Colchester Borough Council

Statement of Accounts

2017/18

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Organisational overview and external environment

Colchester Borough Council continues to plan ahead in response to the many challenges and opportunities which face local government. With the continuing reduction in government funding, the Council is seeking to be innovative and forward-thinking in how it generates the income streams needed to support services which local residents and businesses depend and rely on.

The Council took early action in addressing the financial challenges facing the public sector. We have delivered around £15 million of savings/additional income from 2011/12 to 2017/18 through service reviews, new ways of working and a more commercial approach. Examples of converting assets into revenue-generating opportunities and attracting investment include the delivery of ultrafast broadband in the town centre, Amphora Place in Sheepen Road and the development of Colchester's Northern Gateway. This approach helps us to support the frontline services that will always retain a public sector ethos, supporting the more vulnerable groups in our communities.

In 2018/2019 the Council will see a £645,000 reduction in its Revenue Support Grant from Government. Reforms to New Homes Bonus payments means this grant will reduce by £1.34m next year, with further reductions of £1.3m forecast over the following three years. Looking over a longer period, the Council's core Revenue Support Grant has been cut from £5.7m in 2015/16 to £285,000 next year.

Colchester's vision, as set out in our Strategic Plan 2015-18, is about having a rich heritage and an ambitious future as a vibrant, thriving, prosperous and welcoming place.

As one of the UK's largest boroughs and fastest growing towns, Colchester is focused on sustainable economic investment which delivers improved life opportunities, employment, infrastructure and facilities for our communities. Our ambitious regeneration programme has encouraged greater inward investment and is helping to make Colchester an important and exciting urban centre both in Essex and the region. The Council is currently working on a new Local Plan to guide future development up to 2033.

We have an influential role in shaping our place regionally and our communities locally. Partnership working is key to making things happen and we work hard to make and maintain positive relationships across the public, private and third sectors. Our successful collaborations with others include the innovative Community Hub, Safer Colchester Partnership and North Essex Parking Partnership. For the future, we are working with Braintree and Tendring Councils on three Garden Communities which have the potential to deliver homes for about 80,000 people in 35,000 new dwellings - equivalent to a town the size of Bath - over a twenty to thirty year period, together with transformational new infrastructure and considerable local economic growth opportunities along the A120 corridor.

A national report The Geography of Creativity in the UK highlighted a boom in the growth and significance of creative industries here. Colchester is 8th in the country for Creative Industries' importance in terms of drawing people in to work in the sector from a wider area. Colchester also ranks 20th in the UK for high concentration and growth - beating places such as Brighton and Newcastle.

We want to continue to be a high performing Council with motivated employees who are proud to work here and make a difference to people's lives. Colchester Borough Council (CBC) has three core goals:

- **Customer –** Help our customers access our services and deliver on our communities' needs.
- **Business –** Become commercially focused and even more business-like in order to be free of government grant.
- **Culture –** Inspired staff who do the right things and are proud to work for the Council.

Business model

Colchester Borough Council adopted a Strategic Plan for 2015-18. The plan, which is available on our website at www.colchester.gov.uk, sets out the direction and potential for our borough.

The Council reviewed its strategic direction and agreed a new Our Colchester - Strategic Plan 2018-21 in February 2018. An action plan is being developed and will be published as part of that webpage. The new Strategic Plan for 2018-21 will set out the Council’s priorities under these four themes:

- **Growth –** Ensuring all residents benefit from the growth of the borough.
- **Responsibility –** Encouraging everyone to do their bit to making our borough even better.
- **Opportunity –** Promoting and improving Colchester and its environment.
- **Wellbeing –** Making Colchester an even better place to live and supporting those who need most help.

More information about performance is shown in the following two pages.

Business model - performance

A wide range of actions is in place to achieve the ambitions in the Strategic Plan 2015-18. These involve most teams within the Council along with many partner organisations**. This Action Plan is reported to councillors twice a year**. The full-year's progress will be available in July 2018 at www.colchester.gov.uk (Scrutiny Panel). Highlights include:

Vibrant	Prosperous	Thriving	Welcoming
The draft Local Plan was published after consultation, and proceeded to examination stage in January 2018. This Plan will provide the strategy for the growth of the borough to 2033 and beyond, setting out what development will take place and where. Priory Street car park refurbishment has highlighted and lit the adjoining Roman Wall. A Masterplan for the land to the East of Via Urbis Romana has been completed. This aims to deliver comprehensive employment and housing development.	The initial part of the Inward Investment campaign has been fully delivered. Setting up a website, LinkedIn Page and re-branding of Twitter, allowed for more scope to deliver key messages about Colchester and its ambitions to business stakeholders. We have successfully worked with Colchester Borough Homes on the delivery of the Enoch House sheltered housing refurbishment project that completed in July 2017. 88 new affordable homes had been delivered. With 206 homes built in 2015/16 and 2016/17, this means Colchester is well placed to deliver its 255 homes' target by 2018.	The first cohort of apprentices under the new Apprenticeship Levy joined the Council in September. Colchester and Ipswich Museums (CIMS) has been awarded National Portfolio Organisation (NPO) status from 2018-22. This will see approx. £200k a year awarded to CIMS from Arts Council England to enhance its programme. The Council continued work with late-night economy providers to ensure the town continues to offer varied experiences in a well-managed environment, working together to promote the town as a whole rather than individually.	The Safer Colchester Partnership continues to work effectively together to deliver campaigns such as Crucial Crew and Community Action Days across the borough. Communications campaigns underway to support new residents in creating a CBC online account and accessing our online services as well as registering to vote and memberships at Leisure World. The new *If Our Walls Could Talk* tourism campaign launched in June 2017. It showcases the heritage and culture of Britain's oldest recorded town through the story of its many walls, both old and new, permanent and temporary.

Awards and accreditations

Council-wide accreditations include being a Living Wage and Investor in People employer, with in-year achievements including an EU Broadband award from the European Commission and 'Large Employer of the Year' at the Easton and Otley College Apprenticeship Awards 2018. The Council also achieved service-based awards including LEXCEL for legal standards, Green Flag for parks and open spaces, GeoPlace for address data quality, with recognition for our museums from TripAdvisor, Primary Times, Essexmums.com and VisitEngland.

Datashare

The Council uses an online tool called Datashare to improve openness and accessibility. It enables people to view and download a range of council databases and performance information at whatever time they choose, and all in one place.

Key performance indicators

The Council has 13 indicators which summarise its overall performance, and are reported to Councillors twice a year. The 2017/18 results are shown below. The full-year's progress will be available in July 2018 at www.colchester.gov.uk (Scrutiny Panel).

Area	Indicator	RAG status – performance against the target	
		2016/17	2017/18
Planning Key Indicators	Processing of planning applications (three indicators)	Green	Green
Benefits Key Indicators	Time to process housing benefit new claims and changes (two indicators)	Green	Green
Housing Key Indicators	Net additional homes provided	Green	Green
	Affordable homes delivered (gross)	Green	Green
	Homelessness cases prevented	Green	Green
	Rent collected	Green	Green
	Average time to re-let council homes	Green	Green
Waste and Recycling Key Indicators	Residual household waste per household	Red	Green
	Household waste reused, recycled and composted	Red	Green
	Number of weekly missed collections	Green	Red
Resources and Organisational Key Indicators	Council Tax collected	Green	Green
	Business Rates (NDR) collected	Green	Green
	Sickness rate in working days	Red	Green

Principal risks and uncertainties

The aim of the Council is to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks across all processes to ensure risks are properly considered and reduced as far as practicable. In broad terms risks are split into three categories:

- Strategic – those risks relating to the long term goals of the Council.
- Operational – risks related to the day-to-day operation of each individual service.
- Project – consideration of the risks relating to specific initiatives.

Strategic risks are essentially those that threaten the long term goals of the Council and therefore are mainly based around meeting the objectives of the Strategic Plan. They may also represent developing issues that have the potential to fundamentally affect service provision, such as changes in central government policy. Strategic risks are owned by members of the Senior Management Team.

The Strategic Risk Register groups risk together under themes of Ambition, Customers, People, Horizon Scanning, Partnerships and Assets. The highest scoring risks or key risk areas identified include:

- Potential impact of future central government decisions to reduce public funding, including that of our partners.
- Failure or inappropriate performance management of one or more strategic partnerships or key contracts.
- The Council is unable to effectively influence changes in the Borough economy.
- The increasing expectations of our customers, set alongside the financial constraints will create challenges to service delivery, our channel shift ambitions and the reputation of the authority.
- Unable to compete with the private sector in the recruitment (and retention) of staff with key marketable skills.
- Staff motivation declines with an impact on service delivery, our capacity to make changes and implementation of budget efficiencies.
- Not taking or creating opportunities to maximise efficient service delivery through shared provision, partnerships or commercial delivery.
- Change of direction / policy within key partner organisations and they revise input / withdraw from projects.
- Potential inability to agree shared outcomes/ agendas with partners and the Council’s ability to influence partner’s performance.
- Inability to deliver the budget strategy as planned.
- Failure to set aside sufficient capital funds for strategic priorities.
- The outcome of the referendum to leave the European Union is leading to a number of uncertainties. It is currently unclear how this will impact on the Council, our communities and businesses. However, it does raise a potential set of risks that will need to be monitored.
- Risk that asset management is not fully linked to strategic priorities and not supported by appropriate resources.
- Failure to protect public funds and resources – ineffective probity / monitoring systems.
- Significant reliance on our ICT presents challenges in maintaining customer service in the event of service interruptions.
- Increasing demands around information security create a risk in the event that security breaches occur.

Actions are identified for all strategic risks, and monitored and reported to Governance and Audit Committee twice a year.

Governance

The Council is required to produce an Annual Governance Statement which sets out its governance controls and identifies any improvements that need to be implemented. The Governance and Audit Committee considers the Annual Governance Statement, for the previous financial year, in June and a further progress report is provided in December each year.

The Council's governance arrangements remained significantly the same in 2017/18 to the previous year. Full details are shown on the website at Annual Governance Statements, Corporate Governance and The Constitution.

Resource allocation

The 2017/18 Revenue Budget Process

The Revenue Budget for 2017/18 was prepared against a background of meeting the Council's Strategic Plan objectives whilst continuing to face significant financial pressures from the reductions in core Government funding. Every effort was made to produce a balanced budget that included a deliverable level of savings and income and provided for investment in key services. This was achieved through a budget strategy that resulted in:

- the delivery of savings through the service review process including delivering channel shift.
- making efficiencies through specific budget reviews and business plans.
- maximising new and existing income streams.
- recognising cost pressures and making decisions on budget changes where necessary.

The budget included savings, budget reductions or additional income of almost £3 million. This compared to £1.5 million included within the 2016/17 budget. The majority of the savings were based on proposals to work more efficiently and to maximise opportunities to increase income and through an exercise that reviewed previous years outturn figures. It was also necessary to reduce the level of funds made available for one-off investment due to the reduction in the grant received from the New Homes Bonus.

Core Government funding in 2017/18 was reduced by £1 million, with a further cut of £0.5 million in 2018/19.

The New Homes Bonus was introduced in 2011/12, and in 2018/19 the Council is due to receive £3.4 million. At this level, the New Homes Bonus has to be considered as a significant part of the Council's overall budget. The Council recognised that the future of New Homes Bonus was a financial risk, and as part of the 2017/18 and 2018/19 budget the amount of the grant used to support the 'base budget' has reduced. In 2018/19 we are using £1.2 million (36%) of the New Homes Bonus to support the base budget.

The 2017/18 budget included a significant level of investment predominantly funded through the New Homes Bonus. This included funding for projects that will support the delivery of the Strategic Plan, deliver increased income and support the community.

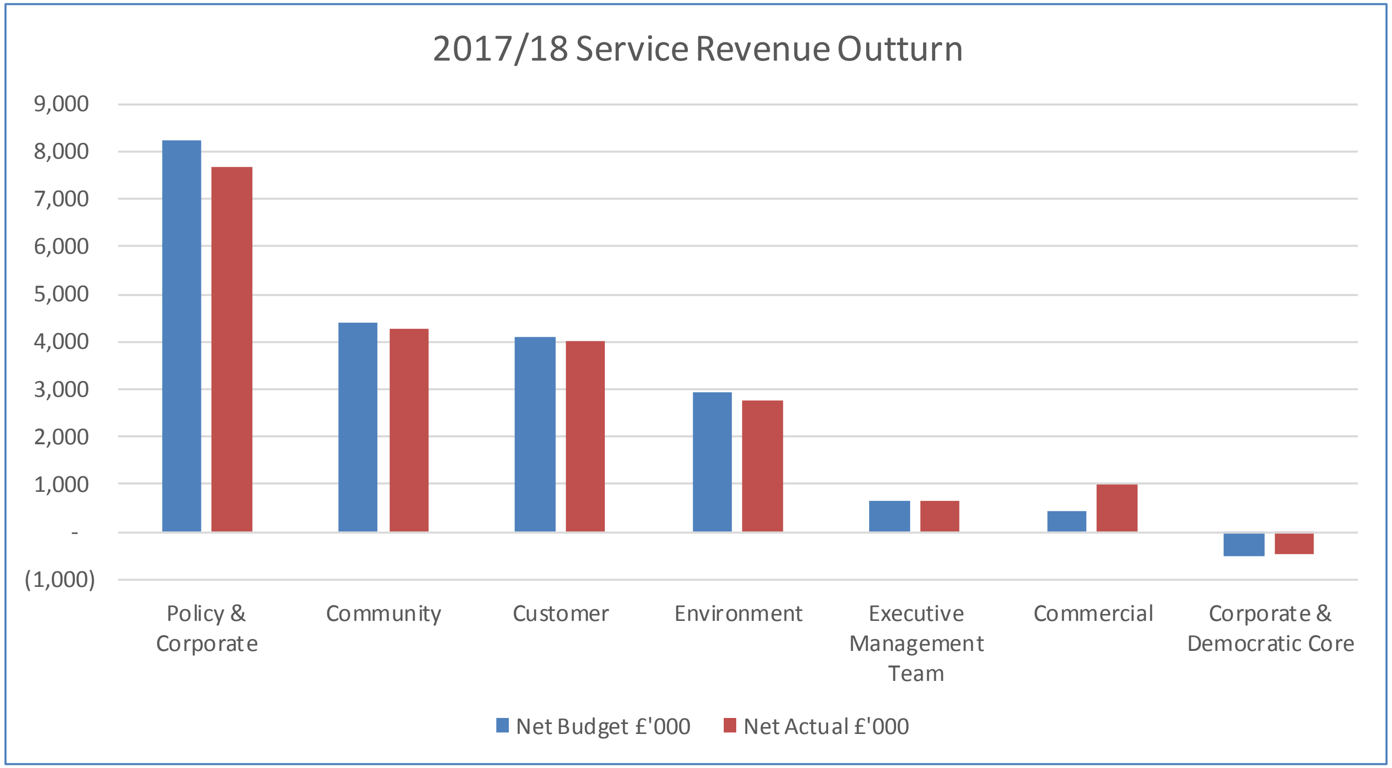
Revenue spending

The General Fund revenue account outturn position for 2017/18 shows an underspend after identified budget carry forwards of £0.1 million. The main areas that have resulted in this position include:

- One-off revenue gains through external grants and other general items.
- Net Income targets not met in respect of trading services and planning.
- Delivery of additional income from parking and commercial investment properties
- Reduced net benefit costs.

The provisional outturn position for the Council's General Fund services (before budget carry forward items) is a total net spend of £19.9 million compared to a budget of £20.3 million. The provisional outturn position for the Housing Revenue Account (before budget carry forward items) is a net income of £959,000 compared to budgeted net expenditure of £46,000. The combined outturn position of £18.974 million is reflected in the Expenditure and Funding Analysis.

The position for General Fund services is set out in the following graph:



The 2018/19 budget was based on the assumption that the 2017/18 outturn could be overspent by £0.2 million. It was reported to Governance and Audit Committee in March that the end of year outturn position was forecast to be a net overspend of under £0.1 million, and as such it was envisaged that the final position could still be managed within the original budget assumption. The final position therefore reflects an improvement, and the additional impact on balances will be considered by Cabinet.

Budget monitoring

A budget system is used for monitoring revenue spending in the year, and collating forecasts for the year end position. Regular monitoring reports on the revenue position, highlighting the significant risk areas, were submitted to the Scrutiny Panel and Audit and Governance Committee throughout the year.

Housing Revenue Account (HRA)

The Council is the major provider of rented housing in the borough and manages 5,945 properties. The Housing Revenue Account Financial Statement for 2017/18 shows a net contribution to balances for the year of £0.96 million. At the 2017/18 year end the Housing Revenue Account balance is £3.9 million, a significant part of which is earmarked to support future capital spending.

Capital spending

Capital spending is on items which have a value to the Council or the community for more than a year and is generally met from loans, revenue or the proceeds of sale of capital assets. Capital spending for the 2017/18 financial year totalled £17.0 million (compared to £22.1 million in 2016/17). The expenditure can be broken down as:

Council Housing	£7.5 million
Revolving Investment Fund (RIF)	£3.3 million (including £1.7million on development of the Northern Gateway of which £0.9 million was for the new sports development, £0.5 million on Town Centre projects and £0.75million towards the development of two office blocks in Sheepen Road)
Other General Fund	£6.2 million (including £0.6 million on the provision of Disabled Facilities Grants, £1m on improvements to Colchester Leisure World, £0.6 million on the provision of bins for the new waste strategy, £0.7 million on relocating the Museum Resource Centre to Heckworth Close, £0.7 million on converting the former Garrison Gymnasium building for community use, and a £0.5 million grant for refurbishing Stanway Village Hall)

Capital Funding

Of the total funding of the programme, £2.8 million was funded from the application of capital receipts, £2.9 million from external grants and contributions, with the remainder mainly coming from General Fund and HRA revenue funding (including £5.2 million from the Major Repairs Reserve, and £2.3 million from the Capital Expenditure Reserve).

Capital Receipts continue to provide a significant resource to support capital spending plans, and sums received in 2017/18 totalled £5.0 million. Receipts from sales of Council houses were similar to 2016/17, with £4.2 million received in 2017/18. Under the Capital Receipts Pooling regulations which came into effect from 1 April 2012, local authorities are able to retain a greater proportion of the income they receive from the sale of dwellings. This is dependent on these additional receipts being reinvested in the provision of new affordable housing, along with an allowance for the provision for repayment of HRA debt. In 2017/18, £2.4 million has been reserved for new build, £1.2 million was reserved for other purposes and £0.5 million was pooled and paid over to the Government. Other capital receipts are fully available to the Council's Capital Programme, and £0.7 million was received in 2017/18 from the sale of various sites.

There is an accumulated balance of £0.3 million in the Capital Receipts Reserve, which will support capital spending from 2018/19 onwards. The Council continues to review its asset portfolio and there are a number of planned land and property transactions which will generate sufficient capital receipts to support the anticipated Capital Programme.

During 2017/18 the Capital Programme has increased by £63 million. This includes new schemes of £29 million relating to Amphora Housing, annual funding for the Housing Investment Programme of £11 million, £7 million additional funding for the Northern Gateway Sports Hub, £6 million for the Northern Gateway Heat Network, the purchase of new fleet vehicles totalling £4 million, funding for a Temporary Accommodation project of £3 million and £2 million for the second phase of the Sheepen Road development.

Revenue Balances

During the year the Council undertook a review to determine the appropriate level of balances. Balances are required to cover a number of potential unforeseen eventualities and risks of additional expenditure being required over and above that allowed for within budgets. This review was based on identifying and then evaluating all potential risks. The exercise identified the minimum prudent level of balances required as £1.9 million. It was agreed to retain balances at £2.2 million when planning the 2018/19 budget.

As at 31 March 2018 the Council's General Fund balances stood at £5.5 million, of this £2.5 million is uncommitted or unallocated. The balances position will be reviewed as part of our ongoing financial planning and monitoring.

Provisions and contingencies

Provisions totalling £2.6 million (2016/17: £2.2 million) have been included within the Statement of Accounts to meet the estimated cost to the Council of outstanding insurance claims and Non-Domestic rating appeals for which the actual cost of individual claims and the timing of payments are uncertain.

Treasury Management

The Local Government Act 2003 gave councils the freedom to determine how much they borrow for investment in new capital projects, subject to a regulation that such borrowing complies with the 'Prudential Code for Capital Finance in Local Authorities'. The Prudential Code looks to ensure affordability, prudence and sustainability in relation to determined borrowing limits. The Council determined the required Prudential Code indicators and Treasury Management Strategy as part of the budget process for 2017/18. The borrowing and investment activities undertaken in the year are in accordance with these determinations.

As investment rates were below long-term borrowing rates, value for money considerations indicated that new external borrowing should be avoided, and internal cash balances should be used to finance new capital expenditure. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. However, against this, the long-term saving resulting from borrowing at very low rates needs to be considered. Consequently this approach was kept under review, and due to the overall financial position and the underlying need to borrow for capital purposes, new long-term external borrowing of £5 million was undertaken from the PWLB and other Local Authorities during the year. The total loan debt was £142.9 million at the year-end, whilst funds invested that were not classed as 'cash equivalents' totalled £34.6 million.

Pension liabilities

The full reporting arrangements for pension costs are included in the Statement of Accounts. There are extensive notes included with the relevant statements. The overall aim is to give a clearer picture of both the current cost of the pension scheme and the potential long term implications. However, the overall amount to be met from Government grants and local taxation remains unchanged. The Council's share of the assets and liabilities of the pension fund show an estimated £102.8 million shortfall at 31 March 2018. Whilst this figure is substantial it should be remembered that:

- It is not an immediate deficit that has to be met now. The sum is the current assessment taking a long term view of the future liabilities, both for existing pensioners and current employees who are accruing pension entitlement.
- It is not a problem unique to Colchester Borough Council or indeed local authorities generally. There is a national problem for pension funds in both the private and public sectors.
- The Essex pension fund is regularly reviewed and additional contributions have already been initiated to address the problem over a period of years.

Strategy and outlook

This Council, in common with most other local authorities, faces an ongoing difficult position in the medium term due to a range of pressures including providing statutory services, ongoing pressures caused by maintaining several sources of fees and charges and potential revenue implications of strategic priorities. However, the most significant factor that will impact on the budget will be the level of Government funding support including the ongoing uncertainty in respect of changes to financing arrangements such as the proposal for the extension of the arrangements for localisation of business rates and changes made to the New Homes Bonus.

The Medium Term Financial Forecast (MTFF) shows that the Council faces a continuing budget gap over the three years from April 2019. The following table summarises the position showing a cumulative gap over the period from 2019/20 to 2021/22 of £2.6 million.

	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Net Budget	19,695	19,655	19,647	20,412
Settlement Funding Assessment (SFA)	(4,437)	(3,844)	(3,344)	(2,844)
NDR Growth (incl. use of pooling gain)	(1,300)	(1,300)	(1,300)	(1,300)
New Homes Bonus	(3,443)	(2,758)	(2,233)	(2,180)
Council Tax	(11,471)	(11,929)	(12,407)	(12,907)
Reserves / Collection Fund	956	1,401	1,401	1,401
Cumulative Gap	**0**	**1,225**	**1,764**	**2,582**
Annual increase		1,225	539	818

The MTFF reflects the four year settlement by Government accepted by the Council. The settlement assumes that the Government’s Revenue Support Grant, which in 2017/18 was £0.9 million, will reduce each year and by 2019/20 will stop completely.

Since 2013/14 the Council retains a proportion of local business rates. This has provided an opportunity for the Council to mitigate in part the cost pressure of falling grant by achieving greater income. However, the business rates scheme also includes a number of significant risks such as the impact of rating appeals and business failure, which in realistic terms are outside the Council’s control. The Council agreed to join the Essex Business Rates Pool in 2016/17 and this pool continued in 2017/18. This has provided the opportunity to keep a greater share of business rates income in Essex, with £0.8m of additional income for the Council reflected in these accounts for 2017/18.

During 2016 the Government reviewed the New Homes Bonus and made changes to the scheme alongside the 2017/18 Finance settlement. Two main changes were made to the scheme:

- From 2017/18 payments have been made over five years rather than six. From 2018/19 this has been reduced further to payments being for four years.
- In addition from 2017/18 the scheme has introduced a national baseline of 0.4%. NHB is only paid above this level.

In total these changes to the New Homes Bonus scheme reduced the grant that this Council would otherwise have received in 2017/18 by £1.16 million. The Council's approach of using a large proportion of the New Homes Bonus for one off investments provides some protection to the base budget from reductions in this grant, however, it results in a significant reduction in funding for investment. As part of the budget strategy for 2018/19 the Council has continued to reduce how much of the New Homes Bonus is used to support the base budget, and the MTFF assumes that by 2021/22 this approach will have been discontinued.

The Government's assessment of the 'expected' available revenue for local government spending is known as "Core Spending Power". It includes the Settlement Funding Assessment (SFA) which is the total of Revenue Support Grant and the business rates baseline. It also includes the New Homes Bonus and an assumed level of income from Council Tax. This takes account of the Government's assumption of an increase in the tax base and a Council Tax rate increase.

We continue to expect the financial environment to be very difficult for the foreseeable future and we will ensure that the financial risks are fully considered. Significant efficiency savings have been achieved to date, and decisions already taken will continue to deliver an improved financial cost base as changes become embedded. The implementation and delivery of savings set out within our service review programme continue to be vital, with increased savings expected in 2018/19 and 2019/20. However, it will be necessary to identify further opportunities to either reduce costs or increase income to balance future budgets, and steps to achieve this are in place. Work has already started to determine a plan of service reviews during 2018/19 with a view to identifying opportunities for future savings and income. 2017/18 was a key year as the Council worked towards setting up three commercial companies under the parent organisation of Colchester Commercial (Holdings) Ltd (CCHL), of which the Council is the sole shareholder. This means that profits made by its three subsidiaries will be directed back into the Council for the benefit of the people of Colchester borough.

CCHL sets the strategic direction for and provides the financial management for its three subsidiary trading companies – Amphora Trading, Amphora Homes and Amphora Energy. The three subsidiary trading companies became operational in April 2018. It is envisaged that funding for the latter two companies will include the Council providing loan finance. The new arrangements provide an opportunity for the Council to generate new income streams, however, there are also additional risks to consider.

In summary, the financial outlook remains challenging with continuing external funding pressures. There are also likely to be a number of short to medium term cash flow issues that may arise which the Council will need to manage.

Basis of preparation

The Statement of Accounts summarises the Council's income and expenditure for the 2017/18 financial year from 1 April 2017 to 31 March 2018, and its financial position at the year end of 31 March 2018. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, which in turn are underpinned by International Financial Reporting Standards. A Glossary of key terms can be found at the end of this publication.

For the purposes of determining whether the financial statements are free from material error, materiality is defined as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. This takes into account qualitative as well as quantitative considerations.

Movement in Reserves Statement (page 20)
This shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus/(Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services; more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council.

Comprehensive Income and Expenditure Account Statement (page 21)
This 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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet (page 22)
This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves includes those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement (page 23)
This shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Expenditure and Funding Analysis (page 27)
This shows how annual expenditure is used and funded from resources (e.g. government grants, rents, Council Tax and Non Domestic Rates) in comparison with those resources consumed/earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services.

Housing Revenue Account Income and Expenditure Statement (page 133)
This shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The balance on this account is not in accordance with the statutory provisions that specify the net expenditure that councils need to take into the Housing Revenue Account Income and Expenditure Statement. In order to give a full presentation of the financial performance of the Council during the year and the actual spending power carried forward, the balance on this account needs to be reconciled in the Movement on the Housing Revenue Account Statement to the amount established by the relevant statutory provision (refer to page 134).

Collection Fund Accounts (page 141)
The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates.

Group Accounts (page 147)
These statements reflect not only the direct financial activities of the Council but also services provided by those bodies over which it has a formal controlling influence. The principal impact is to bring together and consolidate the financial position of the Council and its interest in Colchester Borough Homes Limited and Colchester Community Stadium Limited.

Port Health Authority Accounts (page 179)
These are the accounts of an independent authority administered by the Council on behalf of itself and Tendring District Council.

Trust Fund Accounts (page 180)
These are the accounts of various funds for which the Council is a trustee.

Other information

This Statement of Accounts is one of a number of publications giving information on the Council's performance. The various annual reports have been brought into one place here on the Council's website (www.colchester.gov.uk) for ease of reference. These are also available via the Colchester Library and Community Hub, along with other public libraries.

The Council's online Datashare tool here enables you to view and download more than 70 datasets about Council performance and activities. These are held under 13 categories from businesses to street care, and include information required by the Local Government Transparency Code and the Publication Scheme.

Members of the public are welcome to attend Council, Cabinet and Panel meetings. You may also address meetings under the *Have Your Say!* scheme. Information about meetings, agendas and copies of Council minutes are available on the Council's website (http://www.colchester.gov.uk/councillorsandmeetings), from Council offices or by telephoning Colchester 282207.

Our Fairness Policy

We are committed to promoting equity and equal opportunities for access and participation for everyone, whatever their personal circumstances. This includes the use of all the services and facilities which we provide. We are committed to ensuring that everyone is treated with dignity and respect, and to eliminating all forms of harassment.

We will allocate and spend money on services as fairly as possible according to the needs of local people.

For more information about these accounts, please contact:

Steve Heath, Finance Manager (Technical), Policy and Corporate,
Colchester Borough Council, Rowan House, 33 Sheepen Road, Colchester CO3 3WG
Telephone: Colchester (01206) 282389
E-mail: financial.accounting@colchester.gov.uk

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for preparing the Council's Statement of Accounts under the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps to prevent and detect fraud and other irregularities.

Chief Financial Officer's Certificate:
I certify that the accounts set out on pages 1 to 173 give a true and fair view of the financial position of the Council as at 31 March 2018 and its income and expenditure for the year then ended.

Sean Plummer
Strategic Finance Manager
(Section 151 Officer)
4 July 2018

The Council's Responsibilities

The Council must:

- make arrangements for the proper administration of its financial affairs and make one of its officers responsible for the administration of those affairs. In this Council, that officer is the Chief Financial Officer.
- manage its affairs to bring about economic, efficient and effective use of resources and to safeguard its assets.
- approve the Statement of Accounts.

I confirm that these accounts were approved by the Governance Committee at the meeting held on 10 July 2018.

Signed on behalf of Colchester Borough Council
Chair of Governance and Audit Committee

MOVEMENT IN RESERVES STATEMENT

	Revenue Reserves			Capital Reserves					
	General Fund Balance	Housing Revenue Account	Earmarked Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	**10,362**	**2,388**	**15,929**	**4,277**	**-**	**43**	**32,999**	**234,518**	**267,517**
Total Comprehensive Income and Expenditure	(2,001)	11,379	-	-	-	-	9,378	(21,427)	(12,049)
Adjustments between accounting basis and funding basis under regulations (Note 9)	1,649	(10,946)	-	1,623	-	(36)	(7,710)	7,710	-
Transfers to/from Earmarked Reserves (Note 10)	(629)	125	4,292	(3,788)	-	-	-	-	-
Net Increase/(Decrease) in year	**(981)**	**558**	**4,292**	**(2,165)**	**-**	**(36)**	**1,668**	**(13,717)**	**(12,049)**
Balance at 31 March 2017 (Page 22)	**9,381**	**2,946**	**20,221**	**2,112**	**-**	**7**	**34,667**	**220,801**	**255,468**
Total Comprehensive Income and Expenditure	(5,035)	22,631	-	-	-	-	17,596	51,374	68,970
Adjustments between accounting basis and funding basis under regulations (Note 9)	1,563	(21,763)	-	1,739	1,663	(7)	(16,805)	16,805	-
Transfers to/from Earmarked Reserves (Note 10)	(323)	91	3,742	(3,510)	-	-	-	-	-
Net Increase/(Decrease) in year	**(3,795)**	**959**	**3,742**	**(1,771)**	**1,663**	**(7)**	**791**	**68,179**	**68,970**
Balance at 31 March 2018 (Page 22)	**5,586**	**3,905**	**23,963**	**341**	**1,663**	**-**	**35,458**	**288,980**	**324,438**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

		2017/18			2016/17 Restated		
	Notes	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
Corporate and Democratic Core		378	(875)	(497)	315	(843)	(528)
Executive Management Team		777	-	777	700	(31)	669
Communities		13,618	(4,331)	9,287	10,600	(4,366)	6,234
Commercial		9,200	(6,645)	2,555	7,811	(6,062)	1,749
Customer		60,733	(57,862)	2,871	62,533	(59,097)	3,436
Environment		15,677	(10,943)	4,734	13,846	(10,314)	3,532
Housing Revenue Account (Page 133)		3,170	(29,950)	(26,780)	15,061	(30,608)	(15,547)
Policy and Corporate		20,273	(8,821)	11,452	19,879	(7,778)	12,101
Non-Distributed Costs		231	-	231	18	(216)	(198)
Net Cost of Services		**124,057**	**(119,427)**	**4,630**	**130,763**	**(119,315)**	**11,448**
Other operating income and expenditure	11	2,245	(1,877)	368	2,600	(2,052)	548
Financing and investment income and expenditure	12	10,487	(5,163)	5,324	9,831	(2,617)	7,214
Taxation and non-specific grant income	13	-	(27,918)	(27,918)	-	(28,588)	(28,588)
(Surplus)/Deficit on Provision of Services	2	**136,789**	**(154,385)**	**(17,596)**	**143,194**	**(152,572)**	**(9,378)**
(Surplus)/Deficit on revaluation of non-current assets	28			(30,708)			(9,578)
Remeasurement of the net defined pension assets/(liabilities)	38			(20,666)			31,005
Other Comprehensive (Income)/Expenditure				**(51,374)**			**21,427**
Total Comprehensive (Income)/Expenditure				**(68,970)**			**12,049**

BALANCE SHEET

	Notes	31 March 2018 £'000	31 March 2017 £'000
Property, Plant and Equipment	14	498,204	455,018
Heritage Assets	15	1,328	1,317
Investment Properties	16	39,868	34,690
Intangible Assets	18	552	994
Long Term Investments	20	6	6
Long Term Debtors	21	4,557	4,551
Total Non-Current Assets		**544,515**	**496,576**
Short Term Investments	20	34,570	32,545
Assets Held for Sale	22	958	500
Inventories		201	176
Short Term Debtors	23	15,091	10,185
Cash and Cash Equivalents	24	13,594	13,045
Total Current Assets		**64,414**	**56,451**
Bank Overdraft		(3,988)	(4,888)
Short Term Borrowing	20	(7,282)	(7,247)
Short Term Creditors	25	(19,613)	(18,535)
Short Term Provisions	26	(2,306)	(1,798)
Grants Receipts in Advance – Revenue	35	(2,396)	(2,182)
Total Current Liabilities		**(35,585)**	**(34,650)**
Long Term Creditors – Finance Leases	37	(1,406)	(2,565)
Long Term Provisions	26	(322)	(397)
Long Term Borrowing	20	(135,594)	(130,594)
Pension Scheme Liability	38	(102,764)	(121,368)
Grants Receipts in Advance – Capital	35	(8,805)	(7,970)
Other Long Term Liabilities		(15)	(15)
Total Non-Current Liabilities		**(248,906)**	**(262,909)**
Total Net Assets		**324,438**	**255,468**
Usable Reserves	27	35,458	34,667
Unusable Reserves	28	288,980	220,801
Total Reserves		**324,438**	**255,468**

These financial statements replace the unaudited financial statements certified by Sean Plummer, Strategic Finance Manager (Section 151 Officer) on 24 May 2018.

CASH FLOW STATEMENT

	Notes	2017/18 £'000	2016/17 £'000
Net Surplus/(Deficit) on the Provision of Services	Page 21	**17,596**	**9,378**
Adjustments to Net Surplus/Deficit on the Provision of Services for non-cash movements	29	**(6,745)**	**15,046**
Adjustments for items included in Investing and Financing Activities:			
Capital grants credited to the Surplus/Deficit on the Provision of Services		(2,920)	(2,242)
Proceeds from the sale of short and long term investments		32,500	25,500
Proceeds from the sale of non-current assets		(4,957)	(6,950)
Adjustments for items included in Investing and Financing Activities:		**24,623**	**16,308**
Net Cash Flows from Operating Activities		**35,474**	**40,732**
Investing Activities:			
Purchase of non-current assets		(14,596)	(19,087)
Purchase of short and long term investments		(34,500)	(32,500)
Proceeds from the sale of non-current assets		4,806	6,933
Other payments and receipts		4,558	2,694
Net Cash Flows from Investing Activities		**(39,732)**	**(41,960)**
Financing Activities:			
Cash receipts of long term borrowing		5,000	-
Cash payments for the reduction of the outstanding finance lease liabilities		(1,215)	(735)
Other payments and receipts		1,922	1,861
Net Cash Flows from Financing Activities		**5,707**	**1,126**
Net Increase/(Decrease) in Cash and Cash Equivalents		**1,449**	**(102)**
Cash and Cash Equivalents at 1 April	29	8,157	8,259
Cash and Cash Equivalents at 31 March	29	**9,606**	**8,157**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. General Accounting Policies

General Principles

The Statement of Accounts summaries the Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts in accordance with proper accounting practices by the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

The financial statements of the Council are intended to provide information on, and present a 'True and Fair View' of the Council's financial position, financial performance and cash flows. They show the results of the stewardship and accountability of Councillors and management for the resources entrusted to them. The presentation of the information in the financial statements should meet the common needs of, and be useful to, a wide range of users.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The financial statements are prepared on a 'going concern' basis. This means that they are prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

Changes to Accounting Policies

No changes have been made to the accounting policies adopted by the Council in 2017/18.

Specific Accounting Policies

The notes relating to specific financial statement lines include the corresponding specific accounting policies. The following accounting policies are considered to be general accounting policies where there are no accompanying notes within the financial statements.

Accruals of Income and Expenditure

The Statement of Accounts has been prepared on an accruals basis for both income and expenditure on all revenue and capital transactions. This means that revenue (income) and expenditure (costs) are recognised as they are earned or incurred not as the money is received or paid.

Estimates have been used where actual values are not available. All estimates are the best assessment made on the information available at the time the accounts are closed. When actual figures are determined, any difference from the estimate used for closure is accounted for in the year that the actual figure is determined. Estimation techniques are applied in particular to the calculation of depreciation, bad debt provisions, sums due to contractors and Government grants.

Principal and Agent

For the majority of transactions the Council undertakes, it is acting entirely on its own behalf and completely owns any risks and rewards of the transaction. This is known as the Council acting as a Principal.

However, there are some situations where the Council is acting as an Agent, whereby it is acting as an intermediary for all or part of a transaction or service. The two main instances of this are where the Council collects Council Tax and Business Rates income on behalf of itself and its preceptors, as follows:

- Council Tax: Essex County Council, Essex Police and Crime Commissioner and Essex Fire and Rescue
- Business Rates: the Ministry of Housing Communities and Local Government, Essex County Council and Essex Fire and Rescue.

Any balances at the year-end in relation to these Agent relationships are split between the principal parties. Therefore, the balances contained on the Council's Balance Sheet relate to the Council's own proportion of the debt and associated balances. The proportions of transactions that relate to the other parties to the relationship are shown as debtors or creditors due from/to these parties.

Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible assets attributable to the relevant service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are adjusted by a transaction within the Capital Adjustment Account in the Movement in Reserves Statement.

Foreign Currency Translation

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

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

The Council is allowed to recover VAT incurred on expenses where income from the activity is exempt, provided it is 'insignificant'. The current test for insignificance is that the VAT incurred and recovered on exempt activities is less than 5% of the total VAT that is incurred on all the Council's activities. If the amount exceeds the limit then none of the tax can normally be recovered.

2. Expenditure and Funding Analysis

2017/18	Council Year end Management Report	Adjustments (Note 2a)	Net Expenditure chargeable to GF and HRA Balances	Adjustments between Funding and Accounting Basis: Adjustments for Capital Purposes (Note 2b)	Net Change for the Pensions Adjustments (Note 2b)	Other Differences (Note 2b)	Total Adjustments (Note 9)	Net Expenditure in the CIES (Page 21)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate and Democratic Core	(450)	(47)	**(497)**	-	-	-	**-**	**(497)**
Executive Management Team	656	-	**656**	-	105	16	**121**	**777**
Communities	4,268	1,339	**5,607**	2,823	872	(15)	**3,680**	**9,287**
Commercial	1,013	(219)	**794**	1,143	636	(18)	**1,761**	**2,555**
Customer	3,999	(2,025)	**1,974**	101	803	(7)	**897**	**2,871**
Environment	2,771	(430)	**2,341**	1,180	1,226	(13)	**2,393**	**4,734**
Housing Revenue Account	(959)	(8,761)	**(9,720)**	(17,080)	19	1	**(17,060)**	**(26,780)**
Policy and Corporate	7,676	126	**7,802**	2,512	1,147	(9)	**3,650**	**11,452**
Non-Distributed Costs	-	6,083	**6,083**	121	(5,973)	-	**(5,852)**	**231**
Net Cost of Services	**18,974**	**(3,934)**	**15,040**	**(9,200)**	**(1,165)**	**(45)**	**(10,410)**	**4,630**
Other operating income and expenditure (Note 11)			**1,690**				**(1,322)**	**368**
Financing and Investment income and expenditure (Note 12)			**10,145**				**(4,821)**	**5,324**
Taxation and Non Specific Grant income (Note 13)			**(24,271)**				**(3,647)**	**(27,918)**
(Surplus)/Deficit on Provision of Services			**2,604**				**(20,200)**	**(17,596)**
Opening General Fund and HRA Balances (Page 20)			**(12,327)**					
(Surplus)/Deficit on Provision of Services			2,604					
Transfers to Earmarked Reserves			232					
Closing General Fund and HRA Balances (Page 20)			**(9,491)**					

2016/17 - Restated				**Adjustments between Funding and Accounting Basis**				
	Council Year end Management Report	**Adjustments**	**Net Expenditure chargeable to GF and HRA Balances**	**Adjustments for Capital Purposes**	**Net Change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**	**Net Expenditure in the CIES**
		(Note 2a)		**(Note 2b)**	**(Note 2b)**	**(Note 2b)**	**(Note 9)**	**(Page 21)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Corporate and Democratic Core	224	(752)	**(528)**	-	-	-	**-**	**(528)**
Executive Management Team	616	1	**617**	-	52	-	**52**	**669**
Communities	4,475	1,024	**5,499**	318	398	19	**735**	**6,234**
Commercial	1,178	(229)	**949**	539	285	(24)	**800**	**1,749**
Customer	4,535	(1,582)	**2,953**	102	365	16	**483**	**3,436**
Environment	1,786	(406)	**1,380**	1,600	540	12	**2,152**	**3,532**
Housing Revenue Account	(558)	(10,323)	**(10,881)**	(4,674)	9	(1)	**(4,666)**	**(15,547)**
Policy and Corporate	7,593	43	**7,636**	4,013	454	(2)	**4,465**	**12,101**
Non-Distributed Costs	-	2,487	**2,487**	19	(2,704)	-	**(2,685)**	**(198)**
Net Cost of Services	**19,849**	**(9,737)**	**10,112**	**1,917**	**(601)**	**20**	**1,336**	**11,448**
Other operating income and expenditure (Note 11)			**1,455**				**(907)**	**548**
Financing and Investment income and expenditure (Note 12)			**12,380**				**(5,166)**	**7,214**
Taxation and Non Specific Grant Income (Note 13)			**(24,028)**				**(4,560)**	**(28,588)**
(Surplus)/Deficit on Provision of Services			**(81)**				**(9,297)**	**(9,378)**

Opening General Fund and HRA Balances (Page 20)	**(12,750)**
(Surplus)/Deficit on Provision of Services	(81)
Transfers to Earmarked Reserves	504
Closing General Fund and HRA Balances (Page 20)	**(12,327)**

2 a.) Adjustments between the Council's year end management report to the Net Expenditure chargeable to the General Fund and HRA Balances

This table shows how the figures in the provisional outturn report taken to the Council's Scrutiny Panel are adjusted to relate to the net expenditure chargeable to the General Fund and HRA balances.

- Services and support services not in Analysis – these include areas that are not reported as part of the service group expenditure in the management reports such as Benefits payments and subsidy and joint committees and non-direct recharges to the HRA.
- Corporate & technical adjustments – these include adjustments to non-distributed costs (including pension back funding, added years and strain payments), bad debt provisions, grant income and budgets that are held at a corporate level within technical areas.
- Amounts not included in CIES – these include adjustments to reflect the difference in the management reporting of the General Fund and HRA, as well as items of income and expenditure in the year which are not reflected in the General Fund revenue account.

	2017/18				2016/17 Restated			
	Services and Support Services not in Analysis	**Corporate & Technical Adjustments**	**Amounts not included in the CIES**	**Total Adjustments (page 27)**	**Services and Support Services not in Analysis**	**Corporate & Technical Adjustments**	**Amounts not included in the CIES**	**Total Adjustments (page 28)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Corporate and Democratic Core	(424)	37	340	**(47)**	(442)	(679)	369	**(752)**
Executive Management Team	-	-	-	**-**	-	-	1	**1**
Communities	1,085	255	(1)	**1,339**	1,001	1	22	**1,024**
Commercial	(229)	9	1	**(219)**	(228)	-	(1)	**(229)**
Customer	(2,027)	-	2	**(2,025)**	(1,584)	-	2	**(1,582)**
Environment	(164)	(266)	-	**(430)**	(387)	-	(19)	**(406)**
Housing Revenue Account	-	-	(8,761)	**(8,761)**	-	-	(10,323)	**(10,323)**
Policy and Corporate	(1,959)	2	2,083	**126**	(1,687)	(71)	1,801	**43**
Non-Distributed Costs	-	6,083	-	**6,083**	-	2,487	-	**2,487**
Net Cost of Services	**(3,718)**	**6,120**	**(6,336)**	**(3,934)**	**(3,327)**	**1,738**	**(8,148)**	**(9,737)**

2 b.) Note to the Expenditure and Funding Analysis – Adjustments between Funding and Accounting Basis

Adjustments for Capital Purposes – this column adds in depreciation, and impairment and revaluation gains and losses in the service line, as well as:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of asset and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing (i.e. Minimum Revenue Provision and other revenue contributions) are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and Non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under Generally Accepted Accounting Practices. Revenue grants are adjusted to reflect those receivable without conditions, or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions, or for which condition were satisfied in the year.

Net Change for the Pension Adjustments – this column removes the pension contributions and replaces it with the IAS19 Employee Benefits related expenditure and income:

- Cost of services – this represents the removal of the employer pension contributions made by the Council as allowed by statute, and their replacement with current service costs and past service costs.
- Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

Other Differences – between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- Cost of services – this relates to adjustments relating to the employee benefits accrual made in the accounts.
- Financing and investment income and expenditure – the other differences column recognises adjustments to the General Fund for the timing difference for premiums and discounts.
- Taxation and Non-specific grant income and expenditure – this represents the difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses/Deficits on the Collection Fund.

Refer to Note 9 for further details on the adjustments made in the accounts.

2 c.) Note to the Expenditure and Funding Analysis – Expenditure and Income Analysed by Nature

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

	Notes	2017/18	2016/17
		£'000	£'000
Employee related expenditure		29,508	28,063
Other services expenses		92,682	91,096
Support services recharges		4,321	3,554
Depreciation, amortisation and impairment		(2,454)	8,050
Interest payments		6,592	6,670
Precepts and levies		1,546	1,397
Payments to Housing Capital Receipts Pool		678	603
Pension Fund expenditure		3,227	3,118
Losses on the disposal of assets		21	387
Changes in the fair value of investment properties		615	-
Other expenditure		53	256
Total Expenditure	**Page 21**	**136,789**	**143,194**
Fees, charges and other service income		(63,158)	(62,209)
Interest and investment income		(375)	(378)
Income from Council Tax and Non Domestic Rates		(17,267)	(17,417)
Government grants and contributions		(66,920)	(68,276)
Gains on the disposal of assets		(1,692)	(2,000)
Income in relation to investment properties		(2,016)	(1,789)
Changes in the fair value of investment properties		(2,772)	(450)
Other income		(185)	(53)
Total Income	**Page 21**	**(154,385)**	**(152,572)**
(Surplus)/Deficit on the Provision of Services	**Pages 21, 27 and 28**	**(17,596)**	**(9,378)**

3. Accounting Standards that have been issued but have not yet been adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) the Council is required to disclose information setting out the expected impact of an accounting change that will be required by a new accounting standard that has been issued but not yet adopted. This applies to the adoption of the following new standards introduced in the 2018/19 Code that apply from 1 April 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

IFRS 9 Financial Instruments will see the classifications of financial assets change to Amortised Cost, Fair Value through Comprehensive Income and Expenditure and Fair Value through Profit and Loss, from the previous categories of Loans and Receivables, Available for Sale and Fair Value through Profit and Loss.

The second main change will be the introduction of an expected credit loss model for particular asset types, rather than an impairment of the asset resulting from a specific incident.

Certain aspects of the introduction of IFRS 9 have been adapted for local authorities, effectively removing the IFRS 9 implications. These cover such areas as soft loans, Lender Option Borrowing Option (LOBO) loans, immaterial transactions, exchanges of debt instruments and hedge accounting.

The impact of these changes on the Council's financial position can be summarised as follows:

- The Council's shares in its subsidiary companies will be elected to be categorised as Fair Value through Comprehensive Income, which subject to any impairment will be held at cost with fuller details of the companies shown in the Group Accounts.
- The Council's treasury management investments will move from the Loans and Receivables category to Amortised Cost, and will be accounted for on a similar basis. In addition, the high credit quality arrangements adopted by the Council for its investment counterparties in accordance with the CIPFA Treasury Management Code of Practice is likely to see an immaterial expected credit loss position.
- The change relating to the introduction of an expected credit loss model will require the Council to review the allowances it currently makes for credit risk on debtors and investments to include losses expected to arise in the future rather than just those incurred at the balance sheet date. It is currently estimated that impairment loss allowances will not increase materially in 2018/19.

IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue from contracts with customers, based on the transfer of control rather than the current transfer of risk and rewards. This new approach is not expected to have a material impact on the financial statements.

Amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value, and only apply to group accounts.

Amendments to IAS 7 may require additional disclosures around changes in liabilities arising from financing activities.

No changes have been identified which will have a material impact on the information disclosed in the Council's 2017/18 Statement of Accounts.

4. Critical judgements in applying accounting policies

In applying the accounting policies set out in the accounts, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The following are the management judgements made in applying the accounting policies of the Council that have the most significant effect on the financial statements:

Classification of leases

The Council has examined its leases and classified them as either operating or finance leases. In some cases the lease transaction is not always conclusive, and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Classification of investment properties

Investment properties have been classified by the Council using the identifiable criteria under IFRS of being solely held for rental income or for capital appreciation. This review and assessment may be subject to interpretation.

Market loans

The CIPFA Treasury Management Code of Practice requires the maturity profile for Lender Option/Borrower Option (LOBO) loans to be shown as the next call date. The Council has long-term market loans that are subject to six monthly calls totalling £5.5 million. To ensure consistency with the Code, these instruments are shown in the accounts as short-term loans.

Heritage Assets

The Council has recognised its civic regalia collection and a Roman treasure collection as heritage assets in its Balance Sheet.

The Council holds a collection of museum exhibits and works of art which are not recognised in its Balance Sheet. The Council has concluded that the total cost of obtaining the relevant valuation information for these assets (collections held prior to 1 April 2011) outweighs the benefits to the users of the financial statements.

The Council owns Colchester Castle, which is held for its contribution to knowledge and culture. The Castle is not recognised as a heritage asset in the Council's Balance Sheet. This is because information on the original cost of this building is not available, and an appropriate valuation of this asset cannot be obtained due to its unique nature.

Heritage assets are valued in line with the Code of Accounting Practice, and full details of the valuation accounting policy for heritage assets is disclosed in Note 15.

5. Assumptions made about the future and other major sources of estimation uncertainties

The preparation of financial statements requires the Council's management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date, and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of planned repairs and maintenance to be carried out in relation to individual assets. Whilst the Council has made allowances for refurbishment and ongoing maintenance of its assets, the current economic climate and reduced levels of funding could impact on the expected life of the assets held by the Council.

If the useful life of assets were to reduce, the annual depreciation charges on these assets would increase and the carrying amount of the assets in the Balance Sheet would decrease. It should be noted that depreciation charges recognised in the Comprehensive Income and Expenditure Account are reversed out through the Movement in Reserves Statement, and do not impact on the General Fund and Housing Revenue Account balances.

Net Pension Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries, Barnett Waddingham, is engaged to provide expert advice regarding the assumptions applied in calculating the net pension liability included in the Statement of Accounts.

The effect on the net pension liability of changes in individual assumptions can be measured. For example a 0.1% increase in the discount rate assumption would lead to a decrease of £5.0 million in the net pension liability from £278.9 million to £273.9 million. See Note 38 which includes details of the sensitivity analyses on the present value of the defined benefit pension obligation.

Debt impairment

The Council has included a provision of £7.8 million for the impairment of doubtful debts as at 31 March 2018 in its accounts. Based on current collection rates the provision is deemed sufficient to cover all liabilities that may arise in the future. However, it is not certain that this provision will continue to be sufficient. If debtor collection rates were to deteriorate, further consideration would be given to reviewing the criteria for calculating the provision with a view to increasing the provision held by the Council.

Non-Domestic Rates Appeals

The Business Rates Retention Scheme introduced from 1 April 2013 has led to the Council being liable for its proportionate share of successful appeals against Non-domestic rates charged to local businesses. A provision has been recognised which is the best estimate of the amount for which the Council is liable for up to 31 March 2018. This has been calculated by using the Valuation Office rating lists of appeals and existing appeals profiles, with reference to the allowance for appeals that MHCLG added to the 2017/18 small business multiplier, in order to determine the likely outcome of outstanding appeals.

If the reduction in the Council's Rateable Value as a result of successful appeals was 10% more than the amount calculated in the provision, it would result in a shortfall in the provision of £0.6 million. This would need to be met by the relevant precepting bodies in their respective proportions. If this shortfall led to the Council being in a deficit position this would not be subject to the Safety Net, as the Council has entered into a pooling arrangement with other Essex authorities.

Fair value measurements

When the fair value of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using appropriate valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model).

Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. Changes in the assumptions used could affect the fair value of the Council's assets and liabilities.

Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value. External valuers who are members of the Royal Institution of Chartered Surveyors were employed to value the Council's Investment Properties, Surplus Assets and Assets Held for Sale. External treasury advisors were employed to value the Council's Financial Instruments (financial assets and liabilities).

Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is set out in Note 17 for Investment Properties, Surplus Assets and Assets Held for Sale, and Note 20 for Financial Instruments.

The Council uses a combination of valuation techniques to measure the fair value such as the discounted cash flow (DCF) model, Market valuation method and the Net Present Value approach.

The significant unobservable inputs used in the fair value measurement include factors such as management assumptions regarding rent yield levels and other factors.

Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets and liabilities.

6. Material items of income and expenditure

Material items of income and expenditure not specifically detailed on the face of the Comprehensive Income and Expenditure Statement and not specifically disclosed within other notes are as follows:

General Fund

The Council revalued a sample of Land and Buildings Assets and Surplus Assets during the year. These revaluations were performed by the Council's external valuers. The overall impact of these revaluations was a net revaluation gain of £2.5 million. Under the Code of Practice, £1.0 million revaluation gains were used to reverse previously recognised revaluation losses, and £0.6 million revaluation losses were included in the Comprehensive Income and Expenditure Statement. These gains and losses were transferred to the Capital Adjustment Account in the Movement in Reserves Statement, in accordance with statutory regulations. The remaining net £2.1 million gain was taken to the Revaluation Reserve.

Housing Revenue Account

The Council's Housing stock, Garages and other HRA properties were revalued as at 31 March 2018 by the Council's external valuers on a book valuation basis using the 'Stock Valuation for Resource Accounting' guidance produced by the MHCLG. The overall impact was a net revaluation gain of £50.3 million. Under the Code of Practice, £25.0 million revaluation gains were used to reverse previously recognised revaluation losses, and £0.3 million revaluation losses were included in the Income and Expenditure Statement. These gains and losses were transferred to the Capital Adjustment Account in the Movement in Reserves Statement, in accordance with statutory regulations. The remaining net £25.6 million gain was taken to the Revaluation Reserve.

In 2017/18 the Council incurred expenditure of £7.2 million on its housing stock, which related to the replacement of existing components of buildings in order to maintain the stock at the Decent Home Standard prescribed by the Government. Under the Code of Practice, the original cost of the components of £0.6 million has been derecognised in the 2017/18 accounts. The remaining balance of the expenditure has been treated as a revaluation loss, which has been taken to the Housing Revenue Account Income and Expenditure Statement. This expenditure has then been transferred to the Capital Adjustment Account in the Movement in Reserves Statement, in accordance with statutory regulations.

7. Prior period adjustments

Accounting Policy

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Changes made to 2016/17 Comparatives

In 2017/18 the Council undertook a senior management restructure in response to growing financial constraints on local authorities, and the need to look towards more self-sufficiency in generating income and being more efficient in service delivery. This had an impact on the structure of the services within the Council. As a result of this restructure the analysis lines within the Cost of Services in the Comprehensive Income and Expenditure Statement have been amended to reflect the new internal structure of the Council. The 2016/17 comparatives values in the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis have been restated under the new service analysis lines. There is no impact on the bottom line of the Council's core financial statements for 2016/17 as the adjustments made are reclassification amendments.

8. Events after the Balance Sheet Date

Accounting Policy

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period on 31 March and the date when the Statement of Accounts are authorised for issue. Two types of events can be identified:

- **Adjusting events** are those that provide evidence of conditions that existed at the Balance Sheet Date. Where material, the Statement of Accounts is adjusted to reflect the impact of such events.
- **Non-adjusting events** are those that are indicative of conditions that arose after the Balance Sheet Date. The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, additional disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the Statement of Accounts is authorised for issue are not reflected in this Statement of Accounts.

Disclosures

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 4 July 2018 (see page 19). Events taking place after this date are not reflected in the financial statements or notes.

There are no items which arose after the year end of 31 March 2018 that would materially affect these accounts, and as such no adjustments have been made to the figures included within the financial statements or notes.

9. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance

This is the statutory fund into which all the receipts of the Council are required to be paid, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment at the end of the financial year. This balance is not available to be applied to funding HRA services.

Housing Revenue Account Balance

This reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure in connection with the Council's landlord function.

Capital Receipts Reserve

This holds the proceeds from the disposal of land and other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

Major Repairs Reserve

This controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year end.

Capital Grants Unapplied Account

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

2017/18	Note	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied Account £'000
Amounts by which income and expenditure included in the Comprehensive and Income Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs (transfers to/from Pensions Reserve)	28	2,931	(869)	-	-	-
Financial Instruments (to/from Financial Instruments Adjustment Account)	28	(43)	-	-	-	-
Council Tax and NDR (to/from Collection Fund Adjustment Account)	28	(729)	-	-	-	-
Holiday pay (to/from Accumulated Adjustment Account)	28	(45)	-	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (to/from Capital Adjustment Account)		5,743	(7,142)	-	-	-
Total Adjustments to the Revenue Resources		**7,857**	**(8,011)**	**-**	**-**	**-**
Transfer of non-current asset sale proceeds to the Capital Receipts Reserve		-	(4,772)	4,772	-	-
Capital receipts not linked to disposal of non-current assets		(73)	(109)	182	-	-
Payments to the government housing receipts pool (from Capital Receipts Reserve)		534	-	(534)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve		-	(6,858)	-	6,858	-
Statutory provision for the repayment of debt (from Capital Adjustment Account)	28	(1,255)	-	-	-	-
Capital expenditure finance from revenue balances (to Capital Adjustment Account)	28	(2,580)	(2,013)	-	-	-
Total Adjustments between Revenue and Capital Resources		**(3,374)**	**(13,752)**	**4,420**	**6,858**	**-**
Use of Capital Receipts Reserve to finance capital expenditure		-	-	(2,768)	-	-
Use of Major Repairs Reserve to finance capital expenditure		-	-	-	(5,195)	-
Application of capital grants to finance capital expenditure		(2,920)	-	-	-	(7)
Cash payments in relation to deferred capital receipts		-	-	87	-	-
Total Adjustments to Capital Resources		**(2,920)**	**-**	**(2,681)**	**(5,195)**	**(7)**
Total Adjustments (Page 20)		**1,563**	**(21,763)**	**1,739**	**1,663**	**(7)**

2016/17	**Note**	**General Fund Balance £'000**	**Housing Revenue Account £'000**	**Capital Receipts Reserve £'000**	**Major Repairs Reserve £'000**	**Capital Grants Unapplied Account £'000**
Amounts by which income and expenditure included in the Comprehensive and Income Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs (transfers to/from Pensions Reserve)	28	2,880	(363)	-	-	-
Financial Instruments (to/from Financial Instruments Adjustment Account)	28	(19)	-	-	-	-
Council Tax and NDR (to/from Collection Fund Adjustment Account)	28	(2,318)	-	-	-	-
Holiday pay (to/from Accumulated Adjustment Account)	28	20	-	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (to/from Capital Adjustment Account)		8,522	4,572	-	-	-
Total Adjustments to the Revenue Resources		**9,085**	**4,209**	**-**	**-**	**-**
Transfer of non-current asset sale proceeds to the Capital Receipts Reserve		(2,065)	(4,833)	6,898	-	-
Capital receipts not linked to disposal of non-current assets		(52)	-	52	-	-
Payments to the government housing receipts pool (from Capital Receipts Reserve)		603	-	(603)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve		-	(6,187)	-	6,187	-
Statutory provision for the repayment of debt (from Capital Adjustment Account)	28	(1,325)	-	-	-	-
Capital expenditure finance from revenue balances (to Capital Adjustment Account)	28	(2,355)	(4,135)	-	-	-
Total Adjustments between Revenue and Capital Resources		**(5,194)**	**(15,155)**	**6,347**	**6,187**	**-**
Use of Capital Receipts Reserve to finance capital expenditure		-	-	(4,782)	-	-
Use of Major Repairs Reserve to finance capital expenditure		-	-	-	(6,187)	-
Application of capital grants to finance capital expenditure		(2,242)	-	-	-	(36)
Cash payments in relation to deferred capital receipts		-	-	58	-	-
Total Adjustments to Capital Resources		**(2,242)**	**-**	**(4,724)**	**(6,187)**	**(36)**
Total Adjustments (Page 20)		**1,649**	**(10,946)**	**1,623**	**-**	**(36)**

10. Transfers to/from Earmarked Reserves

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

	Balance at 1 April 2016 £'000	**Transfers Out 2016/17 £'000**	**Transfers In 2016/17 £'000**	**Balance at 31 March 2017 £'000**	**Transfers Out 2017/18 £'000**	**Transfers In 2017/18 £'000**	**Balance at 31 March 2018 £'000**
Repairs and Renewals Fund	1,791	(421)	537	1,907	(442)	508	1,973
Insurance Reserve	384	(6)	51	429	(86)	89	432
Capital Expenditure Reserve	1,851	(3,048)	4,010	2,813	(2,744)	3,546	3,615
Asset Replacement Reserve	104	-	8	112	(43)	-	69
Revolving Investment Fund Reserve	1,026	(181)	250	1,095	(143)	250	1,202
Revenue Grants Unapplied Reserve	2,217	(660)	1,336	2,893	(2,404)	2,900	3,389
Business Rates Reserve	3,290	(1,537)	-	1,753	(910)	-	843
Retained Right to Buy Receipts Reserve	4,242	(165)	3,788	7,865	(541)	3,510	10,834
Gosbecks Reserve	225	(22)	1	204	(16)	1	189
Decriminalisation Parking Reserve	694	(146)	429	977	(150)	372	1,199
Other Reserves	105	(33)	101	173	(20)	65	218
Total	**15,929**	**(6,219)**	**10,511**	**20,221**	**(7,499)**	**11,241**	**23,963**

The **Repairs and Renewals Fund** is maintained for the replacement of plant and equipment, and the maintenance of premises. Annual contributions are based upon the estimated renewal or repair cost, spread over the anticipated life of the asset.

The **Insurance Reserve** is kept to cover the potential risk of fire and damage to Council houses and other selected properties, as well as certain other risks. The Insurance Fund has been allocated between the provision and reserve elements (See Note 26).

The **Capital Expenditure Reserve** is maintained to provide finance for future capital schemes.

The **Asset Replacement Reserve** is maintained to provide for the replacement of vehicles, plant and equipment.

The **Revolving Investment Fund Reserve** has been created to support the delivery of income-producing development schemes and regeneration/economic growth projects. The three main sources of funding into the RIF are existing capital programme allocations, capital receipts and revenue funding. Revenue funding will be held in this reserve until it is required for future capital schemes or revenue expenditure as necessary.

The **Revenue Grants Unapplied Reserve** is maintained to hold the revenue grants income that have no conditions attached and are yet to be applied by the Council.

The **Business Rates Reserve** is maintained to cover the risks and volatility resulting from the Local Business Rates Retention scheme.

The **Retained Right to Buy Receipts Reserve** is maintained as a result of Government changes to the national scheme. It provides finance for HRA debt redemption and the provision of replacement housing.

The **Gosbecks Reserve** is maintained to provide for the development of the Archaeological Park. The main source of funding was the 'dowry' agreed on the transfer of the land.

The **Decriminalisation Parking Reserve** is maintained to retain the surplus from the on-street parking account to be used to cover future shortfalls or support future transportation expenditure in accordance with the Decriminalisation of Parking agreement.

Other Reserves include:

- Support to spending on the Mercury Theatre building.
- Support to future Section 106 monitoring activity.
- Funding for the repair, maintenance and continuing development of ancient and historical monuments.

11. Other Operating Income and Expenditure

	2017/18 £'000	**2016/17 £'000**
Parish Council precepts	1,546	1,397
Payments to the Government housing capital receipts pool	678	603
(Gains)/Losses on the disposal of non-current assets	(1,671)	(1,613)
Capital receipts not linked to disposals	(185)	(52)
Revaluation losses on the write down of assets held for sale	-	213
Total Other Operating (Income)/Expenditure	**368**	**548**

12. Financing and Investment Income and Expenditure

	2017/18 £'000	2016/17 £'000
Interest payable and similar charges	6,592	6,670
Interest receivable and similar income	(375)	(378)
Net interest on the pension scheme liability	3,163	3,062
Pension administration costs	64	56
Income and expenditure in relation to investment properties	(1,963)	(1,746)
Changes in the fair value of investment properties	(2,157)	(450)
Total Financing and Investment Income and Expenditure	**5,324**	**7,214**

13. Taxation and Non Specific Grant Income

	Note	2017/18 £'000	2017/18 £'000	2016/17 £'000	2016/17 £'000
Council Tax					
Council Tax income			(12,561)		(11,995)
Movement in Collection Fund (Surplus)/Deficit	1		(66)		341
Apportionment of Collection Fund (Surplus)/Deficit			(48)		(353)
Non-Domestic Rates					
Individual baseline		(24,254)		(25,392)	
Tariff payment		18,714		20,119	
Share of the total collectable income			(5,540)		(5,273)
Movement in Collection Fund (Surplus)/Deficit	1		(663)		(2,659)
Apportionment of Collection Fund (Surplus)/Deficit			959		1,792
Non-Domestic Rates Levy/(Safety Net)			1,484		1,442
Non-Domestic Rates Pooling Benefit Share			(832)		(712)
Non ringfenced Government grants			(7,731)		(8,929)
Capital grants and contributions			(2,920)		(2,242)
Total Taxation and Non Specific Grant Income			**(27,918)**		**(28,588)**

Note 1 –The Council's shares of the Council Tax Surplus/Deficit and Business Rate Surplus/Deficit are reversed out to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

14. Property, Plant and Equipment

Accounting Policy - Recognition

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

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council, and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Accounting Policy - Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

Assets are carried in the Balance Sheet using the following measurement bases:
- Plant, Vehicles, Furniture and Equipment assets, Infrastructure assets, Community assets and Assets under construction – Depreciated Historical Cost.
- Council dwellings – Current Value, determined on the basis of Existing Use Value for Social Housing (EUV-SH).
- Surplus assets – Fair Value, determined by the measurement of the highest and best use value of the asset. Refer to Note 17 for details of the Fair Value measurement of Surplus Assets.
- Other land and buildings – Current Value, determined as the amount that would be paid for the asset in its existing use (EUV).

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:
- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Accounting Policy - Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

Accounting Policy - Depreciation

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

Depreciation is calculated as follows:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – straight-line allocation over 3-10 years.
- infrastructure – straight-line allocation over 20 years.

Where a Property, Plant and Equipment asset has major components with a cost that is significant in relation to the total cost of the item, the components are depreciated separately.

All HRA assets are componentised. The significant components identified for HRA building assets are land and building components.

All General Fund building assets with carrying values of £1 million or above are componentised. Significant components are defined as those that represent 10% of the total carrying value of the building asset. The significant components of such assets have been identified as land, host building structure and mechanical and electrical components.

When a component of an asset is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting, and the new component reflected in the carrying value of the asset.

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

Accounting Policy - Disposals

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

Amounts for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

When mortgage loans are granted to purchasers of council houses, this creates deferred capital receipts. These are reduced annually by the amount of principal repayments received from the mortgagors and any sums received by way of early repayment.

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

Disclosures

2017/18	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles Plant and Equip. £'000	Infra -structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost/Valuation								
At 1 April 2017	**305,356**	**124,809**	**19,594**	**6,328**	**313**	**12,946**	**3,491**	**472,837**
Additions	7,482	2,943	1,255	665	-	329	1,841	14,515
Acc. Depreciation and Impairment written out	(6,457)	(3,694)	-	-	-	(8)	-	(10,159)
Revaluations to Revaluation Reserve	23,744	5,155	-	-	-	1,798	-	30,697
Revaluations to (Surplus)/Deficit	18,207	(484)	-	-	-	506	-	18,229
Derecognition – disposals	(2,577)	(39)	(299)	-	-	-	-	(2,915)
Derecognition - other	(594)	(134)	(843)	-	-	-	(617)	(2,188)
Reclassified from/(to) Assets held for Sale	(958)	-	-	-	-	-	-	(958)
Reclassified from/(to) Investment Properties	-	(245)	-	-	-	250	(3,026)	(3,021)
Reclassified within PPE categories	-	(255)	-	-	86	255	(86)	-
At 31 March 2018	**344,203**	**128,056**	**19,707**	**6,993**	**399**	**16,076**	**1,603**	**517,037**
Accumulated Depreciation and Impairment								
At 1 April 2017	**-**	**(5,745)**	**(10,059)**	**(2,015)**	**-**	**-**	**-**	**(17,819)**
Depreciation charge	(6,469)	(3,249)	(1,834)	(274)	-	(9)	-	(11,835)
Acc. Depreciation and Impairment written out	6,457	3,694	-	-	-	8	-	10,159
Derecognition – disposals	12	8	294	-	-	-	-	314
Derecognition – other	-	98	250	-	-	-	-	348
Reclassified within PPE categories	-	8	-	-	-	(8)	-	-
At 31 March 2018	**-**	**(5,186)**	**(11,349)**	**(2,289)**	**-**	**(9)**	**-**	**(18,833)**
Net Book Value:								
At 31 March 2018	**344,203**	**122,870**	**8,358**	**4,704**	**399**	**16,067**	**1,603**	**498,204**
At 1 April 2017	305,356	119,064	9,535	4,313	313	12,946	3,491	455,018

2016/17	Council Dwellings	Other Land and Buildings	Vehicles Plant and Equip.	Infra -structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost/Valuation								
At 1 April 2016	**294,695**	**116,396**	**19,804**	**6,198**	**313**	**14,951**	**2,352**	**454,709**
Additions	10,693	4,304	1,228	130	-	1	4,303	20,659
Acc. Depreciation and Impairment written out	(5,812)	(3,260)	-	-	-	-	-	(9,072)
Revaluations to Revaluation Reserve	3,901	5,596	-	-	-	-	-	9,497
Revaluations to (Surplus)/Deficit	5,618	190	-	-	-	(6)	-	5,802
Derecognition – disposals	(2,858)	(262)	(1,929)	-	-	(2,000)	-	(7,049)
Derecognition - other	(881)	(260)	(5)	-	-	-	-	(1,146)
Reclassified from/(to) Assets held for Sale	-	(713)	-	-	-	-	-	(713)
Reclassified from/(to) Investment Properties	-	150	-	-	-	-	-	150
Reclassified within PPE categories	-	2,668	496	-	-	-	(3,164)	-
At 31 March 2017	**305,356**	**124,809**	**19,594**	**6,328**	**313**	**12,946**	**3,491**	**472,837**
Accumulated Depreciation and Impairment								
At 1 April 2016	**-**	**(5,802)**	**(10,121)**	**(1,736)**	**-**	**-**	**-**	**(17,659)**
Depreciation charge	(5,825)	(3,359)	(1,729)	(279)	-	(12)	-	(11,204)
Acc. Depreciation written out on revaluation	5,812	3,260	-	-	-	-	-	9,072
Acc. Impairment written out on revaluation	-	-	-	-	-	-	-	-
Impairment losses to (Surplus)/Deficit	-	-	-	-	-	-	-	-
Derecognition – disposals	13	11	1,786	-	-	12	-	1,822
Derecognition – other	-	145	5	-	-	-	-	150
At 31 March 2017	**-**	**(5,745)**	**(10,059)**	**(2,015)**	**-**	**-**	**-**	**(17,819)**
Net Book Value:								
At 31 March 2017	**305,356**	**119,064**	**9,535**	**4,313**	**313**	**12,946**	**3,491**	**455,018**
At 1 April 2016	294,695	110,594	9,683	4,462	313	14,951	2,352	437,050

Depreciation

Assets are depreciated over their useful economic life. Depreciation is charged on all Property, Plant and Equipment assets other than freehold land and specific community assets. Depreciation is calculated using the straight-line method.

The following useful lives have been used in the calculation of depreciation:

- Council Dwellings and Homeless Properties: 60 years
- Other Land and Buildings - components:
  - Host building structure 1 - 60 years
  - Mechanical and electrical 10 - 15 years
- Vehicles, Plant, Furniture and Equipment: 3 - 10 years
- Infrastructure: 20 years

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are performed for assets within the Council Dwellings, Other Land and Buildings and Surplus Categories of Property, Plant and Equipment.

The revaluations performed in 2017/18 were:

- A sample of General Fund properties as at 1 November 2017.
- Council dwellings and Homeless properties to their fair value as at 31 March 2018.
- A sample of Council properties within the year-end portfolio review performed as at 31 March 2018.
- Ad-hoc revaluations of other assets throughout the 2017/18 financial year.

The Council dwellings and other HRA properties were revalued at 1 April 2015 at a gross value of £296 million. Council dwellings were revalued in line with the requirements of Resource Accounting for the Housing Revenue Account. Guidance on the valuation approach was provided by the MHCLG. The dwellings were valued on the basis of Existing Use Value – Social Housing (EUV-SH). The stock was broken down into archetype groups, with an average based on beacon values applied to each group. The figure applied per unit is based upon tenanted individual properties. The valuation for Council dwellings and other HRA properties has been adjusted to their values at 31 March 2018 using book valuations provided by the Council’s external property valuers. This resulted in a net revaluation gain of £50.6 million.

Expenditure of £7.2 million was incurred in 2017/18 to maintain the Council’s housing stock at the Decent Homes standard prescribed by the Government. This expenditure does not add additional value as it primarily relates to the replacement of existing components to keep the Council's housing at a decent level. The original cost of the components that were replaced has been estimated at £0.6 million, and this has been derecognised in the accounts. The remaining expenditure balance has been treated as a revaluation loss relating to Council housing at 31 March 2018.

The valuations were carried out by independent external valuers from NPS Property Consultants Limited, who are members of the Royal Institution of Chartered Surveyors (RICS).

The valuations were undertaken in accordance with the valuation principles in The RICS Global Standards 2017 (issued by RICS).

The valuations assume that the land and properties are unaffected by contamination. Specific inspections and structural or soil surveys have not been carried out, and services installations have not been tested.

Plant and machinery which would normally be regarded as an integral part of the buildings on letting or sale has been included in the valuation of the building but all items of loose furnishings and fittings are excluded.

Where the Depreciated Replacement Cost (DRC) basis of valuation has been adopted, external works are deemed to include below ground drainage, hard standings, formal landscaping, site fencing and walls, all services on site, distribution and incoming supplies, and minor buildings as appropriate.

Exclusions from the valuations performed by the surveyors:
- Building and soil surveys have not been carried out, nor have mining subsidence reports been commissioned.
- Parts of the beacon properties which are covered, unexposed or inaccessible have not been inspected.
- Service installations have not been tested.
- No investigation has been carried out to determine the presence of contamination, deleterious or hazardous materials at any of the properties.
- No access audit has been undertaken

The valuations have been made by the surveyors using the following assumptions:
- That no high-alumina cement, asbestos, or other deleterious material was used in the construction of any property, and that none has been subsequently incorporated.
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings, and that good titles can be shown.
- That the properties and their values are unaffected by any matters that would be revealed by a local search or inspection of any register, and that the use and occupation are both legal.
- That inspection of those parts which have not been inspected would not cause the surveyors to alter their opinion of value.
- That the land and properties are not contaminated, nor adversely affected by radon.
- That no allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972.

The following statement shows the effective dates of the revaluations for the Property, Plant and Equipment assets that are revalued in the Council's rolling programme of the revaluations. The basis for the valuations is set out in the accounting policies detailed above.

As at 31 March 2018	**Council Dwellings**	**Other Land and Buildings**	**Vehicles, Plant and Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets under Construction**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Carried at historical cost	-	181	19,707	6,993	399	-	1,603	28,883
Valued at fair value in the financial year ending:								
31 March 2014	-	4,261	-	-	-	-	-	4,261
31 March 2015	-	510	-	-	-	-	-	510
31 March 2016	-	485	-	-	-	-	-	485
31 March 2017	-	13,161	-	-	-	-	-	13,161
31 March 2018	344,203	109,458	-	-	-	16,076	-	469,737
Gross Book Value	**344,203**	**128,056**	**19,707**	**6,993**	**399**	**16,076**	**1,603**	**517,037**

15. Heritage Assets

Accounting Policy

Heritage assets are those assets with historical, artistic, scientific, technological, geophysical or environmental qualities which are held, maintained and preserved principally for their contribution to knowledge and culture.

The heritage assets which the Council holds are its collections of civic regalia, Roman treasure, works of art, museum exhibits and Colchester Castle.

Accounting Policy - Collection of Civic Regalia

The Council’s civic regalia collection is relatively static and acquisitions are rare. Acquisitions are initially recognised at their cost, and subsequently revalued at their insurance valuations.

Civic regalia assets are valued as at 1 April and a full revaluation of this collection is carried out every five years to ensure that the valuations remain current. The assets are valued at their insurance valuations. Revaluation gains and losses made on these assets are treated in accordance with the Council’s accounting policy on Property, Plant and Equipment.

Depreciation is not charged on the civic regalia assets as they are considered to have indefinite lives.

At each year end the civic regalia assets are reviewed for any impairment. These impairment reviews are performed to identify any physical damage, deterioration or issues that relate to the authenticity of the assets in the collection. Any impairments are recognised and measured in accordance with the Council’s general policy on impairment (see Note 14).

Accounting Policy - Collection of Roman Treasure

The Council’s Roman treasure collection has been valued and capitalised at its insurance value as at 1 September 2015.

Depreciation is not charged on items in this collection as they are considered to have indefinite lives.

At each year end the items in this collection are reviewed for any impairment. These impairment reviews are performed to identify any physical damage, deterioration or issues that relate to the authenticity of the assets in the collection. Any impairments are recognised and measured in accordance with the Council’s general policy on impairment (see Note 14).

Accounting Policy - Collection of Museum Exhibits and Works of Art

The Council's collections of museum exhibits and works of art held at 1 April 2011 have not been recognised in the Council's Balance Sheet. Information on the cost of these assets in this collection is not available, and the Council has concluded that the total cost of obtaining valuation information for these assets outweighs the benefits to the users of the financial statements.

Acquisitions made from 1 April 2011 onwards are initially recognised at their cost. The Council's capitalisation limit of £10,000 is applied to these assets. Assets that cost less than this limit are charged through revenue and are not capitalised as assets on the Council's Balance Sheet.

The assets acquired in these collections from 1 April 2011 are to be valued as at 1 April and a full revaluation of these assets is carried out every five years to ensure the asset valuations remain current. The assets are valued at their insurance valuations. Revaluation gains and losses made on these assets are treated in accordance with the Council's accounting policy on Property, Plant and Equipment (see Note 14).

Depreciation is not charged on these assets as they are considered to have indefinite lives.

At each year end the collection items capitalised on the Council's Balance Sheet are reviewed for any impairment. These impairment reviews are performed to identify any physical damage, deterioration or issues that relate to the authenticity of the assets in the collection. Any impairments are recognised and measured in accordance with the Council's general policy on impairment (see Note 14).

Accounting Policy - Colchester Castle

Colchester Castle is a building held by the Council principally for its contribution to knowledge and culture. The Castle has not been recognised in the Council's Balance Sheet as information on the cost of this building is not available, and an appropriate valuation of this heritage asset cannot be obtained due to its unique nature.

Disclosures

Reconciliation of the carrying value of Heritage Assets held by the Council that are recognised in the Balance Sheet:

Valuation

	Civic regalia £'000	Roman Treasure £'000	Buildings £'000	Museum Exhibits £'000	Total £'000
Balance at 1 April 2016	**1,172**	**63**	**-**	**-**	**1,235**
Acquisitions at cost	-	-	223	-	223
Revaluation increases/(decreases) recognised in the Surplus/Deficit	-	-	(223)	-	(223)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	82	-	-	-	82
Balance at 31 March 2017	**1,254**	**63**	**-**	**-**	**1,317**
Acquisitions at cost	-	-	173	-	173
Revaluation increases/(decreases) recognised in the Surplus/Deficit	-	-	(173)	-	(173)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	11	11
Balance at 31 March 2018	**1,254**	**63**	**-**	**11**	**1,328**

Civic Regalia Collection

The Council's civic regalia collection includes fine examples of silver, gilt and civic gifts and donations. There are 85 individual assets in the collection. Of special interest is a silver model of a sixteenth century warship, designed for use as a vessel for table wine. The oldest item of insignia is the silver borough seal, which dates from about 1413. The collection also includes one of the largest maces in the country, which is used as a symbol of authority from the sovereign.

The civic regalia collection is managed by the Council's Town Serjeant, who holds a civic regalia book listing all of the assets held within the Council's collection. An annual audit of the collection is made by the Town Serjeant to confirm that all of the assets are in the possession of the Council, and to review their physical condition. At its completion, an internal register is signed off by the Town Serjeant with the outgoing and incoming mayors to evidence the review. The collection is held securely in the Town Hall and is only able to be viewed by the public on organised tours. Specific items of this collection are only taken out of the Town Hall on certain civic and remembrance occasions. Acquisitions into this collection are very rare, and none have been made in the last 20 years. The Council does not dispose of any civic regalia items as it has a policy of maintaining and retaining all of the assets within its collection.

The Council's collection of civic regalia items is reported in the Balance Sheet at insurance valuation. This is based on replacing the items on an indemnity basis whereby the items would be replaced in the normal second hand art retail markets with items of comparable age, quality and condition. The civic regalia items were valued as at 1 April 2016 by external valuers, Reeman Dansie, who are members of the Royal Institution of Chartered Surveyors.

It has not been practicable to split the carrying value of the civic regalia collection between those purchased by the Council and those acquired by donation due to the age of the collection and the lack of original records.

Roman Treasure Collection

The 'Fenwick Hoard' treasure was unearthed by Colchester Archaeological Trust during an archaeological excavation underneath a store on the High Street in Colchester. The hoard is a collection of Roman silver and gold jewellery and coins which includes: 2 pairs of gold earrings, 1 gold bracelet, 2 gold armlets, 5 gold finger-rings, 1 silver chain and loop, 1 copper-alloy bulla, 1 silver armlet, 2 silver cuff bracelets, 1 glass intaglio, a collection of Roman republican coins, and the remains of a silver pyxis (jewellery box). These treasure items were passed over to the Council in 2015, and they are currently on display to the public at Colchester Castle.

The collection was examined and valued by an independent qualified valuer on 1 September 2015, and the total valuation reported for insurance purposes was £63,000. The collection has been capitalised at this value as at 1 September 2015. It is not planned by the Council to undertake future periodic valuations for this collection due to its specialised nature and any change in their valuation is unlikely to have a material impact on the total value of the Council's heritage assets.

Collections of museum exhibits and works of art

The collections of archaeology, art, local history and natural history objects at Colchester have been collected since the foundation of the museum in 1847.

The Council holds an archaeology collection that recognised for its international significance. It is arguably the finest and most extensive collection in the world representative of Late Iron Age and Roman Britain. It holds a collection of early manuscripts and printed books, which includes the earliest surviving manuscript of Machiavelli’s play, La Clizia, dated to 1525. The Council’s Mason clock collection is of special significance, as it is one of the largest collections of horological items from any provincial town, making it an important study collection. The Council’s natural history collection is of regional importance. The Council’s art collection, although of mostly local interest, does contain significant items including rare early works by John Constable and work by Richard Stone and David Vinckeboons.

The collections of museum exhibits and works of art are managed centrally by the collection management team within the museum service. All items are entered into an accession register when they are received. Further details regarding each item are then recorded on the museum service’s computerised record system. The conservation team is responsible for the preservation of the collections. Environmental conditions are set in the Council’s museums and storage facilities. Condition surveys are performed frequently to monitor and identify any issues relating to the items held in the collections.

The museum service has a formal acquisition and disposal policy relating to the collections it holds. Acquisitions are made for items that are significant to Colchester and its district. These arise from a number of sources such as outright purchases (some supported by grant funding), donations, gifts and transfers from other museums and similar organisations. Items held within the collections are not expected to be disposed of. Disposals are rare and require Portfolio Holder approval before any item leaves the Council’s collections. The main reason for disposals is where the items have been identified to be better suited to be held by another museum or related organisation.

The Council displays some of its collections in its museums and in the Town Hall. These sites are open to the public subject to opening and organised tour times. Certain items are taken offsite to be shown to the public at external organisations such as local schools and temporary exhibitions. The Council has a reserve collection that is held in storage. Access to these items is restricted and prior appointments are required to be made to view them.

The original cost information is not available for these collections. The insurance valuation for these collections cannot be utilised as it represents only a proportion of the items, and is not analysed down individually across the 500,000 individual items.

The Council has applied the exemption allowed within ‘Financing Reporting Standards 30 – Heritage Assets’ to its collections of museum exhibits and works of art. FRS 30 states that ‘Where the cost information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Balance Sheet and the disclosures required by this standard should be made’. As such the Council has not recognised any of the items in these collections held at 1 April 2011 within its Balance Sheet.

Acquisitions made from 1 April 2011 onwards are initially recognised at their cost. The Council’s capitalisation limit of £10,000 is applied to heritage assets, and as such any assets costing less than this limit are charged through revenue and are not capitalised as heritage assets on the Council’s Balance Sheet.

In 2017/18 the Friends of Colchester Museums and Art Galleries/Colchester & East Essex Licensed Victuallers Protection Association donated the Colchester and East Essex Licenced Victuallers Protection Association’s Chain of Office to the Council. This asset has been registered within the Council’s social history exhibit collection. The asset was valued at £10,975 for insurance purposes on 30 November 2009 by Chapman & Co. Jewellers. It is not planned to undertake future revaluations of this item, as any change in its valuation is unlikely to have a material impact on the total value of the Council's heritage assets.

Colchester Castle

Colchester Castle is an example of a largely complete Norman Castle and is a Grade I listed building and Scheduled Ancient Monument. Colchester's keep is the largest ever built in Britain, and the largest surviving example of its kind in Europe. Building of the Castle began between 1069 and 1076 and was completed by around 1100. The Castle was built of stone on top of the foundations of the Roman Temple of Claudius. The building has operated as the main museum in the town since 1860.

The Castle building is managed by the Colchester and Ipswich Museum Service. The building is preserved under the Council's building management and maintenance plan. Representatives from the museum service meet frequently with representatives from English Heritage to discuss and review preservation issues linked to the Castle due to its important status as a scheduled ancient monument.

The Council has not recognised the Castle as a heritage asset on its Balance Sheet as there are no records detailing the original cost of this asset. It has not been possible to obtain an appropriate valuation for the Castle from a review of insurance records or from liaison with external valuers.

In 2017/18, capital expenditure totalling £173,000 was incurred relating to works performed on the Castle and town walls. This expenditure has been written off in the year via revaluation losses as the works relate to underlying assets that are not capitalised as heritage assets on the Council's Balance Sheet.

16. Investment Properties

Accounting Policy

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Refer to Note 17 for details of the Fair Value measurement of Investment Properties.

Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses made on the disposal of investment properties.

Rentals received and direct operating expenses relating to investment properties are shown against the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

The accounting treatment for the disposal of investment properties is the same as that for Property, Plant and Equipment. See Note 14 for the disposal accounting policy applied to investment properties.

Revaluation and disposal gains and losses are not permitted to have an impact on the General Fund Balance by statutory arrangements. These gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account. The sale proceeds are credited to the Capital Receipts Reserve.

Disclosures

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

	2017/18 £'000	2016/17 £'000
Rental income from investment properties	(2,015)	(1,789)
Direct operating expenses arising from investment properties	52	43
Net (gain)/loss on Investment Properties	**(1,963)**	**(1,746)**

There are no restrictions on the Council's ability to realise the value inherent in its investment properties, or on the Council's right to the remittance of income and the proceeds of disposal.

The Council has no contractual obligations to purchase, construct, enhance or develop its investment properties.

The Council holds leases on its investment properties that are either 'Full Repairing and Insuring' leases or 'Internal Repairing' leases. 'Full Repairing and Insuring' leases are those where the tenant is responsible for performing all the repairs and maintenance on the internal and external structure of the leased properties. The Council has an obligation to perform ad-hoc repairs and maintenance on the external structure of its investment properties held under 'Internal Repairing' leases.

The following table summarises the movement in the fair value of investment properties during the year in the Balance Sheet:

	2017/18 £'000	2016/17 £'000
Balance at 1 April	34,690	34,390
Net gains/(losses) arising from fair value adjustments	2,157	450
Transfers (to)/from Property, Plant and Equipment	3,021	(150)
Balance at 31 March	**39,868**	**34,690**

17. Fair Value Measurement of Property Assets

Accounting Policy

The Council measures its Surplus Assets, Investment Properties and Assets Held for Sale at fair value at each reporting date.

Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within International Financial Reporting Standard 13 (IFRS 13) – Fair Value Measurement. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

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

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

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

The Council recognises transfers into and out of the different fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer to occur.

Fair Value Hierarchy

Details regarding the fair value of the Council's Surplus Assets, Investment Properties and Assets Held for Sale are as follows:

Recurring fair value measurements:

	2017/18 Other significant observable Inputs (Level 2) £'000	2017/18 Significant unobservable Inputs (Level 3) £'000	2017/18 Total Fair Value as at 31 March 2018 £'000	2016/17 Other significant observable Inputs (Level 2) £'000	2016/17 Significant unobservable Inputs (Level 3) £'000	2016/17 Total Fair Value as at 31 March 2017 £'000
Surplus Assets						
Agricultural land	-	-	-	674	-	674
Commercial development sites	-	13,654	13,654	-	10,750	10,750
Residential development sites	-	2,251	2,251	-	1,360	1,360
Other	-	162	162	-	162	162
Total (Note 14)	**-**	**16,067**	**16,067**	**674**	**12,272**	**12,946**
Investment Properties						
Commercial units	95	18,512	18,607	-	17,490	17,490
Retail units	2,551	12,457	15,008	2,367	12,221	14,588
Car parks	-	1,834	1,834	-	1,805	1,805
Residential development sites	-	281	281	-	550	550
Offices	3,900	-	3,900	-	-	-
Other	112	126	238	100	157	257
Total (Note 16)	**6,658**	**33,210**	**39,868**	**2,467**	**32,223**	**34,690**
Assets Held for Sale						
Residential development site	958	-	958	500	-	500
Total (Note 22)	**958**	**-**	**958**	**500**	**-**	**500**

The Council does not hold any property assets that have quoted prices in active markets for identical assets, and as such no assets have been categorised as Level 1 assets. No transfers have been made between Level 1 and 2 during the 2017/18 financial year.

Valuation Techniques used to Determine Level 2 and 3 Fair Values

The Council's Surplus Assets and Investment Properties are valued by the Council's external valuers in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors, and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The Council's external valuers work closely with the Council's estates officers and meet with finance officers on a regular basis to provide details on all valuation matters. Formal valuation reports are produced by the external valuers which are reviewed by the finance officers and then discussed with the Council's Chief Financial Officer.

At the 2017/18 year end the Council's external valuers performed valuations on a sample of the Council's Surplus Assets and Investment Properties to identify if there have been any material changes in the fair values of these selected assets. At the 2017/18 year end no significant valuation changes were identified by the Council's valuers and so no further valuations were commissioned by the Council.

The fair value of the Surplus Assets and Investment Properties has been measured using the market valuation approach. This approach takes account of quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants and data and market knowledge gained in valuing the Council's asset portfolio.

There have been no changes in the valuation techniques used during the 2017/18 year for the valuation of Investment Properties and Surplus Assets.

Level 2 Valuations

The fair value for the Council's agricultural land has been valued using the market valuation approach based on the term and reversion valuation. This involved using the rent passing, applying future likely increases and applying an appropriate 'all in risks' yield based on comparable evidence. The significant observable inputs in the valuation of this land include: inspection of the asset, review of the type of lease, review of lease terms, strength of covenant, rental comparisons, capital valuation comparisons, yield evidence from comparable transactions, the details of the grading of the agricultural land and other inputs.

The fair value for the Council's retail units and other assets has been valued using the market valuation approach based on the term and reversion valuation. This involved assessing the net rents and comparing them to transactions for similar properties, allowing for factors such as lease terms and location. The significant observable inputs in the valuation of these assets include: inspection of the assets, review of the detailed lease terms, strength of covenant, review of the likelihood of voids and rental growth, yield evidence from comparable transactions adjusted appropriately and other inputs.

The fair value for the Council's Assets Held for Sale properties has been valued using the market valuation approach based on offers received that are subject to contract.

Level 3 Valuations

Type	Significant unobservable inputs	Relationship between unobservable inputs to fair value
Commercial Units Retail Units Car Parks Other Assets	• Yield evidence • Repair and condition (e.g. contamination) • Unusual properties where little comparable evidence exists	Ground rents are sensitive to change in income and yield. The yields adopted range from 4.0 – 5.5%. The higher the yield the lower the fair value. Other ground rents are based on a percentage of the rack rental value or rents received so these rents can fluctuate annually. The higher the rack rental value/rents received the higher the fair value. Repair and decontamination costs are based on gross estimates where detailed costings are unavailable. An increase in these repair costs would lead to a decrease in the fair value.
Commercial Development Sites Residential Development Sites	• Estimation of the gross development values • Estimation of the timing and completion of development • Physical constraints relating to the assets • Access to directly comparable land transaction evidence	The fair value of these assets is based on many variables. Most development sites are stand alone with their own distinct characteristics. Information on these sites is more specialist and is based on gross development values and gross development costs using the RICS building cost indices. A decrease in the gross development value would lead to a decrease in the fair value. A decrease in the gross development costs would lead to an increase in the fair value.

Higher and Best Use

In estimating the fair value of the Council's Surplus Assets and Investment Properties for the majority of these assets, the highest and best use of the properties is deemed to be their current use.

In the case of 10 Surplus Assets and 2 Investment Properties, the Council's external valuers have identified their highest and best uses to be as commercial/residential development sites rather than as their current uses.

In 2016/17 the Council approved a five-year Asset Management Strategy (AMS). This assesses how the Council manages its property assets by reviewing their efficiency and fitness for purpose. It reviews how services work together to get the best out of the Council's assets, its future plans and how it will work with external partners. The main aims of the AMS are to ensure the Council's assets are assisting with the delivery of long term service goals, and maximising capital receipts and annual income. It also reviews how the Council's surplus assets are managed to maximise their value, and looks at policies for dealing with management, acquisition and disposal.

Reconciliation of Fair Value Measurements using significant unobservable inputs categorised within Level 3 of the Fair Value Hierarchy

Surplus Assets: Level 3

	Commercial Development Sites £'000	Residential Development Sites £'000	Other £'000
Balance as at 1 April 2016	**12,750**	**1,360**	**167**
Additions	1	-	-
Gains/(Losses) taken to the Revaluation Reserve during the year	-	-	-
Gains/(Losses) taken to the Surplus/Deficit during the year	(1)	-	(5)
Disposals	(1,988)	-	-
Depreciation charges	(12)	-	-
Balance as at 31 March 2017	**10,750**	**1,360**	**162**
Additions	329	-	-
Gains/(Losses) taken to the Revaluation Reserve during the year	1,350	447	1
Gains/(Losses) taken to the Surplus/Deficit during the year	656	(149)	(1)
Transfers in from Level 2 category	569	-	-
Transfers in from Other land and Buildings category	-	352	-
Transfers in from Investment Property	-	250	-
Depreciation charges	-	(9)	-
Balance as at 31 March 2018	**13,654**	**2,251**	**162**

Gains or losses arising from changes in the fair value of Surplus Assets are recognised in the Non-Distributed Costs line within the Comprehensive Income and Expenditure Statement.

Investment Properties: Level 3

	Commercial Units £'000	Retail Units £'000	Car Parks £'000	Residential Development Sites £'000	Other £'000
Balance as at 1 April 2016	**17,230**	**12,221**	**1,638**	**550**	**307**
Gains/(Losses) taken to the Surplus/Deficit during the year	260	-	167	-	-
Reclassifications to Property, Plant and Equipment	-	-	-	-	(150)
Balance as at 31 March 2017	**17,490**	**12,221**	**1,805**	**550**	**157**
Gains/(Losses) taken to the Surplus/Deficit during the year	1,022	236	29	(19)	(3)
Reclassifications to Property, Plant and Equipment	-	-	-	(250)	-
Transfers to Level 2	-	-	-	-	(28)
Balance as at 31 March 2018	**18,512**	**12,457**	**1,834**	**281**	**126**

Gains or losses arising from changes in the fair value of Investment Properties are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

18. Intangible Assets

Accounting Policy

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (for example, software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible assets are held by the Council that meet this criterion, and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement.

An intangible asset is tested for impairment whenever there is an indication that the asset might be impaired. Any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account, and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Disclosures – Purchased Software

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are comprised of purchased software licenses. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council range between three and ten years.

The carrying amount of intangible assets is amortised on a straight-line basis. In 2017/18, amortisation of £0.444 million was charged to IT holding accounts and then recharged to individual service headings in the Net Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading in the Cost of Services section of the Comprehensive Income and Expenditure Statement. There are no items of capitalised software which are individually material to the financial statements.

The movement on intangible asset balances during the financial year is as follows:

		2017/18 £'000	**2016/17 £'000**
Cost:	At 1 April	10,106	10,078
	Additions: Purchases	2	28
	At 31 March	**10,108**	**10,106**
Amortisation:	At 1 April	(9,112)	(8,659)
	Amortisation for the year	(444)	(453)
	At 31 March	**(9,556)**	**(9,112)**
Net carrying amount at 31 March		**552**	**994**
Net carrying amount at 1 April		994	1,419

19. Capital Expenditure and Capital Financing

Accounting Policy - Revenue Expenditure Funded from Capital under Statute

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

Accounting Policy - Minimum Revenue Provision

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a statutory annual revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the Council's MRP policy allows for the borrowing need (CFR) to be repaid on an equal instalment basis over a period of 50 years with effect from the 2016/17 financial year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy is the Asset Life Method (option 3). MRP is based on the estimated useful life of the assets, using the equal annual instalment method. This provides for a reduction in the borrowing need over the asset's life. Repayments included in finance leases are applied as MRP.

Movements in Capital Financing Requirement in the year

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue, the expenditure results in an increase to the Capital Financing Requirement (CFR), which is the total historic capital expenditure that has not been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The movement in the CFR is analysed in the second part of this note.

	2017/18 £'000	2016/17 £'000
Opening Capital Financing Requirement at 1 April	**154,597**	**153,563**
Capital Expenditure		
Property, Plant and Equipment	14,515	20,659
Heritage Assets	173	223
Intangible Assets	2	28
Revenue Expenditure Funded from Capital under Statute	2,270	1,032
Long Term Debtors	45	153
	17,005	**22,095**
Sources of Finance		
Capital Receipts	2,768	4,782
Government Grants and Other Contributions	2,928	2,277
Major Repairs Reserve	5,195	6,187
Direct Revenue Contributions	4,593	6,490
Minimum Revenue Provision	1,254	1,325
Write-off of Finance Lease Creditor	675	-
	17,413	**21,061**
Closing Capital Financing Requirement at 31 March	**154,189**	**154,597**
Explanation of movements in year:		
Increase in underlying need to borrowing (unsupported by government financial assistance)	1,291	1,510
Assets acquired under finance leases	230	849
Minimum Revenue Provision	(1,254)	(1,325)
Write-off of Finance Lease Creditor	(675)	-
Increase/(Decrease) in the Capital Financing Requirement	**(408)**	**1,034**

Capital Commitments

At 31 March 2018, the Council has entered into a number of major contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 and future years. The significant commitments are:

Scheme	Total Contract Value £'000	Outstanding at 31 March 2018 £'000	Outstanding at 31 March 2017 £'000
Decent Homes and upgrades to Council Stock	6,203	4,302	2,354
Specific Adaptations to Housing Stock	2,492	473	360
Enoch House building works	4,056	-	338
Sheepen Road Offices building works	2,653	-	613
Colchester Leisure World – Health & Fitness	663	-	663
Sheepen Road (Amphora Place) Phase 2 building works	2,063	2,024	-
Colchester Northern Gateway Sports Hub – project management fees etc.	1,253	416	-

20. Financial Instruments

Accounting Policy – General (Financial Liabilities; Loans and Receivables)

These are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value, and are carried at their amortised cost. Costs and income in connection with the borrowing and investment of funds are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash flows over the life of the instrument to the amount at which it was originally recognised.

For most borrowings and investments that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal (plus accrued interest); and interest shown in the Comprehensive Income and Expenditure Statement is the amounts payable/receivable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

Accounting Policy - Available-for-Sale Assets

Available-for-sale assets are financial assets that have a quoted market price and/or do not have fixed or determinable payments. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

The assets are maintained in the Balance Sheet at fair value. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed are categorised within the fair value hierarchy, as follows:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve, and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Where assets with no fixed or determinable payments are identified as impaired because fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Categories of Financial Instruments

The borrowings and investments shown in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Current	
	31 March 2018 £'000	**31 March 2017 £'000**	**31 March 2018 £'000**	**31 March 2017 £'000**
Investments				
Loans and receivables (principal amount)	-	-	34,500	32,500
Accrued Interest (current)	-	-	70	45
Loans and receivables at amortised cost (1)	**-**	**-**	**34,570**	**32,545**
Available-for-sale financial assets (2)	6	6	-	-
Total Investments	**6**	**6**	**34,570**	**32,545**
Financial assets carried at contract amount (excludes Council Tax, NDR and Housing Benefit balances)	4,557	4,551	9,633	8,021
Total Debtors	**4,557**	**4,551**	**9,633**	**8,021**
Soft Loans provided (3)	**1,264**	**1,256**	**-**	**-**
Borrowings				
Financial liabilities (principal amount)				
Public Works Loan Board (PWLB)	(104,594)	(101,594)	-	-
Money Market	(31,000)	(29,000)	(5,500)	(5,500)
Accrued Interest (current)	-	-	(1,782)	(1,747)
Total Borrowings at amortised cost (1)	**(135,594)**	**(130,594)**	**(7,282)**	**(7,247)**
Financial liabilities carried at contract amount (excludes Council Tax, NDR and Housing Benefit balances)	-	-	(12,175)	(11,526)
Total Creditors	**-**	**-**	**(12,175)**	**(11,526)**
Finance lease liabilities	(1,406)	(2,565)	(779)	(768)
Total Other Liabilities	**(1,406)**	**(2,565)**	**(779)**	**(768)**

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

Note 2 – Fair Value has been measured by direct reference to published price quotations in an active market.

Note 3 – The Council has made a number of interest free loans (soft loans) to private sector occupiers for home improvements under the Financial Assistance Policy. These loans are secured against the property and repayable on sale. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. The detailed soft loans information is as follows:

Soft Loans	**31 March 2018 £’000**	**31 March 2017 £’000**
Opening Balance	**786**	**687**
Add: New loans granted	45	103
Deduct: Fair Value adjustment	(16)	(36)
Deduct: Loans repaid	(37)	(23)
Add: Increase in the discounted amount	59	55
Balance carried forward	**837**	**786**
Nominal value carried forward	**1,264**	**1,256**

The interest rate at which the fair values of these soft loans has been recognised is arrived at by taking the Council’s prevailing cost of borrowing for a comparable loan at the date of the advance, and adding an allowance for the risk that the loan might not be repaid.

Items of Income, Expense, Gains and Losses

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

	2017/18			2016/17		
	Financial Liabilities: measured at amortised cost	**Financial Assets: Loans and Receivables**	**Total**	**Financial Liabilities: measured at amortised cost**	**Financial Assets: Loans and Receivables**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest expense	6,592	-	6,592	6,670	-	6,670
Total expense in Surplus/Deficit on Provision of Services	**6,592**	**-**	**6,592**	**6,670**	**-**	**6,670**
Interest income	-	(375)	(375)	-	(380)	(380)
Total income in Surplus/Deficit on Provision of Services	**-**	**(375)**	**(375)**	**-**	**(380)**	**(380)**
Net (gain)/loss for the year	**6,592**	**(375)**	**(6,217)**	**6,670**	**(380)**	**6,290**

The average interest rate on all financial liabilities – borrowings at the end of 2017/18 was 4.46% (2016/17: 4.56%).

All investments were managed internally, and the main losses/(gains) were therefore shown under 'Loans and Receivables'.

Fair Values of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables, and long term debtors and creditors are carried on the balance sheet at amortised cost (in long term assets/liabilities, with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loans Board (PWLB), new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- For non-PWLB loans payable, prevailing market rates have been applied to provide the estimate of fair value.
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value.
- Where an instrument has a maturity of less than 12 months the fair value is taken to be the carrying amount or the billed amount.
- The fair value of trade payables and receivables is taken to be the invoiced or billed amount.
- No early repayment or impairment is recognised.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, this is also included in the fair value calculation. The rates used were obtained by the Council’s Treasury adviser, Link Asset Services, from the market on 31 March 2018.

As at 31 March the Council held £34.570 million financial assets and £142.876 million financial liabilities for which Level 2 valuations will apply (i.e. inputs other than quoted prices that are observable for the asset or liability). All the financial assets are classed as Loans and Receivables and held with Money Market Funds and in deposit and notice accounts. The financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. This is a widely accepted valuation technique commonly used by the private sector.

The fair values calculated are as follows:

	31 March 2018		31 March 2017	
	Carrying Amount £'000	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
PWLB debt	(105,583)	(133,272)	(102,564)	(130,669)
Market debt	(37,293)	(47,678)	(35,277)	(47,944)
Short term creditors (excluding NDR, Council Tax and Housing Benefit creditors)	(12,175)	(12,175)	(11,526)	(11,526)
Short term finance lease liabilities	(779)	(779)	(768)	(768)
Long term finance lease liabilities	(1,406)	(1,406)	(2,565)	(2,565)
Total Financial Liabilities	**(157,236)**	**(195,310)**	**(152,700)**	**(193,472)**

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

The fair value of Public Works Loan Board (PWLB) loans of £133.272 million measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

	31 March 2018		31 March 2017	
	Carrying Amount £'000	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
Short term investments	34,570	34,549	32,545	32,560
Short term debtors (excluding NDR, Council Tax and Housing Benefit debtors)	13,169	13,169	8,021	8,021
Long term debtors	4,557	4,557	4,551	4,551
Total Financial Assets	**52,296**	**52,275**	**45,117**	**45,132**

The fair value of assets is lower than the carrying amount as the Council's portfolio of investments includes fixed rate investments where the interest rate is lower than rates available for similar market investments at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to receive interest from lenders below current market rates.

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

Nature and Extent of risks arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

Overall procedures for managing risk

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- by approving annually in advance prudential and treasury indicators for the following three years, limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. They are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is reported in a mid-year update, and at the end of each financial year.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 22 February 2017, and is available on the Council's website.

Risk management is carried out by the Technical Accounting team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies (Fitch, Moody's and Standard and Poor's) forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries;
- credit ratings of short-term F1, long-term A- (Fitch or equivalent rating), with the lowest available rating being applied to the criteria;
- UK institutions provided with support from the UK Government;
- Building Societies that meet the ratings for banks.

The full Investment Strategy for 2017/18 was approved by Full Council on 22 February 2017 and is available on the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £47.901 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

No credit limits were exceeded during the reporting period, and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers. The total outstanding debt amount can be analysed by age as follows, assuming that all manually accrued items are less than three months old:

	31 March 2018 £'000	31 March 2017 £'000
Less than three months	9,237	7,734
Three to six months	68	31
Six months to one year	92	34
More than one year	236	222
Total	**9,633**	**8,021**

Collateral – During the reporting period the Council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing (£47.901 million) are due to be paid in less than one year.

Refinancing and Maturity risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt, and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council-approved treasury and investment strategies address the main risks, and the Technical Accounting team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities showing the maximum and minimum limits for fixed interest rates maturing in each period (as approved by the Council as part of the Treasury Management Strategy) is as follows:

	Approved minimum %	Approved maximum %	Actual 31 March 2018 £'000	Actual 31 March 2018 %	Actual 31 March 2017 £'000	Actual 31 March 2017 %
Less than 1 year	0.0	15.0	5,500	3.9	5,500	4.0
Between 1 and 2 years	0.0	15.0	-	-	-	-
Between 2 and 5 years	0.0	15.0	22,000	15.6	20,000	14.7
Between 5 and 10 years	0.0	15.0	700	0.5	700	0.5
Between 10 and 20 years	0.0	30.0	14,300	10.2	10,500	7.7
Between 20 and 30 years	0.0	30.0	36,000	25.5	36,000	26.5
Between 30 and 40 years	0.0	40.0	35,394	25.1	35,694	26.2
Between 40 and 50 years	0.0	40.0	18,200	12.9	18,700	13.8
More than 50 years	0.0	10.0	9,000	6.3	9,000	6.6
Total			**141,094**	**100.0**	**136,094**	**100.0**

This analysis assumes that the maturity dates for the Council's LOBO (Lender Option Borrower Option) loans is the next call date. They are therefore all included as short-term debt.

Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council’s prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set, which provides maximum limits for fixed and variable interest rate exposure. The Technical Accounting team monitor market and forecast interest rates within the year to adjust exposures appropriately. For example, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

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

	31 March 2018 £'000	31 March 2017 £'000
Increase in interest payable on new fixed rate borrowings	40	-
Increase in interest receivable on short term investments made in year	(582)	(527)
Impact on Surplus or Deficit on the Provision of Services	(542)	(527)
Share of overall impact credited to the HRA (net)	(122)	(54)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	27,841	27,895
Decrease in fair value of investments (loans and receivables) (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	119	97

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the disclosures on the Fair Value of Assets and Liabilities carried at Amortised Cost.

Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds so has no significant exposure to losses arising from movements in the price of shares.

Foreign exchange risk

The Council has no financial assets (investments) or liabilities (borrowings) denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

21. Long Term Debtors

These are debtors which fall due over a period of at least one year. They comprise mortgages held by the Council, sums repayable on sale of the property and finance lease debtors.

Category	Balance at 31 March 2017 £'000	Interest adjustment £'000	Advances in the year £'000	Repayments In the year £'000	Balance at 31 March 2018 £'000
Council House Mortgages	4	-	-	(4)	-
Improvement of Private Sector Houses - interest free	785	44	45	(37)	837
Finance lease debtors	3,712	-	-	(29)	3,683
Other Loans	50	-	-	(13)	37
Total	**4,551**	**44**	**45**	**(83)**	**4,557**

Interest free advances have been made under the Financial Assistance Policy for Private Sector Housing. These are secured against the property and repayable on sale. The 'loss' for interest foregone is calculated based on the current market rate at the end of the year in which the advance is recognised for an equivalent loan, and using an assumed average life for the loans. The reduced loans balance thus created will be written back up to full value over the life of the loans (see the disclosures regarding the Financial Instruments Adjustment Account in Note 28).

22. Assets Held for Sale

Accounting Policy

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification, and then carried at the lower of this amount and fair value less costs to sell.

Refer to Note 17 for details of the Fair Value measurement of Assets Held for Sale.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line of the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus/Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

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

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

The accounting treatment for the disposal of assets held for sale is the same as that for Property, Plant and Equipment. See Note 14 for the disposals accounting policy applied for the disposal of assets held for sale.

Disclosures

	31 March 2018 £'000	31 March 2017 £'000
Balance at 1 April	500	-
Assets reclassified as held for sale from Property, Plant and Equipment	958	713
Disposals	(500)	-
Revaluation losses	-	(213)
Balance at 31 March	**958**	**500**

23. Short Term Debtors

	31 March 2018 £'000	31 March 2017 £'000
Central Government bodies	5,769	1,022
Other local authorities	1,850	1,745
NHS bodies	3	4
Other entities and individuals	7,469	7,414
Total Short Term Debtors	**15,091**	**10,185**

The above short-term debtor values are presented net of impairments (allowances for non-collection).

24. Cash and Cash Equivalents

Accounting Policy

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in a period of 100 days or less from the date of acquisition, and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts.

Disclosures

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

	31 March 2018 £'000	31 March 2017 £'000
Cash held by the Council	10	10
Bank current accounts	253	304
Short term deposits	13,331	12,731
Total Cash and Cash Equivalents	**13,594**	**13,045**

25. Short Term Creditors

	31 March 2018 £'000	31 March 2017 £'000
Central Government bodies	(6,605)	(5,759)
Other local authorities	(1,776)	(3,131)
Public corporations and trading funds	-	(3)
Other entities and individuals	(11,232)	(9,642)
Total Short Term Creditors	**(19,613)**	**(18,535)**

26. Provisions

Accounting Policy

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate of the expenditure required to settle the obligation at the Balance Sheet date, taking into account relevant risks and uncertainties.

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

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

Non-Domestic Ratings Appeals Provision

	2017/18 £'000	**2016/17 £'000**
Balance at 1 April	(4,494)	(7,473)
RV list amendments charged against provision for appeals	1,831	2,646
Changes in provision for appeals	(3,101)	333
Balance at 31 March	**(5,764)**	**(4,494)**

As part of the Business Rates Retention scheme introduced from 1 April 2013, authorities are expected to meet the financial impact of successful appeals made against rateable values as defined by the Valuation Office Agency. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion to the precepting shares. The Council's proportionate share shown in the Balance Sheet is 40% of the above amount (£2.306 million – see Collection Fund Note C5).

The adjustments to the provision made in 2017/18 are based on appeals against 2010 valuations that were shown as being outstanding on the Valuation Office list of March 2017, and an estimate of likely appeals against the 2017 valuations.

Insurance Provision

	2017/18 £'000	2016/17 £'000
Balance at 1 April	(397)	(438)
Additional provisions made in the year	(21)	(59)
Amounts used during the year	96	100
Balance at 31 March	**(322)**	**(397)**

The **Insurance Provision** has been set aside to meet the estimated cost to the Council of outstanding insurance claims. However the actual cost of individual claims and the timing of payments are uncertain. The Insurance Fund has been allocated between the provision and reserve elements (see Note 10).

The major risks covered at present are:

- **Housing Stock** – Property damage up to external insurance excess of £25,000 per claim but with an overall aggregate with general properties, for any one period of insurance, of £100,000.
- **General Properties** – Property damage up to external insurance excess of £25,000 per claim but with an overall aggregate with Housing stock, for any one period of insurance, of £100,000.
- **All Risk Items** – Accidental damage or any loss associated with theft which is excluded from our external theft policy, but qualifies under the provision policy.

27. Usable Reserves

Accounting Policy - Reserves

The Council has the power to keep reserves for certain purposes by setting aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure is incurred that is to be financed from a reserve, it is charged to the appropriate service in that year to be included as expenditure in the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so there is no charge against Council Tax for the expenditure incurred.

Separate earmarked reserves are held by the Council for Repairs and Renewals, Insurance, Capital Expenditure, Asset Replacement, Revolving Investment Fund, Business Rates and Gosbecks Archaeological Park. Details of these are given in Note 10.

Movement in Usable Reserves

Movements in the Council's usable reserves are detailed in the Movements in Reserves Statement on page 20.

28. Unusable Reserves

Unusable reserves do not represent usable resources for the Council. These reserves are kept by the Council to manage specific accounting processes.

	31 March 2018 £'000	31 March 2017 £'000
Revaluation Reserve	70,418	40,636
Capital Adjustment Account	317,650	298,639
Financial Instruments Adjustment Account	(427)	(470)
Pensions Reserve	(102,764)	(121,368)
Deferred Capital Receipts Reserve	3,623	3,658
Collection Fund Adjustment Account	963	234
Accumulated Absences Account	(483)	(528)
Total	**288,980**	**220,801**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost.
- used in the provision of services and the gains are consumed through depreciation.
- disposed of and the gains are realised.

This reserve only contains revaluation gains accumulated since 1 April 2007, which is when the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**40,636**	**32,722**
Upward revaluation of assets	31,723	10,451
Downward revaluation of assets not charged to the Surplus/Deficit on the Provision of Services	(1,015)	(873)
Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	**30,708**	**9,578**
Difference between fair value depreciation and historical cost depreciation	(559)	(438)
Accumulated gains on assets sold/scrapped	(367)	(1,226)
Amount written off to the Capital Adjustment Account	**(926)**	**(1,664)**
Balance at 31 March	**70,418**	**40,636**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets, and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

This account is debited with the cost of acquisition, construction or enhancement as depreciation. Impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

This account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. It contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 details the adjustments between accounting basis and funding basis under regulations, and provides details of the source of all the transactions posted to this account, apart from those involving the Revaluation Reserve.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**298,639**	**289,030**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation of non-current assets	(11,835)	(11,203)
Derecognition of components of non-current assets	(1,840)	(995)
Revaluation losses on property, plant and equipment	(9,422)	(13,483)
Revaluation losses on heritage assets	(173)	(223)
Revaluation losses on assets held for sale assets	-	(213)
Reversal of previously recognised revaluation losses	27,651	19,285
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,100)	(5,227)
Amortisation of intangible assets	(444)	(453)
Revenue expenditure funded from capital under statute	(2,270)	(1,032)
Write off of Finance Lease Creditors	675	-
Long Term Debtors	(52)	(23)
Adjusting amounts written out of the Revaluation Reserve	926	1,664
Net written out amount of the cost of non-current assets consumed in the year	**116**	**(11,903)**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,768	4,782
Use of the Major Repairs Reserve to finance new capital expenditure	5,195	6,187
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,920	2,242
Capital grants and contributions transferred from the Capital Grants Unapplied Reserve	7	36
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,255	1,325
Capital expenditure charged against the General Fund and HRA balances	4,593	6,490
	16,738	**21,062**
Movements in the fair value of investment properties	2,157	450
Balance at 31 March	**317,650**	**298,639**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for certain financial instruments and statutory provisions. The Council uses the Account to reflect interest foregone on interest free loans (soft loans) made under the Financial Assistance Policy for home improvements. The initial 'loss' and notional interest payable are reflected in the Comprehensive Income and Expenditure Statement. The balance of these amounts is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**(470)**	**(489)**
Amount by which costs charged to the Comprehensive Income and Expenditure Statement are different from costs chargeable in the year in accordance with statutory requirements	43	19
Balance at 31 March	**(427)**	**(470)**

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 as the Council makes employer's contributions to the pension fund, or eventually pays any pensions for which it is directly responsible. The debit balance on the 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.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**(121,368)**	**(87,846)**
Re-measurement of the net defined benefit liability	20,666	(31,005)
Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(11,263)	(7,652)
Employer's pensions contributions and direct payments to pensioners payable in the year	9,201	5,135
Balance at 31 March	**(102,764)**	**(121,368)**

Deferred Capital Receipts Reserve

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

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**3,658**	**3,693**
Transfer to the Capital Receipts Reserve upon receipt of cash	(35)	(35)
Balance at 31 March	**3,623**	**3,658**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**234**	**(2,084)**
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	66	(341)
Amount by which Non-Domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Non-Domestic rates income calculated for the year in accordance with statutory requirements	663	2,659
Balance at 31 March	**963**	**234**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, (e.g. annual leave entitlements carried forward at 31 March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	**(528)**	**(508)**
Settlement or cancellation of accrual made at the end of the preceding year	528	508
Amounts accrued at the end of the current year	(483)	(528)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	45	(20)
Balance at 31 March	**(483)**	**(528)**

29. Cash Flow Statement Notes

Cash Flows from Operating Activities

The cash flows for operating activities within the Cash Flow Statement include the following items:

	2017/18 £'000	2016/17 £'000
Interest Received	290	342
Interest Paid	(6,711)	(6,632)

Adjustments to Net Surplus/Deficit on the Provision of Services for non-cash movements

	2017/18 £'000	2016/17 £'000
Depreciation	11,835	11,203
Impairments and downward valuations	9,595	13,919
Reversal of previously recognised revaluation losses	(27,651)	(19,285)
Movement in the fair value of Investment Properties	(2,157)	(450)
Carrying value of non-current assets and assets held for sale sold and derecognised	4,940	6,222
Amortisation	444	453
Increase/(Decrease) in Creditors	(632)	1,827
(Increase)/Decrease in Debtors	(5,545)	(116)
(Increase)/Decrease in Inventories	(25)	(8)
Contributions to/(from) Provisions	433	(1,232)
Movement in the pension liability	2,062	2,517
Other non-cash movements	(44)	(4)
Adjustments to Net Surplus/Deficit on the Provision of Services for non-cash movements	**(6,745)**	**15,046**

Cash and Cash Equivalents

	2017/18 £'000	2016/17 £'000
Cash held by the Council	10	10
Bank current accounts	253	304
Short term deposits	13,331	12,731
Bank overdraft	(3,988)	(4,888)
Cash Flow Statement - Total Cash and Cash Equivalents	**9,606**	**8,157**

30. Trading Operations

The Council has established various trading units where the service is required to operate in a commercial environment by generating income from other parts of the Council, other organisations or the public in order to either offset expenditure incurred, or in certain instances, operate within an approved level of subsidy. The significant operations of a trading nature included within the Comprehensive Income and Expenditure Statement (CIES) on page 21 are set out below:

Description	Line of the CIES	2017/18 Income	2017/18 Expenditure	2017/18 (Surplus) / Deficit	2016/17 Income	2016/17 Expenditure	2016/17 (Surplus) / Deficit
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Colchester Leisure World	Commercial	(4,837)	5,531	694	(4,428)	5,102	674
Trade Refuse	Environment	(519)	469	(50)	(537)	418	(119)
Building Control Chargeable Account	Environment	(406)	472	66	(397)	459	62
Land Charges	Environment	(299)	276	(23)	(305)	236	(69)
Cemetery & Crematorium	Communities	(1,370)	838	(532)	(1,421)	903	(518)
Events (Commercial)	Commercial	(634)	1,097	463	(465)	631	166
Monitoring & Response Services	Commercial	(1,044)	1,463	419	(954)	1,260	306
Net (Surplus) / Deficit on Trading Operations		**(9,109)**	**10,146**	**1,037**	**(8,507)**	**9,009**	**502**

31. Members' Allowances and Expenses

The Council paid the following amounts to Members of the Council during the year, and these are included within the 'Corporate and Democratic Core' line in the Comprehensive Income and Expenditure Statement.

	2017/18	2016/17
	£'000	**£'000**
Allowances	502	503
Expenses	5	5
Total	**507**	**508**

32. Officers' Remuneration

Accounting Policy - Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits for current employees, and are recognised as an expense for services in the year in which employees render their services to the Council.

An accrual is made for the cost of holiday entitlements, flexitime and time off in lieu earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus/Deficit on the Provision of Services in the financial year in which the absences are accrued, and it is then reversed out through the Movement in Reserves Statement so there is no charge against Council Tax.

Accounting Policy - Discretionary Benefits

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

Disclosures

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

2017/18 **Post holder**	**Salary, Fees and Allowances**	**Bonuses**	**Expense Allowances**	**Employers Pension contributions**	**Total Remuneration**
	£	**£**	**£**	**£**	**£**
Chief Executive	107,338	-	11	4,763	**112,112**
Executive Director	103,113	-	11	15,572	**118,696**
Executive Director	101,113	-	11	15,270	**116,394**
Executive Director	101,113	-	-	15,268	**116,381**
Head of Operational Services (Note 2)	31,734	-	11	4,793	**36,538**
Head of Professional Services (Note 1)	27,812	-	11	1,547	**29,370**
Assistant Director for Communities	76,248	-	11	11,515	**87,774**
Assistant Director for Customer	75,928	-	11	11,515	**87,454**
Assistant Director for Environment (Note 3)	21,265	-	-	3,297	**24,562**
Assistant Director for Policy & Corporate (Note 4)	78,044	-	-	11,786	**89,830**
Monitoring Officer	66,965	-	-	10,112	**77,077**
Section 151 Officer	66,965	-	11	10,113	**77,089**
Returning Officer	745	-	-	-	**745**

A senior management restructure was implemented from 1 July 2017. The information shown above for 2017/18 shows the senior officers roles before and after the restructure.

Note 1: The Head of Professional Services left the Council on 19 May 2017.

Note 2: The Head of Operational Services left the Council on 31 August 2017.

Note 3: The Assistant Director for Environment started at the Council on 18 December 2017. An interim consultant was contracted to fulfil this role for the period from 1 June to 21 December 2017 prior to their recruitment. Payments to the recruitment agency in respect of this placement totalled £102,439.

Note 4: The Assistant Director for Policy and Corporate left the Council on 30 March 2018.

2016/17

Post holder	Salary, Fees and Allowances	Bonuses	Expense Allowances	Employers Pension contributions	Total Remuneration
	£	£	£	£	£
Chief Executive	124,877	-	132	17,126	**142,135**
Executive Director	100,026	-	132	13,722	**113,880**
Executive Director	100,026	-	132	13,722	**113,880**
Executive Director	100,026	-	-	13,704	**113,730**
Assistant Chief Executive	75,407	-	132	10,349	**85,888**
Head of Commercial Services (Note 1 below)	31,420	-	55	4,312	**35,787**
Head of Community Services	75,407	-	132	10,349	**85,888**
Head of Customer Services	74,627	-	132	10,349	**85,108**
Head of Operational Services	75,407	-	132	10,349	**85,888**
Head of Professional Services	75,407	-	132	10,349	**85,888**
Monitoring Officer	66,172	-	-	9,066	**75,238**
Section 151 Officer	64,830	-	132	8,900	**73,862**
Returning Officer	8,059	-	-	-	**8,059**

Note 1: The Head of Commercial Services left the Council on 31 August 2016 and this position remained vacant within the Council for the remainder of the 2016/17 financial year.

The Council’s other officers receiving more than £50,000 remuneration for the year (excluding employer’s pension contributions) were paid the following amounts:

Remuneration Band	Number of Employees	
	2017/18	**2016/17**
£50,000 - £54,999	11	12
£55,000 - £59,999	1	-
£60,000 - £64,999	1	2
£65,000 - £69,999	4	4

33. Termination Benefits (Exit Packages)

Accounting Policy

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the relevant service line, or where applicable, to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits, or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations to and from the Pensions Reserve are required to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Disclosures

The total cost of exit packages includes the payments made to individuals and payments to the pension fund authority in respect of strains on the pension fund (curtailment costs).

Total cost of exits include payments to individuals of £434,260 in 2017/18 (£15,144 in 2016/17) and payments to the pension fund authority of £147,010 in 2017/18 (£4,225 in 2016/17) in respect of strains on the pension fund.

In 2017/18 two senior officers left the Council. The cost of their exit packages included payments to the two officers totalling £102,159 and payments to the pension fund authority totalling £41,778 in respect of strains on the pension fund.

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

2017/18 Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other agreed departures**	**Total number of exit packages by cost band**	**Total cost of exit packages £**
£0 - £20,000	9	12	21	198,508
£20,001 - £40,000	3	-	3	88,601
£40,001 - £60,000	-	1	1	43,633
£60,001 - £80,000	1	-	1	60,456
£80,001 - £100,000	1	-	1	84,306
£100,001 - £120,000	-	1	1	105,490
Total cost included in bandings	**14**	**14**	**28**	**580,994**
Add: Adjustments to accruals made in previous financial years relating to payments made to individuals				277
Add: Pension strains paid in the year which relate to individuals who left in previous financial years				-
Total Exit Costs				**581,271**

2016/17 Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other agreed departures**	**Total number of exit packages by cost band**	**Total cost of exit packages £**
£0 - £20,000	2	1	3	15,144
Total cost included in bandings	**2**	**1**	**3**	**15,144**
Add: Adjustments to accruals made in previous financial years relating to payments made to individuals				-
Add: Pension strains paid in the year which relate to individuals who left in previous financial years				4,225
Total Exit Costs				**19,369**

34. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors. Non-audit services relating to the National Fraud Initiative were provided by the Cabinet Office.

	2017/18 £'000	2016/17 £'000
External audit services	55	63
Certification of grant claims and returns	14	22
Other services - National Fraud Initiative	-	2
Total	**69**	**87**

35. Grant Income

Accounting Policy – Government Grants and Contributions

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

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

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

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

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

Disclosures

Credited to Services:

	2017/18 £'000	2016/17 £'000
DWP Grants for Benefits		
Rent Allowances	36,563	38,467
Rent Rebates	16,275	16,359
Administration	537	609
Other	46	-
MHCLG NDR and LCTS Admin	409	417
Arts Council	221	286
MHCLG Other	1,723	918
DEFRA Other	3	5
DWP Other	492	44
Governmental Agencies	78	47
Non-Governmental Agencies	1	28
Joint Finance Contributions	56	60
Essex County Council	1,148	1,517
Essex Police and Crime Commissioner	102	83
Essex Fire and Rescue	45	36
Other Local Authorities	351	450
Colchester Primary Care Trust	68	-
Other Miscellaneous Grants	48	294
Total	**58,166**	**59,620**

Credited to Taxation and Non Specific Grant Income:

	2017/18 £'000	2016/17 £'000
Revenue Support Grant	920	1,978
Transition Grant	88	88
Council Tax Freeze Grant	-	-
New Homes Bonus	4,793	5,722
Business Rates Section 31 Grants	1,870	805
Transparency Code Set Up	-	8
New Burdens	40	27
Council Tax Discount for Families	19	15
Estate regeneration enabling/capacity	-	285
Other	1	1
Capital Grants received from:		
MHCLG	580	763
Arts Council England	208	223
Section 106 Developer Contributions	1,528	843
Essex County Council	-	557
BEIS	141	-
European Union	-	14
Essex Fire and Rescue	20	-
Colchester Borough Homes	17	158
Insurance	362	(343)
Other	64	27
Total	**10,651**	**11,171**

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

Current Liabilities

Grants Receipts in Advance - Revenue

	2017/18 £'000	2016/17 £'000
Commuted sums received from developers	(2,191)	(2,037)
Other grants	(205)	(145)
Total	**(2,396)**	**(2,182)**

Long Term Liabilities

Grants Receipts in Advance – Capital

	2017/18 £'000	2016/17 £'000
Section 106 developer contributions	(7,512)	(7,573)
Other grants	(1,293)	(397)
Total	**(8,805)**	**(7,970)**

36. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Central Government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from Government Departments are shown in Note 35.

Members of the Council have direct control over the Council's financial and operating policies. Total Members' allowances and expenses are shown in Note 31.

Senior officers at the Council are able to influence the Council's policies, within the provisions of the Council's regulations and schemes of delegation. Remuneration of the Council's senior officers is shown in Note 32. No senior officers disclosed any material direct related party transactions with the Council during the year.

Material transactions with related parties that are not fully disclosed elsewhere in the Statement of Accounts arose as follows:

	2017/18		2016/17	
	Income £'000	**Expenditure £'000**	**Income £'000**	**Expenditure £'000**
Colchester Borough Homes Limited				
Income relates to the provision of support services.	751		744	
Expenditure relates to the management fee paid from the Housing Revenue Account.		3,509		3,382
Colchester Community Stadium Limited				
Rent paid by Colchester Community Stadium Limited.	300		300	
Outstanding balance on loans.	44		49	
Colchester Commercial Holdings Limited		171		-
Colchester Amphora Trading Limited		37		-
Colchester Amphora Homes Limited		18		-
Colchester Amphora Energy Limited		-		-
Expenditure relates to the management fee paid from the General Fund				
Essex County Council				
Supporting People	-		214	
Trade Waste Disposal		217		183
Recycling Credits	1,274		1,170	
On Street Parking (Decriminalisation)	-		120	
Technical Council Tax Changes	755		797	
Community Initiatives	314		284	
Garden Communities	250		235	
Community Alarms	155		153	
Other	309		211	
Parish Councils				
Payments of grants and precepts to support the services provided by Parish Councils.		1,624		1,488
Colchester Primary Care Trust				
Contributions for housing, special needs and health promotion.	203		2	
Mercury Theatre Company				
Grant payment to support theatre provision in Colchester. The Council is the sole trustee of the Colchester New Theatre Trust (see page 181).		222		222

The above figures are inclusive of accrued debtors and creditors at the year end.

Members

No related party transactions were made between Members of the Council and the Council in 2017/18.

37. Leases

Accounting Policy

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the Property, Plant or Equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

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

Finance Leases – Council as Lessee

Accounting Policy

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

Finance lease payments are apportioned between:
- a charge for the acquisition of the interest in the Property, Plant or Equipment which is applied to write down the lease liability, and
- a finance charge which is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

Disclosures

The Council has acquired a number of vehicles and a car park under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment assets in the Balance Sheet at the following net carrying amounts:

	31 March 2018 £'000	31 March 2017 £'000
Other Land and Buildings	534	547
Vehicles, Plant, Furniture and Equipment	1,865	2,912
Total	**2,399**	**3,459**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council, and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2018 £'000	31 March 2017 £'000
Finance lease liabilities		
(net present value of minimum lease payments):		
Current	778	769
Non-current	1,406	2,565
Finance costs payable in future years	1,521	2,123
Minimum Lease Payments	**3,705**	**5,457**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2018 £'000	**31 March 2017 £'000**	**31 March 2018 £'000**	**31 March 2017 £'000**
Not later than one year	982	1,128	778	769
Later than one year and not later than five years	1,459	3,006	1,179	2,307
Later than five years	1,264	1,323	228	258
Total	**3,705**	**5,457**	**2,185**	**3,334**

Finance Leases – Council as Lessor

Accounting Policy

Where the Council grants a finance lease over a property, or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal.

At the start of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value is not considered to be a charge against Council Tax, and as such is appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

A gain on disposal, representing the Council's net investment in the lease, is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, matched by a long-term debtor asset in the Balance Sheet. The gain is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Finance lease rentals receivable are apportioned between:
- a charge for the acquisition of the interest in the property which is applied to write down the lease debtor including any premiums received, and
- finance income which is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Usable Capital Receipts Reserve.

Disclosures

The Council has leased the following assets out on finance leases:

- a theatre to a third party since 1999 with a lease term of 25 years.
- an area of land to a third party in 2013 with a lease term of 150 years.
- an area of land to a third party in 2014 with a lease term of 125 years.
- a building to a third party in 2014 with a lease term of 99 years.
- an area of land to a third party in 2015 with a lease term of 125 years.
- a building and associated land in 2016 with a lease term of 150 years.
- a building and associated land in 2017 with a lease term of 125 years.

The Council has a gross investment in the lease, made up of the minimum lease payments to be expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2018 £’000	**31 March 2017 £’000**
Finance lease debtor (net present value of minimum lease payments):		
Current	29	27
Non-current	3,683	3,711
Unearned finance income	35,066	35,193
Unguaranteed residual value of property	17	17
Gross investment in the lease	**38,795**	**38,948**

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

	Gross Investment		Minimum Lease Payments	
	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Not later than one year	218	153	218	153
Later than one year and not later than five years	885	877	885	877
Later than five years	37,692	37,918	37,675	37,901
Total	**38,795**	**38,948**	**38,778**	**38,931**

Operating Leases – Council as Lessee

Accounting Policy

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

Disclosures

The Council has acquired various assets (land and buildings, plant, equipment and vehicles) under operating leases which are used to provide Council services.

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

	31 March 2018 £'000	31 March 2017 £'000
Not later than one year	410	352
Later than one year and not later than five years	1,370	1,384
Later than five years	387	724
Total	**2,167**	**2,460**

The future minimum sub-lease payments from third parties due under non-cancellable leases in future years are:

	31 March 2018 £'000	31 March 2017 £'000
Not later than one year	120	138
Later than one year and not later than five years	479	479
Later than five years	161	281
Total	**760**	**898**

The items charged the Comprehensive Income and Expenditure Statement during the year in relation to these leases are:

	2017/18 £'000	2016/17 £'000
Minimum lease payments	459	408
Contingent rent payments	21	21
Sub lease minimum lease payments received	(201)	(196)
Sub lease contingent rent payments received	(12)	(2)

Operating Leases – Council as Lessor

Accounting Policy

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

Disclosures

The Council leases out land and building properties to third parties under operating leases for the following purposes:

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

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

	31 March 2018 £'000	31 March 2017 £'000
Not later than one year	1,832	1,540
Later than one year and not later than five years	6,703	5,552
Later than five years	71,807	68,859
Total	**80,342**	**75,951**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the leases were entered into, such as adjustments following rent reviews. In 2017/18 a total of £1.3 million was recognised as contingent rent income in the Comprehensive Income and Expenditure Statement (2016/17: £1.2 million).

38. Defined Benefit Pension Scheme

Accounting Policy

The Local Government Pension Scheme is accounted for as follows:

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

Liabilities are discounted to their value at current prices, using the discount rate calculated by the scheme's actuaries.

The assets of Essex pension fund attributable to the Council are included in the Balance Sheet at their fair value:
- quoted securities – current bid price.
- unquoted securities – professional estimate.
- unitised securities – current bid price.
- property – market value.

The change in the net pension liability of the Council is analysed into the following components:
- Current Service Cost – the increase in liabilities as a result of years of service earned this year. The total cost is allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past Service Costs – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. These costs are debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement, and are included as part of Non Distributed Costs.
- Net interest on the net defined benefit liability – this is the net interest expense for the Council. It represents the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the financial period, whilst taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements of the return on plan assets – excluding the amounts included in net interest on the net defined benefit liability. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the latest actuarial valuation, or because the actuaries have updated their assumptions. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Essex pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense for the Council.

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

Disclosures

Participation in the Local Government Pension Scheme

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

The Council participates in the Local Government Pension Scheme, administered by Essex County Council. This is a funded defined benefit final salary scheme, meaning that the Council and its employees pay contributions into a fund, calculated at a level estimated to balance the pensions' liabilities with investment assets.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Fund Committee of Essex County Council. Policy is determined in accordance with Pension Fund Regulations. Day-to-day administration of the fund is undertaken by a team within Essex County Council, and where appropriate some functions are delegated to the Fund's professional advisors.

Essex County Council consults with the fund actuary and other relevant parties in order to prepare and maintain the scheme's Funding Strategy Statement and the Statement of Investment Principles. These statements are amended when appropriate based on the scheme's performance and funding levels.

The principal risks to the Council of the scheme are considered to be:

- Investment risk – The fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, their short term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk – The fund’s liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the fund holds assets such as equities, the values of the assets and liabilities may not move in the same way.
- Inflation risk – All of the benefits under the fund are linked to inflation and so deficits may emerge as the value of the fund assets are not linked to inflation.
- Longevity risk – a deficit could emerge if members of the scheme live longer than assumed in the actuarial estimations.
- Orphan liability risk – this emerges when employers leave the fund and there are insufficient assets to cover their pension obligations. This difference may then fall on the remaining employers within the scheme.

Costs of curtailments arise from the payment of unreduced pensions on the early retirement of Council employees. These costs are calculated at the point of exit of the employees by the scheme’s actuary. Interest is applied to the accounting date and is accounted for separately from the curtailment costs.

Settlement costs arise when members are transferred from one employer to another during the financial year. The liabilities are settled at a cost that is different from the IAS 19 reserve, which results in gains or losses being made.

Transactions relating to Post-employment 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 the Council is required to make 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 via the Movement in Reserves Statement during the year:

	2017/18 £'000	2016/17 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	7,926	4,750
Past Service Cost	244	-
Liabilities assumed/(extinguished) on settlements	(240)	191
Settlements price received/(paid)	106	(407)
Financing and Investment Income and Expenditure:		
Net interest expense	3,163	3,062
Pension fund administration expenses	64	56
Other Comprehensive Income and Expenditure:		
Re-measurement of the net defined benefit liability	(20,666)	31,005
Total charged to the Comprehensive Income and Expenditure Statement	**(9,403)**	**38,657**
Movement in Reserves Statement		
Reversal of the net charges made to the Surplus/Deficit on the Provision of Services for post-employment benefits in accordance with the Code.	(11,263)	(7,652)
Employer's contributions payable to the scheme	9,201	5,135
Total charged to the Movement in Reserves Statement	**(2,062)**	**(2,517)**

Pension assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	2017/18 £'000	2016/17 £'000
Present value of the defined benefit obligation	(278,903)	(282,765)
Fair value of plan assets	176,139	161,397
Net liability	**(102,764)**	**(121,368)**

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £99.405 million has a significant impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The Council is making an annual back-funding contribution designed to clear the liability over time. The position is reviewed annually and the contribution required is reassessed at each triennial valuation.

Reconciliation of the movements in fair value of the scheme assets:

	2017/18 £'000	2016/17 £'000
Balance at 1 April	161,397	134,350
Interest on assets	4,393	4,833
Return on assets less interest	7,442	21,412
Other actuarial gains/(losses)	-	1,230
Administration expenses	(64)	(56)
Contributions by employer	9,201	5,135
Contributions by scheme participants	1,388	1,292
Benefits paid net of transfers in	(7,512)	(7,206)
Settlement prices received/(paid)	(106)	407
Balance at 31 March	**176,139**	**161,397**

Local Government Pension Scheme assets comprised:

	31 March 2018		31 March 2017	
	£'000	%	£'000	%
Equities	114,958	66	110,237	68
Gilts	11,718	7	6,106	4
Other bonds	6,543	4	6,560	4
Property	16,708	9	15,702	10
Cash	6,057	3	4,858	3
Alternative assets	13,011	7	10,764	7
Other managed funds	7,144	4	7,170	4
Total	**176,139**	**100**	**161,397**	**100**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2017/18	2016/17
	£'000	£'000
Balance at 1 April	(282,765)	(222,196)
Current service cost	(7,926)	(4,750)
Interest cost	(7,556)	(7,895)
Change in financial assumptions	13,224	(55,686)
Change in demographic assumptions	-	5,031
Experience loss/(gain) on defined benefit obligation	-	(2,992)
Liabilities assumed/(extinguished) on settlements	240	(191)
Benefits paid net of transfers in	7,119	6,803
Past service costs	(244)	-
Contributions by scheme participants	(1,388)	(1,292)
Unfunded pension payments	393	403
Balance at 31 March	**(278,903)**	**(282,765)**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, with estimates being based on the latest full triennial valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary are:

	31 March 2018	31 March 2017
Mortality age rating assumptions (Life expectancy from the age of 65 years)		
Current pensioners		
Men	22.2 years	22.1 years
Women	24.7 years	24.6 years
Future pensioners retiring in 20 years		
Men	24.4 years	24.3 years
Women	27.0 years	26.9 years
Rate of RPI inflation	3.3% p.a.	3.6 % p.a.
Rate of CPI inflation	2.3% p.a.	2.7 % p.a.
Rate of increase in salaries	3.8% p.a.	4.2 % p.a.
Rate of increase in pensions	2.3% p.a.	2.7 % p.a.
Rate for discounting scheme liabilities	2.55% p.a.	2.7 % p.a.

The amended International Accounting Standard 19 has replaced the expected rate of return and the interest cost with a single net interest cost. This effectively sets the expected return on assets equal to the discount rate applied to scheme liabilities.

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

Sensitivity analyses on the Present Value of the Defined Benefit Obligation

Adjustments made to:	+ 1 year/ + 0.1% change £'000	No change £'000	- 1 year/ - 0.1% change £'000
Discount rate (increase/decrease by 0.1%)	273,879	278,903	284,025
Long term salary increase (increase/decrease by 0.1%)	279,380	278,903	278,429
Pension increases and deferred revaluation (increase/decrease by 0.1%)	283,555	278,903	274,336
Life expectancy assumptions (increase/decrease by 1 year)	289,541	278,903	268,669

Asset and Liability Strategy

Following the 2016 Actuarial Valuation, investment consultants Hymans Robertson were commissioned to undertake an asset liability study (ALS). The study used liability data from the 2016 Valuation and compared it to the Pension Fund's investment strategy. The ALS was taken to the Investment Steering Committee on 12 October 2017, where it was recommended to reduce the strategic allocation by 15% into return seeking assets. The ALS was subsequently agreed by the Investment Steering Committee at the 15 November 2017 meeting following a review of the current investment strategy.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep the Council's contributions at as constant a rate as possible. The Council has agreed a funding strategy with the scheme's actuary to repay the deficit over the next 18 years and 6 months. Funding levels are monitored on an annual basis. The next triennial valuation will be based on data as at 31 March 2019, and will be implemented with effect from 1 April 2020.

The total contributions expected to be paid by the Council to the pension scheme in the year to 31 March 2019 is £3.119 million.

The actuary's estimate of the duration of the Employer's liabilities for 2017/18 is 19 years (2016/17: 19 years).

39. Contingent Liabilities

Accounting Policy

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

Contingent liabilities are not recognised in the Balance Sheet but shown in a note to the accounts.

Disclosures

There is a potential dispute relating to drainage works where sums claimed by the Contractor have not been certified for payment. This could give rise to a claim against the Council, with an estimated value of up to £250,000.

40. Group Companies

Accounting Policy - Interests in Companies

The Council has material interests in companies that have the nature of subsidiaries, and these interests require the Council to prepare group accounts.

Group Accounts are currently prepared to include the accounts of two of the wholly owned subsidiaries of the Council - Colchester Borough Homes Limited and Colchester Community Stadium Limited. The Group Accounts for future years are expected to also include the accounts of Colchester Commercial (Holdings) Limited and its subsidiaries, as well as the Council’s proportionate share of North Essex Garden Communities Limited.

The Group Accounts are prepared on the basis of implementing the IFRS Code of Practice on Local Authority Accounting.

Disclosures

Colchester Borough Homes Limited, the Council’s Arm’s Length Management Organisation (ALMO), is a limited company wholly owned by the Council. It was established with no share capital and is limited by guarantee. The Council is liable to contribute to the debts and liabilities of the organisation if it was wound up to the value of £1.

The ALMO is an alternative way of delivering the Council's housing landlord services, and gives tenants a bigger say in the management of the dwellings. It means that Council housing is still owned by the Council, but managed by a separate organisation. The Council has delegated responsibility for overseeing the management and maintenance of its housing stock to Colchester Borough Homes Limited in accordance with the management agreement effective from 1 August 2003. The Council pay for these services through the management fee and this is agreed annually under the review process provided for under the management agreement. Colchester Borough Homes Limited aims to breakeven overall. It has tenants, councillors and independent people on its management board.

Colchester Borough Homes Limited was incorporated on 24 July 2003, and has prepared its accounts for the year to 31 March 2018. The accounts were prepared in accordance with the Companies Act 2006 and will be submitted for approval to the Board of Colchester Borough Homes Limited on 20 June 2018.

The following summarised accounts are based on the draft accounts to be submitted for approval in June 2018, and cover the financial year from 1 April 2017 to 31 March 2018.

Income and Expenditure Account

	2017/18 £'000	2016/17 £'000
Turnover	13,195	14,195
Operating costs	(14,278)	(14,673)
Operating Surplus/(Deficit)	**(1,083)**	**(478)**
Interest receivable	8	7
FRS17 interest adjustment	(272)	(204)
Surplus/(Deficit) on ordinary activities before taxation	**(1,347)**	**(675)**
Tax charge on Surplus/(Deficit) on ordinary activities	-	(1)
Surplus/(Deficit) for the year	**(1,347)**	**(676)**

Balance Sheet

	31 March 2018 £'000	31 March 2017 £'000
Current Assets:		
Debtors	804	1,407
Cash at bank and in hand	1,769	1,409
Current Liabilities:		
Creditors	(1,142)	(1,429)
Other Liabilities:		
Provisions	(195)	(125)
Pension Fund Liability	(8,368)	(10,100)
Total Net Liabilities	**(7,132)**	**(8,838)**
Total Reserves	**(7,132)**	**(8,838)**

The following balances with the Council are included above:

	31 March 2018 £'000	31 March 2017 £'000
Debtors	705	1,254

Further information is provided within the Group Accounts (pages 147 – 166).

Net Pensions Liability

Colchester Borough Homes Limited participates in the Local Government Pension Scheme administered by Essex County Council. The fund actuary, Barnett Waddingham, produced an assessment of the pension liability position. This is included in the accounts as set out above, and may be summarised as follows:

	31 March 2018 £'000	31 March 2017 £'000
Estimated Liabilities in Scheme	(38,907)	(37,306)
Estimated Assets in Scheme	30,539	27,206
Net Liability	**(8,368)**	**(10,100)**

The position is reviewed annually and contributions are reassessed at each triennial revaluation. The latest revaluation was at 31 March 2016. The next revaluation will be based on data as at 31 March 2019, and will be implemented with effect from 1 April 2020.

These figures have been provided by the actuary to the Essex Pension Scheme using information provided by the scheme and assumptions determined by Colchester Borough Homes Limited in conjunction with the actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

Colchester Community Stadium Limited, is an arm's length company created by the Council to be responsible for the effective running of the entire Community Stadium as a financially viable enterprise, which delivers the maximum programme of community activities consistent with this objective. It is a limited company wholly owned by the Council (limited by shares). The Council is liable to contribute to the debts and liabilities of the organisation if it was wound up to the value of £1.

The subsidiary company, Colchester Community Stadium Limited was incorporated on 2 April 2009, started trading on 1 July 2009 and has prepared its accounts for the year to 31 March 2018 in accordance with International Financial Reporting Standards. These accounts were approved by the Board of Colchester Community Stadium Limited on 3 May 2018. The following summarised accounts are based on the accounts that were approved, and cover the year from 1 April 2017 to 31 March 2018.

Income and Expenditure Account

	2017/18 £'000	**2016/17 £'000**
Turnover	393	407
Operating costs	(381)	(391)
Operating Profit	12	16
Interest payable	(3)	(6)
Surplus/(Deficit) on ordinary activities before taxation	9	10
Tax charge on Surplus/(Deficit) on ordinary activities	(6)	(7)
Surplus/(Deficit) on ordinary activities for the year	**3**	**3**

Balance Sheet

	31 March 2018 £'000	31 March 2017 £'000
Non-Current Assets:		
Property, Plant and Equipment	118	140
Current Assets		
Debtors	182	181
Cash and Cash Equivalents	48	31
Current Liabilities:		
Creditors	(179)	(176)
Short Term Borrowings	(10)	(9)
Tax Payable	(6)	(6)
Non-Current Liabilities:		
Long Term Borrowings	(77)	(88)
Total Net Assets	**76**	**73**
Total Reserves	**76**	**73**

The following balances with the Council are included above:

	31 March 2018 £'000	31 March 2017 £'000
Debtors	70	70
Creditors	(92)	(90)
Short Term Borrowings	(5)	(9)
Long Term Borrowings	(39)	(40)

The accounts were audited by Baker Chapman and Bussey, and an unqualified opinion was given. The accounts are published electronically on the Council's website – www.colchester.gov.uk.

Colchester Commercial (Holdings) Limited is a limited company, wholly owned by the Council. The company is limited by shares.

The purpose of the company is to enable Colchester Borough Council to operate its direct trading services and development functions within a more commercial culture and environment to address the challenges of ongoing Council-wide budget reductions. The holding company owns the following three separate trading businesses (100% by shares) offering distinct products, services and opportunities:

- Colchester Amphora Energy Limited.
- Colchester Amphora Homes Limited.
- Colchester Amphora Trading Limited.

The Board of Colchester Commercial (Holdings) Limited comprises of four Elected Members of Colchester Borough Council, and the Managing Director of the company. Board meetings will be held every six weeks.

Colchester Commercial (Holdings) Limited was incorporated on 1 June 2017. The company commenced trading in July 2017 with the recruitment of the Managing Director and other Senior Officers. The company and its subsidiaries have prepared accounts to 31 March 2018.

The accounts were prepared in accordance with International Financial Reporting Standards, and will be submitted for approval to the Board of Colchester Commercial (Holdings) Limited on 26 June 2018.

The accounts to 31 March 2018 only consist of staff related costs, and are not considered to be material to the group. As such they will not be incorporated into the Council's Group Accounts.

It is anticipated that the company will be consolidated into future Group Accounts as a subsidiary company.

North Essex Garden Communities Limited is a joint strategic entity which is equally owned by Essex County Council, Colchester Borough Council, Tendring District Council and Braintree District Council. The company is limited by shares. The shares have an equal ranking, and any dividend will be distributed equally to the shareholders on a pro-rata basis.

The purpose of the Company is to hold shares in each of the three Local Delivery Vehicles (LDV's), to coordinate funding of the LDV's and to oversee and hold to account the LDV's in the development of three potential garden communities in the area of North Essex.

Each Local Authority has the right to appoint, remove or replace a Nominated Director. On any Board decision a majority (including all Nominated Directors) in favour is required for the vote to pass. However, Nominated Directors are not entitled to vote where a decision only relates to properties outside of the area of their appointing authority.

North Essex Garden Communities Limited was incorporated on 9 August 2016. The company commenced trading in October 2017 following the recruitment of a Managing Director. The company has prepared dormant accounts to 31 August 2017. Following a change of accounting reference date it has also prepared accounts to 31 March 2018.

The accounts were prepared in accordance with International Financial Reporting Standards, and will be submitted for approval to the Board of North Essex Garden Communities Limited on 16 July 2018.

The accounts to 31 March 2018 are not expected to be material to the group, and as such will not be incorporated into the Group Accounts of the four owning authorities.

It is anticipated that the company will be consolidated into future Group Accounts as an associate entity as the Council does not have power, or the ability to have power over the company.

41. Jointly Controlled Operations

Accounting Policy

Jointly controlled operations are arrangements whereby the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangement.

These operations are activities undertaken by the Council in conjunction with other parties that involve the use of the assets and resources of the participants rather than the establishment of a separate entity to run the operations.

The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs, and adjusts the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the income it earns from the activities of these operations.

Disclosures

The Council is a member of the Colchester and Ipswich Museum Service Joint Committee, which was formed with Ipswich Borough Council on 1 April 2007.

The Council is a member of the North Essex Parking Partnership. This Joint Committee was set up on 1 April 2011 for the purposes of civil parking enforcement in the districts of Braintree, Epping, Harlow, Tendring and Uttlesford and the borough of Colchester. Off-street services are also provided for all except Epping and Tendring. This service is centrally managed from Colchester, with the on-street element being delivered on behalf of Essex County Council.

The Council has accounted for these Joint Committees as Jointly Controlled Operations as all the parties are bound by contractual arrangements that give all of them joint control of the arrangements.

With effect from the 2015/16 financial year, joint committees no longer had a statutory obligation to prepare accounts to be audited by a firm appointed by the Audit Commission. The Audit Commission Act 1998 was repealed with effect from 1 April 2015, and the Local Audit and Accountability Act 2014 does not apply to joint committees. From 1 April 2015, any expenditure overseen by a joint committee is only subject to statutory audit as part of the main accounts of constituent audited bodies.

42. Trust Funds

The Council acts as a trustee for several trust funds. The funds are not considered to be assets of the Council and so they have not been included within the Council's Balance Sheet on page 22. See pages 180 - 185 for details of the nature and value of these trust funds. The accounts for the trust funds are not subject to audit by the Council's external auditors.

HRA INCOME AND EXPENDITURE STATEMENT

	Notes	2017/18 £'000	2016/17 £'000
Dwelling rents		(26,355)	(26,927)
Non-dwelling rents	H3	(912)	(939)
Charges for services and facilities		(2,608)	(2,669)
Contributions towards expenditure		(75)	(73)
Total Income		**(29,950)**	**(30,608)**
Repairs and maintenance		4,727	4,927
Supervision and management		8,444	8,337
Rents, rates, taxes and other charges		190	136
Depreciation	H8	6,858	6,187
Revaluation losses		7,329	9,998
Reversal of previously recognised revaluation losses		(25,059)	(15,616)
Derecognition of non-current assets		594	881
Amortisation	H9	57	66
Debt management costs		79	69
Movement in the provision for bad debts		(49)	76
Total Expenditure		**3,170**	**15,061**
Net (Income)/Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement (Page 21)		**(26,780)**	**(15,547)**
HRA services share of Corporate and Democratic Core		341	370
Net (Income)/Expenditure for HRA Services		**(26,439)**	**(15,177)**
HRA share of the Other Operating Expenditure			
(Gain)/Loss on sale of HRA non-current assets		(1,692)	(1,989)
Capital Receipts not linked to sales		(110)	-
Revaluation losses on the write down of HRA assets held for sale		-	213
HRA share of the Financing and Investment Income and Expenditure			
Interest payable and similar charges	H7	5,661	5,605
Interest and investment income		(51)	(31)
(Surplus)/Deficit for the year on HRA services		**(22,631)**	**(11,379)**

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

The HRA income and Expenditure Statement shows the Council's financial performance for the Housing Revenue Account over the last twelve months. However, the Council is required to maintain the Housing Revenue Account on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the non-current assets are consumed.
- Retirement benefits are charged as amounts become payable to pension fund pensioners, rather than as future benefits earned.

This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Statement and the Housing Revenue Account Balance.

	Notes	2017/18 £'000	2016/17 £'000
Balance on the HRA at 1 April		**2,946**	**2,388**
Surplus/(Deficit) for the year on the HRA Income and Expenditure Statement	Page 133	22,631	11,379
Adjustments between accounting basis and funding basis under statute	Note 9	(21,763)	(10,946)
Transfers (to)/from Earmarked Reserves		91	125
Increase/(Decrease) in the year on the HRA Balance		**959**	**558**
Balance on the HRA at 31 March		**3,905**	**2,946**

NOTES TO THE HOUSING REVENUE ACCOUNT

H1. Dwellings Rents and Analysis of the Housing Stock

The Account shows the total rent income collectable for the year after an allowance has been made for empty properties. On 31 March 2018, 0.87% of lettable properties were vacant (0.75% at 31 March 2017).

The stock at the beginning and end of the year was made up as follows:

	31 March 2018	31 March 2017
Analysis by Type of Dwelling:		
Houses and Bungalows	2,965	2,989
Flats and Maisonettes	2,980	2,995
Total Dwellings	**5,945**	**5,984**
Analysis by Number of Bedrooms:		
Bedsitters/1 Bedroom	2,416	2,421
2 Bedrooms	1,755	1,769
3 Bedrooms	1,680	1,701
4 or more Bedrooms	94	93
Total Dwellings	**5,945**	**5,984**
The change in stock can be summarised as follows:		
Stock at the beginning of the year	5,984	6,040
Add: New Build, Acquisitions, Conversions etc.	16	-
Deduct: Sales, Demolitions, Conversions, etc.	(55)	(56)
Stock at the end of the year	**5,945**	**5,984**

The most recent valuation of HRA dwellings that has been prepared was at 1 April 2015. The valuation of dwellings has then been adjusted from the results of book valuations as at 31 March 2018 in the 2017/18 accounts and this is reflected in the valuation shown below:

Balance Sheet valuation of HRA Assets	**31 March 2018 £’000**	**1 April 2017 £’000**
Council Dwellings	344,203	305,357
Other Land and Buildings	9,781	8,397
Vehicles, Plant, Furniture and Equipment	173	139
Surplus Assets	50	50
Assets Held for Sale	958	500
Total	**355,165**	**314,443**

H2. Vacant Possession Value of the Housing Stock

The vacant possession value of the Council’s HRA lettable dwellings at 31 March 2018 was £914.8 million (£811.3 million as at 1 April 2017). The value represents the Council’s estimate of the total sum that it would receive if all its dwellings were sold on the open market. The Balance Sheet value disclosed in Note H1 is calculated on the basis of rents receivable on existing tenancies, and is lower than the vacant possession value. This is because the existing tenancy rents are lower than what would be obtainable on the open market. The difference between the two values represents the economic cost of providing Council housing at below market rents.

H3. Non-Dwelling Rents

	2017/18 £’000	**2016/17 £’000**
Garages and other charges	(828)	(812)
Land and other buildings	(84)	(127)
Total – Non-Dwelling Rents	**(912)**	**(939)**

H4. Charges for Services and Facilities

The Government’s Supporting People Programme was introduced from 2003/04. The effect of this is the support element of the rentals that are charged for Council houses are now shown separately in the accounts. Income totalling £0.078 million from Supporting People charges in 2017/18 (2016/17: £0.196 million) is shown under Charges for Services and Facilities.

H5. Pension Reserve

Under the full implementation of IAS 19 (see Note 38) expenditure reflects the current service cost of retirement benefits. The overall amount to be met from rent and Government subsidy remains unchanged.

H6. HRA Capital Financing

Capital Financing	2017/18 £'000	2016/17 £'000
HRA Capital Expenditure		
Dwelling Stock	7,692	10,142
New Build - Council Dwellings	2	551
Dwelling Acquisitions	197	-
Investment in Information Technology	76	12
Total	**7,967**	**10,705**
Financed by:		
Capital Grants	134	159
Capital Receipts	625	389
Revenue Contributions	1,922	3,970
Retained Right To Buy Receipts Reserve	91	-
Major Repairs Reserve	5,195	6,187
Total	**7,967**	**10,705**

Summary of HRA Capital Receipts – Right To Buy	2017/18 £'000	2016/17 £'000
Sale of Council Houses – Direct	4,257	4,609
Sale of Council Houses – Deferred	4	18
Total	**4,261**	**4,627**

Receipts from the sale of Council houses have decreased in 2017/18. 46 tenants purchased their property under the Right to Buy Scheme/Rent to Mortgage Scheme in 2017/18 compared to 51 in 2016/17.

Under the Capital Receipts Pooling regulations which came into effect from 1 April 2012, Local Authorities are able to retain a greater proportion of the income they receive from the sale of dwellings. This is dependent on these additional receipts being reinvested in the provision of new affordable housing, along with an allowance for the provision for repayment of HRA debt.

Of the total capital receipts of £4.261 million, £0.534 million was paid to the Secretary of State under the pooling arrangements. The retained balance of £3.727 million can be used to finance capital expenditure or provide for the repayment of existing HRA debt (see Note 19).

In addition, a principal repayment of £0.144 million was paid to the Secretary of State under the terms of the Right To Buy Receipts retention agreement, which the Council entered into on 1st July 2012.

H7. Interest Payable

As part of the HRA reform arrangements in April 2012, the Council adopted a 'two pool' approach, which has resulted in the HRA being charged the actual borrowing rate for its attributable debt. This approach assumed that the HRA would be 'fully borrowed', however the Council's Treasury Management Strategy includes a policy of internal borrowing.

As the HRA is now borrowing to fund the Housing Investment Programme, it is recharged for the cost of new borrowing based on the average balance of unfinanced HRA debt during the year, using the PWLB variable rate as at 31 March of the previous year.

	2017/18 £'000	**2016/17 £'000**
HRA Interest Charge	5,661	5,605

H8. Depreciation Charges

	2017/18 £'000	**2016/17 £'000**
Council Dwellings	6,469	5,825
Other Land and Buildings	348	321
Vehicles, Plant and Equipment	41	41
Total Depreciation	**6,858**	**6,187**

H9. Amortisation

	2017/18 £'000	2016/17 £'000
Housing Integrated Computer Systems	57	66

Intangible assets are created when expenditure has been incurred on software that has been financed from capital resources. These are written down to the HRA over an appropriate period of between 3-10 years.

H10. Rent Arrears

The arrears at 31 March 2018 totalled £0.933 million. This excludes prepayments of £0.617 million and is analysed as follows:

	2017/18 £'000	2016/17 £'000
Due from Current Tenants	556	688
Due from Former Tenants	377	515
Total Rent Arrears	933	1,203
Prepayments	(617)	(601)
Net Rent Arrears	**316**	**602**

These arrears include all charges due from tenants and leaseholders i.e. rent, service charges and other charges. The HRA has been setting aside funds into a provision to meet irrecoverable debts in respect of such arrears. At 31 March 2018 the provision totalled £0.681 million (2016/17: £0.931 million).

H11. Revenue Balances

Out of the revenue balance of £3.9 million, a sum of £2.3 million has already been committed for future use.

	2017/18 £'000	2016/17 £'000
Revenue Balance at 1 April	2,946	2,388
Adjust: Housing Revenue Account Surplus/(Deficit)	959	558
Revenue Balance at 31 March (page 134)	**3,905**	**2,946**
Less: Committed Sum		
Investment in Housing Stock 2018/19 and Future Years	(2,116)	(1,170)
Estimate Balance Carried Forward	(189)	(176)
Uncommitted Balance	**1,600**	**1,600**

H12. Capital Expenditure Charged to Revenue

This represents the cost of capital works spent on Council housing that have been funded from revenue. The Council has decided to further supplement the resources available for capital by using part of the accumulated revenue balance to support the Housing Investment Programme. Therefore the revenue balances carried forward above (£2.116 million) will be used to support spending in future years.

Further Information

Arm's Length Management Organisation (ALMO) - see Note 40. The Council is required to provide tenants with information on its effectiveness in housing management services.

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

	Notes	2017/18 Council Tax £'000	2017/18 NDR £'000	2017/18 Total £'000	2016/17 Council Tax £'000	2016/17 NDR £'000	2016/17 Total £'000
Council Tax		(98,742)	-	(98,742)	(94,285)	-	(94,285)
Non-Domestic Rates		-	(63,466)	(63,466)	-	(64,363)	(64,363)
Total Income		**(98,742)**	**(63,466)**	**(162,208)**	**(94,285)**	**(64,363)**	**(158,648)**
Precepts Demands and Shares							
Central Government		-	30,317	30,317	-	31,740	31,740
Colchester Borough Council		12,561	24,254	36,815	11,996	25,392	37,388
Essex County Council		71,140	5,457	76,597	68,368	5,713	74,081
Essex Fire and Rescue		4,220	606	4,826	4,094	634	4,728
Police and Crime Commissioner for Essex		9,601	-	9,601	9,201	-	9,201
Charges to Collection Fund							
Transitional Protection Payment		-	1,776	1,776	-	779	779
Cost of Collection Allowance		-	241	241	-	241	241
Interest		-	-	-	-	17	17
Provision for Bad Debts	C5	325	285	610	529	658	1,187
Provision for Appeals	C5	-	1,270	1,270	-	(2,979)	(2,979)
Total Expenditure		**97,847**	**64,206**	**162,053**	**94,188**	**62,195**	**156,383**
(Surplus)/Deficit		**(895)**	**740**	**(155)**	**(97)**	**(2,168)**	**(2,265)**
Apportionment of Previous Year Surplus/Deficit							
Central Government		-	1,198	1,198	-	2,240	2,240
Colchester Borough Council		(48)	958	910	(352)	1,792	1,440
Essex County Council		(275)	216	(59)	(1,948)	403	(1,545)
Essex Fire and Rescue		(17)	24	7	(119)	45	(74)
Police and Crime Commissioner for Essex		(37)	-	(37)	(264)	-	(264)
(Surplus)/Deficit for Previous Year		**(377)**	**2,396**	**2,019**	**(2,683)**	**4,480**	**1,797**
(Surplus)/Deficit for the Year		**(518)**	**(1,656)**	**(2,174)**	**2,586**	**(6,648)**	**(4,062)**
Movement on the Collection Fund Balance							
Balance at the beginning of the year		65	(608)	(543)	(2,521)	6,040	3,519
Movement on Fund balance		(518)	(1,656)	(2,174)	2,586	(6,648)	(4,062)
Balance at 31 March	C4	**(453)**	**(2,264)**	**(2,717)**	**65**	**(608)**	**(543)**

NOTES TO THE COLLECTION FUND ACCOUNTS

C1. General

The Collection Fund is an agent's statement that shows the transactions of the Council as the billing authority in relation to the collection from taxpayers of Council Tax and Non-Domestic Rates (NDR), and its distribution to local government bodies and Central Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund, therefore, is to isolate the income and expenditure relating to Council Tax and Non-Domestic Rates. The administrative costs associated with the collection process are charged to the General Fund.

C2. Council Tax

Council Tax comes from charges raised according to the value of residential properties, which have been classified into 9 valuation bands A-H. The individual charge is calculated by estimating the amount of income required from the Collection Fund for the year ahead and dividing this by the Council Tax Base (the equivalent numbers of Band D dwellings).

The Council Tax base for 2017/18 was 61,132 (60,496 in 2016/17). This takes into account Local Council Tax Support, which replaced the payment of Council Tax benefit compensation with a Council Tax Reduction Scheme that each authority administers. The tax base for 2017/18 was calculated as follows:

Band	Chargeable Dwellings	Ratio to Band D	Band D Equivalent Dwellings
A	8,416	6/9	5,611
B	20,784	7/9	16,165
C	19,178	8/9	17,047
D	13,739	9/9	13,739
E	7,963	11/9	9,733
F	3,799	13/9	5,487
G	2,244	15/9	3,740
H	151	18/9	302
Contributions in lieu for Ministry of Defence Properties			768
Total Band D			**72,592**
Net effect of premiums and discounts			(11,460)
Council Tax Base for the calculation of Council Tax			**61,132**

C3. Income from Business Ratepayers

The Council collects Non-Domestic Rates for its area based on local rateable values provided by the Valuation Office Agency, multiplied by a uniform business rate set nationally by Central Government. Prior to 1 April 2013 Non-Domestic Rates were collected by the Council and then paid over to Central Government, who then redistributed these sums across the country in the form of the Non-Domestic rates grant.

In 2013/14 there was a change to the method for distributing and accounting for business rates income, with the introduction of the Business Rates Retention scheme. This allows local authorities to retain a proportion of the total NDR collected for the area. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the borough. It does, however, also increase the financial risk due to non-collection and the volatility of the NDR tax base. The relative shares are as follows:

- Central Government 50%
- Colchester Borough Council 40%
- Essex County Council 9%
- Essex Fire and Rescue 1%.

Central Government sets a baseline level of business rates funding deemed to be applicable to each area. Councils either receive a ‘top-up’ if business rates collected are below this deemed level of funding, or pay a ‘tariff’ if business rates collected are above this deemed level of funding. Tariffs due from authorities payable to Central Government are used to finance the top-ups to those authorities who do not achieve their targeted baseline funding. In 2017/18 the Council paid a tariff of £18.7 million (2016/17: £20.1 million).

The business rates shares that were estimated before the start of the financial year have been paid in 2017/18 and charged to the Collection Fund in year.

If a local authority increases its business rates base it is allowed to retain a proportion of this increased income, whilst paying up to a maximum of 50% across to Central Government. This payment where it occurs is known as a levy payment.

The Government also stated that no local authority will suffer a reduction in business rate income below a ‘safety net’ figure calculated at 92.5% of its business rates funding baseline. If the reduction in business rates income is greater than 7.5% of the baseline amount (£303,000 for Colchester Borough Council) then the Government will make a safety net payment.

Under the business rates retention scheme, local authorities are able to come together on a voluntary basis to pool their business rates receipts, and then agree collectively how these will be distributed between pool members.

Pooling has the benefit of enabling income that would otherwise be paid to Government as a levy to be retained, providing that authorities experience growth above their baselines. However the protection each authority receives under the safety net arrangements in the event of a shortfall is removed, with the 7.5% safety net only applying to the overall pool.

In 2017/18 Colchester was one of nine District Councils in Essex in a pooling agreement together with the County Council and Fire Authority. Based on provisional outturn information provided by the authorities within the pool, Colchester is due to receive an additional £0.834 million from being in the pool in 2017/18 (£0.725 million in 2016/17).

The total Non-Domestic Rateable value at the 2017/18 year end was £161.895 million (2016/17: £156.371 million) and the Standard Non-Domestic rate multiplier for the year was 47.9p (2016/17: 49.7p).

C4. Council Tax and NDR Surplus/Deficit

Any surplus or deficit on the Fund is shared between the relevant precepting bodies in their respective proportions. Likewise, deficits are proportionately charged to the relevant precepting bodies in the following year.

The cumulative surplus at the end of March 2018 will be distributed in proportion to the value of the respective precepts as shown below:

	2017/18			2016/17		
	Council Tax £'000	NDR £'000	Total £'000	Council Tax £'000	NDR £'000	Total £'000
Colchester Borough Council	(57)	(905)	(962)	9	(243)	(234)
Central Government	-	(1,132)	(1,132)	-	(304)	(304)
Essex County Council	(331)	(204)	(535)	47	(55)	(8)
Essex Fire and Rescue	(19)	(23)	(42)	3	(6)	(3)
Police and Crime Commissioner for Essex	(46)	-	(46)	6	-	6
Total (Surplus)/Deficit	**(453)**	**(2,264)**	**(2,717)**	**65**	**(608)**	**(543)**

C5. Council Tax and NDR Provisions

Impairment for non-payment

The Collection Fund account provides for bad debts on arrears on the basis of prior years' experience and current year collection rates.

	2017/18			2016/17		
	Council Tax	**NDR**	**Total**	**Council Tax**	**NDR**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April	3,586	1,305	4,891	3,543	961	4,504
Write-offs during year for previous years	(387)	(487)	(874)	(486)	(315)	(801)
Contributions to provisions during year	325	285	610	529	659	1,188
Net increase/(decrease) in Provision	(62)	(202)	(264)	43	344	387
Balance at 31 March	**3,524**	**1,103**	**4,627**	**3,586**	**1,305**	**4,891**

The Council's proportion of these write-offs and increase in provision are shown below.

	2017/18			2016/17		
	Council Tax	**NDR**	**Total**	**Council Tax**	**NDR**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April	461	522	983	454	384	838
Write-offs during year for previous years	(75)	(195)	(270)	(63)	(120)	(183)
Contributions to provisions during year	63	114	177	70	258	328
Net increase/(decrease) in Provision	(12)	(81)	(93)	7	138	145
Balance at 31 March	**449**	**441**	**890**	**461**	**522**	**983**

Provision for NDR valuation appeals

The Collection fund also provides for the provision for appeals against the rateable valuation set by the Valuation Office Agency not settled as at 31 March. The Council's and the other shares of these write-offs and increase in provision are shown below.

	2017/18			2016/17		
	Council	**Other Shares**	**Total**	**Council**	**Other Shares**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April	1,798	2,696	4,494	2,989	4,484	7,473
RV list amendments charged against provision for appeals	(732)	(1,099)	(1,831)	(1,058)	(1,588)	(2,646)
Changes in provision for appeals	1,240	1,861	3,101	(133)	(200)	(333)
Net increase/(decrease) in Provision	508	762	1,270	(1,191)	(1,788)	(2,979)
Balance at 31 March	**2,306**	**3,458**	**5,764**	**1,798**	**2,696**	**4,494**

GROUP ACCOUNTS

1. Introduction

The group accounts have been prepared under the International Financial Reporting Standards (IFRS) using the IFRS Based Code of Practice on Local Authority Accounting.

The IFRS based Code of Practice on Local Authority Accounting sets out comprehensive requirements for Group Accounts. These require local authorities to consider all their interests and to prepare a full set of group financial statements when they have material interests in subsidiaries, associates or joint ventures.

A review has been undertaken of the Council's relationship with other bodies, and it is clear that the Council should account for its interests in Colchester Borough Homes Limited and Colchester Community Stadium Limited (see Note 40) as wholly owned subsidiaries and prepare Group Accounts.

The statements are intended to present financial information about the parent (the Council) and the subsidiaries (Colchester Borough Homes Limited and Colchester Community Stadium Limited) by bringing together their results in a unified set of accounts. The accounts have been brought together on a line-by-line basis incorporating income and expenditure fully in the relevant service revenue account, and combining assets and liabilities in the Balance Sheet. Inter-group balances and transactions have been eliminated during the consolidation of the Group Accounts.

During 2017/18 Colchester Borough Homes Limited worked substantially for the Council, so the bringing together of income and expenditure has had only a limited effect on the service revenue account. Other works performed by Colchester Borough Homes Limited in the year included the management of housing properties on behalf of an external company and some repairs and maintenance work performed on buildings for external companies.

On the Group Balance Sheet the most significant impacts of the consolidation of the subsidiaries into the Group accounts are:
- The bringing together of the overall pension scheme liability.
- The additional reserves.

2. Accounting Policies

The accounting policies adopted by the Council have been followed in preparing the group accounts.

GROUP MOVEMENT IN RESERVES STATEMENT

	Revenue Reserves			Capital Reserves						
	General Fund Balance	**Housing Revenue Account**	**Earmarked Reserves**	**Capital Receipts Reserve**	**Major Repairs Reserve**	**Capital Grants Unapplied**	**Subsidiary Reserves**	**Total Usable Reserves**	**Unusable Reserves**	**Total Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2016	**10,362**	**2,388**	**15,929**	**4,277**	**-**	**43**	**1,278**	**34,277**	**228,683**	**262,960**
Total Comprehensive Income and Expenditure	(2,001)	11,379	-	-	-	-	(672)	8,706	(24,966)	(16,260)
Adjustments between accounting basis and funding basis under regulations (Note G6)	1,649	(10,946)	-	1,623	-	(36)	726	(6,984)	6,984	-
Transfers to/from Earmarked Reserves (Note 10)	(629)	125	4,292	(3,788)	-	-	-	-	-	-
Increase/(Decrease) in year	**(981)**	**558**	**4,292**	**(2,165)**	**-**	**(36)**	**54**	**1,722**	**(17,982)**	**(16,260)**
Balance at 31 March 2017 (Page 150)	**9,381**	**2,946**	**20,221**	**2,112**	**-**	**7**	**1,332**	**35,999**	**210,701**	**246,700**
Total Comprehensive Income and Expenditure	(5,035)	22,631	-	-	-	-	(1,343)	16,253	54,427	70,680
Adjustments between accounting basis and funding basis under regulations (Note G6)	1,563	(21,763)	-	1,739	1,663	(7)	1,321	(15,484)	15,484	-
Transfers to/from Earmarked Reserves (Note 10)	(323)	91	3,742	(3,510)	-	-	-	-	-	-
Increase/(Decrease) in year	**(3,795)**	**959**	**3,742**	**(1,771)**	**1,663**	**(7)**	**(22)**	**769**	**69,911**	**70,680**
Balance at 31 March 2018 (Page 150)	**5,586**	**3,905**	**23,963**	**341**	**1,663**	**-**	**1,310**	**36,768**	**280,612**	**317,380**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	2017/18			2016/17 Restated		
	Gross Expenditure £'000	**Gross Income £'000**	**Net Expenditure £'000**	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**
Corporate and Democratic Core	378	(875)	(497)	315	(843)	(528)
Executive Management Team	777	-	777	700	(31)	669
Communities	13,618	(4,331)	9,287	10,600	(4,366)	6,234
Commercial	9,112	(6,569)	2,543	7,776	(6,027)	1,749
Customer	60,733	(57,862)	2,871	62,533	(59,097)	3,436
Environment	15,597	(10,863)	4.734	13,766	(10,234)	3,532
Housing Revenue Account	4,288	(29,985)	(25,697)	15,614	(30,683)	(15,069)
Policy and Corporate	20,273	(8,821)	11,452	19,831	(7,746)	12,085
Non-Distributed Costs	231	-	231	18	(216)	(198)
Net Cost of Services	**125,007**	**(119,306)**	**5,701**	**131,153**	**(119,243)**	**11,910**
Other operating income and expenditure	2,245	(1,877)	368	2,600	(2,052)	548
Financing and investment income and expenditure	10,752	(5,161)	5,591	10,037	(2,620)	7,417
Taxation and non-specific grant income	5	(27,918)	(27,913)	7	(28,588)	(28,581)
Group (Surplus)/Deficit on Provision of Services	**138,009**	**(154,262)**	**(16,253)**	**143,797**	**(152,503)**	**(8,706)**
(Surplus)/Deficit on revaluation of non-current assets (Note 28)			(30,708)			(9,578)
Net actuarial losses/(gains) on pension fund assets and liabilities (Note G14)			(23,719)			34,544
Other Comprehensive (Income)/Expenditure			**(54,427)**			**24,966**
Total Group Comprehensive (Income)/Expenditure			**(70,680)**			**16,260**

GROUP BALANCE SHEET

	Notes	31 March 2018 £'000	31 March 2017 £'000
Property Plant and Equipment		498,322	455,158
Heritage Assets	15	1,328	1,317
Investment Properties	16	39,868	34,690
Intangible Assets	18	552	994
Long Term Investments	20	6	6
Long Term Debtors	21	4,557	4,551
Total Long Term Assets		**544,633**	**496,716**
Short Term Investments	20	34,570	32,545
Assets Held for Sale	22	958	500
Inventories		201	176
Short Term Debtors	G7	15,034	9,916
Cash and Cash Equivalents	G8	15,412	14,485
Total Current Assets		**66,175**	**57,622**
Bank Overdraft		(3,988)	(4,888)
Short Term Borrowing		(7,287)	(7,248)
Short Term Creditors	G9	(19,942)	(18,338)
Short Term Provisions		(2,419)	(1,889)
Grants Receipts in Advance - Revenue	35	(2,396)	(2,182)
Total Current Liabilities		**(36,032)**	**(34,545)**
Long Term Creditors – Finance Leases	37	(1,406)	(2,565)
Long Term Provisions		(404)	(432)
Long Term Borrowing		(135,634)	(130,643)
Pension Scheme Liability	G14	(111,132)	(131,468)
Grants Receipts in Advance – Capital	35	(8,805)	(7,970)
Other Long Term Liabilities		(15)	(15)
Total Long Term Liabilities		**(257,396)**	**(273,093)**
Total Net Assets		**317,380**	**246,700**
Usable Reserves		36,768	35,999
Unusable Reserves		280,612	210,701
Total Reserves		**317,380**	**246,700**

GROUP CASH FLOW STATEMENT

	2017/18 £'000	2016/17 £'000
Net Surplus/(Deficit) on the Provision of Services (Page 149)	**16,253**	**8,706**
Adjustments to Net Surplus/Deficit on the Provision of Services for non-cash movements (Note G11)	**(5,014)**	**15,568**
Adjustments for items included in Investing and Financing Activities:		
Capital grants credited to the Surplus/Deficit on the Provision of Services	(2,920)	(2,242)
Proceeds from the sale of short and long term investments	32,500	25,500
Proceeds from the sale of non-current assets	(4,957)	(6,950)
Adjustments for items included in Investing and Financing Activities:	**24,623**	**16,308**
Net Cash Flows from Operating Activities	**35,862**	**40,582**
Investing Activities:		
Purchase of non-current assets	(14,596)	(19,087)
Purchase of short and long term investments	(34,500)	(32,500)
Proceeds from the sale of non-current assets	4,806	6,933
Other payments and receipts	4,558	2,694
Net Cash Flows from Investing Activities	**(39,732)**	**(41,960)**
Financing Activities:		
Cash receipts of long term borrowing	5,000	-
Cash payments for the reduction of the outstanding finance lease liabilities	(1,215)	(735)
Other payments and receipts	1,912	1,784
Net Cash Flows from Financing Activities	**5,697**	**1,049**
Net Increase/(Decrease) in Cash and Cash Equivalents	**1,827**	**(329)**
Cash and Cash Equivalents at 1 April (Note G11)	9,597	9,926
Cash and Cash Equivalents at 31 March (Note G11)	**11,424**	**9,597**

NOTES TO THE GROUP FINANCIAL STATEMENTS

G1. General

Specific notes for the Group Financial Statements are provided below only where there is a material difference from the Council's own accounts. Notes to the Council's Financial Statements are set out on pages 24 - 132 and the Group Financial Statements are cross referenced to them where relevant.

G2. Subsidiary Companies

Colchester Borough Homes Limited and Colchester Community Stadium Limited are wholly owned subsidiaries of the Council (see Note 40).

The Council is represented on the Boards of both subsidiary companies. The Council and the Boards agree the annual delivery plans for both of the companies.

G3. Consolidation of Operating Income and Expenditure

The operating income and expenditure of Colchester Borough Homes Limited has been included within the 'Housing Revenue Account' line in the Group Comprehensive Income and Expenditure Statement.

The operating income and expenditure of Colchester Community Stadium Limited has been included within the 'Commercial' line in the Group Comprehensive Income and Expenditure Statement.

G4. Group Expenditure and Funding Analysis

2017/18				Adjustments between Funding and Accounting Basis				
	Council Year end Management Report	Adjustments	Net Expenditure chargeable to GF, HRA and Subsidiary Balances	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments	Net Expenditure in the Group CIES (Page 149)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate and Democratic Core	(450)	(47)	**(497)**	-	-	-	**-**	**(497)**
Executive Management Team	656	-	**656**	-	105	16	**121**	**777**
Communities	4,268	1,339	**5,607**	2,823	872	(15)	**3,680**	**9,287**
Commercial	1,013	(231)	**782**	1,143	636	(18)	**1,761**	**2,543**
Customer	3,999	(2,025)	**1,974**	101	803	(7)	**897**	**2,871**
Environment	2,771	(430)	**2,341**	1,180	1,226	(13)	**2,393**	**4,734**
Housing Revenue Account	(959)	(8,729)	**(9,688)**	(17,080)	1,070	1	**(16,009)**	**(25,697)**
Policy and Corporate	7,676	126	**7,802**	2,512	1,147	(9)	**3,650**	**11,452**
Non-Distributed Costs	-	6,083	**6,083**	121	(5,973)	-	**(5,852)**	**231**
Net Cost of Services	**18,974**	**(3,914)**	**15,060**	**(9,200)**	**(114)**	**(45)**	**(9,359)**	**5,701**
Other operating income and expenditure			**1,690**				**(1,322)**	**368**
Financing and Investment income and expenditure			**10,140**				**(4,549)**	**5,591**
Taxation and Non Specific Grant income			**(24,264)**				**(3,649)**	**(27,913)**
(Surplus)/Deficit on Provision of Services			**2,626**				**(18,879)**	**(16,253)**
Opening GF, HRA and Subsidiary Balances (Page 148)			**(13,659)**					
(Surplus)/Deficit on Provision of Services			2,626					
Transfers to Earmarked Reserves			232					
Closing GF, HRA and Subsidiary Balances (Page 148)			**(10,801)**					

2016/17 - Restated

	Council Year end Management Report	Adjustments	Net Expenditure chargeable to GF, HRA and Subsidiary Balances	Adjustments between Funding and Accounting Basis: Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments	Net Expenditure in the Group CIES (Page 149)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate and Democratic Core	224	(752)	**(528)**	-	-	-	**-**	**(528)**
Executive Management Team	616	1	**617**	-	52	-	**52**	**669**
Communities	4,475	1,024	**5,499**	318	398	19	**735**	**6,234**
Commercial	1,178	(229)	**949**	539	285	(24)	**800**	**1,749**
Customer	4,535	(1,582)	**2,953**	102	365	16	**483**	**3,436**
Environment	1,786	(406)	**1,380**	1,600	540	12	**2,152**	**3,532**
Housing Revenue Account	(558)	(10,571)	**(11,129)**	(4,674)	735	(1)	**(3,940)**	**(15,069)**
Policy and Corporate	7,593	27	**7,620**	4,013	454	(2)	**4,465**	**12,085**
Non-Distributed Costs	-	2,487	**2,487**	19	(2,704)	-	**(2,685)**	**(198)**
Net Cost of Services	**19,849**	**(10,001)**	**9,848**	**1,917**	**125**	**20**	**2,062**	**11,910**
Other operating income and expenditure			**1,455**				**(907)**	**548**
Financing and Investment income and expenditure			**12,583**				**(5,166)**	**7,417**
Taxation and Non Specific Grant income			**(24,021)**				**(4,560)**	**(28,581)**
(Surplus)/Deficit on Provision of Services			**(135)**				**(8,571)**	**(8,706)**

Opening GF, HRA and Subsidiary Balances (Page 148)	**(14,028)**
(Surplus)/Deficit on Provision of Services	(135)
Transfers to Earmarked Reserves	504
Closing GF HRA and Subsidiary Balances (Page 148)	**(13,659)**

G4 a.) Note to the Group Expenditure and Funding Analysis – Group Expenditure and Income Analysed by Nature

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

	Notes	2017/18	2016/17
		£'000	£'000
Employee related expenditure		37,184	35,098
Other services expenses		85,956	84,451
Support services recharges		4,321	3,554
Depreciation, amortisation and impairment		(2,454)	8,050
Interest payments		6,585	6,663
Precepts and levies		1,546	1,397
Payments to Housing Capital Receipts Pool		678	603
Pension Fund expenditure		3,499	3,331
Losses on the disposal of assets		21	387
Changes in the fair value of investment properties		615	-
Other expenditure		58	263
Total Expenditure	**Page 149**	**138,009**	**143,797**
Fees, charges and other service income		(63,037)	(62,137)
Interest and investment income		(373)	(381)
Income from Council Tax and Non Domestic Rates		(17,267)	(17,417)
Government grants and contributions		(66,920)	(68,276)
Gains on the disposal of assets		(1,692)	(2,000)
Income in relation to investment properties		(2,016)	(1,789)
Changes in the fair value of investment properties		(2,772)	(450)
Other income		(185)	(53)
Total Income	**Page 149**	**(154,262)**	**(152,503)**
Group (Surplus)/Deficit on the Provision of Services	**Pages 149, 153 & 154**	**(16,253)**	**(8,706)**

G5. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 4 July 2018 (see page 19). Events taking place after this date are not reflected in the financial statements or notes.

There are no other additional items which arose after the year end of 31 March 2018 that would materially affect these Group accounts, and as such no adjustments have been made to the figures reported in the Group financial statements or notes.

G6. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2017/18			**Usable Reserves**			
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Capital Receipts Reserve £'000**	**Major Repairs Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Subsidiary Reserves £'000**
Total Adjustments relating to Colchester Borough Council (Note 9)	1,563	(21,763)	1,739	1,663	(7)	-
Pension costs (transfers to/from Pensions Reserve)	-	-	-	-	-	1,321
Total Adjustments (page 148)	**1,563**	**(21,763)**	**1,739**	**1,663**	**(7)**	**1,321**

2016/17			**Usable Reserves**			
	General Fund Balance £'000	**Housing Revenue Account £'000**	**Capital Receipts Reserve £'000**	**Major Repairs Reserve £'000**	**Capital Grants Unapplied Account £'000**	**Subsidiary Reserves £'000**
Total Adjustments relating to Colchester Borough Council (Note 9)	1,649	(10,946)	1,623	-	(36)	-
Pension costs (transfers to/from Pensions Reserve)	-	-	-	-	-	726
Total Adjustments (page 148)	**1,649**	**(10,946)**	**1,623**	**-**	**(36)**	**726**

G7. Short Term Debtors

	31 March 2018 £'000	31 March 2017 £'000
Central Government bodies	5,771	1,134
Other local authorities	1,850	1,749
NHS bodies	3	4
Other entities and individuals	7,410	7,029
Total Short Term Debtors	**15,034**	**9,916**

The above debtor values are presented net of impairments (allowances for non-collection) and have been revised to eliminate inter-group balances.

G8. Cash and Cash Equivalents

	31 March 2018 £'000	31 March 2017 £'000
Cash in hand held by the group	12	11
Bank current accounts	2,068	1,742
Short term deposits	13,332	12,732
Total Cash and Cash Equivalents	**15,412**	**14,485**

G9. Short Term Creditors

	31 March 2018 £'000	31 March 2017 £'000
Central Government bodies	(6,751)	(5,886)
Other local authorities	(1,865)	(3,233)
Public Corporations and Trading Funds	-	(3)
Other entities and individuals	(11,326)	(9,216)
Total Short Term Creditors	**(19,942)**	**(18,338)**

The above creditor values have been revised to eliminate inter-group balances.

G10. Usable Reserves

The movements in the Group's usable reserves are detailed in the Movement in Reserves Statement on page 148.

Subsidiaries Reserves

	31 March 2018 £'000	31 March 2017 £'000
Colchester Borough Homes Limited	1,236	1,261
Colchester Community Stadium Limited	74	71
Total Subsidiaries Reserves	**1,310**	**1,332**

The reserves are retained to cover changes in spending plans between years and to provide working capital.

G11. Cash Flow Statement Notes

Cash Flows from Operating Activities

The cash flows for operating activities within the Group Cash Flow Statement include the following items:

	2017/18 £'000	2016/17 £'000
Interest Received	288	342
Interest Paid	(6,705)	(6,632)
Taxation	(6)	(7)

Adjustments to Net Surplus/Deficit on the Provision of Services for non-cash movements

	2017/18 £'000	2016/17 £'000
Depreciation	11,857	11,225
Impairments and downward valuations	9,595	13,919
Reversal of previously recognised revaluation losses	(27,651)	(19,285)
Movement in the fair value of Investment Properties	(2,157)	(450)
Carrying value of non-current assets and assets held for sale sold or derecognised	4,940	6,222
Amortisation	444	453
Increase/(Decrease) in Creditors	(26)	1,597
(Increase)/Decrease in Debtors	(5,834)	(146)
(Increase)/Decrease in Inventories	(25)	(8)
Contributions to/(from) Provisions	504	(1,198)
Movement in pension liability	3,383	3,243
Other non-cash movements	(44)	(4)
Adjustments to Net Surplus/Deficit on the Provision of Services for non-cash movements	**(5,014)**	**15,568**

Cash and Cash Equivalents

	2017/18 £'000	2016/17 £'000
Cash in hand held by the Council	12	11
Bank current accounts	2,068	1,742
Short term deposits	13,332	12,732
Bank overdraft	(3,988)	(4,888)
Group Cash Flow Statement - Total Cash and Cash Equivalents	**11,424**	**9,597**

G12. Officers' Remuneration

The remuneration paid to the senior officers within Colchester Borough Council is shown in Note 32.

The remuneration paid to the senior officers within Colchester Borough Homes Limited is as follows:

Colchester Borough Homes Limited

	Financial Year	Salary, Fees and Allowances £	Employers Pension contributions £	Total Remuneration £
Chief Executive (left CBH on 31 August 2016)	**2017/18**	**-**	**-**	**-**
	2016/17	40,484	5,710	46,194
Chief Executive (started at CBH on 1 September 2016)	**2017/18**	**99,364**	**16,494**	**115,858**
	2016/17	55,560	7,778	63,338
Director of Housing	**2017/18**	**75,376**	**12,553**	**87,929**
	2016/17	74,485	10,462	84,947
Director of Property Services	**2017/18**	**75,592**	**12,553**	**88,145**
	2016/17	74,730	10,462	85,192
Director of Resources	**2017/18**	**74,134**	**12,553**	**86,687**
	2016/17	73,242	10,462	83,704

The Group's other officers receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	**Number of Employees**	
	2017/18	**2016/17**
£50,000 - £54,999	14	13
£55,000 - £59,999	2	1
£60,000 - £64,999	1	2
£65,000 - £69,999	4	4

G13. Termination Benefits (Exit Packages)

The total cost of exit packages includes the payments made to individuals and payments to the pension fund authority in respect of strains on the pension fund (curtailment costs).

Colchester Borough Council: Total cost of exits include payments to individuals of £434,260 in 2017/18 (£15,144 in 2016/17) and strain on pension fund costs of £147,010 in 2017/18 (£4,225 in 2016/17) paid to the pension fund authority Essex County Council.

Colchester Borough Homes Limited: Total cost of exits include payments to individuals of £16,486 in 2017/18 (£18,318 in 2016/17) and strain on pension fund costs of nil in 2017/18 (nil in 2016/17) paid to the pension fund authority Essex County Council.

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

2017/18 Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other agreed departures**	**Total number of exit packages by cost band**	**Total cost of exit packages £**
£0 - £20,000	10	12	22	214,993
£20,001 - £40,000	3	-	3	88,601
£40,001 - £60,000	-	1	1	43,633
£60,001 - £80,000	1	-	1	60,456
£80,001 - £100,000	1	-	1	84,306
£100,001 - £120,000	-	1	1	105,490
Total cost included in bandings	**15**	**14**	**29**	**597,479**
Add: Adjustments to accruals made in previous financial years relating to payments made to individuals				277
Add: Pension strains paid in the year which relate to individuals who left in previous financial years				-
Total Exit Costs				**597,756**

2016/17 Exit package cost band (including special payments)	**Number of compulsory redundancies**	**Number of other agreed departures**	**Total number of exit packages by cost band**	**Total cost of exit packages**
£0 - £20,000	3	2	5	£33,462
Total cost included in bandings	**3**	**2**	**5**	**£33,462**
Add: Adjustments to accruals made in previous financial years relating to payments made to individuals				-
Add: Pension strains paid in the year which relate to individuals who left in previous financial years				£4,225
Total Exit Costs				**£37,687**

G14. Defined Benefit Pension Scheme

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council (CBC) and Colchester Borough Homes Limited (CBH) make contributions towards the cost of post-employment benefit. Although these benefits will not actually be payable until employees retire, there is a commitment for CBC and CBH to make the payments that need to be disclosed at the time that employees earn their future entitlement.

CBC and CBH participate in the Local Government Pension Scheme, which is administered by Essex County Council. This is a funded defined benefit final salary scheme, meaning that the employers and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets.

Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is 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 via the Movement in Reserves Statement. The following transactions have been made in the Group Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme			
	CBC 2017/18 £’000	**CBH 2017/18 £’000**	**Total 2017/18 £’000**	**Total 2016/17 £’000**
Comprehensive Income & Expenditure Statement				
Cost of Services:				
Current service cost	7,926	1,823	9,749	5,904
Past Service Cost	244	-	244	-
Liabilities assumed/(extinguished) on settlements	(240)	-	(240)	(216)
Settlements price received/(paid)	106	-	106	-
Financing and Investment Income and Expenditure:				
Net interest expense	3,163	272	3,435	3,266
Pension fund administration expenses	64	10	74	65
Other Comprehensive Income and Expenditure:				
Re-measurement of the net defined benefit liability	(20,666)	(3,053)	(23,719)	34,544
Total charged to the Comprehensive Income & Expenditure Statement	**(9,403)**	**(948)**	**(10,351)**	**43,563**
Movement in Reserves Statement				
Reversal of the net charges made to the Surplus/Deficit on the Provision of Services for post-employment benefits in accordance with the Code.	(11,263)	(2,105)	(13,368)	(9,019)
Employer’s contributions payable to the scheme	9,201	784	9,985	5,776
Total charged to the Movement in Reserves Statement	**(2,062)**	**(1,321)**	**(3,383)**	**(3,243)**

Pension assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

	CBC 2017/18 £'000	CBH 2017/18 £'000	Total 2017/18 £'000	Total 2016/17 £'000
Present value of the defined benefit obligation	(278,903)	(38,907)	(317,810)	(320,071)
Fair value of plan assets	176,139	30,539	206,678	188,603
Net liability	**(102,764)**	**(8,368)**	**(111,132)**	**(131,468)**

The liabilities show the underlying commitments that the Group has in the long run to pay retirement benefits. The total liability of £107.773 million has a significant impact on the net worth of the Group as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Group remains healthy. The deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The Group is making annual back-funding contributions designed to clear the liability over time. The position is reviewed annually and the contribution required is reassessed at each triennial valuation.

Reconciliation of the movements in fair value of the scheme assets:

	CBC 2017/18 £'000	CBH 2017/18 £'000	Total 2017/18 £'000	Total 2016/17 £'000
Balance at 1 April	161,397	27,206	188,603	156,909
Interest on assets	4,393	772	5,165	5,675
Return on assets less interest	7,442	1,800	9,242	25,016
Other actuarial gains/(losses)	-	-	-	1,056
Administration expenses	(64)	(10)	(74)	(65)
Contributions by employer	9,201	784	9,985	5,776
Contributions by scheme participants	1,388	317	1,705	1,596
Benefits paid net of transfers in	(7,512)	(330)	(7,842)	(7,767)
Settlement prices received/(paid)	(106)	-	(106)	407
Balance at 31 March	**176,139**	**30,539**	**206,678**	**188,603**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	CBC 2017/18 £'000	**CBH 2017/18 £'000**	**Total 2017/18 £'000**	**Total 2016/17 £'000**
Balance at 1 April	(282,765)	(37,306)	(320,071)	(250,590)
Current service cost	(7,926)	(1,823)	(9,749)	(5,904)
Interest cost	(7,556)	(1,044)	(8,600)	(8,941)
Change in financial assumptions	13,224	1,253	14,477	(63,178)
Change in demographic assumptions	-	-	-	5,291
Experience loss/(gain) on defined benefit obligation	-	-	-	(2,729)
Liabilities assumed/(extinguished) on settlements	240	-	240	(191)
Benefits paid net of transfers in	7,119	330	7,449	7,364
Past service costs	(244)	-	(244)	-
Contributions by scheme participants	(1,388)	(317)	(1,705)	(1,596)
Unfunded pension payments	393	-	393	403
Balance at 31 March	**(278,903)**	**(38,907)**	**(317,810)**	**(320,071)**

GLOSSARY OF TERMS

Accruals Concept
Income and expenditure is recognised where it is earned or incurred, not when the money is received or paid.

Actuarial Gains and Losses
For a defined benefit pension scheme, actuarial gains and losses are the changes in the actuarial surplus and deficits which arise because either events have not coincided with previous actuarial assumptions or where actuarial assumptions have changed.

Amortised cost
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Appropriations
The transfer of resources between revenue accounts, capital accounts and the reserves held by the Council.

Billing Authority for Council Tax and Non-Domestic Rates
This refers to Colchester Borough Council as the authority responsible for invoicing and collecting the Council Tax from all residential properties within the borough. This is undertaken on behalf of Colchester Borough Council, Essex County Council, Essex Fire and Rescue, Police and Crime Commissioner for Essex and Parish and Town Councils. Colchester Borough Council is also the authority responsible for invoicing and collecting Non-Domestic Rates on behalf of Central Government, Essex County Council and Essex Fire and Rescue.

Budget Requirement
This represents net budgeted expenditure for the year adjusted for transfers to and from reserves, but allowing for sums required by Parish and Town Councils. It is used to determine the amount of Council Tax to be precepted on the Collection Fund after allowing for income from Revenue Support Grant, Non-Domestic Rates and any surplus/deficit on the Collection Fund.

Capital Expenditure
Expenditure incurred relating to the acquisition or enhancements of Property, Plant and Equipment assets, Heritage assets and Investment properties.

Capital Financing Requirement
The statutory measure of a local authority’s underlying need to borrow for capital purposes.

Capital Programme
The Council's budget for capital expenditure and resources over the current and future years.

Capital Receipts
Income generated from the sale of capital assets and the repayment of grants/loans given for capital purposes. The government prescribes the amount of the receipt which must be set aside to repay debt and the usable amount which may be used for finance capital expenditure.

Carry Forwards
Budget provision for specific items that are committed or planned for a year where the specific goods or services are not received by 31 March and for which there is no provision in the following year. Such budgets may be formally 'carried forward' to the following year to match the committed or planned expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
This is the professional body for public services. CIPFA issues the Code of Practice on Local Authority Accounting (the Code), which sets down in detail how the accounting standards are to be applied to the preparation of statement of accounts for local authorities.

Collection Fund
All receipts of Council Tax and Non-Domestic Rates are paid into this Fund. The Council uses this to pay Council Tax precepts to Essex County Council, Essex Fire and Rescue and Police and Crime Commissioner for Essex and the demand by the Council's General Fund. It is also used to pay the relative shares of Non-Domestic Rates income to Central Government, Essex County Council and Essex Fire and Rescue. Any surplus or deficit is shared between the various authorities (excluding Parish and Town Councils) in the subsequent financial year, in accordance with their respective proportions.

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

Corporate and Democratic Core (CDC)
This incorporates the following subdivisions, the activities of which cannot be recharged to service under the Service Reporting Code of Practice (SeRCOP):

- Democratic Representation and Management Costs – these include all aspects of the activities of Council members, such as policy making and general governance.
- Corporate Management Costs – these relate to activities which provide the infrastructure of the Council which allows services to be provided.

Council Tax
A local tax charged to the occupiers of residential properties used to finance the budget requirement of the Council for the year.

Creditors
Amounts owed by the Council for goods, services and works that have been received by the Council for which no payments have not been made by the Council at the Balance Sheet date.

Current Assets
Assets held that will be realised, sold or consumed within the next financial year.

Current Liabilities
Amounts that will be settled or could be called in within the next financial year.

Debtors
Amounts owed to the Council for goods, services and works that have been provided by the Council for which payments have not been received by the Council at the Balance Sheet date.

Depreciation
The measure of the loss in the value of an asset during the period due to age, wear and tear, deterioration or obsolescence. This charge is spread over the useful life of the asset.

Earmarked Reserves
Amounts set aside for future commitments or potential liabilities.

Effective Interest Rate
The rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Fair Value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Instruments
These are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The financial instruments held by the Council include borrowings, investments, creditors and debtors.

Financial Year
The period of twelve months covered by the accounts from 1 April up until 31 March.

General Fund
The main revenue fund of the Council, which summarises the cost of all services (except those relating to Council Housing) provided by the Council.

Gross Book Value
This represents the original price paid for an asset adjusted for subsequent revaluations, acquisitions, enhancements and disposals.

Housing Revenue Account (HRA)
This statutory account records the revenue expenditure and income relating to the provision of Council housing. It shows the major elements of the housing revenue expenditure and how this is met through the receipt of rents, subsidy and other income.

IFRS (International Financial Reporting Standards)
The collective name for the set of accounting standards which define the accounting treatments used by Central and Local Government in the UK, listed companies in the UK and the European Union.

IFRIC (IFRS Interpretations Committee)
The IFRS Interpretations Committee is the interpretative body of the IFRS Foundation. Its mandate is to review on a timely basis widespread accounting issues that have arisen within the context of current International Financial Reporting Standards (IFRSs). The work of the Interpretations Committee is aimed at reaching consensus on the appropriate accounting treatment (IFRIC Interpretations) and providing authoritative guidance on those issues.

Impairment
A reduction in the value of a non-current asset caused by a specific event occurring to the asset.

Intangible Assets
Assets that do not have a physical substance but are identifiable and are controlled by the Council through custody or legal rights. Examples of such assets include software licences.

Investment Properties
Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Leases
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Major Repairs Reserve (MRR)
A capital reserve held for investment in the replacement of structures and components of the Council's Housing stock. This reserve is funded from the HRA by transferring in the total depreciation charge for the year. Sums are transferred out to meet the cost of capital expenditure. Any balance on the reserve is carried forward to be utilised in future years. Interest earned on the MRR balance is credited directly to the HRA.

Minimum Revenue Provision (MRP)
Local authorities must make prudent provision for the repayment of its debt. MRP is the minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council. There is no MRP for HRA debt. Authorities are free to make additional voluntary provisions from the General Fund, HRA or from capital resources.

Ministry of Housing, Communities and Local Government (MHCLG)
The Ministry of Housing, Communities and Local Government is a UK Government ministerial department. It was renamed from the Department for Communities and Local Government (DCLG) in January 2018.

Net Book Value (NBV)
The Net Book Value of an asset is equivalent to its gross book value, less cumulative depreciation and impairment charges. Assets are included in the Balance Sheet at their net book value.

Non-Distributed Costs
These are overhead costs that provide no benefits to services and are therefore not distributed to services. These include pensions arising from discretionary added years' service.

Non-Domestic Rates (NDR)
This is a levy paid by the occupiers of non-residential properties within the Council's borough, and is also known as 'Business Rates'. This levy contributes to the cost of providing local authority services. It is charged on the rateable value of each non-residential property multiplied by a uniform amount set annually by central government. NDR income is collected by the Council and is then shared with Central Government, Essex County Council and Essex Fire and Rescue.

Precept
This is the amount of Council Tax income that local authorities providing services within the Colchester borough require to be paid from the Collection fund to meet the net cost of their services. The Council Tax requirement is made up of the sum of all the precepts levied on the Billing Authority. For the Colchester borough – precepts are raised by Colchester Borough Council, Essex County Council, Police and Crime Commissioner for Essex, Essex Fire and Rescue and Town and Parish Councils.

Principal Amount
The original amount of debt or investment on which interest is calculated.

Property, Plant and Equipment (PPE)
Assets held by the Council, which are directly used or occupied by the Council in the delivery of the Council's services. These are tangible assets (for example, land, buildings, vehicles) which yield benefit to the Council for a period of more than a year.

Provisions
Amounts set aside where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Prudential Code
This Code is developed by CIPFA and sets out the system of capital financing and capital controls for local authorities. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities – whether supported by government or entirely self-financed. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment to do so. The Code seeks to ensure that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

Public Works Loan Board (PWLB)
A central government agency that offers long term loans to local authorities at interest rates marginally above the government's own cost of borrowing.

Revaluation
Revaluation is a technique used to adjust the value of certain classes of non-current assets to their fair value.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset.

Revenue Support Grant (RSG)
Central government provides financial support towards the general expenditure of local authorities. The entitlement of each local authority is determined by a prescribed methodology.

Service Reporting Code of Practice (SeRCOP)
This guidance is produced by CIPFA and sets out the proper accounting practices for local authorities in respect of the content and presentation of the costs and income of services.

Useful Life
The period over which benefits will be derived from the use of a non-current asset by the Council.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COLCHESTER BOROUGH COUNCIL

Opinion

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

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 42 to the Authority Accounts, including the Authority Expenditure and Funding Analysis, and notes G1 to G14 to the Group Accounts,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes H1 to H12; and
- Collection Fund and the related notes C1 to C5.

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

In our opinion the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities set out on page 19, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Certificate

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

Use of our report

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

Kevin Suter.
Ernst + Young LLP

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
10 July 2018

The maintenance and integrity of the Colchester Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PORT HEALTH AUTHORITY ACCOUNTS

These are the accounts of the Port Health Authority, which is an independent Authority administered by Colchester Borough Council on behalf of itself and Tendring District Council. The accounts for the Port Health Authority are not subject to audit by the Council's external auditors.

INCOME AND EXPENDITURE STATEMENT

	2017/18 £	2016/17 £
Income:		
Bank Interest	(1)	(1)
Net (Income)/Expenditure	**(1)**	**(1)**

BALANCE SHEET

	31 March 2018 £	31 March 2017 £
Current Assets:		
Cash at Bank	2,553	2,552
	2,553	**2,552**
Current Liabilities:		
Colchester Borough Council	(1,879)	(1,879)
Tendring District Council	(674)	(673)
	(2,553)	**(2,552)**
Net Current Assets	**-**	**-**

TRUST FUND ACCOUNTS

The Council acts as trustee for a number of funds. These accounts are detailed below. The accounts for the trust funds are not subject to audit by the Council's external auditors.

1. The Resident Freeburgesses' Fund

This fund is administered by the Council on behalf of the Freeburgesses of the borough.

INCOME AND EXPENDITURE STATEMENT

	2016/17 £	2015/16 £
Income:		
Registration Fees	(320)	-
Other Income	(4)	(28)
Expenditure:		
Subscriptions	90	-
Distributions to Freeburgesses	325	320
Events	-	150
Administration expenses	40	-
Net (Income)/Expenditure	**131**	**442**

BALANCE SHEET

	30 September 2017 £	30 September 2016 £
Assets:		
Cash at Bank	11,981	12,582
Liabilities:		
Creditors	-	(470)
Represented by Accumulated Fund	**11,981**	**12,112**

2. Albert Museum and Art Gallery

The proceeds from the sale of this building, left in trust to the Council, have been invested; the interest is currently used to support the running costs of Colchester Museums. The market value of the investments as at 31 March 2018 was £525,725 (31 March 2017: £526,409). A further sum of £20,243 is held on deposit pending transfer to the Colchester museums in future years (31 March 2017: £60,825).

INCOME AND EXPENDITURE STATEMENT

	2017/18 £	2016/17 £
Income:		
Interest on Investments	(16,450)	(16,166)
Interest on Cash at Bank	(47)	(203)
Expenditure:		
Distributions	16,236	25,270
Net (Income)/Expenditure	**(261)**	**8,901**

BALANCE SHEET

	31 March 2018 £	31 March 2017 £
Assets:		
Investments	525,725	526,409
Debtors	47	203
Cash at Bank	20,243	60,825
Liabilities:		
Creditors	(16,000)	(57,000)
Represented by Accumulated Fund	**530,015**	**530,437**

Please note: The investments are in the Charities Official Investment Fund (COIF) and with Colchester Borough Council.

3. Sir Thomas White's Charity

This charity was originally set up to make interest-free loans to the Freeburgesses of Colchester to assist them in setting themselves up in business. The Council has obtained custody of the fund, which has been dormant for a number of years.

INCOME AND EXPENDITURE STATEMENT

	2017/18 £	2016/17 £
Income:		
Interest Received	(6)	(2)
Dividends	(328)	(294)
Redemption of War Stock investments		
Net Income	**(334)**	**(296)**

BALANCE SHEET

	31 March 2018 £	31 March 2017 £
Assets:		
Investments	9,984	10,098
Cash at Bank	8,584	8,250
Represented by Accumulated Fund	**18,568**	**18,348**

Please note: The investments are in Charinco and Charishare which are special investments for charities.

4. Old British School Trustees

This charity assists the promotion of the education of young people under 25 years of age resident in the Borough, or to assist their entry into a profession. Individual grants do not exceed £250 and 2 grants were paid out in 2017/18 (3 grants were paid out in 2016/17).

INCOME AND EXPENDITURE STATEMENT

	2017/18 £	2016/17 £
Income:		
Bank interest	(4)	-
Dividends	(359)	(352)
Donations	(1,000)	-
Expenditure:		
Grants paid	125	480
Net (Income)/Expenditure	**(1,238)**	**128**

BALANCE SHEET

	31 March 2018 £	31 March 2017 £
Assets:		
Investments	10,366	10,381
Cash at Bank	8,138	6,900
Represented by Accumulated Fund	**18,504**	**17,281**

Please note: The investments are in the Charities Official Investment Fund.

5. Colchester Lying-in-Charity

This charity enables one-off grants to be paid out to purchase items such as prams, cots, etc. for unmarried mothers. Individual grants do not exceed £250 and 3 grant applications were approved in 2017/18 (3 grant applications were approved in 2016/17).

INCOME AND EXPENDITURE STATEMENT

	2017/18	2016/17
	£	£
Income:		
Dividends	(473)	(464)
Expenditure:		
Grants paid	359	229
Net (Income)/Expenditure	**(114)**	**(235)**

BALANCE SHEET

	31 March 2018	31 March 2017
	£	£
Assets:		
Investments	13,668	13,688
Cash at Bank	4,239	4,125
Represented by Accumulated Fund	**17,907**	**17,813**

Please note: The investments are in the Charities Official Investment Fund.

6. Colchester New Theatre Trust

The Colchester New Theatre Trust was established by Trust Deed on 5 April 1969 for the purpose of raising funds by public subscription in order to finance the building of a new theatre for Colchester and from then on to be responsible for the maintenance and upkeep of the building.

The Council became the sole Corporate Trustee of this charity from 9 October 1998. The Trust is responsible for Mercury House together with the Mercury Theatre buildings.

INCOME AND EXPENDITURE STATEMENT

	2016/17 £	2015/16 £
Income:		
Investment income	-	(17)
Expenditure:		
Building repairs and improvement costs	-	80,000
Administrative expenses	-	25
Net (Income)/Expenditure	**-**	**80,008**

BALANCE SHEET

	30 September 2017 £	30 September 2016 £
Non-Current Assets:		
Mercury House (at cost) and Mercury Theatre (nominal)	83,384	83,384
Current Assets:		
Cash at Bank	150	150
Total Net Assets	**83,534**	**83,534**
Designated Funds:		
Capital Reserve	83,384	83,384
Other Charitable Funds	150	150
Total Unrestricted Funds	**83,534**	**83,534**

COLCHESTER BOROUGH COUNCIL
ANNUAL GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018

Scope of responsibility

Colchester Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Colchester Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Colchester Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The Council is also responsible for ensuring that any companies owned by the Council, and any jointly operated services, also have proper arrangements in place for the governance of their affairs.

Colchester Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council website at www.colchester.gov.uk or can be obtained from Colchester Borough Council, Rowan House, 33 Sheepen Road, Colchester, CO3 3WG.

This statement explains how Colchester Borough Council has complied with the code and also meets the requirements of regulations 6(1)(a) and (b) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled. Which in turn directs the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Colchester Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Colchester Borough Council for the year ended 31 March 2018 and up to the date of approval of the annual accounts.

Elements of the Framework

The framework consists of comprehensive processes that each ensure that the Authority complies with the principals of good governance. These include:

- **The Strategic Plan** – which identifies and communicates the authority's vision of its purpose and intended outcomes for citizens and service users. This is supported by an action plan that is updated annually.
- **The Strategic Risk Register** – which reflects the objectives of the strategic plan and identifies the implications for the Council's governance arrangements.
- **The Constitution** - This is the fundamental basis of the authority's governance arrangements and includes:
  - Defining and documenting the roles and responsibilities of the executive, nonexecutive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.
  - Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken.
  - The Policy Framework which includes the documents relating to Corporate Governance including:
    - The Local Code of Corporate Governance.
    - A risk management strategy detailing processes and controls required to manage risks.
    - The Anti-Fraud and Corruption Policy
  - The Ethical Framework which includes documents relating to standards of conduct and good practice which include:
    - A code of conduct which defines the standards of behaviour for all members.
    - Planning procedures Code of Practice
    - Protocol on Members/officer Relations
    - Media Protocol
    - Operational Protocol relating to Administration Arrangements
    - Monitoring Officer Protocol
    - Chief Finance Officer Protocol
    - Resources Protocol
    - A whistle blowing policy for receiving and investigating complaints from the public and staff.
    - Gifts and Hospitality Guidance

- **The Chief Finance Officer Protocol** sets out the responsibilities to conform with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2012)
- **The operation of a Governance and Audit Committee** which undertakes the core functions of an audit committee, as identified in CIPFA's document 'Audit Committees – Practical Guidance for Local Authorities'.
- **The operation of a Scrutiny Panel** to ensure that the actions of the Cabinet accord with the policies and budget of the Council, monitor the financial performance of the Council, link spending proposals to the Council's policy priorities and review progress and to review decisions of the Cabinet via the call-in procedure.
- **A performance management system** for all officers that identifies key objectives and development needs.
- **A members training programme**.
- **A communications strategy** which establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
- **A partnership strategy** that ensures that the quality of the Council's partnerships are improved and that all partnerships, both current and proposed, add value.
- **Treasury management practices and policies**

The Strategic Finance Manager has continued to hold the post of the Section 151 Officer for Colchester Borough Council during the year. The arrangements in place ensured that Colchester Borough Council's financial management arrangements conformed with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2012).

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT:
Review of effectiveness

Colchester Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates including the Local Government Ombudsman, the Information Commissioner's Office, Equal Opportunities Commission, Lexcel, Investors In People, the Vehicle Inspectorate, DEFRA, East England Tourist Board and the Office of Surveillance Commissioners.

As well as the annual review, the governance and control frameworks are maintained and reviewed by a series of comprehensive processes throughout the year. These include:

- **A robust Internal Audit function** where the planned work is based on identified key systems and risk areas. The Council's Internal Audit Service arrangements conform to the governance requirements and core responsibilities of the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010)*

- **An embedded reporting system** for both internal and external audit issues that ensures that senior managers and members are fully briefed on key issues, which includes regular reporting to the Governance and Audit Committee.
- **A comprehensive risk management process** that ensures the key risks across the authority, both operational and strategic, are captured and reported to senior officers and members.
- **The reports of the Chief Financial Officer** to members and the senior management team including financial assessments of key projects and decisions.
- **Reporting of key performance issues** to the Scrutiny Panel.
- **A comprehensive budget monitoring process** that is reported monthly to senior managers.
- **A partnership register** that records the details of all of the partnerships that the Council is involved in.
- **A defined Monitoring Officer role** which sets out responsibility for ensuring all decisions comply with statutory requirements and are lawful.

The significant control issues found during the course of the review are highlighted in the table at the end of the statement.

Effectiveness of Other Organisations

The Council owns two companies, Colchester Borough Homes (CBH) which was created in 2003 and Colchester Community Stadium Limited (CCSL) that was created in 2007. As these are limited companies there is no requirement for them to produce Governance Statements in this format. However it is recognised by the Council that it is essential for these companies to operate effective governance procedures to ensure appropriate and cost effective service provision and protection of Council assets.

Whilst CBH is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it provides an effective and economical service to housing tenants and that the Council's asset, the housing stock, is adequately protected. CBH have produced their own annual governance review that has been shared with the Council. There were no significant control weakness identified during the year that are required to be included in this statement.

A review of the management arrangements for CCSL was carried out as part of the preparation of this statement. Whilst CCSL is an 'arms length' company it is still necessary for the Council to ensure that it operates effectively to ensure that it can make the necessary loan repayments to the Council and that the Council's asset, the stadium, is adequately protected. There were no significant control weakness identified during the year that are required to be included in this statement

The Council is the lead partner in a joint museum service with Ipswich Borough Council. Due to the nature of the arrangement, the joint museum service conducts its own annual governance review which includes an assessment of internal control. Therefore it is not intended to include any details relating to this service within this statement.

The North Essex Parking Partnership was created on 1 April 2011, with Colchester Borough Council as the lead partner. The partnership conducts its own annual governance review which includes an assessment of internal control. Therefore it is not intended to include any details relating to the service within this statement.

The Council has a comprehensive partnership strategy and maintains a detailed register of the partnerships that it participates in. The strategy defines what a partnership is and details the governance arrangements that should be in place for all partnerships, both present and new. It also provides a mechanism for improving the effectiveness of the partnerships.

Internal Audit Opinion
From the work undertaken in 2017/18, Internal Audit has provided satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2018 accords with proper practice. This is excepting any details of significant internal control issues as documented hereafter. It is also the opinion of Internal Audit that the Council's corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE.

Significant Governance Issues
The review of the effectiveness of the governance and internal control arrangements has identified some areas where actions are required to ensure that the authority continues to provide appropriate and cost effective services. The issues and action plans are shown in the table below. These will be monitored and reviewed via the Internal Audit reporting process.

No.	Issue	Action
1.	**Security of premises / information**. During the security audit of one Council building that is open to the public, access was gained to private office areas. During the year the ICT team also carried out two random tests of data security - one on-line based, involving a spam email to which several officers responded and one building security related, with a non-employee being able to access offices and paper files unchallenged. With the changes to the General Data Protection Regulations due to come into force at the end of May 2018, it is essential that the Council ensures that all buildings and data are robustly protected, both physically and virtually.	The internal audit report and the ICT assessment both identified areas for improvement. These included physical changes such as re-setting building access cards, issuing role specific lanyards (such as contractor and visitor) and ensuring a robust signing-in procedure for visitors, as well as virtual changes such as password updates. These were accompanied by a comprehensive awareness programme for all staff. During 2018/19 further assessments need to be conducted to ensure that these changes have been embedded and are effective.

2.	**Contract Management** The Council has a number of ongoing contract arrangements and makes a number of decisions during any year for new or additional services. Contract procedures are in place. However, it is essential that all staff are aware of processes, and these are followed and documented appropriately.	During the year there is a planned internal audit of contract arrangements and also the opportunity will be taken to build this issue into other relevant audits. Promotion of contract management rules and responsibilities will also been carried out during the year.
3.	**Project Management** With the ambitious digital challenge programme and major investment activities there have been challenges to the delivery of certain projects. Steps have been put in place to improve project management through additional governance and monitoring. However, given the importance of this area, it continues to be recognised as an issue.	During 2018/19 training programmes will continue to be run to provide staff with relevant project management skills. In addition, the new commercial company arrangements produced will result in revised governance arrangements for the management of economic growth projects. Post implementation reviews and “lessons learned” exercises will be carried out to ensure issues can be embedded into future project management exercises.
4.	**Financial Management** The challenging financial climate and the need to continually look to new ways of working means staff need to have access to financial information and relevant training to support them in carrying out their duties.	During 2018/19 all budget managers will receive financial training to reinforce the importance of budget management and support to develop financial management skills. Budget management systems and processes will also be reviewed.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework, by the Governance & Audit Committee, and we propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

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Leader of the Council & Chief Executive

on behalf of Colchester Borough Council