS pension deficit, which reduced the Council's liability shown in the "long term liabilities" section of the balance sheet. By making an early payment to the pension fund, revenue savings will be achieved by the council over the remaining two year period, reducing the deficit contribution amount required from the Council over this period.

This pre-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 from the Council's income & expenditure account to the unusable reserve will still be made over the next three year valuation period (2017/18, 2018/19 and 2019/20). Because the payment of liability was made ahead of the charge to the income & expenditure account, a difference is therefore created between these two pension items, which is represented by a reduction in the council's cash.

	2017/18 £'000
Pension Liability	(593,911)
Pension Reserve	(616,039)
Difference - reduction in cash	**22,128**

Flexible Capital Receipts
The Secretary of State for Housing, Communities & Local government issues guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure

This Direction allows for the following expenditure to be treated as capital:
"expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.”

The Council reviewed the Flexible Use of Capital Receipts guidance in it's 2017/18 budget report, and recommended that full use of this new flexibility is fully adopted, and that capital receipts are used to fund expenditure that generates an ongoing saving. These schemes to be funded are encapsulated within the Efficiency Strategy and are forecast to generate on-going revenue savings through reducing costs of service delivery.

During 2017/18, the Council progressed its efficiency strategy and delivered projects totalling £15.4m , which has been capitalised, and financed from flexible capital receipts. Further information can be found in the Narrative Statement section of this document.

6. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Executive Director of Resources and Section 151 officer on 31st May 2018 Other than the item identified below, there were no events affecting the 2017/18 accounts that occurred between 1 April and the date of signing the accounts.

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 (Page 14)

2017/18	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 2017	**10,727**	**12,555**	**33,426**	**45,999**	**10,828**	**1,290**	**114,825**
Movement in reserves during 2017-18	0	0	0	0	0	0	0
Surplus or deficit on the provision of services	(98,386)	12,227	0	0	0	0	(86,159)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0
Impairment / Revaluation gains and losses chargable 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	**(98,386)**	**12,227**	**0**	**0**	**0**	**0**	**(86,159)**
Adjustments between accounting basis and funding basis							
Depreciation	22,876	0	0	0	0	11,643	34,519
Impairment and revaluation gains and losses chargeable to CI&E	(45,454)	0	0	0	0	0	(45,454)
Amortisation of intangible assets	3,125	36	0	0	0	0	3,161
Movements in the fair value of investment properties	(5,416)	0	0	0	0	0	(5,416)
Capital grants and contributions	(23,685)	(236)		0	(294)	0	(24,215)
Revenue expenditure funded from capital under statute	63,178	9,369	0	0	0	0	72,547
Net gain / loss on sale of non-current assets	38,946	(8,230)	0	36,407	0	0	67,123
Amount by which finance costs charged to the CI&E are different from finance costs chargable in the year in accordance with statutory requirements	(86)	(99)	0	0	0	0	(185)
Reversal of items relating to retirement benefits debited or credited to the Expenditure Statement throughout for consistency	42,991	4,059	0	0	0	0	47,050
Employer's pensions contributions and direct payments to pensioners payable in the year	0	0	0	0	0	0	0
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	465	0	0	0	0	0	465
Business Rate Supplement Revenue Account	0	0	0	0	0	0	0
Statutory provision for the repayment of debt	(7,996)	0	0	0	0	0	(7,996)
Capital expenditure charged to General Fund and HRA balances		(15,138)	0	0	0	0	(15,138)
Transfers in respect of Community Infrastructure Levy receipts	(9,843)	0	0	0	3,773	0	(6,070)
Transfer from Capital Receipts Reserve to Housing Capital Receipts Pool	2,014	0	0	(2,014)	0	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	0	0	(11,005)	(11,005)
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(24,969)	0	0	(24,969)
Compensated absences	(336)	(8)	0	0	0	0	(344)
Total Adjustments between accounting basis and funding basis under regulations	80,779	(10,247)	0	9,424	3,479	638	84,073
2017-18 Net Increase / Decrease before Transfers to / from Earmarked Reserves	(17,607)	1,980	0	9,424	3,479	638	(2,086)
Transfers to / from Earmarked Reserves	16,376	0	(16,376)	0	0	0	0
Other movements in reserves	897	0	(897)	0	0	0	0
Net Increase / (decrease) in reserves for the year	(334)	1,980	(17,273)	9,424	3,479	638	(2,086)
Balances c/f at 31 March 2018	**10,393**	**14,535**	**16,153**	**55,423**	**14,307**	**1,928**	**112,739**

NOTES TO THE CORE FINANCIAL STATEMENTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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
627,439	**258,732**	**(1,531)**	**(594,252)**	**4**	**7,289**	**(3,772)**	**293,909**	**408,734**
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	**(86,159)**
0	0	0	0	0	0	0	0	0
152,930	0	0	0	0	0	0	152,930	**152,930**
0	0	0	0	0	0	0	0	0
0	0	0	25,263	0	0	0	25,263	**25,263**
152,930	0	0	25,263	0	0	0	178,193	178,193
152,930	**0**	**0**	**25,263**	**0**	**0**	**0**	**178,193**	92,034
(5,273)	(29,246)	0	0	0	0	0	(34,519)	**0**
0	45,454	0	0	0	0	0	45,454	**0**
	(3,161)	0	0	0	0	0	(3,161)	**0**
0	5,416	0	0	0	0	0	5,416	**0**
	24,215	0	0	0	0	0	24,215	**0**
0	(72,547)	0	0	0	0	0	(72,547)	**0**
(36,032)	(33,550)	0	0	2,459	0	0	(67,123)	**0**
0	0	185	0	0	0	0	185	**0**
0	0	0	(47,050)	0	0	0	(47,050)	**0**
0	0	0	0	0	0	0	0	**0**
0	0	0	0	0	(465)	0	(465)	**0**
0	0	0	0	0	0	0	0	**0**
0	7,996	0	0	0	0	0	7,996	**0**
0	15,138	0	0	0	0	0	15,138	**0**
0	6,070	0	0	0	0	0	6,070	**0**
0	0	0	0	0	0	0	0	**0**
0	11,005	0	0	0	0	0	11,005	**0**
0	24,969	0	0	0	0	0	24,969	**0**
0	0	0	0	0	0	343	343	**(1)**
(41,305)	1,759	185	(47,050)	2,459	(465)	343	(84,074)	(1)
								0
111,625	1,759	185	(21,787)	2,459	(465)	343	94,119	92,033
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
111,625	1,759	185	(21,787)	2,459	(465)	343	94,119	92,033
739,064	**260,491**	**(1,346)**	**(616,039)**	**2,463**	**6,824**	**(3,429)**	**388,028**	500,767

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 (Page 14)

2016/17	General Fund Balance £	HRA Balance £	Earmarked Reserves Balance £	Capital Receipts Balance £	Capital Grants Unapplied Balance £	Major Repairs Reserve Balance £	Total Usable Reserves Balance £
Balances b/f at 1 April 2016	**10,677**	**11,817**	**47,520**	**31,777**	**8,377**	**1,785**	**88,373**
Movement in reserves during 2016-17	0	0	0	0	0	0	0
Surplus or deficit on the provision of services	(84,357)	13,971	0	0	0	0	(70,386)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0
Impairment / Revaluation gains and losses chargable to Revaluation Reserve	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	**(84,357)**	**13,971**	**0**	**0**	**0**	**0**	**(70,386)**
Adjustments between accounting basis and funding basis under regulations							
Depreciation	24,388	1,639	0	0	0	17,131	43,158
Impairment and revaluation gains and losses chargeable to CI&E	13,099	16	0	0	0	0	13,115
Amortisation of intangible assets	3,716	46	0	0	0	0	3,762
Movements in the fair value of investment properties	(815)	0	0	0	0	0	(815)
Capital grants and contributions	(73,585)	0		0	(58)	0	(73,643)
Revenue expenditure funded from capital under statute	85,310	5,507	0	0	0	0	90,817
Net gain / loss on sale of non-current assets	50,281	(11,519)	0	24,624	0	0	63,386
Amount by which finance costs charged to the CI&E are different from finance costs chargable in the year in accordance with statutory requirements	(86)	(98)	0	0	0	0	(184)
Reversal of items relating to retirement benefits debited or credited to the CI&E	(20,741)	(2,162)	0	0	0	0	(22,903)
Employer's pensions contributions and direct payments to pensioners payable in the year	0	0	0	0	0	0	0
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	(4,855)	0	0	0	0	0	(4,855)
Business Rate Supplement Revenue Account	0	0	0	0	0	0	0
Statutory provision for the repayment of debt	(7,428)	0	0	0	0	0	(7,428)
Capital expenditure charged to General Fund and HRA balances		(6,687)	0	0	0	0	(6,687)
Transfers in respect of Community Infrastructure Levy receipts	(2,509)	0	0	0	2,509	0	0
Transfer from Capital Receipts Reserve to Housing Capital Receipts Pool	2,028	0	0	(2,028)	0	0	0
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	0	0	(17,626)	(17,626)
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	0	(8,374)	0	0	(8,374)
Compensated absences	1,510	25	0	0	0	0	1,535
Total Adjustments between accounting basis and funding basis under regulations	70,313	(13,233)	0	14,222	2,451	(495)	73,258
2016-17 Net Increase / Decrease before Transfers to / from Earmarked Reserves	(14,044)	738	0	14,222	2,451	(495)	2,872
Transfers to / from Earmarked Reserves	10,060	0	(10,060)	0	0	0	0
Other movements in reserves	4,034	0	(4,034)	0	0	0	0
Net Increase / (decrease) in reserves for the year	50	738	(14,094)	14,222	2,451	(495)	2,872
Balances c/f at 31 March 2017	**10,727**	**12,555**	**33,426**	**45,999**	**10,828**	**1,290**	**114,825**

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 (Page 14)

Revaluation Reserve Balance £	CAA Balance £	Financial Instruments Adjustment Account Balance £	Pensions Reserve Balance £	Deferred Capital Receipts Balance £	Collection Fund Adjustment Account Balance £	STACA Balance £	Total Unusable Reserves Balance £	Total Authority Reserves Balance £
530,668	**330,958**	**(1,716)**	**(493,412)**	**17**	**2,431**	**(2,237)**	**366,709**	**455,082**
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	(70,386)
0	0	0	0	0	0	0	0	
124,201	0	0	0	0	0	0	124,201	124,201
0	0	0	0	0	0	0	0	0
0	0	0	(123,743)	0	0	0	(123,743)	(123,743)
124,201	0	0	(123,743)	0	0	0	458	458
124,201	**0**	**0**	**(123,743)**	**0**	**0**	**0**	**458**	**(69,928)**
(7,035)	(36,124)	0	0	0	0	0	(43,159)	(1)
0	(13,115)	0	0	0	0	0	(13,115)	0
	(3,762)	0	0	0	0	0	(3,762)	0
0	815	0	0	0	0	0	815	0
	73,643	0	0	0	0	0	73,643	0
0	(90,817)	0	0	0	0	0	(90,817)	0
(20,395)	(42,978)	0	0	(13)	0	0	(63,386)	0
0	0	185	0	0	0	0	185	1
0	0	0	22,903	0	0	0	22,903	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	4,858	0	4,858	3
0	0	0	0	0	0	0	0	0
0	7,425	0	0	0	0	0	7,425	(3)
0	6,687	0	0	0	0	0	6,687	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	17,626	0	0	0	0	0	17,626	0
0	8,374	0	0	0	0	0	8,374	0
0	0	0	0	0	0	(1,535)	(1,535)	0
(27,430)	(72,226)	185	22,903	(13)	4,858	(1,535)	(73,258)	0
96,771	(72,226)	185	(100,840)	(13)	4,858	(1,535)	(72,800)	(69,928)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
96,771	(72,226)	185	(100,840)	(13)	4,858	(1,535)	(72,800)	(69,928)
627,439	**258,732**	**(1,531)**	**(594,252)**	**4**	**7,289**	**(3,772)**	**293,909**	**408,734**

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 2017/18.

	Balance at 1 April 2016 £000	Movement In 2016/17 £000	Balance at 31 March 2017 £000	Movement In 2017/18 £000	Balance at 31 March 2018 £000
General Fund - Non Schools					
Growth Zone	7,000	0	7,000	0	7,000
Street Lighting PFI Sinking Fund Reserve	8,010	(1,697)	6,313	(4,759)	1,554
Selective Licensing	6,208	(1,654)	4,554	(1,671)	2,883
Transformation Fund	3,675	(1,522)	2,153	(2,153)	-
Revolving Investment Fund Reserve	1,126	(208)	918	281	1,199
Other Reserves under £0.5m	14,162	(4,979)	9,183	(3,373)	5,810
Sub-total Non Schools	40,181	(10,060)	30,121	(11,675)	18,446
Draw Down of Reserves budgeted to be replaced on 1 April 2018				(4,700)	(4,700)
General Fund - Schools:					
Balances held by schools under a scheme of delegation	7,339	(4,034)	3,305	(898)	2,407
Total Earmarked Reserves	47,520	(14,094)	33,426	(17,273)	16,153

	Balance at 1 April 2016 £000	Movement In 2016/17 £000	Balance at 31 March 2017 £000	Movement In 2017/18 £000	Balance at 31 March 2018 £000
HRA:					
New Build Housing	9,420	0	9,420	1,980	11,400
Major Repairs Reserve	1,785	(495)	1,290	639	1,929
Contingency Reserve	2,397	738	3,135	0	3,135
Total	13,602	243	13,845	2,619	16,464

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 (£7m)
Funding has been received from the DCLG 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.

Draw Down of Reserves (-£4.7m)
The Council has budged to add £4.7m of funds to its earmarked reserves in the financial year commencing 1 April 2018. This enabled the council to release an equivalent sum in the 2017/18 financial year, which will be replaced when the new financial year commences.

Selective Licensing (£2.883m)
This reserve holds income from Croydon's Selective Licensing scheme, and will be used over the life of the license to improve the standards of private rented housing within the Borough.

School Balances (£2.407m)
School balances have decreased by £0.898 m to £2.407m. The decrease in reserves is largely due to a number of schools converting to academy status. There are 11 schools with a revenue deficit. Action plans are agreed with schools in deficit to ensure that they return to a balanced position.

Street Lighting PFI Sinking Fund (£1.554m)
This balance is held to manage the costs and income of the PFI contract over the duration of its life.

Revolving Investment Fund Reserve (£1.199m)
The Revolving Investment Fund is set aside to fund the up-front costs of the schemes within the investment fund.

Other Reserves (£5.810m)
This includes other reserves with a balance of less than £0.500m as at 31st March 2018.

9. OTHER OPERATING EXPENDITURE

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

	2017/18 £000	2016/17 £000
Levies	1,356	1,426
Payments of Housing capital receipts to Government pool	2,014	2,028
(Gain)/loss on disposal of non-current assets	30,716	38,736
(Gain)/loss on revaluation of non-current assets	(45,454)	13,115
Total	(11,368)	55,305

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 expediture 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.

	2017/18 £000	RESTATED 2016/17 £000
Interest payable and similar charges	37,376	37,051
Interest receivable and similar income	(2,271)	(4,190)
Premium on early repayment of debt	225	134
Changes in fair value of investment properties	(5,416)	(815)
Rent received from investment properties		0
Interest Cost on defined benefit obligation	38,763	41,496
Expected Return on Pension Assets	(23,535)	(25,404)
Interest received on finance leases (lessor)		(222)
(Surplus) / deficit on trading undertakings	146	72
Total	45,288	48,122

Restatement note: A contribution of £3m of Dedicated Schools Grant is made towards the Council's financing costs each year, to repay the cost of borrowing incurred in the construction of additional in-borough high needs provision. The 2016/17 "interest payable' amount of £34.950m has been restated to £37.950m to better reflect the gross interest payable costs of the authority, showing the £3m grant contribution seperately.

11. TAXATION AND NON-SPECIFIC GRANT INCOME

	2017/18 £000	2016/17 £000
Credited to Taxation and Non-Specific Grant Income		
Recognised Capital Grants and Contributions	(14,967)	17,150
Council Tax Income	(195,505)	147,997
National Non-Domestic Rates (NNDR)	(30,001)	70,346
Revenue Support Grant	(32,577)	46,801
Non-service Related Government Grants (see Note 31)	(18,018)	22,524
Taxation and Non-Specific Grants	(291,069)	304,818

12. PROPERTY, PLANT AND EQUIPMENT

2017/18	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total PPE £000	PFI Assets Included in PPE £000
Net Book Value at 1 April 2017	907,057	710,716	2,193	141,717	5,205	19,947	1,101	1,787,936	93,404
Gross Book Value at 1 April 2017	907,057	712,892	2,350	192,367	8,591	20,060	1,101	1,844,418	97,143
Additions	23,484	22,778	1,663	10,037	355	2,324	3,631	64,272	-
Revaluation increase/(decrease) recognised in the Revaluation Reserve	65,165	68,158	0	0	0	435	0	133,758	17,073
Revaluation increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	0	49,497	0	0	0	(7,586)	0	41,911	2,759
Derecognition - Disposals	(6,058)	(28,677)	0	0	0	(4,245)	0	(38,980)	0
Derecognition - Other	0	(24,679)	0	0	0	0	0	(24,679)	0
Assets reclassified (to)/from held for sale	0	(585)	0	0	0	(6,452)	0	(7,037)	0
Transfers/Reclassifications	0	2,885	0	0	0	(2,355)	(330)	200	0
Other Movements in cost or valuation	0	0	0	0	0	0	0	0	0
Gross book value 31 March 2018	989,648	802,269	4,013	202,404	8,946	2,181	4,402	2,013,863	116,975
Accumulated Depreciation and Impairment at 1 April 2017	0	2,176	157	50,649	3,386	112	0	56,480	3,739
Depreciation for year	11,270	12,711	450	9,419	613	57	0	34,520	3,502
Depreciation written out to the Revaluation reserve	(11,270)	(7,270)	0	0	0	(173)	0	(18,713)	(1,498)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	(3,665)	0	0	0	0	0	(3,665)	0
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	0	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	0	0	0	0
Derecognition - Disposals	0	(723)	-	0	0	0	0	(723)	0
Derecognition - Other	0	(203)	0	0	0	0	0	(203)	0
Transfers/Reclassifications	0	(4)	0	0	0	4	0	0	0
Other movements in Depreciation and Impairment	0	0	0	0	0	0	0	0	0
Accumulated Depreciation and Impairment 31 March 2018	0	3,022	607	60,068	3,999	0	0	67,696	5,743
Net book value 31 March 2018	989,648	799,247	3,406	142,336	4,947	2,181	4,402	1,946,167	111,232

12. PROPERTY, PLANT AND EQUIPMENT

This note sets out the changes in gross and net book value of the above groups of assets during 2016/17.

2016/17	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total PPE £000	PFI Assets Included in PPE £000
Net Book Value at 1 April 2016	827,968	751,095	534	134,283	5,565	21,927	5,036	1,746,408	87,684
Gross Book Value at 1 April 2015	1,077,689	754,090	41,438	240,399	8,363	22,035	5,036	2,149,050	89,758
Additions	18,804	15,494	1,758	17,361	228	0	405	54,050	8,134
Revaluation increase/(decrease) recognised in the Revaluation Reserve	67,638	28,552	0	0	0	779	0	96,969	(1,046)
Revaluation increase/(decrease) recognised in the Surplus/Deficit on the Provision of Services	0	(17,700)	0	0	0	(744)	0	(18,444)	297
Derecognition - Disposals	(9,571)	0	0	0	0	0	0	(9,571)	0
Derecognition - Other	0	(52,374)	(40,846)	(65,394)	0	0	0	(158,614)	0
Assets reclassified (to)/from held for sale	0	(7,361)	0	0	0	(1,800)	0	(9,161)	0
Transfers/Reclassifications	0	(7,809)	0	0	0	(210)	(4,340)	(12,359)	0
Other Movements in cost or valuation	(247,503)	0	0	0	0	0	0	(247,503)	0
Gross book value 31 March 2017	907,057	712,892	2,350	192,366	8,591	20,060	1,101	1,844,417	97,143
Accumulated Depreciation and Impairment at 1 April 2015	249,721	2,995	40,904	106,116	2,798	108	0	402,642	2,074
Depreciation for year	18,399	14,063	99	9,927	588	83	0	43,159	3,191
Depreciation written out to the Revaluation reserve	(18,399)	(8,819)	0	0	0	(13)	0	(27,231)	(1,059)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	(5,268)	0	0	0	(61)	0	(5,329)	(467)
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	0	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	0	0	0	0
Derecognition - Disposals	(2,218)	0	0	0	0	0	0	(2,218)	0
Derecognition - Other	0	(800)	(40,846)	(65,394)	0	0	0	(107,040)	0
Transfers/Reclassifications	0	5	0	0	0	(5)	0	0	0
Other movements in Depreciation and Impairment	(247,503)	0	0	0	0	0	0	(247,503)	0
Accumulated Depreciation and Impairment 31 March 2017	0	2,176	157	50,649	3,386	112	0	56,480	3,739
Net book value 31 March 2017	907,057	710,716	2,193	141,717	5,205	19,948	1,101	1,787,937	93,404

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.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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. In 2016/17 the external valuers were Kier. Additionally, an internal annual review was undertaken to determine if there were any material changes to Property, Plant and Equipment as at 31 March 2018 for assets not revalued in 2017/18.

Using the valuation data from the rolling programme, as well as additional specific external revaluations obtained during 2017/18 the internal review identified there had been a material increase in the value of Land and Buildings. Consequently, the Council's Internal valuations team and Wilks Head & Eve carried out a desk top review of relevant asset categories, to calculate the revaluation changes needed to ensure assets remain stated at current value.

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 2018.

The valuations of Council dwellings were undertaken externally by Wilks Head & Eve as at 31 March 2018. In 2016/17 these valuations were carried out by Kier. 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 Ministry of Housing, Communities and Local Government.

FAIR VALUE HIERARCHIES

The council's investment properties and surplus assets not held for sale has been assessed as Level 2 for valuation purposes (see Note 1.5, Accounting Policies, for explanation of Fair Value levels)

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. In 2016/17 these valuations were carried out by Kier.

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.

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

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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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 hierachy of non-financial assets measured at fair value on a recurring basis at 31 March 2018. 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 2018 Total £000
Surplus Assets	0	2,181	0	2,181
Investment Properties	0	29,714	0	29,714
Assets held for Sale	0	16,329	0	16,329
Total non-financial assets held at Fair Value	**0**	**48,224**	**0**	**48,224**

CAPITAL COMMITMENTS

Capital schemes with significant contractual commitments for future capital expenditure in 2017/18:

Department	Capital Scheme	Estimated Total Cost 2017-18 £000	Estimated Total Cost 2016-17 £000
People	Primary Capital Programme	18,777	43,698
	Special Educational Needs Capital Programme	19,150	13,500
	Secondary Schools	0	6,533
	Acadamies Programme	1,360	0
Place	New Addington Regeneration	24,586	8,500
	Other Public Realm and infrastructure	21,793	22,200
	College Green	0	14,000
	Brick By Brick Croydon Limited - see note below	164,839	274,217
	Growth Zone Programme	4,000	0
	Affordable Housing LLP	30,090	0
	Waste Programme	9,766	0
Resources and Chief Executive	ICT equipment and technical refresh	14,955	4,126
	Asset Strategy Programme	4,150	
	Total Cost	**313,466**	**386,774**

Note: The Council has made a commitment to provide funding to Brick By Brick Croydon Limited to enable residential led development. This will not produce an asset in Croydon's single entity accounts, but will be shown within Croydon's group statements.

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 finanical 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 entitle to all the rental 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 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.

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

	2017/18 Total £000	2016/17 Total £000
Balance at start of the year	24,498	11,325
Net gains/losses from fair value adjustments	5,416	815
Transfers:		
to/from Property, Plant and Equipment	(200)	12,359
Other changes	0	0
Balance at end of the year	29,714	24,499

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:

	2017/18 Intangible Assets £000	2016/17 Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	18,499	25,998
Accumulated amortisation	(13,168)	(17,443)
Net carrying amount at start of year	5,331	8,555
Additions:		
Purchases	2,892	538
Amortisation for the period	(3,161)	(3,762)
Other changes - cost	(1,055)	(8,037)
Other changes - amortisation	1,055	8,037
Net carrying amount at end of year	5,062	(3,224)
Comprising:		
Gross carrying amounts	20,336	18,499
Accumulated amortisation	(15,274)	(13,168)
	5,062	5,331

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

16. FINANCIAL INSTRUMENTS

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown on the Balance Sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of 'financial instruments'.

FINANCIAL INSTRUMENTS BALANCES

	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Financial Liabilities	Non-Current		Current	
Borrowings				
Financial liabilities at amortised cost	801,060	722,061	105,514	163,503
Financial liabilities at fair value through profit and loss	0	0	0	0
Fair value through profit and loss	0	0	0	0
Other borrowing (finance lease and PFI)	78,716	80,687	1,690	1,691
Total borrowings	879,776	802,748	107,204	165,194
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amount (see Note 20)	0	0	116,881	90,081
Creditors that are not a financial instrument	0	0	17,580	23,335
Total Creditors	0	0	134,461	113,416
Financial liabilities at amortised cost - cash and cash equivalents	0	0	20,311	19,165

Financial Assets

Investments	Non-Current		Current	
Loans and debtors	0	0	5,000	95,000
Available-for-sale financial assets	0	0	0	0
Fair value through profit and loss	45,001	31,501	0	0
Unquoted equity available-for-sale	0	0	0	0
Total Investments	45,001	31,501	5,000	95,000
Loans and debtors	54,895	22,619		
Financial assets carried at contract amounts (including PFI)	0	0	161,809	165,909
Debtors that are not financial instruments	0	0	(21,145)	(47,511)
Total Debtors	54,895	22,619	140,664	118,398
Loans and debtors - cash and cash equivalents	0	0	29,000	9,745

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 increased to £80.406m in 2017/18 (£82.378m in 2016/17)

Financial Instruments - Gains / Losses	Financial Liabilities	Financial Assets			2017/18	2016/17
	Liabilities Measured at Amortised Cost £000	Loans and Debtors £000	Available -for-sale Assets £000	Fair Value Through P&L £000	Total £000	Total £000
Interest expense	37,376	0	0	0	37,376	40,049
Losses on derecognition	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	0
Interest payable and similar charges	37,376	0	0	0	37,376	40,049
Interest Income	0	(2,271)	0	0	(2,271)	(4,412)
Gains on derecognition	0	0	0	0	0	0
Interest and investment income	0	(2,271)	0	0	(2,271)	(4,412)

16. FINANCIAL INSTRUMENTS (continued)

FAIR VALUE OF ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

The fair value of each class financial assets and liabilities which are carried in the Balance Sheet at amortised cost 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, Capita 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 values are calculated as follows:

FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

		31 March 2018		31 March 2017	
	Fair Value Hierarchy	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB - maturity	level 2	677,926	831,099	614,926	771,122
Lender Option Borrower Options (LOBOs)	level 2	139,500	205,160	139,500	210,683
Stock issues	level 1	315	318	315	1,309
Bank overdraft	level 1	20,311	20,311	19,165	19,165
Other borrowings	level 2	84,320	83,229	130,823	127,382
Non-current creditors	-	0	0	0	0
Financial Liabilities		922,372	1,140,117	904,729	1,129,661

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.

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

		31 March 2018		31 March 2017	
	Fair Value Hierarchy	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Cash		0	0	0	0
Money Market Loans	level 1	29,000	29,000	9,745	9,745
Deposits with banks and other Local Authorities	level 1	5,000	5,000	95,000	95,331
Long-term debtors	level 2	46,696	46,696	-	-
Financial Assets		80,696	80,696	104,745	105,076

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.

16. FINANCIAL INSTRUMENTS (continued)

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.

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 2018.

	Level 1 £000	Level 2 £000	Level 3 £000	31 March 2018 Total £000
Financial Assets				
Investments and cash and cash equivalents	34,000	0	0	34,000
Long Term debtors	0	46,696	0	46,696
Total Financial Assets	**34,000**	**46,696**	**0**	**80,696**
Financial Liabilities				
PWLB Loans	0	831,099	0	831,099
LOBO Loans	0	205,160	0	205,160
Long term creditors	20,629	83,229	0	103,858
Total Financial Liabilities	**20,629.0**	**1,119,488.0**	**0**	**1,140,117**

There were no transfers between Level 1 and Level 2 in 2017/18.

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. The finance team reports directly into the Executive Director and Section 151 Officer and to the General Purposes and Audit Committee. 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, Capita 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. Capita 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.

17.Debtors, Payments In Advance (PIA) And Allowance For Doubtful Debt

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

	2017/18				2016/17
	Debtors	PIA	Allowance for Doubtful Debt	Total	
	£000	£000	£000	£000	£000
Central Government bodies	19,847	0	0	19,847	15,631
Other Local Authorities	23,958	(148)	0	23,810	30,517
NHS bodies	2,271	0	0	2,271	3,850
Public corporations and trading funds	0	0	0	0	0
Other entities and individuals	160,642	1,460	(67,366)	94,736	68,400
Total	206,718	1,312	(67,366)	140,664	118,398

18. CASH AND CASH EQUIVALENTS

	2017/18 £000	2016/17 £000
Cash held	145	69
Bank current accounts	(20,456)	(19,235)
Short-term deposits with building societies and Money Market Funds	29,000	9,745
Total	8,689	(9,421)

19. ASSETS HELD FOR SALE

	2017/18 £000	2016/17 £000
Balance at start of the year	16,261	11,519
Revaluation decrease recognised in the Surplus/Defict	(122)	0
Assets Sold	(6,847)	(4,419)
Transfers from / (to) Property, Plant and Equipment	7,037	9,161
Balance outstanding at year end	16,329	16,261

The site of Taberner House was revalued internally as part of the 2017-18 revaluations. Using Fair Value, it was revalued at £19.35m. However, under the CIPFA 2017-18 Code of Practice on Local Authority Accounting, Assets Held For Sale are held at the lower of their Carrying Value (£7.1m) or their Fair Value (£19.35m)

20. CREDITORS AND RECEIPTS IN ADVANCE (RIA)

	2017/18			2016/17
	Creditors	RIA	Total	
	£000	£000	£000	£000
Central Government bodies	10,729	108	10,837	12,442
Other Local Authorities	16,842	3,164	20,006	15,016
NHS bodies	2,010	0	2,010	1,412
Public corporations and trading funds	0	0	0	323
Other entities and individuals	87,300	14,308	101,608	84,223
Total	116,881	17,580	134,461	113,416

21. PROVISIONS

	Insurance £000	HRA Water £000	NNDR Appeals £000	Lease Premium Repayment £000	Other Provisions £000	Total £000
Balance at 1 April 2017	4,580	4,227	3,450	0	2,469	14,726
Amounts used in 2017/18	(1,242)	0	(1,765)	0	(787)	(3,794)
Additional provisions made in 2017/18	1,512	0	3,415	2,000	488	7,415
Provisions released in 2017/18	0	(1,197)	0	0	0	(1,197)
Balance at 31 March 2018	4,850	3,030	5,100	2,000	2,170	17,150

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 2017	5,004	9,722	14,726
Balance at 31 March 2018	**3,250**	**13,900**	**17,150**

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 30% 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 has been increased due to ongoing 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.

Repayment of Lease Premium
A potential liabiltiy has arisen due to the structuring of the lease premium payment to Croydon Affordable Homes. Repayment of annual rental income by CAH LLP is made via Croydon Council, who received a £2m premium for this arrangement. These funds are being held as a long term provision, though it is not considered likely that the council would need to draw on this provision.

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 Usesable Reserves, summarised below:

	2017/18 £000	2016/17 £000
General Fund	10,395	10,727
Housing Revenue Account	14,535	12,555
Earmarked reserves	16,153	33,426
Capital receipts reserve	55,422	45,999
Capital grants unapplied	14,305	10,828
Major repairs reserve	1,929	1,290
	112,739	114,825

22.1. General Fund

The General Fund Balance at 31 March 2018 is £10.395m (31 March 2017 was £10.727m)

22.2. Housing Revenue Account and Major Repairs Reserve

The Housing Revenue Account Balance at 31 March 2018 is £16.464m (31 March 2017 is £13.845m). This figure is made up of the surplus of £14.535m (31 March 2017: £ 12.555m) and the Major Repairs Reserve of £1.929m (31 March 2017: £1,290m). 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	2017/18 Total £000	2016/17 Total £000
Balance brought forward	7,365	38,634	45,999	31,778
Mortgage repayments	0	1	1	12
Net surplus for year	7,365	38,635	46,000	31,790
Receipts from sales of assets during the year	22,118	14,289	36,407	24,627
Cost of disposals	(2)	0	(2)	(16)
Transfer to Housing Capital Receipts Pool	(2,014)	0	(2,014)	(2,028)
Transfer between General Fund & HRA to offset transfer to Housing Capital Receipts Pool	2,014	(2,014)	0	0
Balance of receipts after transfer	22,116	12,275	34,391	22,583
Balance on account before application of receipts	29,481	50,910	80,391	54,373
Financing of capital expenditure	(18,459)	(6,510)	(24,969)	(8,374)
Balance carried forward	11,022	44,400	55,422	45,999

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

	2017/18 £000	2016/17 £000
Revaluation reserve	739,063	627,439
Capital adjustment account	260,492	258,732
Financial Instruments adjustment account	(1,347)	(1,531)
Pensions reserve	(616,039)	(594,252)
Deferred capital receipts	2,463	4
Collection Fund adjustment account	6,824	7,289
Short-term accumulating compensated absences account	(3,428)	(3,772)
	388,028	293,909

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;
- ► Used in the provision of services and the gains are consumed through depreciation; or
- ► Disposed of and the gains are realised.

23. UNUSABLE RESERVES (continued)

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.

	2017/18		2016/17
	£000	£000	£000
Balance at 1 April		627,439	530,668
Revaluations upward	200,124		137,775
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(47,195)		(13,574)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		152,929	124,201
The difference in depreciation arising from a revaluation gain and the depreciation charged on the historic cost	(5,273)		(7,035)
Accumulated gain or loss on assets sold or scrapped	(36,032)		(20,395)
Amount written off to the Capital Adjustment Account		(41,305)	(27,430)
Balance at 31 March		739,063	627,439

23.2. 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.

	2017/18		2016/17
	£000	£000	£000
Balance at 1 April		258,732	330,958
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)	(34,519)		(43,159)
Revaluation losses on Property, Plant and Equipment	(13,100)		(21,162)
Impairment/revaluation gains reversing losses previously charged to Comprehensive Expenditure and Income	58,555		8,046
Amortisation of intangible assets	(3,161)		(3,762)
Revenue expenditure funded from capital under statute	(72,547)		(90,817)
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	(69,581)		(63,347)
		(134,353)	(214,201)
Adjusting amounts written out of the Revaluation Reserve		41,305	27,430
Net written out amount of the cost of non-current assets consumed in the year		(93,048)	(186,771)
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	24,969		8,374
Use of the Major Repairs Reserve to finance new capital expenditure	11,004		17,626
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	23,902		73,585
Application of grants to capital financing from the Capital Grants Unapplied Account	6,383		58
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7,996		7,428
Capital expenditure charged against the General Fund and HRA balances	15,138		6,687
		89,392	113,758
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		5,416	815
Lessor Leases - Regulation 4 Mitigation		-	(28)
Balance at 31 March		260,492	258,732

23. UNUSABLE RESERVES (continued)

23.3. Financial Instruments Adjustment Account

This reserve allows for the differences in statutory requirements and proper accounting practices for borrowings and investments.

The Balance Sheet at 31 March 2018 shows a balance of £1.34m (£1.5m in 2016/17) representing the remaining premiums paid in respect of debt restructuring exercises carried out in 2003/04 and 2009/10. 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.

	2017/18		2016/17
	£000	£000	£000
Balance at 1 April		(1,531)	(1,716)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0		0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements		184	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			185
Balance at 31 March		(1,347)	(1,531)

23.4. 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 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.

	2017/18	2016/17
	£000	£000
Balance at 1 April	(594,252)	(493,412)
Actuarial gains or losses on pensions assets and liabilities	25,263	(123,743)
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	(47,050)	22,903
Balance at 31 March	(616,039)	(594,252)

23.5. 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.

	2017/18	2016/17
	£000	£000
Balance at 1 April	4	17
Transfer to the Capital Receipts Reserve upon receipt of cash	(1)	(13)
Additional Deferred Capital Receipts relating to disposal of garage sites	2,460	0
Balance at 31 March	2,463	4

23. UNUSABLE RESERVES (continued)

23.6. 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.

	2017/18 £000	2016/17 £000
Balance at 1 April	7,289	2,431
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	(465)	4,858
Balance at 31 March	6,824	7,289

23.7. 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.

	2017/18 £000	2017/18 £000	2016/17 £000
Balance at 1 April	(3,772)		(2,237)
Settlement or cancellation of accrual made at the end of the preceding year	3,772		2,237
Amount accrued at the end of the current year	(3,428)		(3,772)
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		344	(1,535)
Balance at 31 March		(3,428)	(3,772)

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 1 April 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 sucessful ballot of local businesses.

26. POOLED BUDGETS

The Council has entered into two agreements for pooled budgets under Section 75 of the National Health Service Act 2006. The section 75 agreement for the Community Occupational Therapy Service ceased on 31/03/2017 and was replaced by a standard NHS contract as part of One Croydon Alliance. All agreements have been documented, approved by Cabinet and tl Croydon Clinical Commissioning Group (CCG) and signed.

The two agreements, both of which commenced on 1 April 2004, are for:

► Croydon's integrated community equipment service (CCES), and
► Croydon's integrated community occupational therapy service (CCOTS).

The CCES agreement is hosted by the Council and CCOTS has now ceased.

	2017/18			2016/17		
	£000 Council	**£000 Partner**	**£000 Total**	**£000 Council**	**£000 Partner**	**£000 Total**
Croydon's Community Equipment Service						
Funding provided to the pooled budget	(1,019)	(981)	(2,000)	(969)	(978)	(1,947)
Expenditure met from the pooled budget	2,159	0	2,159	1,966	0	1,966
Net Expenditure	1,140	(981)	159	997	(978)	19
Croydon's Community Occupational Therapy Service						
Funding provided to the pooled budget				(264)	(1,515)	(1,779)
Expenditure met from the pooled budget				925	637	1,562
Net surplus/(deficit) arising on the Pooled budget during the year	0	0	0	661	(878)	(217)

26. POOLED BUDGETS (continued)

The most recent agreement is in relation to the Better Care Fund (BCF). 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.

	2017/18				2016/17		
	£000	£000	£000	£000	£000	£000	£000
	Council	Partner	Unallocated	Total	Council	Partner	Total
Better Care Fund							
Gross Income	(10,293)	(13,845)	(326)	(24,464)	(10,474)	(14,038)	(24,517)
Gross Expenditure	10,254	13,562	0	23,816	10,018	13,526	23,544
Net Expenditure	(39)	(283)	(326)	(648)	(457)	(512)	(974)

27. MEMBERS' ALLOWANCES

Total allowances paid to the Members of the Council was £1.475m in 2017/18 (£1.475m in 2016/17). The Council pays employer's national insurance on Members allowances, taking the total cost to £1.601m in 2017/18 (£1.607m in 2016/17)

28. OFFICERS' REMUNERATION

Out of more than 7,000 employees, the number whose remuneration, excluding pension contributions was £50,000 or more in bands of £5,000 was:

	2017/18		2016/17	
Remuneration Band	**Schools**	**Non-Schools**	**Schools**	**Non-Schools**
£195,000 - £199,999	0	1	0	0
£190,000 - £194,999	0	0	0	0
£185,000 - £189,999	0	0	0	0
£180,000 - £184,999	0	0	0	1
£175,000 - £179,999	0	0	0	0
£170,000 - £174,999	0	0	0	0
£165,000 - £169,999	0	1	0	0
£160,000 - £164,999	0	0	0	0
£155,000 - £159,999	0	0	0	1
£150,000 - £154,999	0	2	0	0
£145,000 - £149,999	0	0	0	1
£140,000 - £144,999	0	0	0	0
£135,000 - £139,999	0	1	0	0
£130,000 - £134,999	0	1	2	0
£125,000 - £129,999	1	2	1	2
£120,000 - £124,999	0	0	0	1
£115,000 - £119,999	1	2	0	2
£110,000 - £114,999	0	0	0	5
£105,000 - £109,999	3	8	2	3
£100,000 - £104,999	1	1	2	2
£95,000 - £99,999	0	3	1	3
£90,000 - £94,999	2	3	1	0
£85,000 - £89,999	1	2	1	8
£80,000 - £84,999	4	9	3	7
£75,000 - £79,999	7	12	4	12
£70,000 - £74,999	12	8	14	9
£65,000 - £69,999	19	28	14	20
£60,000 - £64,999	19	17	21	30
£55,000 - £59,999	38	35	37	19
£50,000 - £54,999	64	100	35	74

The table above includes the members of the Executive Leadership Team listed on the following page.

28. OFFICERS' REMUNERATION (continued)

Executive Leadership Team	Nathan Elvery Chief Executive	Jo Negrini Chief Executive	Jo Negrini Executive Director, Place	Shifa Mustafa Executive Director, Place	Richard Simpson Assistant Chief Executive, Corporate Resources and Section 151 Officer	Richard Simpson Executive Director of Resources and Section 151 officer	Barbara Peacock Executive Director, People	Jacqueline Harris-Baker** Director of Law and Monitoring Officer	Paul Greenhalgh Executive Director, People	Julian Ellerby* Director, Strategy and Partnerships
Start date		29/04/2016		15/11/2016		06/09/2016	25/07/2016	01/04/2017		24/04/2017
Leave Date	24/06/2016		28/04/2016		05/09/2016				31/07/2016	
	£	£	£	£	£	£	£	£	£	£
2017/18										
Basic Salary and allowances	0	185,000	0	153,000	0	153,085	168,088	104,168	0	108,828
Total Remuneration excluding Pension Contributions	**0**	**185,000**	**0**	**153,000**	**0**	**153,085**	**168,088**	**104,168**	**0**	**108,828**
Employer's Pension Contributions	0	27,935	0	21,178	0	23,103	25,368	15,729	0	16,433
Total Remuneration including Pension Contributions	**0**	**212,935**	**0**	**174,178**	**0**	**176,188**	**193,456**	**119,897**	**0**	**125,261**
2016/17										
Basic Salary and allowances	70,555	168,675	12,500	56,667	60,901	87,478	113,105		50,000	
Total Remuneration excluding Pension Contributions	**70,555**	**168,675**	**12,500**	**56,667**	**60,901**	**87,478**	**113,105**		**50,000**	
Employer's Pension Contributions	6,493	25,470	1,888	0	9,154.4	13,197	17,079		7,550	
Total Remuneration including Pension Contributions	**77,048**	**194,145**	**14,388**	**56,667**	**70,055**	**100,675**	**130,184**		**57,550**	

*Julian Ellerby became Director of Strategy and Partnerships on 24th April 2017 , which was a newly created role
** Jacqueline Harris-Baker in this post since 01st April 2017
Remuneration total is gross payable before individuals' contribution to the Pension Fund. This includes basic salary and any contracted additions where applicable.

Jo Negrini -Returning Officer	£	
Salary	12,951.59	
Pensions Employers Contribution	1,955.69	
	14,907.28	exc from above

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.

2017/18	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 £
£100,000 - £149,999	1	0	1	102,863	0	102,863
£80,000 - £99,999	0	1	1	0	80,777	80,777
£60,000 - £79,999	0	2	2	0	134,686	134,686
£40,000 - £59,999	2	2	4	100,014	108,966	208,980
£20,000 - £39,999	0	6	6	0	161,598	161,598
£0 - £19,999	10	13	23	97,733	148,286	246,020
Total	13	24	37	300,610	634,314	934,924

2016/17	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 £
£100,000 - £149,999	0	1	1	0	119,287	119,287
£80,000 - £99,999	1	2	3	90,000	184,907	274,907
£60,000 - £79,999	1	7	8	61,247	472,022	533,269
£40,000 - £59,999	0	4	4	0	193,125	193,125
£20,000 - £39,999	1	23	24	31,125	623,284	654,409
£0 - £19,999	8	65	73	96,162	546,477	642,639
Total	11	102	113	278,534	2,139,103	2,417,637

29. EXTERNAL AUDIT COSTS

	2017/18 £000	2016/17 £000
Fees payable to Mazar's for Teachers Pension's claim	2	2
Fees payables to Mazar's for Pooling of Housing Capital receipts	5	-
Fees payable for other services during the year	10	14
Fees payable with regard to external audit services for London Borough of Croydon	173	173
Fees payable in response to Public Objection to 2016-17 accounts	40	0
Fees payable for the certification of grant claims and returns for the year	25	26
Total External Audit Costs	255	215

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 2017/18 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total DSG 2017/18 £000
Final DSG for 2017/18 before academy recoupment			326,909
Academy figure recouped for 2017/18			(154,479)
Total DSG after academy recoupment for 2017/18			172,430
Plus: Brought forward from 2016/17			(336)
Less: Carry-forward to 2017/18 agreed in advance			0
Agreed initial budget distribution in 2017/18	2,189	169,905	172,094
In year adjustments			0
Final budget distribution for 2017/18	2,189	169,905	172,094
Less: actual central expenditure	(9,473)		(9,473)
Less: actual ISB deployed to schools		(163,584)	(163,584)
Carry-forward to 2018/19	(7,284)	6,321	(963)

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:

	2017/18 £000	2016/17 £000
Credited to Taxation and Non-Specific Grant Income		
Council Tax Income	160,200	147,997
Revenue Support Grant	32,577	46,801
National Non-Domestic Rates (NNDR)	65,952	70,346
Recognised Capital Grants and Contributions	14,731	17,150
Non-service Related Government Grants	17,257	22,523
	290,717	304,817
Taxation and Non-Specific Grants Credited to Services		
Home Office - contribution towards Unaccompanied Asylum Seeking Children costs	15,015	19,153
MHCLG - Growth Zone, Troubled Families, Care Act, Better Care Fund	14,058	1,736
Department for Education - Dedicated Schools Grant	172,430	173,921
Department of Health - Public Health Grant	21,912	22,466
Department for Work and Pensions - funding for welfare reform and reducing fraud and error	2,861	664
Home Office - Leaving Care support	2,545	2,450
Electoral Commission	0	640
Private Finance Initiative (PFI) - contribution from Central Government towards PFI costs	8,509	8,509
PE and Sport Grant	647	457
Education Funding Agency - Pupil Premium Grant	7,346	9,005
Skills Funding Agency - Adult Education	7,658	3,862
Department of Education -Staying Put Grant	531	515
Education Funding Agency - Universal Infant Free School Meals	2,929	2,637
Youth Justice Board - Youth Offending Services	649	673
Home Care Packages	-	1,058
Other Grants	1,365	1,934
Sub Total - Service Grants and Contributions	258,455	249,680
Total Grants Income	549,172	554,497

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:

	2017/18 £000	2016/17 £000
Capital Grants Receipts in Advance		
Department for Education - Basic Needs funding for School Places	0	5,844
Ministry of Housing, Communities & Local Governnment - Disabled Facilities Grant	1,050	201
Department for Transport - Local Pinch Point Funding to improve the highways network	1,800	1,800
Department for Education - Schools Condition Funding	4,941	3,260
Transport for London - Local Implementation Plan	13	1,229
Department of Health - Adult Social Care	769	769
Heritage Lottery Fund - Wandle Park	0	844
Department for Education - Universal Free School Meals	182	182
Department for Education - Childrens Centres and Early Years	132	132
Homes & Communities Agency - Council New Build Funding	429	540
Public Health - Food Flagship Programme	780	780
Section 106 allocated receipts in advance	1,613	2,818
Other grants and contributions	250	293
Total	11,959	18,692

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.

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and re-distribution of National Non-Domestic Rates, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits).

Greater London Authority: Formed in 2000, the Greater London Authority (GLA) is a unique form of strategic citywide Government for London. It is made up of a directly elected Mayor - the Mayor of London - and a separately elected Assembly - the London Assembly. The Mayor is London's spokesman and leads the preparation of statutory strategies on transport, spatial development, economic development and the environment.

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 Transaction 2016/17	2017/18 £'000	2016/17 £'000
Academy Schools Byron Oasis Academy John Ruskin College Quest Academy Oasis Academy Coulsdon Applegarth Academy Wolsey Academy Fairchildes Academy Pegasus Academy Trust	Cllr Jason Perry - Governor Cllr Helen Pollard - Governor Cllr Andy Stranack - Governor Cllr Christoper Wright - Governor Cllr Simon Hall - Partner is Govern Cllr Simon Hall - Partner is Govern Cllr Oliver Lewis - Governor Cllr David Wood - Member	Croydon Council is responsible for passing on various funding streams to Acadamies which are regulated by the Schools funding formula. The council also sells support services to various academies which include utilities and other services.	6,226	822
Brick By Brick Croydon Limited	Colm Lacey - Director Lisa Taylor - Director	Brick By Brick Croydon Limited is a private independent company with the council acting as sole shareholder. The Council has provided funding for residential-led development across a range of sites through a combination of debt and equity.	-	12,115
CACFO Education Centre	Cllr Callton Young - Chair of Trustees	Croydon Council is responsible for delegating a range of education funding in accordance with agreed funding formulas	167	131
Croydon Care Solutions Ltd	Lisa Taylor - Director Pratima Solanki - Director Sarah Ireland - Director Rachel Soni -Director	Croydon Care Solutions Ltd was wholly owned Local Authority Trading Company (LATC) which provides adult social care services. The payments shown include Council purchases relating to Daycare Opportunities and equipment services, as well as income received by Croydon Council on behalf of CSS for sales to other Local Authorities.	0	11,664

32. RELATED PARTY TRANSACTIONS CONTINUED

Organisation	Related Party	Related Party Transaction	2017/18 £'000	2016/17 £'000
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 councilling services	288	171
The Learning Tree Pre School	Cllr Carole Bonner Cllr Simon Hall - Partner is a trustee	Croydon Council is responsible for delegating various funding streams to the Early Years Providers, as determined by the relevant sections of the Schools	267	247
Octavo Partnership Limited	Emma Lindsell - Director	Transfer of education funding for the delivery of specific projects, as well as purchase of schools services and consultancy.	1,083	1,291
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	137	105
Stanley People's Initiative	Cllr Paul Scott - Trustee	Voluntary sector loan granted by Croydon Council to facilitate the refurbishment of the Stanley Halls arts venue	-	117
Whitgift Foundation	Cllr Dudley Mead	Croydon Council is responsible for delegating various funding streams to the Early Years Providers, as determined by the relvant sections of the School.	251	0
Project Centre Ltd (part of NSL group)	Lee Parker	Streetscape design company which helped create advertisements as well as concept designs for popular streets in Croydon such as Wellesley Road and George Street.	258	0
OnSide	David Butler-Trustee	Grant payment to Croydon OnSide Youth Zone for a project for a purpose built facility for 8-19 years olds and up to 25 for people with disabilities.	100	0

	2017/18 £000	2016/17 £000
Receipts		
Pension Contributions - from the Council (employer's contributions)	16,427	60,713
Pension Contributions - from employees (deductions paid over)	7,534	7,396
Total Receipts	23,961	68,109

The employer's deficit was paid in 2016/17.

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	2017/18 Total £000	2016/17 Total £000
EXPENDITURE:				
Property, Plant and Equipment	40,789	23,485	64,274	45,915
Property, Plant and Equipment - PFI	0	0	-	8,134
Revenue expenditure funded from capital under statute	48,675	9,369	58,044	90,817
Transformation Expenditure	14,503	0	14,503	0
Heritage Assets	84	0	84	0
Intangible assets	2,858	35	2,893	538
	106,909	32,889	139,798	145,404
FINANCED BY:				
Borrowing approvals	58,401	0	58,401	30,940
PFI assets delivered by contractor (repaid through unitary charge)	0	0	-	8,134
Capital receipts	18,459	6,510	24,969	8,374
Government grants and other contributions	30,049	236	30,285	73,643
Direct revenue contributions	0	15,138	15,138	6,687
Major Repairs Reserve	0	11,005	11,005	17,626
	106,909	32,889	139,798	145,404

EXPLANATION OF MOVEMENTS IN YEAR:	General Fund £000	Housing Revenue Account £000	2017/18 Total £000	2016/17 Total £000
Opening Capital Financing Requirement	583,228	322,497	905,725	880,713
Increase in underlying need to borrow (unsupported by Government financial assistance)	58,401	0	58,401	30,940
MRP / Loans fund principal	(7,996)	0	(7,996)	(7,428)
Property Fund Investment (unsupported by government financial assistance)	-	0	-	1,500
Closing Capital Financing Requirement	633,633	322,497	956,130	905,725

34. LEASES

A review of accounting disclosures has been undertaken to simplify the accounts and make them more understandable. During the review it was decided that the disclosure of both operating leases and finance leases where the Council is the lessee and lessor would be discontinued. The amounts were not considered to be material to a proper understanding of the accounts together with any narrative of immaterial transactions.

A review will be carried out each year to ensure that the position remains accurate.

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 Limited during 2011/12. The facilities, including management of all soft facilities are fully maintained by Caring 4 Croydon Limited, a subsidiary of Care UK Limited . In 2016-17 the payment to Caring 4 Crc Caring 4 Croydon Limited was 5.2m comprising 2.56m Annual Unitary Payment (AUP) and 1.3m lease payments; PFI credits of £2.868m were received. The annual payment to Caring 4 Croydon Limited 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 £53m over the remaining 18 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 2017/18 the Annual Unitary Payment to Skanska-Laing was £10.3m; 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**	**2017/18 Total £000**	**2016/17 Total £000**
Net book value as at 31 March 2017	21,658	23,660	48,087	93,405	87,684
Gross book value as at 31 March 2017	21,658	23,660	51,826	97,144	89,758
Additions	0	0	-	0	8,134
Revaluation	9,666	10,166	0	19,832	(749)
Gross book value as at 31 March 2018	31,324	33,826	51,826	116,976	97,143
Deprecation written out after revaluation	713	784	-	1,497	(2,074)
Depreciation as at 1 April 2017	-		(3,739)	(3,739)	(3,191)
Depreciation for year	(713)	(784)	(2,004)	(3,501)	1,527
Net book value as at 31 March 2018	31,324	33,826	46,083	111,233	93,404

Value of Liabilities	**Ashburton Learning Village**	**Adult Homes For The Future**	**Street Lighting**	**2017/18 Total £000**	**2016/17 Total £000**
Creditors as at 31 March 2017	(14,887)	(21,127)	(46,167)	(82,181)	(75,615)
"Drawdown" at start of operational period	0	-	-	0	(8,134)
Capital repayment	481	512	979	1,972	1,568
Lump sum contribution	0	0	0	0	0
Creditors as at 31 March 2018	(14,406)	(20,615)	(45,188)	(80,209)	(82,181)

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS (continued)

Repayment of Liabilities	Ashburton Learning Village £000	Adult Homes For The Future £000	Street Lighting £000	2017/18 Total £000	2016/17 Total £000
Within one year	506	543	1,066	2,115	1,972
Within two to five years	2,311	2,520	5,301	10,132	9,438
Within six to ten years	3,655	4,104	9,748	17,507	16,293
Within 11 to 15 years	4,742	5,498	14,924	25,164	23,393
Within 16 to 20 years	3,192	7,366	14,149	24,707	28,851
Within 21 to 25 years	-	584		584	2,233
Within 26 to 30 years					
Total	14,406	20,615	45,188	80,209	82,180

Interest Payments	Ashburton Learning Village £000	Adult Homes For The Future £000	Street Lighting £000	2017/18 Total £000	2016/17 Total £000
Within 1 year	770	1,242	4,018	6,030	6,173
Within 2 to 5 years	2,795	4,619	15,037	22,451	23,144
Within 6 to 10 years	2,727	4,820	15,674	23,221	24,436
Within 11 to 15 years	1,640	3,426	10,498	15,564	17,335
Within 16 to 20 years	319	1,558	2,771	4,648	6,865
Within 21 to 25 years	-	12	0	12	146
Within 26 to 30 years					
Total	8,251	15,677	47,998	71,926	78,099

Service Charge Payments	Ashburton Learning Village £000	Adult Homes For The Future £000	Street Lighting £000	2017/18 Total £000	2016/17 Total £000
Within 1 year	896	1,783	1,484	4,163	4,027
Within 2 to 5 years	3,920	7,694	6,477	18,091	17,509
Within 6 to 10 years	5,720	10,989	9,468	26,177	25,346
Within 11 to 15 years	6,742	12,699	11,261	30,702	29,745
Within 16 to 20 years	4,197	14,634	8,754	27,585	31,026
Within 21 to 25 years	-	1,060	0	1,060	4,154
Within 26 to 30 years					
Total	21,475	48,859	37,444	107,778	111,807

Lifecycle Payments	Ashburton Learning Village £000	Adult Homes For The Future £000	Street Lighting £000	2017/18 Total £000	2016/17 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	2,026	0	4,080	4,080
Within 11 to 15 years	2,054	2,026	0	4,080	4,080
Within 16 to 20 years	1,130	2,026	0	3,156	3,567
Within 21 to 25 years	-	135	0	135	540
Within 26 to 30 years					
Total	7,292	8,239	0	15,531	16,347

Contingent Rent	Ashburton Learning Village £000	Adult Homes For The Future £000	Street Lighting £000	2017/18 Total £000	2016/17 Total £000
Within 1 year	0	0	90	90	81
Within 2 to 5 years	0	0	421	421	399
Within 6 to 10 years	0	0	557	557	563
Within 11 to 15 years	0	0	388	388	441
Within 16 to 20 years	0	0	(13)	(13)	39
Within 21 to 25 years	0	0	-	0	0
Within 26 to 30 years	0	0	0	0	0
Total	0	0	1,443	1,443	1,523

36. IMPAIRMENT LOSSES

There were no impairments to assets in 2017/18 (£nil in 2016/17).

37. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The following items have been identified in accordance with accounting policy 1.14:

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.

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 2017/18 which incorporates the prudential indicators was approved by Council on 27 February 2017 and is available on the Council's website. The key issues within the strategy were:

1. The Authorised Borrowing Limit for 2017/18 was set at £1,234.442m. This is the maximum limit of external borrowings or other long term liabilities.
2. The Operational Boundary was set at £1,192.24m. This is the expected level of debt and other long term liabilities during the year.
3. The maximum amounts of fixed and variable interest rate exposure were set at £1,192.24m and £40m based on the Council's net debt.

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 restrict lending to a prudent

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 2018 £000	Historical Experience of Default %	Estimated Maximum Exposure to Default £000
Deposits with banks and other financial institutions	34,000	0	0
		0	0
Bonds and other securities	0	0	0
		0	0
Customers	0	0	0
		0	**0**
Total	34,000		

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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 15% 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 £34m has been invested in the banking sector and with other local authorities, and £101m 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 2018 £000	At 31 March 2017 £000
Loans outstanding:		
PWLB	677,926	614,926
Market debt / LOBOs	203,134	213,135
Temporary borrowing	21,000	53,000
Local bonds	0	0
Deferred purchases	80,406	82,378
Other	4,514	4,503
Total	986,980	967,942
Less than 1 year	103,115	165,475
Between 1 and 2 years	27,026	12,888
Between 2 and 5 years	35,106	37,550
Between 5 and 10 years	61,081	61,867
More than 10 years	760,652	690,162
Total	986,980	967,942

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 the disclosure note for 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 the disclosure note for 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.

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher, the financial effect would be:

	At 31 March 2018 £000	At 31 March 2017 £000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	0	0
Increase in Government grant receivable for financing costs	0	0
Impact on Comprehensive Income and Expenditure Statement	0	0
Decrease in fair value of fixed rate borrowing liabilities	(178,209)	(164,958)
Impact on CI&E Statement or Movement in Reserves Statement	(178,209)	(164,958)

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 (£0.956m)
- ► The Frank Denning Memorial Charity, which provides travelling scholarships (£0.342m).

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 2017/18, 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 2017/18 continues to be material, and group accounts have been prepared with Brick By Brick Croydon Limited. During the course of 2017/18, Brick By Brick restated their 2016 accounts. The group accounts section therefore includes re-stated 2016/17 position for the group.

Croydon Council holds 1% voting rights of the Croydon Affordable Homes Charity, which wholly controls Croydon Affordable Homes LLP. However, as changes to the charity's articles require unanamous agrement amongst trustees, it has been judged that the Council has joint economic control of the charity, and joint control of the wholly controlled subsidary Croydon Affordable Homes LLP. Croydon Affordable Homes LLP has not yet completed a full year of activity, and the activity to 31 March 2018 has been considered to be non material. Accordingly, Croydon Affordable Homes LLP has not been included within the Group Accounts section of these statements.

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 2017/18 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.

41. DATE OF ACCOUNTS BEING AUTHORISED FOR ISSUE AND BY WHOM

This Statement of Accounts was issued on 31 May 2018 by Richard Simpson, Executive Director of Resources and Section 151 officer

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 2017/18, the Council paid £ 7.801m (2016/17: £8.532m) to Capita Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% (2016/17: 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 2.5% (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.

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.

42. PENSIONS - IAS19 AND ACCOUNTING CODE OF PRACTICE DISCLOSURE NOTES (continued)

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 2016. This identified a funding level of 73%which equates to a deficit of £326m.
The actuary set contribution rates for each employer, after consideration of their relative risk profiles and with the objective of th Fund achieving full funding over a 22 year period.

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 2018**	**31 March 2017**
Financial assumptions		
Rate of increase in salaries *	2.90%	2.90%
Rate of increase of pensions	2.40%	2.40%
Discount rate	2.60%	2.50%
Split of assets between investment categories		
Equities	53.00%	53.00%
Debt Securities	0.00%	0.00%
Private Equity	8.00%	8.00%
Real Estate	10.00%	10.00%
Investment Funds and Unit Trusts	28.00%	27.00%
Cash / Liquidity	1.00%	1.00%
Life expectancy		
of a male (female) future pensioner aged 65 in 20 years time	24.0 (26.2) years	24.0 (26.2) years
of a male (female) current pensioner aged 65	22.3 (24.4) 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 maximun tax-free cash for post-April 2008 service
Market value of total funds (£ millions)	1111 as at 31 Mar 2018

* Salary increases are assumed to be 1% until 31 March 2018 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 2018			31 March 2017		
	Assets £000	Obligations £000	Net (Liability) /Asset £000	Assets £000	Obligations £000	Net (Liability) /Asset £000
Fair value of employer assets	950,489	0	950,489	734,070	0	734,070
Present value of funded liabilities	0	1,525,973	(1,525,973)	0	1,217,902	(1,217,902)
Present value of unfunded liabilities	0	18,768	(18,768)	0	9,580	(9,580)
Opening Position as at 31 March 2017 and 31 March 2016	**950,489**	**1,544,741**	**(594,252)**	**734,070**	**1,227,482**	**(493,412)**
Service cost:						
Current service cost *		53,691	(53,691)	0	31,568	(31,568)
Past service cost (including curtailments)		117	(117)	0	890	(890)
Effect of settlements	(427)	(2,492)	2,065	(255)	(6,213)	5,958
Total Service Cost	**(427)**	**51,316**	**(51,743)**	**(255)**	**26,245**	**(26,500)**
Net interest:						
Interest income on plan assets	23,535		23,535	25,404	0	25,404
Interest cost on defined benefit obligation		38,763	(38,763)	0	41,496	(41,496)
Impact of asset ceiling on net interest						
Total Net Interest	**23,535**	**38,763**	**(15,228)**	**25,404**	**41,496**	**(16,092)**
Total Defined Benefit Cost Recognised in Profit or (Loss)	**23,108**	**90,079**	**(66,971)**	**25,149**	**67,741**	**(42,592)**
Cashflows:						
Plan participants' contributions	8,256	8,256	0	8,190	8,190	0
Employer contributions	18,667		18,667	64,312	0	64,312
Contributions in respect of unfunded benefits	1,254		1,254	1,183	0	1,183
Benefits paid	(43,296)	(43,296)	0	(44,800)	(44,800)	0
Unfunded benefits paid	(1,254)	(1,254)	0	(1,183)	(1,183)	0
Expected Closing Position	**957,224**	**1,598,526**	**(641,302)**	**786,921**	**1,257,430**	**(470,509)**
Remeasurements:						
Changes in demographic assumptions		0	0	0	(12,961)	12,961
Changes in financial assumptions		(28,096)	28,096	0	270,300	(270,300)
Other experience		1,946	(1,946)	0	29,972	(29,972)
Return on assets excluding amounts	(887)		(887)	163,568	0	163,568
included in net interest			0	0	0	0
Changes in asset ceiling			0	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(887)**	**(26,150)**	**25,263**	**163,568**	**287,311**	**(123,743)**
Exchange differences	0	0	0	0	0	0
Effect of business combinations and disposals	0	0	0	0	0	0
Fair value of employer assets	956,337		956,337	950,489	0	950,489
Present value of funded liabilities		1,552,554	(1,552,554)	0	1,525,973	(1,525,973)
Present value of unfunded liabilities **		19,822	(19,822)	0	18,768	(18,768)
Closing Position	**956,337**	**1,572,376**	**(616,039)**	**950,489**	**1,544,741**	**(594,252)**

* The service cost figures include an allowance for administration expenses of 1.1% of payroll.

** (31 March 2018) This liability comprises of approximately £17,972,000 in respect of LGPS unfunded pensions and £1850,000 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 March 2018, 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 an decrease in the funding level; the net liability has increased from £594 million to £616 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 2018				Period Ended 31 March 2017			
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	60,801		60,801	6.4	60,429		60,429	6.36
Manufacturing	55,347		55,347	5.8	55,008		55,008	5.79
Energy and Utilities	37,446		37,446	3.9	37,217		37,217	3.92
Financial Institutions	115,393		115,393	12.1	114,687		114,687	12.07
Health and Care	83,918		83,918	8.8	83,404		83,404	8.77
Information Technology	97,608		97,608	10.2	97,011		97,011	10.21
Other	61,401		61,401	6.4	61,025		61,025	6.42
Debt Securities:								
Other								
Private Equity:								
All		77,379	77,379	8.1		76,905	76,905	8.09
Real Estate:								
UK Property	69,624	23,964	93,588	9.8	69,198	23,817	93,015	9.79
Overseas Property								
Investment Funds and Unit Trusts:								
Equities	23,730		23,731	2.5	23,585		23,585	2.48
Bonds		176,875	176,875	18.5		175,793	175,793	18.50
Hedge Funds								
Commodities								
Infrastructure		65,244	65,244	6.8		64,845	64,845	6.82
Other								
Derivatives	124		124		124		124	
Equivalents:								
All	7,482		7,482	0.8	7,435		7,435	.78
Totals	**612,873**	**343,462**	**956,336**	**100**	**609,123**	**341,360**	**950,483**	**100**

42. PENSIONS - IAS19 AND ACCOUNTING CODE OF PRACTICE DISCLOSURE NOTES (continued)

Key Financial Data Relating to the Current and Four Previous Periods

	31 March 2018 £000	31 March 2017 £000	31 March 2016 £000	31 March 2015 £000	31 March 2014 £000
Present value of benefit obligations	(1,572,376)	(1,544,741)	(1,227,482)	(1,272,735)	(1,140,775)
Fair value of Fund assets	956,337	950,489	734,070	716,110	628,335
Surplus / (Deficit) of the Fund	(616,039)	(594,252)	(493,412)	(556,625)	(512,440)
Experience adjustments on Fund liabilities	26,150	(287,311)	(80,412)	100,357	(87,322)
Expressed as a percentage	(1.66%)	18.60%	6.55%	(7.89%)	7.65%
Experience adjustments on Fund assets	887	(163,568)	(1,315)	69,873	(50,187)
Expressed as a percentage	0.09%	(17.21%)	(0.18%)	9.76%	(7.99%)

HOUSING REVENUE ACCOUNT - COMPREHENSIVE 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.	2017/18 £000	2016/17 £000
Income			
Dwelling rents		(76,868)	(78,196)
Non-dwelling rents		(1,277)	(1,535)
Charges for services and facilities		(14,140)	(13,943)
Contributions towards expenditure		(13)	(18)
Capital grants and contributions receivable		0	0
Total Income		(92,298)	(93,692)
Expenditure			
Repairs and maintenance		11,581	12,278
Supervision and management		36,878	37,163
Rents, rates, taxes and other charges		4,413	3,528
Allowance for debtors		797	168
Depreciation of non-current assets	2.1 & 3	11,643	18,771
Amortisation of intangible assets		36	46
Revenue expenditure funded from capital under statute	3 & 4	9,369	5,507
Total Expenditure		74,717	77,461
Net cost of HRA services as included in the whole-Authority Comprehensive Income and Expenditure Statement		(17,581)	(16,231)
HRA services share of Corporate and Democratic Core		489	489
HRA share of Pensions Reserve contributions not allocated to specific services	5	(168)	(478)
Net cost of HRA services		(17,260)	(16,220)
Gain or loss on sale of HRA non-current assets		(8,230)	(11,519)
Gain or loss on revaluation of non-current assets		0	16
Housing pooled capital receipt			
Interest payable and similar charges		12,187	12,236
Interest and investment income		(1)	(2)
Pensions interest costs and expected return on pensions assets		1,314	1,519
Capital Grants & Contributions Receivable		(236)	0
(Surplus)/ deficit for the year on HRA services		(12,226)	(13,970)

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.	2017/18 £000	2016/17 £000
HRA surplus balance brought forward		(12,555)	(11,818)
(Surplus)/deficit for the year on the HRA Comprehensive Income and Expenditure Statement		(12,226)	(13,970)
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	0	(1,639)
Amortisation of intangible assets		(36)	(46)
Gain or loss on revaluation of non-current assets		0	(16)
Gain or loss on sale of HRA non-current assets		8,230	11,519
Capital Grants & Contributions Receivable		236	0
Revenue expenditure funded from capital under statute	3 & 4	(9,369)	(5,507)
Net charges made for retirement benefits in accordance with IAS19		(4,059)	2,162
		(4,998)	6,473
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	98
Capital expenditure funded by the Housing Revenue Account	3	15,138	6,687
Housing pooled capital receipt			-
		15,236	6,785
Contributions to/from reserves			
Short-Term Accumulating Compensated Absences (STACA)		8	(25)
Transfer to/from HRA Balances			0
		8	(25)
Net additional amounts		10,246	13,233
(Increase)/decrease in HRA balance for the year		(1,980)	(737)
HRA balance carried forward		(14,535)	(12,555)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. NUMBER AND TYPE OF DWELLINGS IN THE HOUSING STOCK

Types of Property	2017/18	2016/17
Houses	**5,238**	5,273
Flats	8,320	8,373
Relocatable Homes	14	14
Total Dwellings	13,572	13,660

2.1. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY ASSETS CATEGORY VALUES

2017/18	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 2017	907,057	11,471	753	7,361	926,642
Gross book value as at 1 April 2017	907,057	11,517	770	7,361	926,705
Additions	23,485	0	0	0	23,485
Revaluation increase/(decrease) recognised in the Revaluation Reserve	65,165	3,879	(163)	0	68,881
Revaluation increase/(decrease) recognised in Income and Expenditure	0	0	(184)	(50)	(234)
Derecognition - Disposals	(6,058)	0	0	(5,047)	(11,105)
Transfers/Reclassifications	0	(860)	275	585	-
Other movements in cost or valuation	0	0	0	0	-
Gross book value as at 31 March 2018	989,649	14,536	698	2,849	1,007,732
Accumulated Depreciation and Impairment					
At 1 April 2017	0	44	17	0	61
Depreciation for year	11,270	356	17	0	11,643
Depreciation written out to the Revaluation Reserve	(11,270)	(325)	(55)	0	(11,650)
Depreciation written out to Income and Expenditure	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	-
Transfers/Reclassifications		(21)	21		-
Other movements in depreciation and impairment	0	0	0	0	0
Accumulated Depreciation and Impairment at 31 March 2018	0	54	0	0	54
Net book value as at 31 March 2018	989,649	14,482	698	2,849	1,007,678

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 2018	31 March 2017
Total Dwellings	13,572	13,660
Leaseholds	2,409	2,350
Garages	2,647	2,705
Parking Spaces	99	99
	18,727	18,814
	£M	**£M**
Vacant possession value of dwellings at 31 March 2018	£3,957	
Vacant possession value of dwellings at 31 March 2017	£3,626	£3,626
Vacant possession value of dwellings at 31 March 2016		£3,310

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 £3,626m x 25% = £907m as at 31 March 2018

The valuation of council dwellings as at 31 March 2018 was undertaken by Wilks Head & Eve. This led to an increase in the vacant possession value of £331m to £3,957m.The EUV-SH value was £3,957m x 25% = £990m as at 31 March 2018.

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.

3. CAPITAL EXPENDITURE

	2017/18 £000	2016/17 £000
Expenditure		
Non-current assets (buildings)	23,485	18,803
Revenue expenditure funded from capital under statute	9,369	5,507
Intangible assets	35	3
	32,889	24,313
Financed By		
Borrowing approvals	0	-
Capital receipts	6,510	-
Government grants and other contributions	236	-
Direct revenue contributions	15,138	6,687
Major Repairs Reserve	11,005	17,626
	32,889	24,313

Capital Receipts

	2017/18 £000	2016/17 £000
Balance brought forward	38,634	21,778
Mortgage repayments	1	12
Other capital receipts	0	0
Net surplus for year	1	12
Receipts from sales of assets during the year	14,289	18,872
Transfer to Housing Capital Receipts Pool (via General Fund)	(2,014)	(2,028)
Balance of receipts after transfer	12,275	16,844
Balance on account before application of receipts	50,910	38,634
Financing of capital expenditure	(6,510)	0
Balance carried forward	44,400	38,634

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

	2017/18 £000	2016/17 £000
Opening balance as at 1 April	1,290	1,786
Depreciation charge to HRA	11,644	18,771
Capital expenditure during the year	(11,005)	(17,626)
Other reserve adjustments	-	(1,641)
Closing balance as at 31 March	1,929	1,290

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 DOUBTFUL DEBT

	2017/18		2016/17	
	Debtors	Allowance for Doubtful Debt	Debtors	Allowance for Doubtful Debt
	£000	£000	£000	£000
Housing Revenue Account rents	9,497	(5,498)	7,856	(4,469)
Housing Revenue Account lease holder service charges/major works	4,139	0	4,896	(332)
Housing Revenue Account other debtors	20	0	21	0
	13,656	(5,498)	12,773	(4,801)

COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

	Note No.	2017/18 Business Rates £000	2017/18 Council Tax £000	2017/18 Total £000	2016/17 Total £000
INCOME DUE					
Council Tax-payers			197,607	197,607	185,855
Business Rates		111,578		111,578	111,798
Transition grant from MHCLG		6,774		6,774	-
Crossrail Business Rate Supplement		3,396		3,396	3,590
Total Income		121,748	197,607	319,355	301,243
EXPENDITURE					
Charges to the Collection Fund:					
- Changes in Provision for Bad and Doubtful Debts		(3,884)	2,043	(1,841)	3,308
- Write-offs of Bad Debt		5,136	288	5,424	3,705
- Changes in Provision for Appeals		5,500	0	5,500	(15,000)
- Cost of Collection		430	0	430	427
- Cost of Collection - Crossrail		8	0	8	9
		7,190	2,331	9,521	(7,551)
Total Income less Charges		114,558	195,276	309,834	308,794
Precepts, Demands and Shares:	3				
- London Borough of Croydon		35,306	155,059	190,365	176,222
- Greater London Authority (GLA)		43,544	33,950	77,494	54,332
- Housing, Communities and Local Government (CLG)		38,836	0	38,836	54,553
- Housing, Communities and Local Government (Crossrail)		3,388	0	3,388	3,581
(Surplus)/Deficit for year		6,516	(6,267)	249	(20,106)
Distribution of Previous Year's Collection Fund Surplus:					
- London Borough of Croydon		(2,177)	5,829	3,652	4,033
- Greater London Authority (GLA)		(1,452)	1,321	(131)	(1,152)
- Housing, Communities and Local Government (CLG)		(3,630)	0	(3,630)	(8,708)
Total Distribution of Previous Year's Collection Fund Surplus		(7,259)	7,150	(109)	(5,827)
Movement of Collection Fund in the Year		(743)	883	140	(25,933)
Balance brought forward (surplus)/deficit		(5,141)	(7,049)	(12,190)	13,743
Balance carried forward (surplus)/deficit		(5,884)	(6,166)	(12,050)	(12,190)
Allocation of surplus					
Surplus declared in the January Delegation report to be distributed in the following year:					
- London Borough of Croydon		(3,927)	(4,841)	(8,768)	(3,651)
- GLA		(4,843)	(1,060)	(5,903)	131
- CLG		(4,319)	0	(4,319)	3,630
Fund balance and deficit carried forward:					
- London Borough of Croydon		2,162	(217)	1,945	(3,640)
- GLA		2,666	(48)	2,618	(2,460)
- CLG		2,378	0	2,378	(6,200)
		(5,884)	(6,166)	(12,050)	(12,190)

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) 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 as follows:

- ► Central Government - 33%
- ► London Borough of Croydon - 30%
- ► Greater London Authority - 37%

The total Non Domestic Rateable Value as at 31 March 2018 was £325,243,283 (£281,269,558 at 31 March 2017). The multiplier for 2017/18 was set at 47.9p (49.7 for 2016/17) and the multiplier for small businesses was set at 46.6p (48.4p for 2016/17).

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, £1,558.93 for 2017/18 (£1,494.13 for 2016/17) is multiplied by the proportion specified for the particular band to give an individual amount due.

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 2017/18

Valuation Band	Number of Chargeable Dwellings	Band D Proportion	Band D Equivalent Dwellings	Council Tax £.pp	Council Tax Income £000
Band A	2,123	6/9	1,415	1,039.29	2,206
Band B	13,410	7/9	10,430	1,212.49	16,259
Band C	34,875	8/9	31,000	1,385.72	48,327
Band D	30,743	9/9	30,743	1,558.93	47,926
Band E	19,191	11/9	23,456	1,905.37	36,566
Band F	10,558	13/9	15,250	2,251.78	23,774
Band G	6,930	15/9	11,550	2,598.22	18,006
Band H	573	18/9	1,146	3,117.86	1,787
Total			124,990		194,851
Multiplied by estimated collection rate			97%		
Number of Band D equivalent dwellings			121,240		
Total of Demands/Precepts for year			189,009		
Adjustments during the year (including prior years)					2,756
Final collectable amount					197,607
Income per Collection Fund:					
Council Tax collectable					0
Council Tax benefits					0
Final collectable amount					197,607

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 and Old Oak & Park Royal 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.

	2017/18 £.pp	2016/17 £.pp
Band D equivalent Council Tax charge	1,558.93	1,494.13
Split thereof:		
Croydon	1,278.91	1,218.13
Greater London Authority	280.02	276.00
Total	1,558.93	1,494.13
Payment to Croydon:-		
Share of Band D equivalent Council Tax charge	1,278.91	1,218.13
Number of Band D equivalent dwellings	121,243	117,795
Total	155,058,885.13	143,489,623.35
Rounded to £000's	155,059	143,490
Payment to the Greater London Authority:-		
Share of Band D equivalent Council Tax charge	280.02	276.00
Number of Band D equivalent dwellings	121,243	117,795
Total	33,950,464.86	32,511,420.00
Rounded to £000's	33,950	32,511

GROUP MOVEMENT IN RESERVES STATEMENT

2017/18	General Fund Balance £000	HRA Balance £000	Earmarked GF Reserves 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 2017	**10,482**	**12,555**	**33,426**	**45,999**	**10,828**	**1,290**	**114,580**	**293,909**	**408,489**
Movement in reserves during 2017/18:									
Surplus or (deficit) on provision of services	(98,517)	12,227	0	0	0	0	(86,290)		(86,290)
Other Comprehensive Expenditure and Income	(136)	0	0	0	0	0	(136)	178,193	178,057
Total Comprehensive Expenditure and Income	(98,653)	12,227	0	0	0	0	(86,426)	178,193	91,767
Adjustments between accounting basis and funding basis under regulations	80,779	(10,247)	0	9,424	3,479	638	84,073	(84,074)	(1)
Net increase/Decrease before Transfers to Earmarked Reserves	(17,874)	1,980	0	9,424	3,479	638	(2,353)	94,119	91,766
Transfers to/(from) Earmarked Reserves	17,273	0	(17,273)	0	0	0	0	0	0
Net increase/(decrease) in reserves for the year	(601)	1,980	(17,273)	9,424	3,479	638	(2,353)	94,119	91,766
Balance c/f at 31 March 2018	9,881	14,535	16,153	55,423	14,307	1,928	112,227	388,028	500,255

98,653 (12,227) 86,426

2016/17 RESTATED	General Fund Balance £000	HRA Balance £000	Earmarked GF Reserves 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 2016	**10,677**	**11,817**	**47,520**	**31,777**	**8,377**	**1,785**	**111,953**	**366,707**	**478,660**
Movement in reserves during 2016/17:									
Surplus or (deficit) on provision of services	(84,522)	13,971	0	0	0	0	(70,551)	0	(70,551)
Other Comprehensive Expenditure and Income	(78)	0	0	0	0	0	(78)	458	380
Total Comprehensive Expenditure and Income	(84,600)	13,971	0	0	0	0	(70,629)	458	(70,171)
Adjustments between accounting basis and funding basis under regulations	70,313	(13,233)	0	14,222	2,451	(495)	73,258	(73,258)	0
Net increase/Decrease before Transfers to Earmarked Reserves	(14,287)	738	0	14,222	2,451	(495)	2,629	(72,800)	(70,171)
Transfers to/(from) Earmarked Reserves	14,094	0	(14,094)	0	0	0	0	0	0
Net increase/(decrease) in reserves for the year	(193)	738	(14,094)	14,222	2,451	(495)	2,629	(72,800)	(70,171)
Balance c/f at 31 March 2017	10,484	12,555	33,426	45,999	10,828	1,290	114,582	293,907	408,489

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.	2017/18 Gross £000	2017/18 Income £000	2017/18 Net £000	RESTATED 2016/17 Net £000
Gross expenditure, income and net expenditure of continuing operations					
Place		127,026	(68,548)	58,478	44,201
People		597,618	(346,618)	251,000	193,964
Resources and Chief Executive		374,354	(321,857)	52,497	50,921
HRA		75,136	(92,396)	(17,260)	(16,219)
Exceptional Items					0
Net cost of services		1,174,134	(829,419)	344,715	272,867
Other operating expenditure	9			(11,267)	55,377
Financing and Investment Income and Expenditure	10			46,705	48,396
Taxation and Non-Specific Grant Income	11			(291,069)	(304,818)
(Surplus) or Deficit on Provision of Services				89,084	71,822
(Surplus) or deficit on revaluation of non-current assets				(152,929)	(124,201)
Remeasurement of the net defined benefit liability				(25,263)	123,743
Other Comprehensive Income and Expenditure				(178,192)	(458)
Total Comprehensive Income and Expenditure				(89,108)	71,364

- 86,426

2,658

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/ Page No.	31-Mar-18 £000	£000	RESTATED 31 March 2017 £000
Operational Assets (Property, Plant and Equipment)	12			
Council dwellings		989,648		907,057
Other land and buildings		799,739		710,716
Vehicles, plant, furniture and equipment		3,406		2,193
Infrastructure		142,336		141,717
Community assets		4,947		5,205
Total Operational Assets (Property, Plant and Equipment)			1,940,076	1,766,888
Non-Operational Assets (Property, Plant and Equipment)				
Assets under construction		4,402		1,101
Surplus assets not held for sale		2,181		19,947
Total Non-Operational Assets (Property, Plant and Equipment)			6,583	21,048
Heritage Assets	13	3,696		3,153
Investment property				
Investment property	14	29,714		24,498
Intangible Assets	15			
Software		5,062		5,331
Assets under construction				
Long-term Investments				
Non-property investments	16	45,001		21,897
Investments in Associates and Joint Ventures				
Long-term Debtors	16	19,077		22,619
Long-term Assets			2,049,209	1,865,434
Short-term Investments				
Non-property investments excluding cash equivalents	16	5,000		95,000
Assets held for sale (< 1 year)	19	46,379		24,869
Inventories		689		78
Short-term debtors, payments in advance and provision for doubtful debts	17	140,047		117,868
Cash and cash equivalents	18	29,507		9,745
Current Assets			221,622	247,560
Bank overdraft	18	(17,738)		(17,988)
Short-term borrowing	16	(109,434)		(167,730)
Short-term creditors and receipts in advance	20	(134,461)		(111,276)
Short-term provision	21	(3,424)		(5,004)
Current Liabilities			(265,057)	(301,998)
Long-term Creditors				
Provisions	21	(13,900)		(9,722)
Long-term borrowing	16	(875,245)		(802,248)
Deferred capital creditors		(10,504)		(10,785)
Other non-current liabilities		-		-
Net pensions liability	42	(593,911)		(561,060)
Capital grants receipts in advance	31	(11,959)		(18,692)
Long-term Liabilities			(1,505,519)	(1,402,507)
Net Assets			500,255	408,489
Usable reserves				
General Fund	22.1	9,883		10,480
Housing Revenue Account	22.2	14,535		12,555
Earmarked reserves	8	16,153		33,426
Capital receipts reserve	22.4	55,422		45,999
Capital grants unapplied	22.5	14,305		10,828
Major repairs reserve	HRA 3	1,929		1,290
			112,227	114,578
Unusable Reserves				
Revaluation reserve	23.1	739,063		627,439
Capital adjustment account	23.2	260,492		258,732
Financial Instruments adjustment account	23.3	(1,347)		(1,531)
Pensions reserve	23.4	(616,039)		(594,252)
Deferred capital receipts	23.5	2,463		4
Collection Fund adjustment account	23.6	6,824		7,291
Short-term accumulating compensated absences account	23.7	(3,428)		(3,772)
			388,028	293,911
Total Reserves			500,255	408,489

Signed: Richard Simpson,
Executive Director of Resources and Section 151 officer

31 May 2018

GROUP CASH FLOW STATEMENT

OPERATING ACTIVITIES	Note No.	2017/18 £000	2017/18 £000	2016/17 £000	2016/17 £000
The cash flows for operating activities include the following,memorandum items :					
Net (surplus) or deficit on the provision of services					
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities					
Interest Paid		36,954		36,739	
Interest and investment property rental income Received		(2,579)		(4,505)	
Net (surplus) or deficit on the provision of services	1A & 7		86,159		70,386
The surplus or deficit on the provision of services has been adjusted for the following non-cash movements					
Depreciation	7,12 &32.2	(34,519)		(43,159)	
Impairment and downward valuations	7 & 9	45,454		(13,115)	
Amortisations	7,15&23.2	(3,161)		(3,762)	
(Increase)/decrease in creditors		(20,765)		5,109	
Increase/(decrease) in debtors		22,266		(8,472)	
Increase/(decrease) in inventories		613		(77)	
Movement in pension liability	1B,7 & 23.4	(47,050)		22,903	
Carrying amount of non-current assets sold	23.2	(69,581)		(63,347)	
Provisions		(2,598)		157	
Movements in the value of investment properties	7,10,14 & 23.2	5,416		815	
Other non-cash movements		(1,904)		(10,197)	
Net Interest Payable					
			(105,829)		(113,145)
Items included/excluded from net surplus or deficit on the provision of services:					
Pension deficit pre-payment	5	-		33,192	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	22.4	36,407		24,627	
Any other items for which the cash effects are investing or financing cash flows		22,154		65,469	
		-			
			58,561		123,288
Net cash (inflow)/outflow from operating activities			38,891		80,529
INVESTING ACTIVITIES					
Purchase of property, plant and equipment, investment property ' and intangible assets		64,573		60,669	
Purchase of short-term and long-term investments		65,774		112,852	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(36,407)		-24627	
Capital grants		(1,915)		(40,027)	
Proceeds from short-term and long-term investments		(109,997)		(121,682)	
Net cash (inflow)/outflow from investing activities			(17,972)		(12,815)
FINANCING ACTIVITIES					
Cash receipts from short-term and long-term borrowing		(179,500)		(138,944)	
Cash payments for the reduction of the outstanding liabilities to finance leases and on-Balance Sheet PFI contracts (Principal)		1,972		1,569	
Repayments of short-term and long-term borrowing		138,500		51,359	
Net cash (inflow)/outflow from financing activities			(39,028)		(86,016)
Net (increase)/decrease in cash and cash equivalents			(18,109)		(18,302)
Cash and cash equivalents at the beginning of the reporting period			9,420		27,722
Cash and cash equivalents at the end of the reporting period	18		(8,689)		9,420
Cash held	18		145		70
Bank current accounts	18		(20,456)		(19,235)
Short-term deposits with building societies and Money Market Funds	18		29,000		9,745
Cash and cash equivalents as at 31 March			8,689		(9,420)

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 2017/18 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 - nature of activity and risks

In 2017 Brick by Brick continued to make significant progress with is programme of development activity, aimed at increasing the supply of new homes across Croydon. The programme remains on course to deliver its target of 50% affordable housing on the residential programme, whilst maintaining the company's commitment to high quality design and maximising the profit dividend available to its sole shareholder (the London Borough of Croydon)

In 2017 the company recognised a loss of £267,052. In addition, the company has re-stated its 2016 loss from £1,088,108 to £245,120 following some changes to the way in which it accounts for interest and staff costs. This reflects ongoing work in building a substantial programme of development activity, with many starts on site commencing in early 2018.

The outlook for the business remains positive, with completion of the earliest schemes anticipated at the end of 2018 and sales launches planned for individual developments on a rolling basis from mid-2018 onwards. The company will begin to generate revenues from the development of affordable units in 2018 under the terms of the proposed transfer of these homes to an affordable housing provider. It also expects substantial commitments to be in place for the purchase of units that complete in early 2019.

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 2018, the balance of loans outstanding from Brick By Brick Croydon Limited to Croydon Council was:

	£'000
Site acquisition and development	35,245
Interest	1,600
Total loans to Brick by Brick	**36,845**

Co-terminus accounting statements

Brick by Brick's accounting period runs from January to December. Activity in the months of January to March is not considered to be material, and so the group accounts have not been prepared on a co-terminus basis. Activity within the first quarter of 2018 comprises of acquisition of property **£468k**, and drawdown of development funding of **£6,786k**.

Provision of services within the group

The following financial activity between the Council and Brick by Brick have been eliminated from the group financial statements:

	2016/17 £'000	2017/18 £'000
Staff costs	836	1,050
Planning fees	334	261
Other running costs	4	6
Interest Costs	302	1,298
Total inter-group actvitity	**1,476**	**2,615**

Croydon Pension Fund 2017/18

May 2018

CROYDON
www.croydon.gov.uk

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF CROYDON

We have audited the pension fund financial statements of London Borough of Croydon (the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standard on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standard are further described in the Auditor's responsibilities for the audit of financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtain is sufficient and appropriate to provide a basis for our opinion.

Who are we reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The Executive Director of Resources and Section 151 officer is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated.

We have nothing to report in this regard.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF CROYDON (CONTINUED)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of the above matters

Responsibility of the Authority, the Director of Finance & Assets and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities on page 4, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources and Section 151 officer. The Executive Director of Resources and Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 which give a true and fair view, and for such internal controls as the Executive Director of Resources and Section 151 officer determines is necessary to enable preparation of pension fund financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director of Resources and Section 151 officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decision have been made that affect the services provided by the pension fund.

The General Purpose Audit Committee is Those Charged with Governance.

Auditors responsibilities for the audit of the financial statements

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

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

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

St Johns House
Haslett Avenue West
Crawley
West Sussex
RH10 1HS

CROYDON'S ROLE AS A PENSION ADMINISTERING AUTHORITY

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 in an appendix to clearly demonstrate the distinction.

FUND'S OPERATIONS AND MEMBERSHIP

The London Borough of Croydon Pension Fund (the Fund) operates a contributory defined benefit 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.

Below is a list of the admitted and scheduled bodies contributing to the Fund:

Admitted:
AXIS Europe plc (Housing Repairs), BRIT School, Capita Secure Information Solutions Limited
Carillion Integrated Services Limited, Churchill Services Limited, Croydon Citizen's Advice Bureau, Croydon Equipment Services Limited, Croydon Community Mediation, Croydon Voluntary Action, Eldon Housing Association Limited, Kier Highways Limited, Fusion Lifestyle, Ground Control Limited, Impact Group Limited,
Keyring Living Support Networks, London Hire Services Limited, Octavo Partnership Limited, Olympic (South) Limited, Quadron Services Limited, Roman Catholic Archdiocese of Southwark, Skanska Construction UK Limited, Sodexo Limited
Turning Point, Veolia Environmental Services (UK) Recycling Limited (Croydon), Vinci Facilities Limited, Veolia Environmental Services (UK) Recycling Limited (SLWP1), Wallington Cars & Couriers Limited, Westgate Cleaning Services Limited.

Scheduled:
Meridian (Addington) High Academy, Aerodrome Primary Academy, Applegarth Academy, The Archbishop Lanfranc School, ARK Oval Primary Academy, Atwood Primary School, Beulah Infants 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, Edenham High School, Fairchildes Primary, Forest Academy, Gonville Academy, Good Shepherd Catholic Primary, Harris Academy (Purley), Harris Academy (South Norwood), Harris Academy (Upper Norwood), Harris City Academy (Crystal Palace), Harris Primary Academy (Benson), Harris Primary Academy (Kenley), Harris Invictus Academy Croydon, Harris Primary Academy Haling Park, Heathfield Academy
John Ruskin College, 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, 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, Kingsley Primary Croydon, STEP Academy Trust.

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), one co-opted non-voting member and a non-voting employee representative. In addition, the Committee is supported by officers and external advisors.

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Notes	2017/18 £'000	2016/17 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	44,178	87,205
Individual Transfers in from Other Pension Funds		7,880	4,684
		52,058	**91,889**
Benefits			
Pensions	9	42,381	40,424
Commutation, Lump Sum Retirement and Death Benefits	9	7,908	10,214
Payments to and on Account of Leavers			
Individual Transfers Out to Other Pension Funds		4,783	4,162
Refunds to Members Leaving Service		139	78
		55,211	**54,878**
Net additions from dealings with members		**(3,153)**	**37,011**
Management Expenses	10	**6,845**	**6,466**
RETURNS ON INVESTMENTS			
Investment Income	11	13,022	17,367
Taxes on Income (Irrecoverable Withholding Tax)	11	(361)	(795)
		12,661	**16,572**
Profit and loss on disposal of investments and changes in the market value of investments	13	**24,643**	**179,912**
Net returns on investments		**37,304**	**196,484**
Net increase in the Fund during the year		**27,306**	**227,029**
Net assets at the start of the year		1,104,055	877,026
Net assets at the end of the year		**1,131,361**	**1,104,055**

NET ASSETS STATEMENT

	Notes	31 March 2018 £'000	31 March 2017 £'000
Investments held by the Fund Managers:			
Global equities - segregated funds	13	150	575,427
Global equities - pooled funds	13	578,812	-
Private equity	13	88,836	92,584
Infrastructure	13	112,063	83,247
Fixed Interest	13	192,407	191,155
Property	13	134,352	103,621
Derivatives	13	0	152
Total Investments held by the Fund Managers		1,106,620	1,046,186
Other Balances held by the Fund Managers			
Cash held by the Fund Managers	13	8,603	17,460
Investment income due	13	1,465	2,738
Amounts payable for purchases	13	0	(41)
Total Other Balances held by the Fund Managers		10,068	20,157
Total Assets held by the Fund Managers		1,116,688	1,066,343
Current Assets	17	21,432	39,254
Current Liabilities	18	(6,759)	(1,542)
Net Assets of the fund available to fund benefits		**1,131,361**	**1,104,055**

NOTES TO THE PENSION FUND ACCOUNTS

1. GENERAL PRINCIPLES

The financial statements have been prepared in accordance with the provisions of Sections 6.5.1 to 6.5.5 of the 2017/18 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.

The accounts summarise the transactions of the Fund and the net assets available to pay pension benefits. They do not take account obligations to pay pensions and benefits which fall due after the accounting year. The actuarial position of the fund which does take into account such obligations is dealt with in note 23.

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.

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

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 account 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
Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the Fund. 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, Infrastructure and Pooled Property Investments are as quoted by their fund managers.

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.

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 (Note 23).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 22).

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 23. 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.

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 £172m. A 0.5% increase in the salary increase assumption would result in a £19m increase in the pension liability. A 0.5% increase in the pension increase assumption would result in a £144m increase to the pension liability.

7. FUND INFORMATION

The last full triennial Actuarial Valuation was completed as at 31 March 2016 which calculated the total accrued liabilities to be £1,203m (2013: £1,064m). The market value of the Fund's assets at the valuation date was £877m (2013: £705m). The Fund deficit was therefore £326m (2013: £359m) producing a funding level of 73% (2013: 66.3%). The next triennial valuation is due effective 31 March 2019.

In accordance with new Regulations and CIPFA guidance, a primary rate and secondary rate is set for the Whole Fund. The Primary Rate is the payroll weighted average of the underlying individual employer Primary Rates and the Secondary Rate is the total of the underlying individual employer Secondary Rates (before any pre-payment or capitalisation of future contributions).

The table below shows the Primary and Secondary contribution rates for the 2016 valuation:

Primary rate (%)	Secondary Rate (£)		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
17.9%	£10,321,000	£10,401,000	£11,805,000

	Contribution rate required as a percentage of pay (Primary Rate from 2017/18)		Plus Additional Payment (Secondary rate from 2017/18)		
	2017/18	2018/19	2017/18	2018/19	
	% of pay	% of pay	£'000	£'000/%	
London Borough of Croydon Pool					
London Borough of Croydon	17.6	17.6	-2.5%	-2.5%	*
Octavo Partnership Limited	16.6	16.6	-1.5%	-1.5%	plus 6
Fairfield (Croydon) Limited	ceased	ceased	ceased	ceased	
Croydon Care Solutions Limited	ceased	ceased	ceased	ceased	

* 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.

	2017/18 % of pay	2018/19 % of pay	2017/18 £'000	2018/19 £'000/%
Further Education Bodies				
Croydon College	17.5	17.5	660	793
Coulsdon College	18.3	18.3	58	60
John Ruskin College	18.1	18.1	84	87
(Community) Admission Bodies				
Croydon Voluntary Action	18.9	18.9	37	38
Croydon Citizens Advice Bureau	30.6	30.6	6	6
Croydon Community Mediation	18.0	18.0	4	4
Admission Bodies				
Kier Highways Limited	27.2	27.2	-20.4%	-20.4%
Impact Group Limited	30.1	30.1	-10.5%	-10.5%
London Hire Services Limited	28.6	28.6	-9.4%	-9.4%
Churchill Services Limited	28.4	28.4	-8.7%	-8.7%
Veolia Environmental Services (UK) Recycling Limited (Croydon)	26	26	-4.3%	-4.3%
Fusion Lifestyle	23.6	23.6	-1.1%	-1.1%
Olympic South Limited	29.8	29.8	5	
Wallington Cars & Couriers Limited	29	29	-13.5%	-13.5%
Vinci Facilities Limited	32.3	32.3	-32.3%	-32.3%
Skanska Construction UK Limited	31.6	31.6	-10.4%	-10.4%
Sodexho Limited	29.9	29.9	-14.9%	-14.9%
Ground Control Limited	22.2	22.2	-22.2%	-22.2%
Carillion Integrated Services Limited	29	29	-8.3%	-8.3%
Quadron Services Limited	27.3	27.3	-0.2%	-0.2%
AXIS Europe plc (Housing Repairs)	27.5	27.5	-2.0%	-2.0%
Capita Secure Information Solutions Limited	28	28.0	-3.4%	-3.4%
Keyring Living Support Networks	29.4	29.4	-0.8%	-0.8%
Westgate Cleaning Services Limited	30	30.0	-	-
Veolia Environmental Services (UK) Recycling Limited (SLWP1)	25.4	25.4	-9.9%	-9.9%
Roman Catholic Archdiocese of Southwark	31.4	31.4	4	4

NOTES TO THE PENSION FUND ACCOUNTS

	Contribution rate required as a percentage of pay (Primary Rate)		Plus Additional Payment (Secondary Rate)	
	2017/18	2018/19	2017/18	2018/19
Academies	% of pay	% of pay	£'000	£'000 /%
Harris Academy (South Norwood)	16.8	16.8	11	11
BRIT School	16.6	16.6	21	22
Harris City Academy (Crystal Palace)	15.4	15.4	-0.2%	-0.2%
St Joseph's College	18.7	18.7	30	31
St Cyprian's Greek Orthodox Primary School	18.7	18.7	7	7
Norbury Manor Business and Enterprise College	18.2	18.2	28	29
Woodcote Academy	18.8	18.8	38	39
St James the Great R.C Primary	20.0	20.0	39	40
Meridian (Addington) High Academy	18.5	18.5	28	29
Riddlesdown Collegiate	18.1	18.1	54	55
Shirley High School	18.3	18.3	32	33
Oasis Academy Byron	18.7	18.7	7	8
Robert Fitzroy Acadmey	15.5	15.5	0.3	0.3
St Thomas Becket RC Primary	19.6	19.6	14	14
Aerodome Primary Academy	17.7	17.7	11	12
Oasis Academy Coulsdon	18.0	18.0	46	47
Oasis Academy Shirley Park	18.0	18.0	79	81
Harris Academy (Purley)	17.3	17.3	34	35
The Quest Academy	17.4	17.4	31	32
ARK Oval Primary Academy	18.2	18.2	2	2
Pegasus Academy Trust	17.2	17.2	49	51
Gonville Academy	18.4	18.4	12	12
West Thornton Primary Academy	18.1	18.1	25	25
David Livingstone Academy	18.0	18.0	-0.8%	-0.8%
Applegarth Academy	18.2	18.2	10	11
Harris Primary Academy Benson	19.9	19.9	21	21
Harris Academy Kenley	18.5	18.5	7	7
Forest Academy	18.1	18.1	9	9
Castle Hill Academy	18.5	18.5	17	17
Wolsey Junior Academy	18.1	18.1	23	23
Atwood Primary School	19.1	19.1	20	20
Winterbourne Junior Boys	19.8	19.8	18	18
Oasis Academy Ryelands	18.1	18.1	30	31
Chipstead Valley Primary School	18.7	18.7	30	30
Fairchildes Primary School	17.8	17.8	58	59
Broadmead Primary Academy	18.1	18.1	53	55
Rowdown Primary School	18.9	18.9	18	19
St Mark's COE Primary School	17.8	17.8	10	11
New Valley Primary	18.5	18.5	10	10
Archbishop Lanfranc School	19.4	19.4	101	104
Harris Invictus Academy Croydon	17.4	17.4	-	-
Harris Primary Academy Haling Park	16.0	16.0	-0.8%	-0.8%
Paxton Academy	15.7	15.7	-0.7%	-0.7%
Edenham High School	18.6	18.6	111	114
St Mary's Infants School	19.1	19.1	33	34
St Mary's Junior School	18.5	18.5	16	16
Heathfield Academy	16.8	16.8	-	-
Crescent Primary Academy	16.6	16.6	15	16
Oasis Academy Arena	15.9	15.9	2	2
Good Shepherd Catholic Primary	17.5	17.5	28	29
South Norwood Academy	17.9	17.9	35	36
Chesnut Park Primary School	15.9	15.9	-	-
St Chad's Catholic Primary School	26.9	26.9	-	-
St Aidan's Catholic Primary School	23.2	23.2	-	-
Davidson Primary School	26.0	26.0	-	-
Krishna Avanti Primary School	19.1	19.1	-	-
The Woodside Academy	29.4	29.4	-	-
Kingsley Primary Croydon	19.2	19.2	-	-
STEP Academy Trust	18.3	18.3	-	-

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 2017/18 are detailed below:

Band	2017/18 Range £	Contribution Rate %
1	0 -13,700	5.5%
2	13,701-21,400	5.8%
3	21,401-34,700	6.5%
4	34,701-43,900	6.8%
5	43,901-61,300	8.5%
6	61,301-86,800	9.9%
7	86,801-102,200	10.5%
8	102,201-153,300	11.4%
9	153,301+	12.5%

Membership of the Fund consists of current and ex-employees not of pensionable age, retired employees and dependants.

	2017/18	2016/17	% change
Contributing members	9,524	9,462	0.7%
Deferred pensioners	9,399	8,861	6.1%
Pensioners	6,482	7,292	(11.1%)
Total	25,405	25,615	(0.8%)

8. CONTRIBUTIONS

By Authority:	2017/18 £'000	2016/17 £'000
Administering Authority	26,570	71,374
Scheduled bodies	12,915	12,561
Admitted bodies	4,693	3,270
	44,178	87,205

By Type	2017/18 £'000	2017/18 £'000
Employees normal contributions	12,038	11,263
Employers:		
Normal contributions	29,132	26,915
Deficit recovery contributions	2,253	47,839
Augmentation contributions	755	1,188
	44,178	87,205

9. BENEFITS

	2017/18 £'000	2017/18 £'000
Pensions	42,381	40,424
Commutation and lump sum retirement benefits	6,731	8,779
Lump sum death benefits	1,177	1435
	50,289	50,638

10. MANAGEMENT EXPENSES

	2017/18 £'000	2016/17 £'000
Administration	1,417	1,340
Oversight and Governance	669	618
Investment management	4,759	4,508
	6,845	6,466

Included in oversight and governance expenses is £21k (2016: £21k) 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 2018 the implicit fee was £4,027k (2017: £2,786k).

11. INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Equity dividends	9,143	13,995
Property funds	3,842	3,343
Interest on cash deposits	37	29
Other income	-	-
Total before taxes	13,022	17,367
Taxes on income	(361)	(795)
Total	12,661	16,572

12. INVESTMENTS

The Fund used the following investment managers during the year.

Asset Category	Fund Managers
Equities	Legal and General Investment Management Limited (LGIM)
Private equity	Knightsbridge Advisors LLC, Pantheon Ventures LLP, Access Capital Partners, North Sea Capital and Markham Rae LLP
Infrastructure	Equitix Limited, Temporis Capital Limited and Green Investment Group Management Limited (GIGM), Access Capital Partners, I-Squared Capital
Fixed Interest	Aberdeen Standard Investments and Wellington Management Company LLP
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 place maximum accountability for performance against that benchmark on the investment manager.
The Pension Committee has authorised the Executive Director of Resources and Section 151 Officer to exercise delegated powers to vary the Pension Fund's 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 2018 was as follows

	2018		2017	
	Market £'000	Market %	Market £'000	Market %
LGIM	578,812	52.3%	575,429	55.0%
London LGPS CIV Limited (London CIV)	150	0.0%	150	0
Pantheon Ventures LLP (Pantheon)	56,563	5.1%	63,400	6.1%
Knightsbridge Advisors LLC (Knightsbridge)	19,884	1.8%	18,865	1.8%
Access Capital Partners (Access)	21,643	2.0%	9,465	0.9%
North Sea Capital	781	0.1%	855	0
Markham Rae LLP	----	0.0%	(1)	(0)
Equitix Limited	56,842	5.1%	47,706	4.6%
Temporis Capital Limited (Temporis)	20,586	1.9%	9,705	0.9%
GIGM	24,599	2.2%	25,836	0
Aberdeen Standard Investments (Aberdeen)	128,716	11.6%	128,077	12.2%
Wellington Management Company LLP (Wellington)	63,692	5.8%	63,078	6.0%
Schroder Investment Management Limited (Schroders)	109,123	9.9%	94,128	9.0%
M&G Investment Management Limited (M&G)	25,229	2.3%	9,493	0
Total investments	**1,106,620**	**100.0%**	**1,046,186**	**100.0%**

13. RECONCILIATION IN MOVEMENT IN INVESTMENTS

	Market value 01 April 2017	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31-Mar-18
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	575,427	242,260	(840,365)	22,828	150
Global equities - pooled funds	----	596,372	(110)	(17,450)	578,812
Private equity	92,584	14,905	(19,473)	820	88,836
Infrastructure	83,247	29,851	(9,925)	8,890	112,063
Fixed Interest	191,155	50,059	(50,710)	1,903	192,407
Property	103,621	30,586	(7,312)	7,457	134,352
Derivatives	152	0	(785)	633	-
	1,046,186	**964,033**	**(928,680)**	**25,081**	**1,106,620**
Cash deposits	17,460			(438)	8,603
Amounts receivable for sales	-				-
Investment income due	2,738				1,465
Amounts payable for purchases	(41)				-
Net investment assets	**1,066,343**	**964,033**	**(928,680)**	**24,643**	**1,116,688**

	Market value 01 April 2016	Purchases and derivative payments	Sales and derivative receipts	Change in market value	Market value 31-Mar-17
	£'000	£'000	£'000	£'000	£'000
Global equities - segregated funds	435,188	67,805	(56,165)	128,599	575,427
Global equities - pooled funds	61,962	0	(74,220)	12,258	-
Private equity	59,534	21,947	(9,174)	20,277	92,584
Infrastructure	43,373	40,518	(6,672)	6,028	83,247
Fixed Interest	179,915	55	(662)	11,847	191,155
Hedge funds	----	17,203	(5,956)	(57)	11,190
Property	92,431	71	(467)	474	92,509
Derivatives	74	0	0	0	74
	872,477	**147,599**	**(153,316)**	**179,426**	1,046,186
	----				-
Cash deposits	4,310			486	17,460
Amounts receivable for sales	-				-
Investment income due	2,295				2,738
Amounts payable for purchases	(794)				(41)
Net investment assets	**878,288**	**147,599**	**(153,316)**	**179,912**	**1,066,343**

14. ANALYSIS OF INVESTMENTS

		2018 UK £'000	2018 Foreign £'000	2018 Total £'000	2017 UK £'000	2017 Foreign £'000	2017 Total £'000
Global equities-segregated funds							
LGIM	Quoted	-	-	-	54,468	520,809	575,277
London CIV	Unquoted	150	-	150	150	-	150
Total equities		150	-	150	54,618	520,809	575,427
Global equities - pooled funds							
LGIM	unit trust	-	578,812	578,812	-	-	-
Total pooled investments		-	578,812	578,812	-	-	-
Private Equity							
Pantheon	managed fund	-	56,563	56,563	-	63,400	63,400
Knightsbridge	managed fund	-	19,884	19,884	-	18,865	18,865
Access	managed fund	-	11,609	11,609	-	9,465	9,465
North Sea Capital	managed fund	-	781	781	-	855	855
Markham Rae LLP	managed fund	-	0	0	-	- 1	- 1
Total private equity		-	88,837	88,837	-	92,584	92,584
Infrastructure							
Equitix Limited	managed fund	56,842	-	56,842	47,706	-	47,706
Temporis	managed fund	20,586	-	20,586	9,705	-	9,705
GIB	managed fund	24,599	-	24,599	25,836	-	25,836
Access	managed fund	-	10,034	10,034			
		-					
Total Infrastructure		102,027	10,034	112,061	83,247	-	83,247
Fixed Interest							
Standard Life plc	unit trust	128,716	-	128,716	128,077	-	128,077
Wellington	managed fund	-	63,692	63,692	-	63,078	63,078
Total Fixed Interest		128,716	63,692	192,408	128,077	63,078	191,155
Property							
Schroders	managed fund	109,123	-	109,123	94,128	-	94,128
M&G	managed fund	25,229	-	25,229	9,493	-	9,493
		134,352	-	134,352	103,621	-	103,621
Total Property							
Derivatives (Quoted)		-	-	-	-	152	152
LGIM							
Total investments		**365,245**	**741,375**	**1,106,620**	**369,563**	**676,623**	**1,046,186**

15. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

	2018 Market £'000	2018 Market %	2017 Market £'000	2017 Market %
Standard Life SLI Absolute Return Global Bond Strategies	65,971	6.0%	66,349	6.3%
Standard Life Corporate Bond	62,744	5.7%	61,728	6.0%
Wellington Sterling Core Bond Plus Portfolio	63,692	5.8%	63,078	6.1%
LGIM FTSE Ex Tobacco World Equity Index	578,812	52.3%	-	0.0%
Total value of investments	**1,106,620**	**69.7%**	**1,046,186**	**18.5%**

16. ANALYSIS OF DERIVATIVES

LGIM use derivatives in South Korean markets in order to maintain equity exposure in line with the FTSE 4Good Index rather than trading directly in this market. This was sold as assets were transferred to the LGIM FTSE Ex tobacco World Equity Index Fund

Type	Expires	2018 Economic Exposure £'000	2018 Market £'000	2017 Economic Exposure £'000	2017 Market £'000
Assets					
Overseas Equity	less than 1 year	----	----	3,853	152
Total value of investments		0	0	3,853	152

17. CURRENT ASSETS

	2018 £'000	2017 £'000
Cash balances	17,380	36,164
Other Local Authorities - Croydon Council	1,585	894
Other Entities and Individuals	2,467	2,196
	21,432	39,254

18. CURRENT LIABILITIES

	2018 £'000	2017 £'000
Other Local Authorities - Croydon Council	- 5,666	-
Other entities and individuals	(1,093)	(1,542)
	(6,759)	(1,542)

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.

19. 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

Four members of the Pensions Committee or their close family members had positions with employers in the fund. The details of their interests are outlined below.

Councillor	Fund Employer	Contributions payable by Fund Employer £	Amount Outstanding at 31 March 2018 £	Date of Payment
Cllr Buttinger	Hayes School Kenley	Part of Council payroll	-	
Cllr Hall	Wolsey Junior Academy	-	29,867	part paid 05/04/2018
Cllr Hall	Applegarth Academy	-	20,654	part paid 05/04/2018
Cllr Wentworth	St James the Great School	-	107,217	part paid 19/04/2018
Cllr Wentworth	STEP Academy Trust	-	13,324	paid 05/04/2018
Cllr Mead	Forestdale Primary	Part of Council payroll	-	
Cllr Mead	Courtwood Prmary School	Part of Council payroll	-	

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 are the Executive Director of Resources (Section 151 Officer), the Director of Finance (Deputy Section 151 Officer) and the Head of Pensions and Treasury.
During the year a charge of £125k (2017: £123k) 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 2017/18.

20. 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.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had outstanding capital commitments of £170.4m at 31 March 2018 (2017:£164.7m) based on:

USD 86.9m at exchange rate 1.40 equals £62.0m (2017: £73.2m)
EUR 50.0m at exchange rate 1.14 equals £43.8m (2017: £30.4m)
GBP £64.6m (2017: £61.1m)

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.

22. 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 £220.7k for 2017/18 (£254.9k in 2016/17), are sent directly to the relevant AVC provider.
The value at 31 March 2018 of separately invested additional voluntary contributions was £1.86m (£2.17m in 2016/17).

23. PENSION FUND ACCOUNTS REPORTING REQUIREMENTS

Actuary's Statement

International Financial Reporting Standards require a disclosure of the Fund's past service liabilities in a manner consistent with International Accounting Standard 19 (IAS19), and the requirements of International Accounting Standard 26 (IAS26). It should be noted that some of the assumptions used when calculating liabilities under IAS19 are different compared to those when producing an on-going funding valuation under the Local Government Pension Scheme (Administration) Regulations 2014.

Pension Fund Accounts Reporting Requirement
Introduction
CIPFA's Code of Practice on Local Authority Accounting 2017/18 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 2018 £m	31 Mar 2017 £m
Active members	705	630
Deferred members	446	439
Pensioners	688	710
Present Value of Promised Retirement Benefits	1,839	1,779

The promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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.

The above 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).

23. 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 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to increase the actuarial present value by £7m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial Assumptions

Year ended	31 Mar 2018 %p.a.	31 Mar 2017 %p.a.
Pensions Increase Rate	2.4%	2.4%
Salary Increase Rate	2.9%	3.0%
Discount Rate	2.6%	2.6%

Longevity Assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a 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	22.3 years	24.4 years
Future Pensioners (assumed to be age 45 at the latest formal	24.0 years	26.2 years

Please note that the longevity assumptions have 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 sensitivies regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate increase to pension liabilities (%)	Approximate increase to pension liabilities (£m)
0.5% increase in pensions increase rate	8%	144
0.5% increase in salary increase rate	1%	19
0.5% decrease in the discount rate	9%	172

The principal demopgraphic assumption is the longevity assumption. For sensitivity purposes, I estimate tha 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 2018 for IAS19 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:-

Stacey McLean

26 April 2018

For and on behalf of Hymans Robertson LLP

24. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

25. FINANCIAL INSTRUMENTS

Below is the target asset allocation agreed by Pension Committee and in force during 2017/18

Asset Class	Benchmark	Weighting
UK and Overseas Listed Equities	FTSE 4 Good	42% + / - 5%
Fixed Interest Securities	18% Bank of America Merrill Lynch Sterling non gilts all stocks index 12% Bank of America Merrill Lynch Sterling Broad Market index	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%**

It is recognised that it may take some time to meet the new target asset allocation due to the nature of the assets.

25. 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 (excluding cash) by category and Net Assets Statement heading.

	Designated as fair value through profit and loss £'000	Loans and Debtors £'000	Financial assets and liabilities at amortised cost £'000
Financial Assets			
Fixed interest securities	192,407	-	-
Global equities	150	-	-
Pooled property investments	134,352	-	-
Private equity	88,836	-	-
Infrastructure	112,063	-	-
Global equities pooled investments	578,812	-	-
Other investment balances	-	10,068	-
Current Assets	-	21,432	-
Total Financial Assets	**1,106,620**	**31,500**	**-**
Financial Liabilities			
Other investment balances	-	-	----
Current liabilities	-	-	(6,759)
Total Financial Liabilities	**-**	**-**	**(6,759)**
Net Assets	**1,106,620**	**31,500**	**(6,759)**

Net Gains and Losses on Financial Instruments	**31 March 2018 £'000**
Financial assets	
Fair value through profit and loss	37,304
Loans and debtors	-
Financial assets measured at amortised cost	-
Financial liabilities	
Fair value through profit and loss	-
Loans and debtors	-
Financial liabilities measured at amortised cost	-
Total	**37,304**

Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

	Carrying Amount £'000	**Fair Value £'000**
Financial Assets		
Fair value through profit and loss	1,106,620	1,106,620
Loans and Debtors	31,500	31,500
Total Financial Assets	**1,138,120**	**1,138,120**
Financial Liabilities		
Fair value through profit and loss	-	-
Financial liabilities at amortised cost	**(6,759)**	(6,759)
Total Financial Liabilities	**(6,759)**	**(6,759)**

25. FINANCIAL INSTRUMENTS (Continued)

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, quoted index linked securities and unit trusts.

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.

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 which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the London Borough of Croydon Pension Fund has invested.

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. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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.

Values at 31 March 2018	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial Assets				
Financial assets at fair value through profit and loss	771,220	134,502	200,898	1,106,620
Loans and Debtors	31,500	-	-	31,500
Financial Liabilities				
Loans and Debtors	**(6,759)**	-	-	**(6,759)**
Net financial assets	795,961	134,502	200,898	1,131,361

26. 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 yielc 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 2017	1,046,186	1,150,805	941,567
At 31 March 2018	**1,106,620**	**1,217,282**	**995,958**

26. 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 100 basis points (bps) 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 +/- 100 bps change in interest rates.

Assets exposed to interest rate risk	Value £'000	Value on Increase £'000	Value on Decrease £'000
At 31 March 2017	244,779	269,257	220,301
At 31 March 2018	**218,391**	**240,230**	**196,552**

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.

The following table summarises the Fund's currency exposure.

Currency exposure - asset type	Asset Value as at 31 March 2018 £'000
Overseas equities securities	578,812
Overseas un-quoted securities	98,871
Overseas bonds	63,692
Total overseas assets	741,375

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 curreinces.

Assets exposed to currency risk	Value £'000	Value on 10% weakening of pound £'000	Value on 10% strengthening of pound £'000
At 31 March 2017	676,623	744,285	608,961
At 31 March 2018	**741,375**	**815,513**	**667,238**

26. 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.

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 2018 was £17.4m (£36.2m at 31 March 2017). This was held with the following institutions:

Summary	Rating at 31 March 2018	Balances as at 31 March 2018 £'000
Money Market Funds	AAA	
Goldman Sachs Sterling Liquid Reserves Fund		11,313
Current Account		
Royal Bank of Scotland		6,067
Total		17,380

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 2018 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.

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.

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.

NON-DOMESTIC RATE (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 anc 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.

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.

SUPPORTED CAPITAL EXPENDITURE
This is capital expenditure funded by Government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

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.