

To: All Members of the Audit Committee  
(Other Members for Information)

When calling please ask for:  
Amy McNulty, Democratic Services Officer

**Policy and Governance**

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Date: 16 July 2019

Dear Councillors

AUDIT COMMITTEE - 22 JULY 2019

I refer to the agenda for the Audit Committee, on Monday, 22 July 2019 and now enclose the following item which was marked To Follow in your agenda papers:

8. EXTERNAL AUDIT FINDINGS REPORT (Pages 3 - 24)

To receive the External Audit Findings Report from Grant Thornton (attached).

Recommendation

**It is recommended that the Audit Committee notes the External Audit Findings Report.**

11. STATEMENT OF ACCOUNTS 2018/2019 (Pages 25 - 46)

The purpose of this report is for the Audit Committee to consider and approve the Statement of Accounts for the year ended 31 March 2019.

Following a land mark Court of Appeal judgement regarding age discrimination in Pension funds (the McCloud judgement) Waverley has worked with the Pension Fund, its Actuary and External Auditors to assess the impact of this judgement on Waverley's Pension Fund and to agree the required accounting treatment in the 2018/19 accounts. Due to the materiality of the figures, adjustments were required to a number of figures in the key statements and notes and these papers are attached with the changed numbers highlighted. There is no impact on Waverley's finances as the changes just relate to the Pension Fund however it is necessary to make the changes to the statements and notes.

The Letter of Representation (Annexe 2) is now also attached.

Recommendation

**It is recommended that the Audit Committee**

- 1. approves the Statement of Accounts for the financial year ended 31 March 2019;**

- 2. approves the Letter of Representation for 2018/2019; and**
- 3. confirms that the accounts have been prepared on a going concern basis.**

Yours sincerely

Amy McNulty  
Democratic Services Officer

# The Audit Findings for Waverley Borough Council

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Year ended 31 March 2019

July 2019



Agenda Item 8.

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## Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees

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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Waverley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

|                                     |  |   |
|-------------------------------------|--|---|
| <b>Financial Statements</b>         | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• 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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the 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.</p> | <p>Our audit work is being completed on site at the time of writing this report. Our findings are summarised on pages 4 to 13. We have identified one adjustment to the financial statements which is detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is still ongoing at the time of writing this report, but there are no matters of which we are aware that would require modification of our audit opinion (which we will provide to the Committee), subject to the outstanding matters detailed on the next page. We will provide the committee with an update on any subsequent findings at the meeting on 22 July 2019.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p> |
| <b>Value for Money arrangements</b> | <p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>   | <p>Our review of the Council's value for money arrangements is ongoing at the time of writing this report. We will provide the committee with a separate update on our findings.</p>  |
| <b>Statutory duties</b>             | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>  | <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We expect to be able to certify the completion of the audit when we give our audit opinion, having completed the work required under the Code.</p>  |

## 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 management.

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

## Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan:

|  | Group Amount | Council Amount |
|--|--------------|----------------|
| Overall materiality for the financial statements | £1,800k      | £1,795k        |
| Performance materiality                          | £1,350k      | £1,346k        |
| Trivial matters                                  | £90k         | £90k           |

## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

Our audit of your financial statements is ongoing at the time of writing this report. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 22 July 2019. These outstanding items include:

- receipt and review of outstanding supporting evidence for a sample of items from the Council's income and expenditure;
- receipt and review of outstanding supporting evidence for a sample of items from the Council's debtors and creditors;
- receipt and review of outstanding supporting evidence for a sample of items relating to the Council's collection fund;
- completion of testing of the Council's revaluation and impairment movements for land and buildings;
- review and challenge of significant movements in earmarked reserves;
- review of the finalised version of PWC's report on the LGPS actuary;
- receipt of response from the Council's actuary to a query relating to the proportion of the Surrey Pension Fund's assets that are attributable to the Council;
- agreement of standalone disclosure notes in the Council's financial statements;
- quality reviews by the audit manager and engagement lead;
- receipt of the signed management representation letter; and
- review of the final, approved, set of financial statements.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable 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.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, 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; and
- the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.

**Therefore we do not consider this to be a significant risk for Waverley Borough Council.**

Our audit work to date has not identified any issues in respect of revenue recognition.

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### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work to address this risk is still ongoing at the time of writing this report. We have not identified any issues in respect of management override of controls to date.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of property, plant and equipment

The Council revalue land and buildings on a rolling five-yearly basis to ensure that carrying value is not materially different from fair value. Certain assets are also revalued more regularly (e.g. Investment Properties). All assets not formally revalued will be revalued using an uplift percentage.

This represents a significant estimate by management in the financial statements.

We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- communicated with the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our audit work to address this risk is still ongoing at the time of writing this report. We have not identified any issues in respect of valuations of the Council's property to date.



# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£66 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- considered the Council's response to the national pensions accounting issue caused by the 'McCloud judgement'.

As a result of our work, the Council requested that the actuary give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud), which due to the prevailing legal uncertainty at the time of preparing the draft financial statements, and the need to produce these by 31 May 2019, were not taken into account in the first actuarial valuation. This resulted in increases in gross pension liabilities of £334k and £280k respectively.

The revised valuation also used the actual rate of return on the pension fund's assets for the year, which differed from the estimated rate provided by the Pension Fund to the actuary. This resulted in a reduction in gross pension assets of £1,375k.

The financial statements have been amended for these issues. See page 19 for further detail.

At the time of writing this report our audit work in this area is ongoing. We have not identified any other issues in respect of valuation of the Council's net pension liability to date.

# Significant findings – key judgements and estimates

## Summary of management's policy

### Net pension liability

Draft: £66.0m  
Final: £67.4m

The Council's net pension liability at 31 March 2019 is £67.4m (PY £58.9m) comprising obligations under the Surrey Pension Fund Local Government pension scheme.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from the schemes.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

## Audit Comments

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation:

| Assumption                                       | Actuary's Value | PwC's expected range       | Assessment |
|--|-----------------|----------------------------|------------|
| Discount rate                                    | 2.4%            | 2.4% - 2.5%                | ● Green    |
| Pension increase rate                            | 2.5%            | 2.4% - 2.5%                | ● Green    |
| Salary growth                                    | 2.8%            | scheme-specific            | ● Green    |
| Life expectancy – Males currently aged 45 / 65   | 24.1<br>22.5    | 23.7 – 24.4<br>21.5 – 22.8 | ● Green    |
| Life expectancy – Females currently aged 45 / 65 | 26.4<br>24.6    | 26.2 – 26.9<br>24.1 – 25.1 | ● Green    |

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate.
- A material adjustment has been made to the financial statements as a result of the use of an estimated rate that differed to the actual rate of return on the pension fund's assets and the omission of liabilities due to the prevailing legal uncertainty (see page 19).

## Assessment





**Amber**





### Assessment

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



# Significant findings – key judgements and estimates

| Accounting area                                  | Summary of management's policy   | Audit Comments  | Assessment  |
|--|--|---|---|
| <b>Valuation of Land and Buildings</b><br>£89.7m | <p>The Council has engaged their Valuer to complete the valuation of its properties. Approximately 50% of the Council's non-dwelling assets were subject to a full, formal valuation process at the balance sheet date, with the remaining assets valued over the course of the preceding 3 financial years.</p> <p>The valuation of the Council's land and building portfolio has resulted in a net increase of £1.7m.</p> <p>The total year end valuation of land and buildings was £89.7m, a net increase of £4.1m from 2017/18 (£85.6m).</p>                                   | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We consider the movements in the valuations assets and their consistency with relevant indices. This work is ongoing at the time of writing this report.</li> </ul>                   | <br><b>Green</b><br><b>(TBC)</b> |
| <b>Valuation of Council Dwellings</b><br>£418.2m | <p>The Council owns a number of dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The valuation of the Council's dwellings portfolio has resulted in a net increase of £7.5m.</p> <p>The total year end valuation of land and buildings (including dwellings) was £418.2m, a net increase of £14.3m from 2017/18 (£403.9m).</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We have considered the movements in the valuations of assets and their consistency with relevant indices. This work has not raised any issues with the 2018/19 valuations.</li> </ul> | <br><b>Green</b><br><b>(TBC)</b> |

## Assessment





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

# Significant findings – key judgements and estimates

| Accounting area                                     | Summary of management's policy  | Audit Comments  | Assessment  |
|---|---|---|---|
| <b>Valuation of Investment Properties</b><br>£26.5m | <p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.</p> <p>The Council has engaged their Valuer to complete the valuation of these properties. The year end valuation of the Council's investment property was £26.5m, a net increase of £0.4m from 2017/18 (£26.1m).</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We consider the appropriateness of the classification of the Council's investment properties. This work is ongoing at the time of writing this report.</li> </ul> | <br><b>Green</b><br><b>(TBC)</b> |
| <b>Other accruals and estimates</b>                 | <p>The Council continues to apply estimates and judgements in a number of areas, such as accruals of income and expenditure.</p>  | <ul style="list-style-type: none"> <li>The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting.</li> <li>Disclosure of the estimates in the financial statements is considered adequate.</li> <li>As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail.</li> <li>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</li> </ul>            | <br><b>Green</b>                 |

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## Assessment

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

# 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).

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## Going concern commentary

## Auditor commentary

### Management’s assessment process

Management’s assessment is that there is no reason to consider the Council is at risk of not being a going concern.

We have gained assurance that management’s use of the going concern basis of accounting is reasonable and appropriate. Management’s forward planning process is thorough and transparent.

This determination is made by personnel who are sufficiently senior and experienced.

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### Work performed

We have:

- held discussions with officers throughout the year; and
- reviewed the Council’s financial statements and forward planning.

The Council’s financial forecasts show that it has sufficient assets available to meet its liabilities for the foreseeable future.

We have considered these forecasts, and the Council’s past performance against its budgets, and have no concerns over the Council’s financial plans.

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### Concluding comments

We intend to issue an opinion that is not modified in respect of Going Concern.

No events or conditions have been identified in the course of our audit that cast doubt on the entity’s ability to continue as a going concern.

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# 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 <b>Matters in relation to fraud</b>                             | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.   |
| ② <b>Matters in relation to related parties</b>                   | We are not aware of any related parties or related party transactions which have not been disclosed.  |
| ③ <b>Matters in relation to laws and regulations</b>              | 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 <b>Written representations</b>                                  | A standard letter of representation has been requested from the Council, which is included in the Committee papers.   |
| ⑤ <b>Confirmation requests from third parties</b>                 | We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Where responses were not received, we undertook alternative procedures to confirm balances with no issues noted. |
| ⑥ <b>Disclosures</b>  | Our review found no material omissions in the financial statements.   |
| ⑦ <b>Audit evidence and explanations/significant difficulties</b> | All information and explanations requested from management was provided.  |

# Other responsibilities under the Code

| Issue  | Commentary   |
|--|--|
| ① <b>Other information</b>                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>                      |
| ② <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p> |
| ③ <b>Specified procedures for Whole of Government Accounts</b> | <p>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.</p> <p>This work is not required as the Council does not exceed the threshold.</p>  |
| ④ <b>Certification of the closure of the audit</b>             | <p>We intend to certify the closure of the 2018/19 audit of Waverley Borough Council in the audit opinion.</p>   |

# Value for Money

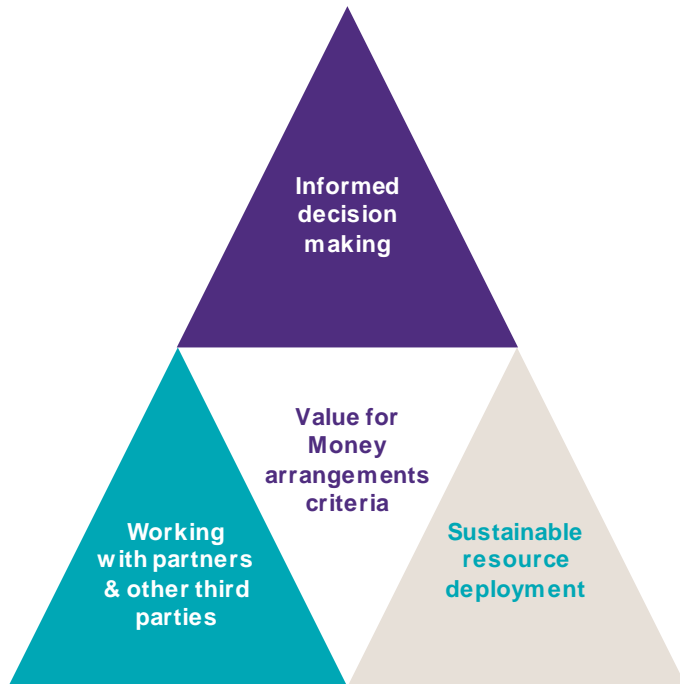
## Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan in March.

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 are in the process of carrying out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determines that arrangements are not operating effectively, we will use the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we report in our VFM conclusion.



# Value for Money

## **Our work**

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

We have focused our work on the significant risk that we identified in the Council's arrangements.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on the next page.

## **Overall conclusion**

Our work to assess the Council's arrangements for securing value for money is ongoing at the time of writing this report.

We will update the Committee on our findings.

## **Recommendations for improvement**

We will discuss findings arising from our work, if any, with management and will agree any recommendations for improvement, which will be reported to the Audit Committee when we meet on 22 July 2019.

## **Significant difficulties in undertaking our work**

We will report if we identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

We will also inform you of any matters where no other evidence was available or matters of such significance to our conclusion or that we require 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 and further risks identified through our ongoing review of documents.

| Significant risk   | Findings   | Conclusion  |
|--|--|---|
| <p><b>Financial position</b></p> <p>The Council set a challenging General Fund budget for 2018/19, and at the time of our risk assessment were on track for breakeven against planned levels of income and expenditure. A balanced budget for 2019/20 was proposed and approved in February 2019. This budget includes an anticipated 2.99% increase in Council tax and has been set in the context of the Council's Medium Term Financial Plan (MTFP).</p> <p>The 2019/20-2021/22 MTFP sets out an estimated medium-term budget shortfall over the next three years. This shortfall has an estimated total value of £3.8m by 2022/23, equal to 36% of total net service cost.</p> | <p>The Council plans to meet the shortfall in the MTFP through increasing Council Tax, pursuing savings plans, and growing alternative revenue streams to replace historical sources of income.</p> <p>We have updated our understanding of the Council's medium term financial strategy, and reviewed the supporting information and assumptions.</p> | <p>Our work to assess the Council's arrangements for securing value for money is ongoing at the time of writing this report.</p> <p>We will update the Committee on our findings.</p> |

# Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

- On 2 May 2019 John Ward was elected to Waverley Borough Council, and subsequently appointed Leader of the Council. John's son is a Senior Manager within Grant Thornton's Public Sector audit department based in London. We have mitigated the threat that this creates by replacing the leadership and management of audit team with staff from other Grant Thornton offices.

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 Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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|   | Fees £ | Threats identified                              | Safeguards   |
|---|--------|---|--|
| <b>Audit related</b>  |        |   |  |
| Certification of Housing Benefits claim   | 10,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,500 in comparison to the total fee for the audit of £41,494 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level |
| Certification of Pooling of Housing Capital Receipts                                      | 2,800  | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,800 in comparison to the total fee for the audit of £41,494 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level  |
| Independent Examinations of Shottermill Recreation Ground Trust & Bequest of Joseph Ewart | 4,000  | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £41,494 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level  |

## Non-audit related

No non-audit related services identified.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

We will confirm our final audit fees at a later date. At this stage we have identified a fee variation with regard to our work relating to the McCloud judgement, and may need to consider levying additional fees for other unplanned work that we have had to carry out this year.

# Follow up of prior year recommendations

We identified the following recommendation as a result of the audit of the Council's 2017/18 financial statements.

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

| Assessment | Issue and risk previously communicated  | Update on actions taken to address the issue   |
|------------|---|--|
| 1 ✓        | <p><b>Overstatement of sundry debtor balance</b></p> <p>Our work in 2017/18 identified £512k of debtors which were over 12 months old, and in some cases had been outstanding for several years. Management carried out an initial review of these balances and identified £232k where no clear payment plan exists suggesting some uncertainty relating to its recovery.</p> | <p>The Council have completed the following:</p> <ul style="list-style-type: none"> <li>• Comprehensive review of all debt balances;</li> <li>• Adoption of a new Income and Debt Collection Policy;</li> <li>• Established a Debt working group;</li> <li>• Development of debt reporting from the finance system; and</li> <li>• Assigned temporary resource to address debt recovery in Housing, Revenues and Sundry Debt.</li> </ul> |
| 2 ✓        | <p><b>Related party transactions</b></p> <p>All members and Senior Officers must ensure that signed related party declarations are returned to the finance team in line with the annual related party transactions declaration exercise. This is an important governance control which all involved must adhere to.</p>   | <p>This issue has been addressed during the year, and an improved procedure has been implemented.</p>  |

# Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

| Detail   | Comprehensive Income and<br>Expenditure Statement<br>£'000 | Balance Sheet<br>£'000 |
|--|--|------------------------|
| <b>Actuarial Valuations</b>  |  |                        |
| As discussed on page 7, our work identified adjustments to the Council's net pension liability as at 31 March 2019.  |  |                        |
| As a result of our work, the Council requested that the actuary give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud), which due to the prevailing legal uncertainty at the time of preparing the draft financial statements, and the need to produce these by 31 May 2019, were not taken into account in the first actuarial valuation. This resulted in increases in gross pension liabilities of £334k and £280k respectively. |  |                        |
| The revised valuation also used the actual rate of return on the pension fund's assets for the year, which differed from the estimated rate provided by the Pension Fund to the actuary. This resulted in a reduction in gross pension assets of £1,375k.  |  |                        |
| The following adjustment has therefore been made to the financial statements:  |  |                        |
| Dr Past Service Costs (Cost of Services)   | 614k   |                        |
| Dr Interest on Defined Benefit Obligation  | 8k   |                        |
| Cr Gross Pension Liability   |  | (622k)                 |
| Dr Return on Plan Assets (re-measurement of the net defined benefit liability)   | 1,375k   |                        |
| Cr Gross Pension Assets  |  | (1,375k)               |
| These additional costs are adjusted through the Movement on Reserves Statement, and have no impact on the Council's General Fund balance.  |  |                        |
| <b>Total Adjustment</b>  | <b>1,997k</b>  | <b>(1,997k)</b>        |

At the time of writing our report, we have not identified any misstatements that the Council has decided not to adjust. We will update the committee on any subsequent findings.

# Fees

We set out below our fees for the audit and provision of non-audit services.

| <b>Audit Fees</b> | <b>Proposed fee<br/>£</b> | <b>Final fee<br/>£</b> |
|-------------------|---------------------------|------------------------|
| Council Audit     | 41,494                    | TBC                    |

We will confirm our final fees at a later date. At this stage we have identified a fee variation with regard to our work relating to the McCloud judgement, and may need to consider levying additional fees for other unplanned work that we have had to carry out this year.

| <b>Fees for other services</b>  | <b>Fees<br/>£</b> |
|---|-------------------|
| Certification of Housing Benefits claim   | 10,500            |
| Certification of Pooling of Housing Capital Receipts                                      | 2,800             |
| Independent Examinations of Shottermill Recreation Ground Trust & Bequest of Joseph Ewart | 4,000             |



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## **Statement of Accounts 2018/2019**

### **Restatement of Statement of Accounts for Pension Fund**

Following a land mark Court of Appeal judgement regarding age discrimination in Pension funds (the McCloud judgement) Waverley has restated the Statement of Accounts to reflect the impact of this judgement on Waverley's Pension Fund.

The restatement affects the following pages only where the change has been highlighted in yellow.

## Group Comprehensive Income and Expenditure Statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Local 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.

| 2017/2018   |                       |                          | 2018/2019   |                            |                       |                          |
|---|-----------------------|--------------------------|---|----------------------------|-----------------------|--------------------------|
| Gross Expenditure<br>£'000                                      | Gross Income<br>£'000 | Net Expenditure<br>£'000 |   | Gross Expenditure<br>£'000 | Gross Income<br>£'000 | Net Expenditure<br>£'000 |
| <b>Continuing Operations</b>                                    |                       |                          |   |                            |                       |                          |
| <b>General Fund</b>   |                       |                          |   |                            |                       |                          |
| 4,800   | (1,092)               | 3,708                    | Policy and Governance   | 4,141                      | (440)                 | 3,701                    |
| 5,503   | (1,963)               | 3,540                    | Planning  | 5,105                      | (2,126)               | 2,979                    |
| 2,585   | (354)                 | 2,231                    | Customer and Corporate <sup>1</sup>                                 | 941                        | (274)                 | 667                      |
| 32,070  | (30,374)              | 1,696                    | Finance   | 31,453                     | (29,501)              | 1,952                    |
| 15,621  | (6,028)               | 9,593                    | Community   | 14,307                     | (6,128)               | 8,179                    |
| 8,611   | (7,026)               | 1,585                    | Environment <sup>2</sup>  | 10,147                     | (7,637)               | 2,510                    |
| 1,948   | (920)                 | 1,028                    | General Fund Housing  | 2,347                      | (1,434)               | 913                      |
| 18,244  | (29,931)              | (11,687)                 | <b>Housing Revenue Account (p82) <sup>3</sup></b>                   | 26,799                     | (29,973)              | (3,174)                  |
| 409   | (179)                 | 230                      | Subsidiaries (Trusts)   | 312                        | (203)                 | 109                      |
| <b>89,791</b>   | <b>(77,867)</b>       | <b>11,924</b>            | <b>Net Cost of Services</b>   | <b>95,552</b>              | <b>(77,716)</b>       | <b>17,836</b>            |
| <b>Other Operating Expenditure</b>                              |                       |                          |   |                            |                       |                          |
|   |                       | 2,927                    | Precepts of Parish/Town Councils                                    |                            |                       | 3,129                    |
|   |                       | 759                      | Contribution of Housing Capital Receipts to Government Pool         |                            |                       | 759                      |
|   |                       | (2,514)                  | (Gain)/Loss on disposal of non-current assets                       |                            |                       | (2,572)                  |
| <b>Financing and Investment Income and Expenditure</b>          |                       |                          |   |                            |                       |                          |
|   |                       | 5,629                    | Interest payable and similar charges                                |                            |                       | 5,583                    |
|   |                       | 1,455                    | Pension Interest Cost & Expected Return on Pension Assets (note 38) |                            |                       | 1,539                    |
|   |                       | (449)                    | Interest and Investment Income                                      |                            |                       | (668)                    |
|   |                       | (1,775)                  | Investment Properties (note 17)                                     |                            |                       | (1,513)                  |
|   |                       | 0                        | Impairment Losses (Financial Assets) <sup>4</sup>                   |                            |                       | 615                      |
| <b>Taxation and Non-Specific Grant Income &amp; Expenditure</b> |                       |                          |   |                            |                       |                          |
|   |                       | (12,282)                 | Council Tax income  |                            |                       | (12,810)                 |
|   |                       | (1,788)                  | Business Rates income and expenditure <sup>5</sup>                  |                            |                       | (3,866)                  |
|   |                       | (2,121)                  | Non-ringfenced Government grants (note 10)                          |                            |                       | (1,322)                  |
|   |                       | (1,323)                  | Capital grants and contributions                                    |                            |                       | (1,704)                  |
|   |                       | <b>442</b>               | <b>(Surplus)/Deficit on Provision of Services</b>                   |                            |                       | <b>5,006</b>             |
|   |                       | (19,251)                 | (Surplus)/Deficit on revaluation of non-current assets (p64)        |                            |                       | (22,575)                 |
|   |                       | (1,989)                  | Remeasurement on Pension Fund Assets & Liabilities (page 75)        |                            |                       | 5,713                    |
|   |                       | <b>(21,240)</b>          | <b>Other Comprehensive Income and Expenditure</b>                   |                            |                       | <b>(16,862)</b>          |
|   |                       | <b>(20,798)</b>          | <b>Total Comprehensive Income and Expenditure</b>                   |                            |                       | <b>(11,856)</b>          |

## Group Movement in Reserves Statement 2018/2019

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable' reserves (ie those that can be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax and rents for the year. The Net (Increase)/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

|   | General<br>Fund<br>Balances | Usable Reserves |                 | Capital<br>Grants<br>Unapplied<br>Account | Total<br>Usable<br>Reserves | Total<br>Unusable<br>Reserves | Total<br>Authority<br>Reserves | Trust<br>Reserves | Total<br>Group<br>Reserves |
|---|-----------------------------|-----------------|-----------------|---|-----------------------------|-------------------------------|--------------------------------|-------------------|----------------------------|
|   | £'000                       | £'000           | £'000           | £'000                                     | £'000                       | See note 27<br>£'000          | £'000                          | £'000             | £'000                      |
| Balance at 31 March 2018  | (11,427)                    | (26,428)        | (23,341)        | (2,033)                                   | (63,229)                    | (267,881)                     | (331,110)                      | (11,872)          | (342,982)                  |
| <b>Movement in reserves during 2018/2019</b>                                      |                             |                 |                 |   |                             |                               |                                |                   |                            |
| Total Comprehensive Income and Expenditure  | 3,255                       | 1,656           | 0               | 0   | 4,911                       | (16,841)                      | (11,930)                       | 74                | (11,856)                   |
| Adjustments between accounting basis and funding basis under regulations (note 8) | (5,265)                     | (5,756)         | (1,927)         | (915)                                     | (13,863)                    | 13,863                        | 0                              | 0                 | 0                          |
| <b>(Increase)/Decrease in 2018/2019</b>   | <b>(2,010)</b>              | <b>(4,100)</b>  | <b>(1,927)</b>  | <b>(915)</b>                              | <b>(8,952)</b>              | <b>(2,978)</b>                | <b>(11,930)</b>                | <b>74</b>         | <b>(11,856)</b>            |
| <b>Balance at 31 March 2019 (carried forward)</b>                                 | <b>(13,437)</b>             | <b>(30,528)</b> | <b>(25,268)</b> | <b>(2,948)</b>                            | <b>(72,181)</b>             | <b>(270,859)</b>              | <b>(343,040)</b>               | <b>(11,798)</b>   | <b>(354,838)</b>           |

## Group Balance Sheet as at 31 March 2019

The Balance Sheet shows the value as at the 31 March of the assets and liabilities of the Council. The net assets (assets less liabilities) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category is usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and to any statutory limitations on their use. The second category is those that the Council is not able to use to provide services. This category of reserves is called unusable reserves (see note 27).

| 31 March 2018                        |      | 31 March 2019          |                       |                  |
|--------------------------------------|------|------------------------|-----------------------|------------------|
| Group<br>£'000                       | Note | Single Entity<br>£'000 | Subsidiaries<br>£'000 | Group<br>£'000   |
| <b>Property, Plant and Equipment</b> |      |                        |                       |                  |
| 403,857                              | 11   | 418,159                |                       | 418,159          |
| 85,634                               |      | 79,459                 | 10,191                | 89,650           |
| 3,239                                |      | 2,840                  | 103                   | 2,943            |
| 567                                  |      | 573                    |                       | 573              |
| 364                                  |      | 218                    |                       | 218              |
| 0                                    |      | 0                      |                       | 0                |
| 10,923                               |      | 365                    |                       | 365              |
| 504,584                              |      | 501,614                | 10,294                | 511,908          |
| 26,116                               | 17   | 26,502                 |                       | 26,502           |
| 1,274                                | 18   | 1,275                  |                       | 1,275            |
| 344                                  |      | 312                    |                       | 312              |
| 4,051                                | 19   | 9,116                  |                       | 9,116            |
| 27                                   |      | 0                      |                       | 0                |
| 536,396                              |      | 538,819                | 10,294                | 549,113          |
| <b>Total Long-Term Assets</b>        |      |                        |                       |                  |
| <b>Current Assets</b>                |      |                        |                       |                  |
| 46,086                               | 19   | 47,017                 |                       | 47,017           |
| 220                                  |      | 274                    |                       | 274              |
| 8                                    |      | 9                      |                       | 9                |
| 8,540                                | 23   | 8,962                  | 19                    | 8,981            |
| 7,456                                | 24   | 9,924                  | 1,495                 | 11,419           |
| 62,310                               |      | 66,186                 | 1,514                 | 67,700           |
| 598,706                              |      | 605,005                | 11,808                | 616,813          |
| <b>Total Current Assets</b>          |      |                        |                       |                  |
| <b>Total Assets</b>                  |      |                        |                       |                  |
| <b>Current Liabilities</b>           |      |                        |                       |                  |
| (3,781)                              | 19   | (4,296)                |                       | (4,296)          |
| (9,990)                              | 25   | (11,384)               | (10)                  | (11,394)         |
| (2,190)                              |      | (1,177)                |                       | (1,177)          |
| (15,961)                             |      | (16,857)               | (10)                  | (16,867)         |
| <b>Total Current Liabilities</b>     |      |                        |                       |                  |
| <b>Long-Term Liabilities</b>         |      |                        |                       |                  |
| (179,840)                            | 19   | (175,617)              |                       | (175,617)        |
| (58,901)                             | 38   | (67,987)               |                       | (67,987)         |
| (1,022)                              |      | (1,504)                |                       | (1,504)          |
| (239,763)                            |      | (245,108)              | 0                     | (245,108)        |
| <b>Total Long-Term Liabilities</b>   |      |                        |                       |                  |
| <b>342,982</b>                       |      | <b>343,040</b>         | <b>11,798</b>         | <b>354,838</b>   |
| <b>Net Assets</b>                    |      |                        |                       |                  |
| <b>Financed by:</b>                  |      |                        |                       |                  |
| (64,661)                             |      | (72,181)               | (1,504)               | (73,685)         |
| (278,321)                            | 27   | (270,859)              | (10,294)              | (281,153)        |
| <b>(342,982)</b>                     |      | <b>(343,040)</b>       | <b>(11,798)</b>       | <b>(354,838)</b> |
| <b>Total Reserves</b>                |      |                        |                       |                  |

## Group 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 or 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, grant income or from 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.

2017/2018

| £'000          |   | Note | 2018/2019<br>Single<br>Entity<br>£'000 | 2018/2019<br>Group<br>Activities<br>£'000 | Group<br>Total<br>£'000 |
|----------------|---|------|--|---|-------------------------|
| <b>442</b>     | <b>Net (Surplus)/Deficit on the Provision of Services *</b>   |      | <b>4,911</b>                           | <b>95</b>                                 | <b>5,006</b>            |
| (21,931)       | Adjustments to net (surplus) or deficit on the provision of services for non-cash movements   | 28   | (24,621)                               | (223)                                     | (24,844)                |
| 9,552          | Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities | 28   | 6,550                                  |   | 6,550                   |
| (11,937)       | <b>Net Cash-flows from Operating Activities</b>   | 31   | (13,160)                               | (128)                                     | (13,288)                |
| 12,487         | <b>Investing Activities</b>   | 29   | 6,973                                  | 62  | 7,035                   |
| 1,341          | <b>Financing Activities</b>   | 30   | 2,290                                  |   | 2,290                   |
| <b>1,891</b>   | <b>Net (increase)/decrease in Cash and Cash Equivalents</b>   |      | <b>(3,897)</b>                         | <b>(66)</b>                               | <b>(3,963)</b>          |
| 9,347          | Cash and Cash Equivalents at the beginning of the reporting period  |      | 6,027                                  | 1,429                                     | 7,456                   |
| 7,456          | Cash and Cash Equivalents at the end of the reporting period  | 24   | 9,924                                  | 1,495                                     | 11,419                  |
| <b>(1,891)</b> | <b>Movement in Cash increase/(decrease)</b>   |      | <b>3,897</b>                           | <b>66</b>                                 | <b>3,963</b>            |

\* See Group Comprehensive Income and Expenditure Statement page 12 and 13.

For notes on the Group Cash-Flow Statement see notes 28-31.

## 6. 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 the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| 2017/2018   |  |   | 2018/2019   |  |   |
|---|--|---|---|--|---|
| Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| £'000   | £'000  | £'000   | £'000   | £'000  | £'000   |
| <b>General Fund</b>   |  |   |   |  |   |
| 3,235   | (473)  | 3,708   | 3,247   | (454)  | 3,701   |
| 2,925   | (615)  | 3,540   | 2,342   | (637)  | 2,979   |
| 737   | (1,494)  | 2,231   | 700   | 33   | 667   |
| 2,403   | 707  | 1,696   | 2,076   | 124  | 1,952   |
| 3,670   | (5,923)  | 9,593   | 3,553   | (4,626)  | 8,179   |
| 1,276   | (309)  | 1,585   | 1,275   | (1,235)  | 2,510   |
| 895   | (133)  | 1,028   | 776   | (137)  | 913   |
| (15,944)  | (4,257)  | (11,687)  | (14,879)  | (11,705)   | (3,174)   |
| <b>(803)</b>  | <b>(12,497)</b>                                      | <b>11,694</b>   | <b>(910)</b>  | <b>(18,637)</b>                                      | <b>17,727</b>   |
| 2,180   | 13,653   | <b>(11,473)</b>   | (5,200)   | 7,616  | <b>(12,816)</b>   |
| <b>1,377</b>  | <b>1,156</b>   | <b>221</b>  | <b>(6,110)</b>  | <b>(11,021)</b>                                      | <b>4,911</b>  |
| <b>Opening Balances as at 1 April 2018</b>                      |  |   |   |  |   |
| (14,730)  |  |   | (11,427)  |  |   |
| (24,502)  |  |   | (26,428)  |  |   |
| <b>(39,232)</b>   |  |   | <b>(37,855)</b>   |  |   |
| <b>Surplus or Deficit in year</b>                               |  |   |   |  |   |
| See MiRS (p14) Net (Increase)/                                  |  |   |   |  |   |
| Decrease before Transfers to                                    |  |   |   |  |   |
| Earmarked Reserves:   |  |   |   |  |   |
| 3,303   |  |   | (2,010)   |  |   |
| (1,926)   |  |   | (4,100)   |  |   |
| <b>1,377</b>  |  |   | <b>(6,110)</b>  |  |   |
| <b>Closing Balances as at 31 March 2019</b>                     |  |   |   |  |   |
| (11,427)  |  |   | (13,437)  |  |   |
| (26,428)  |  |   | (30,528)  |  |   |
| <b>(37,855)</b>   |  |   | <b>(43,965)</b>   |  |   |

For notes on the Expenditure and Funding Analysis see notes 6A to 7

## 6A. Note to the Expenditure and Funding Analysis

| Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts                        | 2018/2019                        |  |                   |                   |
|--|----------------------------------|--|-------------------|-------------------|
|  | Adjustments for Capital Purposes | Net Charge for the Pension Adjustments | Other Differences | Total Adjustments |
|  | Note 1                           | Note 2                                 | Note 3            |                   |
|  | £'000                            | £'000                                  | £'000             | £'000             |
| <b>General Fund</b>  |                                  |  |                   |                   |
| Policy and Governance  | 0                                | (454)                                  | 0                 | <b>(454)</b>      |
| Planning   | (7)                              | (630)                                  | 0                 | <b>(637)</b>      |
| Customer and Corporate   | 87                               | (54)                                   | 0                 | <b>33</b>         |
| Finance  | (21)                             | <b>145</b>                             | 0                 | <b>124</b>        |
| Community  | (4,323)                          | (303)                                  | 0                 | <b>(4,626)</b>    |
| Environment  | (912)                            | (323)                                  | 0                 | <b>(1,235)</b>    |
| General Fund Housing   | 0                                | (137)                                  | 0                 | <b>(137)</b>      |
| <b>Housing Revenue Account</b>   | (11,627)                         | (78)                                   | 0                 | <b>(11,705)</b>   |
| <b>Net Cost of Services</b>  | <b>(16,803)</b>                  | <b>(1,834)</b>                         | <b>0</b>          | <b>(18,637)</b>   |
| Other income and expenditure from the Expenditure and Funding Analysis   | 7,895                            | (1,539)                                | 1,260             | <b>7,616</b>      |
| Difference between Surplus or Deficit and Comprehensive Income & Expenditure Statement (Surplus) or Deficit on the Provision of Services | <b>(8,908)</b>                   | <b>(3,373)</b>                         | <b>1,260</b>      | <b>(11,021)</b>   |

| Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts                        | 2017/2018                        |  |                   |                   |
|--|----------------------------------|--|-------------------|-------------------|
|  | Adjustments for Capital Purposes | Net Charge for the Pension Adjustments | Other Differences | Total Adjustments |
|  | Note 1                           | Note 2                                 | Note 3            |                   |
|  | £'000                            | £'000                                  | £'000             | £'000             |
| <b>General Fund</b>  |                                  |  |                   |                   |
| Policy and Governance  | (18)                             | (455)                                  | 0                 | <b>(473)</b>      |
| Planning   | (5)                              | (610)                                  | 0                 | <b>(615)</b>      |
| Customer and Corporate   | (1,458)                          | (36)                                   | 0                 | <b>(1,494)</b>    |
| Finance  | (32)                             | 739                                    | 0                 | <b>707</b>        |
| Community  | (5,550)                          | (373)                                  | 0                 | <b>(5,923)</b>    |
| Environment  | (37)                             | (272)                                  | 0                 | <b>(309)</b>      |
| General Fund Housing   | 0                                | (133)                                  | 0                 | <b>(133)</b>      |
| <b>Housing Revenue Account</b>   | (4,166)                          | (91)                                   | 0                 | <b>(4,257)</b>    |
| <b>Net Cost of Services</b>  | <b>(11,266)</b>                  | <b>(1,231)</b>                         | <b>0</b>          | <b>(12,497)</b>   |
| Other income and expenditure from the Expenditure and Funding Analysis   | 15,418                           | (1,455)                                | (310)             | <b>13,653</b>     |
| Difference between Surplus or Deficit and Comprehensive Income & Expenditure Statement (Surplus) or Deficit on the Provision of Services | <b>4,152</b>                     | <b>(2,686)</b>                         | <b>(310)</b>      | <b>1,156</b>      |

## 6B. Segmental Income (Single Entity)

This note analyses the **material** revenue income received from external customers on a segmental basis:

| 2017/2018<br>£'000 |                             | 2018/2019<br>£'000 |
|--------------------|-----------------------------|--------------------|
|                    | <b>Income from Services</b> |                    |
| (5,093)            | Environment                 | (5,396)            |
| (28,579)           | Housing Revenue Account     | (28,441)           |
| <b>(33,672)</b>    | <b>Total</b>                | <b>(33,837)</b>    |

## 7. Expenditure and Income analysed by nature (Single Entity)

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

| 2017/2018<br>£'000 |  | 2018/2019<br>£'000 |
|--------------------|--|--------------------|
|                    | <b>Expenditure/Income</b>                                |                    |
|                    | <b>Expenditure</b>                                       |                    |
| 21,155             | Employee costs   | 22,377             |
| 55,329             | Other service expenses                                   | 55,131             |
| (538)              | Support Service recharges *                              | (750)              |
| 15,806             | Depreciation, amortisation & impairment                  | 21,136             |
| 5,638              | Interest payments  | 5,597              |
| 2,927              | Precepts and levies                                      | 3,129              |
| 759                | Payment to Housing Capital Receipts Pool                 | 759                |
| 0                  | Impairment Losses (Financial Assets)                     | 615                |
| <b>101,076</b>     | <b>Total Expenditure</b>                                 | <b>107,994</b>     |
|                    | <b>Income</b>  |                    |
| (49,286)           | Fees, charges and other service income                   | (50,356)           |
| (1,720)            | Interest and Investment Income                           | (2,172)            |
| (12,282)           | Council Tax income                                       | (12,810)           |
| (31,402)           | Government Grants and Contributions                      | (29,217)           |
| (1,788)            | Business Rates distribution                              | (3,866)            |
| (1,323)            | Capital grants and contributions                         | (1,704)            |
| (2,514)            | (Gain)/Loss on disposal of non-current assets            | (2,572)            |
| (540)              | Gain on fair value of Investment Properties              | (386)              |
| <b>(100,855)</b>   | <b>Total Income</b>                                      | <b>(103,083)</b>   |
| <b>221</b>         | <b>(Surplus) or Deficit on the Provision of Services</b> | <b>4,911</b>       |

\* The credit reflects the staff recharges to areas outside of the Net Cost of Services in the Comprehensive Income and Expenditure Statement such as capital schemes.



| <b>Adjustments between accounting basis and funding basis under regulations</b>  |                                     |  |                                      |   |   |  |
|--|-------------------------------------|--|--------------------------------------|---|---|--|
| <b>2018/2019</b>   | <b>Usable Reserves</b>              |  |                                      |   |   | <b>Movement<br/>in<br/>Unusable<br/>Reserves<br/>£'000</b> |
|  | General<br>Fund<br>Balance<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 |  |
| <b>Adjustments to the Revenue Resources</b>  |                                     |  |                                      |   |   |  |
| <b>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</b>                            |                                     |  |                                      |   |   |  |
| Pensions costs (transferred to or from the Pensions Reserve) (see note 38)   | (2,926)                             | (447)                                  |                                      |   |   | (3,373)  |
| Council Tax and NNDR (transfers to or from Collection Fund Adjustment Account)   | 1,260                               |  |                                      |   |   | 1,260  |
| <b>Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):</b> |                                     |  |                                      |   |   |  |
| Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):        | (4,828)                             | (10,201)                               | (6,538)                              |   |   | (21,567)   |
| <b>Total Adjustments to Revenue Resources</b>  | <b>(6,494)</b>                      | <b>(10,648)</b>                        | <b>(6,538)</b>                       | <b>0</b>                                | <b>0</b>                                | <b>(23,680)</b>  |
| <b>Adjustments between Revenue and Capital Resources</b>   |                                     |  |                                      |   |   |  |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES   | 847                                 | 3,331                                  |                                      | (4,178)                                 |   | 0  |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool   | (759)                               |  |                                      | 759                                     |   | 0  |
| Statutory provision for the repayment of debt  | 100                                 |  | 3,708                                |   |   | 3,808  |
| Capital expenditure charged against the General Fund and HRA balances  | 180                                 | 390                                    |                                      |   |   | 570  |
| Other movements  |                                     |  |                                      | (29)                                    |   | (29)   |
| <b>Total Adjustments between Revenue and Capital Resources</b>   | <b>368</b>                          | <b>3,721</b>                           | <b>3,708</b>                         | <b>(3,448)</b>                          | <b>0</b>                                | <b>4,349</b>   |
| <b>Adjustments to Capital Resources</b>  |                                     |  |                                      |   |   |  |
| Use of the Capital Receipts Reserve to finance new capital expenditure   |                                     |  |                                      | 1,521                                   |   | 1,521  |
| Use of the Major Repairs Reserve to finance new capital expenditure  |                                     |  | 3,947                                |   |   | 3,947  |
| Capital grants and contributions unapplied credited to the CIES  | 861                                 | 54                                     |                                      |   | (915)                                   | 0  |
| <b>Total Adjustments to Capital Resources</b>  | <b>861</b>                          | <b>54</b>                              | <b>3,947</b>                         | <b>1,521</b>                            | <b>(915)</b>                            | <b>5,468</b>   |
| <b>Total Adjustments</b>   | <b>(5,265)</b>                      | <b>(6,873)</b>                         | <b>1,117</b>                         | <b>(1,927)</b>                          | <b>(915)</b>                            | <b>(13,863)</b>  |

## Pensions Reserve

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

See Pensions note 38 for further detail

| <b>2017/2018</b>    |  | <b>2018/2019</b>    |
|---------------------|--|---------------------|
| <b>£'000</b>        |  | <b>£'000</b>        |
| 58,205              | <b>Balance at 1 April</b>  | 58,901              |
| (1,989)             | Remeasurements of the net defined benefit liability/(asset) *  | 5,713               |
| 6,204               | 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 | 6,931               |
| (3,519)             | Employer's pensions contributions and direct payments to pensioners payable in the year  | (3,558)             |
| <hr/> 696           | <b>Net Movement in year</b>  | <hr/> 9,086         |
| <hr/> <b>58,901</b> | <b>Balance at 31 March</b>   | <hr/> <b>67,987</b> |

## 28. Cash-Flow Statement - Operating Activities

The Cash-Flow Statement has been prepared using the indirect method. This method derives the revenue cash flow by adjusting the Net (Surplus) or Deficit on the provision of services in the Comprehensive Income and Expenditure Statement to a cash basis.

Adjustments are made for non-cash items which include depreciation and impairments, accruals and the non-cash element of the pensions liability (as set out in the Accounting Policies).

The cash-flows for operating activities includes the following items (on a cash basis):

| 2017/2018 |                   | 2018/2019 |  |
|-----------|-------------------|-----------|--|
| £'000     |                   | £'000     |  |
| 5,626     | Interest paid     | 5,572     |  |
| (487)     | Interest received | (536)     |  |

The (Surplus) or Deficit on the Provision of Services has been adjusted for the following non-cash movements:

| 2017/2018       |  | 2018/2019       |  |
|-----------------|--|-----------------|--|
| £'000           |  | £'000           |  |
| (7,316)         | Depreciation                                       | (7,378)         |  |
| (8,380)         | Impairment and downward valuations                 | (13,656)        |  |
| (113)           | Amortisations                                      | (87)            |  |
| (3)             | Impairment/Revaluation losses on Intangible assets | (15)            |  |
| 44              | (Increase)/Decrease in Impairment Allowance        | (407)           |  |
| (125)           | (Increase)/Decrease in Creditors                   | (1,616)         |  |
| 2,834           | Increase/(Decrease) in Debtors                     | 2,117           |  |
| 2               | Increase/(Decrease) in Inventories                 | 1               |  |
| (2,685)         | Pensions liability                                 | (3,373)         |  |
| (5,266)         | Carrying amount of non-current assets sold         | (1,606)         |  |
| (1,370)         | Provisions   | 1,013           |  |
| 540             | Movements in the value of Investment Properties    | 386             |  |
| 151             | Donated Assets                                     | 0               |  |
| <b>(21,687)</b> | <b>Total non-cash movements</b>                    | <b>(24,621)</b> |  |

The (Surplus) or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

| 2017/2018    |   | 2018/2019    |  |
|--------------|---|--------------|--|
| £'000        |   | £'000        |  |
| 449          | Proceeds from Short-term Investments (cash interest on investments) | 668          |  |
| 7,780        | Proceeds from the sale of Property, Plant and Equipment             | 4,178        |  |
| 1,323        | Grants received for financing of capital expenditure                | 1,704        |  |
| <b>9,552</b> |   | <b>6,550</b> |  |

## 38. Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The Council participates in The Local Government Pension Scheme (LGPS) which is administered by Surrey County Council. It is a funded defined benefit salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets in the long term. The current scheme operates under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Pension Board of Surrey County Council.

In order to ensure that funds are sufficient to cover potential liabilities Surrey County Council employs an actuary who undertakes a formal valuation of the Fund on a triennial basis. The actuary determines appropriate employer's contributions to the Fund to cover the service of current staff for the following three years and backfunding payments required to cover the shortfall relating to past service.

The figures disclosed below have been prepared by Hymans Robertson LLP, the Actuary to the Surrey Pension Fund, and have been produced in accordance with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, which came into force on 1 July 2017.

The Actuary has used the 'projected unit credit' method of valuation to project the valuation results of the latest formal valuation date forward to 31 March 2019 using approximation methods. The roll-forward allows for changes in financial assumptions, additional benefit accrual and estimated cash flows over the period.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note (1.7).

In the Council's opinion, the assumptions made by the Actuary, including rates of return on assets, discount rates, inflation and life expectancy are appropriate. There were no special factors regarding the Council's profile that would be likely to have a material impact upon the Actuary's figures.

Further information relating to the Surrey Pension Fund can be found in the Pension Fund's Annual Report which is available from Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston-Upon-Thames, KT1 2DN (website [www.surreypensionfund.org](http://www.surreypensionfund.org)).

### Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2017/2018  
£'000

2018/2019  
£'000

### Comprehensive Income and Expenditure Statement

|   |  |               |
|---|--|---------------|
| Cost of Services:   |  |               |
| 4,673   | Current Service Cost   | 4,740         |
| 76  | Past Service Cost  | 652           |
| Financing and Investment Income and Expenditure:  |  |               |
| 1,455   | Net interest expense   | 1,539         |
| <b>6,204</b>  | <b>Total Post-employment Benefits charged to the (Surplus) or Deficit on the Provision of Services</b> | <b>6,931</b>  |
| <br>  |  |               |
| <b>Other Post-employment Benefits charged to Comprehensive Income and Expenditure Statement</b> |  |               |
| Remeasurement of the net defined benefit liability comprising:                                  |  |               |
| 847   | Return on assets (excluding the amount included in net interest expense)                               | (3,675)       |
| 0   | Actuarial losses/(gains) arising on changes in demographic assumptions                                 | 0             |
| (2,874)   | Actuarial losses/(gains) arising on changes in financial assumptions                                   | 9,314         |
| 38  | Other experience losses/(gains)  | 74            |
| <b>(1,989)</b>  | <b>Total remeasurement of the net defined benefit liability loss / (gain)</b>                          | <b>5,713</b>  |
| <b>4,215</b>  | <b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>    | <b>12,644</b> |

### Movement in Reserves Statement

#### General Fund Balance

|         |   |         |
|---------|---|---------|
| (4,683) | Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post-employment benefits in accordance with the code | (5,420) |
|---------|---|---------|

Actual amount charged against the General Fund Balance:

|       |  |       |
|-------|--|-------|
| 2,451 | Employers' contributions payable to scheme | 2,494 |
|-------|--|-------|

#### Housing Revenue Account Balance

|         |   |         |
|---------|---|---------|
| (1,521) | Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post-employment benefits in accordance with the code | (1,511) |
|---------|---|---------|

Actual amount charged against the HRA Balance for pensions in the year:

|       |  |       |
|-------|--|-------|
| 1,068 | Employers' contributions payable to scheme | 1,064 |
|-------|--|-------|

## Balance Sheet Disclosures

### Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

| 31 March 2018   |                                 | 31 March 2019   |  |
|-----------------|---------------------------------|-----------------|--|
| £'000           |                                 | £'000           |  |
| (168,422)       | Estimated liabilities in scheme | (183,051)       |  |
| 109,520         | Estimated assets in scheme *    | 115,064         |  |
| <b>(58,902)</b> | <b>Net asset/(liability) *</b>  | <b>(67,987)</b> |  |

The liabilities show the underlying commitments that the Council has to pay retirement benefits. The net liability of £68.0 million has an impact on the theoretical net worth of the Council as recorded in the Balance Sheet. In order to reduce the deficit on the Council's element of the Fund, the Council is required to make annual backfunding contributions to the Fund in addition to contributions relating to current service.

\* The Council's element of the Fund assets as at 31 March 2019 differs from the Actuary's estimate by £573,000 to reflect the actual cumulative payments made to the Fund. The net liability shown here is therefore £573,000 higher than the actuarial figure of £67.414 million.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the 'projected unit credit' method, as required under IAS19.

The main assumptions used by the Actuary in the calculations have been:

| 31 March 2018 |   | 31 March 2019 |  |
|---------------|---|---------------|--|
| 2.7%          | Rate of increase in salaries  | 2.8%          |  |
| 2.4%          | Rate of increase in pensions  | 2.5%          |  |
| 2.6%          | Rate for discounting scheme liabilities   | 2.4%          |  |
| 25%/63%       | Take-up of option to convert annual pension into retirement grant (pre/post April 2008) | 25%/63%       |  |

### Life Expectancy

Historic Life expectancy is based on the Fund's VitaCurves, with improvements in line with the Chartered Management Institute (CMI) 2013 Model assuming the current rate of improvements has peaked and will converge to a long-term rate of 1.25% p.a.

Longevity:

| 31 March 2018 |            |                     | 31 March 2019 |            |  |
|---------------|------------|---------------------|---------------|------------|--|
| Males         | Females    |                     | Males         | Females    |  |
| 22.5 years    | 24.6 years | Current Pensioners  | 22.5 years    | 24.6 years |  |
| 24.1 years    | 26.4 years | Future Pensioners * | 24.1 years    | 26.4 years |  |

\* Figures assume members aged 45 as at the last formal valuation date

## Fund Assets

Assets in the Surrey Pension Fund are valued at bid value as required under IAS19. The figures for the Council represent a proportionate share of the Fund as a whole.

| 31 March 2018  | Assets<br>Total                 | Period ended 31 March 2019                     |  |                |
|----------------|---------------------------------|--|--|----------------|
|                |                                 | Quoted prices<br>in active<br>markets<br>£'000 | Quoted prices<br>not in active<br>markets<br>£'000 | Total<br>£'000 |
|                | £'000                           |  |  |                |
|                |                                 | <b>Equity investments</b>                      |  |                |
| 8,930          | Consumer                        | 3,131  |  | 3,131          |
| 8,095          | Manufacturing                   | 2,009  |  | 2,009          |
| 4,438          | Energy & Utilities              | 1,782  |  | 1,782          |
| 7,787          | Financial Institutions          | 1,794  |  | 1,794          |
| 2,941          | Health & Care                   | 1,532  |  | 1,532          |
| 6,200          | Information Technology          | 3,424  |  | 3,424          |
| 224            | Other                           | 305  |  | 305            |
|                |                                 | <b>Debt Securities</b>                         |  |                |
| 3,821          | Corporate Bonds (investment gr: | 0  |  | 0              |
| 241            | Corporate Bonds (non-investmer  | 0  |  | 0              |
| 224            | UK Government                   | 0  |  | 0              |
| 506            | Other                           | 0  |  | 0              |
| 4,620          | <b>Private Equity</b>           | 0  | 6,855  | 6,855          |
|                |                                 | <b>Real Estate</b>                             |  |                |
| 6,259          | UK Property                     | 2,088  | 3,397  | 5,485          |
| 41             | Overseas Property               | 0  | 2,006  | 2,006          |
|                |                                 | <b>Investment Funds &amp; Unit Trusts</b>      |  |                |
| 30,524         | Equities                        | 55,430   | 7,955  | 63,385         |
| 12,032         | Bonds                           | 13,861   | 5,455  | 19,316         |
|                |                                 | <b>Derivatives</b>                             |  |                |
| (3)            | Interest Rate                   | 0  |  | 0              |
| 156            | Foreign Exchange                | 675  |  | 675            |
| 13,040         | <b>Cash &amp; Equivalent</b> s  | 3,938  |  | 3,938          |
| <b>110,076</b> |                                 | <b>89,969</b>                                  | <b>25,668</b>                                      | <b>115,637</b> |

## Actuary's Estimated Movements in Deficit during the Year

| 2017/2018<br>£'000 |   | 2018/2019<br>£'000 |
|--------------------|---|--------------------|
| (57,658)           | Opening Position as at 1 April                              | (58,346)           |
| (4,673)            | Current Service Cost  | (4,740)            |
| (76)               | Past Service Cost   | (652)              |
| 3,393              | Employer Contributions                                      | 3,438              |
| 134                | Contributions in respect of Unfunded Benefits               | 138                |
| (1,455)            | Net Return on Assets  | (1,539)            |
|                    | Actuarial Remeasurements:                                   |                    |
| (847)              | Actual Return less Expected Return on Pension Scheme Assets | 3,675              |
| 2,874              | Changes in Financial Assumptions                            | (9,314)            |
| (38)               | Other Experience  | (74)               |
| <b>(58,346)</b>    | <b>Deficit at end of Year</b>                               | <b>(67,414)</b>    |

## Reconciliation of Defined Benefit Obligation - Estimated by Actuary

| 2017/2018<br>£'000 |  | 2018/2019<br>£'000 |
|--------------------|--|--------------------|
| 166,760            | Opening Position as at 1 April                   | 168,422            |
| 4,673              | Current Service Cost                             | 4,740              |
| 76                 | Past Service Cost                                | 652                |
| 4,170              | Interest Cost                                    | 4,387              |
|                    | Actuarial Losses:                                |                    |
| (2,874)            | Changes in Financial Assumptions                 | 9,314              |
| 38                 | Other Experience                                 | 74                 |
| 758                | Member Contributions                             | 800                |
| (5,045)            | Estimated Benefits Paid                          | (5,200)            |
| (134)              | Estimated Unfunded Benefits Paid                 | (138)              |
| <b>168,422</b>     | <b>Defined Benefit Obligation at end of Year</b> | <b>183,051</b>     |

## Reconciliation of Fair Value of Employer Assets - Estimated by Actuary

| 2017/2018<br>£'000 |   | 2018/2019<br>£'000 |
|--------------------|---|--------------------|
| 109,102            | Fair Value of Employer Assets at beginning of Year          | 110,076            |
| 2,715              | Interest Income on Plan Assets                              | 2,848              |
| (847)              | Actual Return less Expected Return on Pension Scheme Assets | 3,675              |
| 3,393              | Employer contributions                                      | 3,438              |
| 134                | Contributions in respect of Unfunded Benefits               | 138                |
| 758                | Member Contributions  | 800                |
| (5,045)            | Estimated Benefits Paid                                     | (5,200)            |
| (134)              | Estimated Unfunded Benefits Paid                            | (138)              |
| <b>110,076</b>     | <b>Fair Value of Employer Assets at end of Year</b>         | <b>115,637</b>     |



## Recognition in the Profit or Loss

| 31 March 2018<br>£'000 |                                    | 31 March 2019<br>£'000 |
|------------------------|------------------------------------|------------------------|
| 4,673                  | Current Service Cost               | 4,740                  |
| 4,170                  | Interest Cost                      | 4,387                  |
| (2,715)                | Expected Return on Employer Assets | (2,848)                |
| 76                     | Past Service Cost                  | 652                    |
| <b>6,204</b>           | <b>Total</b>                       | <b>6,931</b>           |

## Summary of Scheme Position over past Five Years - Actuarial Figures

|  | 31 March 2015<br>£'000 | 31 March 2016<br>£'000 | 31 March 2017<br>£'000 | 31 March 2018<br>£'000 | 31 March 2019<br>£'000 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Fair Value of Assets                     | 96,317                 | 96,239                 | 109,102                | 110,076                | 115,637                |
| <u>Less</u> Present Value of Liabilities | (147,683)              | (141,696)              | (166,760)              | (168,422)              | (183,051)              |
| <b>Surplus/(Deficit) in Scheme</b>       | (51,366)               | (45,457)               | (57,658)               | (58,346)               | (67,414)               |

## Projected Pension Expense for the Year to 31 March 2020

|                                     | 31 March 2020 |              |
|-------------------------------------|---------------|--------------|
|                                     | % of pay      | £'000        |
| Projected Current Service Cost      | 45.5%         | 5,257        |
| Income Interest on Plan Assets      | -23.9%        | (2,760)      |
| Interest cost on Scheme Obligations | 38.1%         | 4,399        |
| <b>Total</b>                        | <b>59.7%</b>  | <b>6,896</b> |

The Actuary estimates the Council's Employer's Contributions for the Year to 31 March 2020 will be £3,377,000.

## Maturity Profile of Defined Benefit Obligation

|                   | Liability Split |        | Weighted Average Duration (years)* |
|-------------------|-----------------|--------|------------------------------------|
|                   | £'000           | %      |                                    |
| Active Members    | 70,025          | 38.6%  | 22.6                               |
| Deferred Members  | 39,845          | 22.0%  | 22.1                               |
| Pensioner Members | 71,528          | 39.4%  | 10.8                               |
| Total             | 181,398         | 100.0% | 16.0                               |

\* weighted average duration at most recent actuarial valuation

## Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

| Change in Assumptions at year ended 31 March 2019 | Approximate % increase to Employer Liability | Amount £'000 |
|---|--|--------------|
| 0.5% decrease in Real Discount Rate               | 9%   | 16,890       |
| 0.5% increase in the Salary Increase Rate         | 1%   | 1,856        |
| 0.5% increase in the Pension Increase Rate        | 8%   | 14,798       |

The sensitivity analysis below shows the new Defined Benefit Obligation if the changes in assumptions were realised.

|  | Defined Benefit Obligation £'000 |
|--|----------------------------------|
| No change to assumptions               | 183,051                          |
| 0.5% decrease in Real Discount Rate    | 199,941                          |
| 0.5% increase in Salary Increase Rate  | 184,907                          |
| 0.5% increase in Pension Increase Rate | 197,849                          |

## 39. Provisions, Contingent Liabilities and Contingent Assets

As at 31 March 2019 the Council has no material provisions, contingent liabilities or contingent assets. It does however have a provision of £1,176,600 for losses on backdated Business Rates appeals relating to the 2010 and the 2017 Rating Lists. See also note 4 to the Collection Fund on page 92.

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Direct line: 01483 523099  
Ref: GC/SED/6.19  
Date: 22 July /2019

Dear Sirs

**Waverley Borough Council  
Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Waverley Borough Council and its subsidiary undertakings, Shottermill Recreation Ground and the Ewart Bequest, for the year ended 31 March 2019 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 2018/19 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**

We have fulfilled our responsibilities for the preparation of the 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 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

- 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 2018/19 ("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.
- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the 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.
- vii. 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.
- viii. 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.
- ix. 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.
- x. We have considered the adjusted misstatement schedule included in your Audit Findings Report and acknowledge the impact of the McCloud judgement on the value of Waverley's pensions fund held by SCC. This judgement was announced subsequently to the completion of the pre-audit statement of accounts. The group and parent Council financial statements have been amended for this misstatement misclassification and disclosure changes.
- xi. The group and parent Council financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. 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.
- xiv. 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**

- xv. 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.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xviii. 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.
- xix. 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.
- xx. 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.
- xxi. 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.
- xxii. 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.
- xxiii. 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**

- xxiv. 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**

- xxv. 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 Audit Committee at its meeting on 22 July 2019.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of Waverley Borough Council**