STATEMENT OF ACCOUNTS 2017/18

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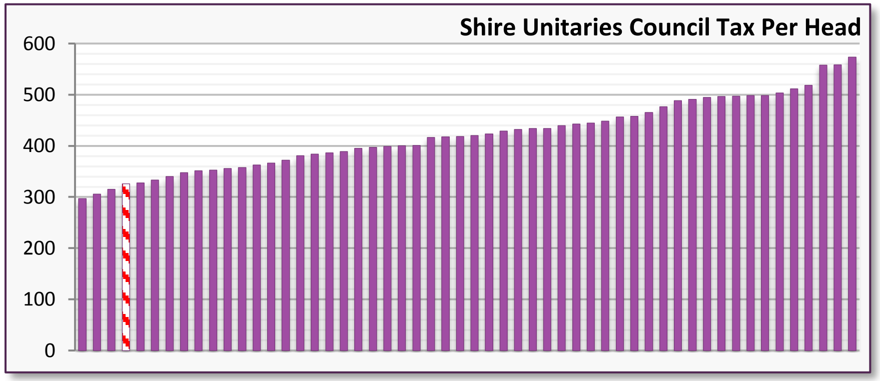
CHIEF FINANCE OFFICER'S NARRATIVE REPORT

A. BACKGROUND

Local Government continues to face a challenging financial picture, the result of the EU Referendum result and continued austerity. The Government has also announced its intention to move away from the revenue support grant system, and to replace this with a system based on 75% retention of increases in business rates. It is therefore critical that, the Council is successful in its strategy to become less grant dependent, which requires increasing income from other sources. In association with the fair funding consultation, the integration with health and increasing service demands, the uncertainty around the future of local government finances shows no sign of relenting.

Our medium term financial plan, updated for outturn, estimates that we will need to achieve at least £13.9 million of additional savings over the next two years, to offset reductions in government funding and grants, and to meet the costs of increased demand for essential services. This is despite £113 million of savings already being achieved over the last seven years.

The Council provides value for money to the taxpayers of Luton by setting a



Council Tax per head of population which is both below the national average, and considerably below the level of the council tax elsewhere in Bedfordshire, and is working hard to collect as much income as it can so that this can be reinvested back into services for Luton residents and businesses.

The combination of increasing demand and reducing resources has put a considerable pressure on services, some of which were already challenged from previous years. Children's and Adults Social Care Services are dealing with more individuals requiring statutory support with increasing complexity. At the same time, meeting the demand for increasing numbers of homeless and temporary accommodation has led to a large overspend. In 2018/19 additional pressures have been reported in relation to unachieved corporate commissioning and procurement savings, the running costs of the corporate estate, not achieving commercialisation income targets and the cost of the ICT service.

The Council continues to transform services to maximise value for money, commercialise services and enhance the local business environment to attract further business investment to the town. By managing demand and cost of the most challenging services, resources can be used more effectively to maximise customer satisfaction and support. Commercialisation and the Luton Investment Framework will ensure the Council maximises income potential and maintains value for money services for the public it serves.

The Council's is fortunate that it owns London Luton Airport Limited (LLAL) and is able to utilise income from the airport to invest in non-statutory services in Luton. Substantial investment in a number of development projects for the airport is in progress, with work commenced on the £225 million Direct Air Rail Transport system in February 2018. This will create a fast, frequent and efficient transport link from Luton Airport Parkway station to the airport and is expected to facilitate further growth in the number of passengers using the airport.

B. ABOUT LUTON

Luton is a vibrant, modern and diverse town in the East of England. Thirty miles north of London, and at the centre of the Oxford-Cambridge strategic growth corridor, the town has excellent transport links by road, rail and air. London Luton Airport is the fifth largest airport in the UK today, with over 15 million passengers annually. Luton is situated by the M1 motorway, just 10 miles from the M25 and is 22 minutes from London by train.

The official estimate of Luton's population for 2016 was 216,800. The town is densely populated with around 49 persons per hectare. Luton is now the third youngest city in the UK, according to the centre for cities. The 2011 census showed that 22% of the population was under the age of 15, compared with just 18% both regionally and nationally.

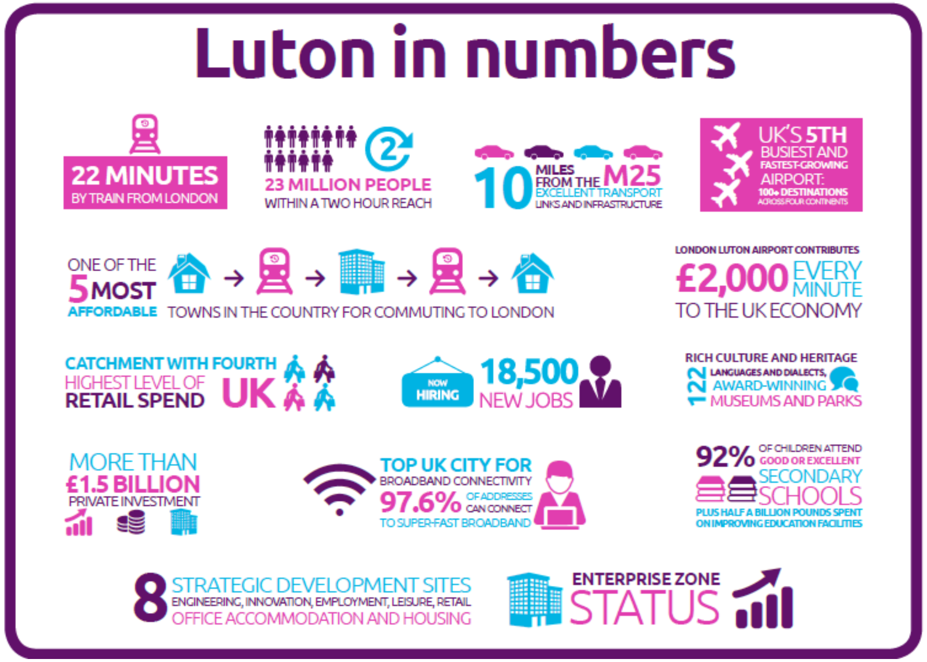
The town is also ethnically diverse, with approximately 55% of the population being of non-white British origins. Due to its industrial base and international airport, Luton is home to significant Asian, African, Caribbean, Irish and Eastern European communities. Less than half of the population were recorded as Christian at the last Census, with around 24% of people identifying as Muslims and many people of other faiths including Hindus, Sikhs, Jews and Buddhists.

Historically, Luton's economy has resembled that of an industrial town in the North of England. From the famous hat-making trade of the Victorian age to the Vauxhall plant which has employed thousands of Lutonians for the best part of a century, high-quality manufacturing has long been a feature of the town. Aviation and engineering are now among the largest employers in Luton, with major companies such as easyJet, Leonardo and GKN all based in the town.

While the coming years are beginning to look extremely bright for our town, there are still immense challenges around health and deprivation. In 2015 Luton was ranked as the 59th most deprived local authority in the country, compared with being 87th almost a decade earlier.

A study by the Centre for Research in Social Policy showed that around a third of children in the town were in poverty in 2016. The latest figures from Public Health England also show that Luton is faring worse than the national average on key indicators including life expectancy and childhood obesity.

With a young and relatively deprived population, national issues such as housing and skills shortages remain an important challenge in Luton. Recent figures show that just 51% of Luton's students gained 5 A*-Cs at GCSE including English and Maths; compared to the national average of 57.8%. Despite this Luton was ranked 68th out of 324 local authorities nationally for social mobility in 2017 and we are also in the top 25% for early years' education. With the University of Bedfordshire at the heart of the town and the growth of apprenticeships and adult learning opportunities, pathways from the classroom into work are becoming clearer in Luton.



C. CORPORATE OBJECTIVES

Luton Borough Council has a responsibility to report on how it is fulfilling its statutory duties and how it is providing cost effective, good quality services to businesses and residents in Luton. The Council needs to make sure that it does this in a clear, open and easy to understand way so that everyone can see where we are performing well, in addition to any areas where we need to improve.

The Council has developed a new Strategic Planning Framework which builds upon reporting processes and draws together different plans and strategies across the Council into one, comprehensive reporting structure.

The Corporate Plan tells residents what the Council is going to do over the next few years along with what it will be doing differently and why. Sitting directly below the Corporate Plan are other key plans or strategies which directly address the Council's priorities. Each Service Director is required to have a service plan which shows how their services will undertake activities to meet the Council's six strategic priorities and clearly demonstrates the expected positive impact that they will deliver for Luton residents. The most relevant strategies and plans are listed below.

Building economic growth & prosperity
Luton Investment Framework

Enhancing skills & education
Skills & Employability Strategy
Apprenticeship Strategy
Children & Young People's Plan

Improving health & well being
Joins Strategic Needs Assessment
Health & Well-Being Strategy
Better Togther Strategy
Sports, Arts & Culture strategies
Flying Start (0-5)

Developing quality homes & infrastructure
Housing Investment Strategy
Local Plan & Local Transport Plan
Homelessness Strategy

Supporting safe, strong and cohesive communities
Community Safety Strategy
Prevent Duty Plan
Volunteering Strategy
Anti-Poverty & Social Mobility Strategy
Local Children Safeguarding Board
Threshold document

Integrated, efficient & digital service delivery - striving for a 'one Luton' approach
Transformation Strategy
Organisational Development Strategy
Digital Strategy
Medium Term Financial Plan

D. CORPORATE PERFORMANCE

A corporate performance report is provided to the management team, Overview and Scrutiny Board and Executive on a quarterly basis. Current performance is measured using selected performance indicators against the key priorities of the Corporate Plan.

The majority of indicators reported for Q4 are either in line with targets, improved on the previous period or expected to reach target by the end of the financial year. There was however 12 quarterly and 3 annual performance indicators identified in quarter 4 as underperforming or at risk of not achieving target/benchmark average. Website link to the report: O&S Report

E. ACHIEVEMENTS IN LUTON

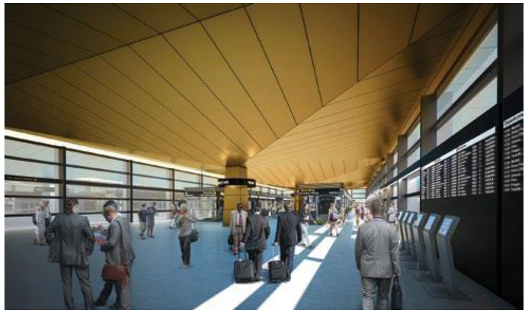
BUILDING ECONOMIC GROWTH AND PROSPERITY

- ☑ Formal launch of the Luton Investment Framework – setting out £1.5 billion of inward investment into the town
- ☑ New Airport Enterprise Zone granted which will bring more than 7,000 jobs - consisting of three linked sites surrounding London Luton Airport: Bartlett Square, Century Park and Airport Business Park.

- ☑ £110m transformation of London Luton Airport

DEVELOPING QUALITY HOMES AND INFRASTRUCTURE

- ☑ £25 million development of Marsh Farm underway, where 82 per cent of the supply chain is local.
- ☑ The Napier Gateway plans are set to transform the former Vauxhall Motors site which has stood redundant for 15 years into a landmark mixed used scheme including homes, leisure and retail.
- ☑ The Council's Fixed Assets Team designed and built two new SEN schools.
- ☑ Investment and planning approval for a state of-the-art Mass Passenger Transit system (Luton Dart) providing a fast, frequent and efficient means of transfer from Luton Airport Parkway station directly to the airport terminal.



- ☑ Luton is already well served by superfast broadband, and is part of the Central Superfast Broadband project to increase coverage to over 99%. We have also been selected as a G Fast ultra-fast broadband pilot area.

ENHANCING SKILLS AND EDUCATION

- ☑ 92% of secondary pupils attending good or excellent schools. Improving results in GCSEs were obtained in 16/17 and 75% of students studying at Sixth Form or equivalent now go on to university. Hundreds of apprenticeships have been created by organisations across the town to support young people.
- ☑ The Unemployment rate in Luton has fallen from 7.6% in December 2014 to 6.6% in December 2016.

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- ☑ Full time employment has now increased by 1,300 and full time earnings increased by 3.4%.
- ☑ Released £1.3 million investment in the skills to enable projects to progress with a focus on the transition of young people from education to employment, and respond to needs of employers, including addressing adult skills and promoting job and career opportunities.
- ☑ Achieved an Ofsted rating of “Outstanding” for our Adult Learning Apprenticeship Programme.

IMPROVING HEALTH AND WELLBEING

- ☑ Our partnership with Active Luton continues to improve the health of our communities. The ME TIME Programme which combats inactivity among women from ethnic minorities now has 5,000 members.
- ☑ A reduction in childhood obesity (reception year) from 10.4% in 13/14 to 9.7% in 15/16.
- ☑ The signing of the Concordat between the Council and Luton Clinical Commissioning Group. This will result in their coming together to form one commissioning body for health and social care to enable people in Luton to pursue healthy lives and put communities at the heart of everything they do.
- ☑ Attainment of seven prestigious Green Flag awards for Luton’s Parks.

- ☑ Male and female life expectancy had increased from 76.9 and 80.8 years in 2009/10 to 78.4 and 82 years in 2016/17, while infant mortality has reduced from 7.4 to 5.1 per 1,000 live births.

- ☑ Secured around £2 million from the Heritage Lottery Fund to refurbish Wardown House.
- ☑ Launch of the Cultural Quarter.
- ☑ A downward trend in teenage pregnancies can be observed from 2013/14-2014/15.

SUPPORTING SAFE, STRONG AND COHESIVE COMMUNITIES

- ☑ Launched new team Neighbourhood Enforcement Officers with community safety accredited powers. In their first 75 days the team issued fixed penalty notices for unsocial behaviour, 90 ‘on the spot’ actions for town centre drinking, used their CSAC powers on 53 occasions to deal with begging, 73 enforcement actions for fly-tipping, flyposting and lettering.
- ☑ Downward trend in the number of looked after children which have traditionally been around the 400 mark; with a reduction at 31st March 2016 to 378 and further reduction at 31st March 2017 to 364.
- ☑ Participation of 22,000 Luton pupils in the Recycling Reward Scheme for schools.

INTEGRATED, EFFICIENT AND DIGITAL SERVICE DELIVERY – STRIVING FOR A ‘ONE LUTON’ APPROACH

- ☑ Achievement of our highest ever rates of Council Tax and Business Rates collection.
- ☑ Luton Access, our information, advice and guidance partnership, supported 18,918 customers in 2016 (25%) with debt, housing and welfare benefits problems. Intervention resulted in customers being £5.51m better off, 123 homelessness cases were prevented, £7.1 m debt was successfully managed (£200K written off), 345 bailiff or creditor actions stopped/utility disconnections prevented. There was a big increase customers having needs met at assessment stage (77%), reducing those needing referral to (more expensive) casework support (23%).

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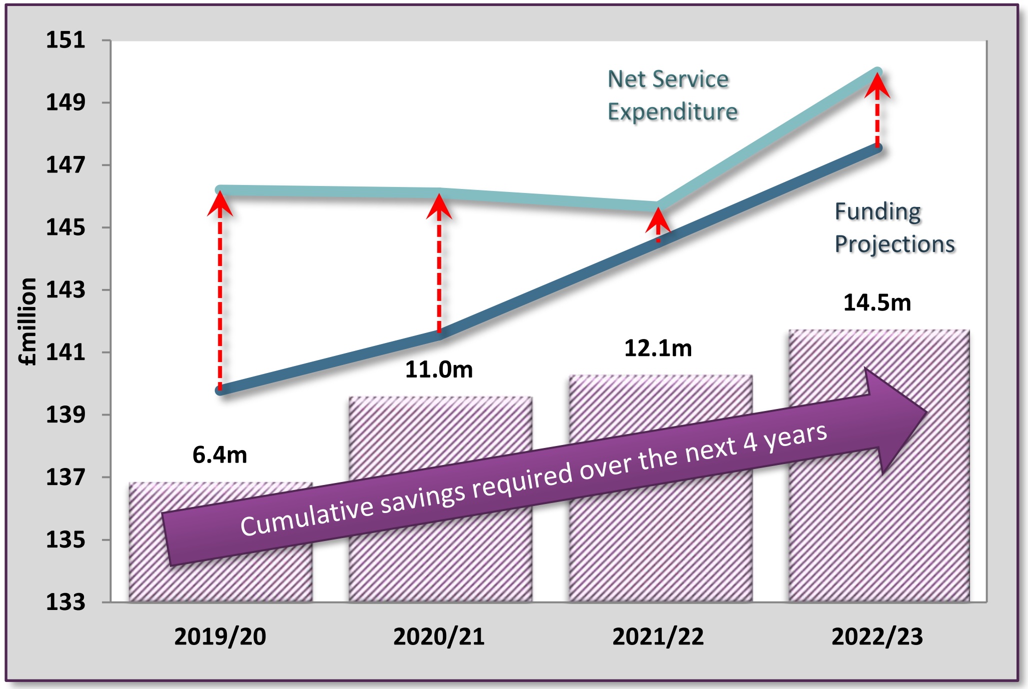
F. FINANCIAL PERFORMANCE

MEDIUM TERM FINANCIAL PLANNING

The medium term financial strategy (MTFS) sets out how resources will be prioritised in order to achieve the Council's objectives, including enabling the successful implementation of the Luton Investment Framework.

For many years the Council has provided value to the taxpayers of Luton by setting a Council Tax per head of population below the national average, and considerably below the level of the council tax elsewhere in Bedfordshire. The capacity to raise funds through council tax is made more challenging by the high percentage of Band A, B and C properties and the average number of heads per household in Luton. In comparison to other Shire Unitaries Luton has one of the lowest Council Tax per head.

The current medium term plan is based on the need to find substantial levels of efficiency savings in future years. The Council's Corporate Plan, in conjunction with the MTFS, sets out the Council's overall objectives and priorities, and how the Council can seek to achieve them in the context of the expected reductions and uncertainties in future Council funding and costs.



There are a vast number of very possible events which could change the figures significantly. On this basis, when considering targets for planning purposes, the Council needs to bear in mind that the figures are a single point in a range of potential outcomes. This position reflected the budget gap present at the start of the 2018/19 budget process.

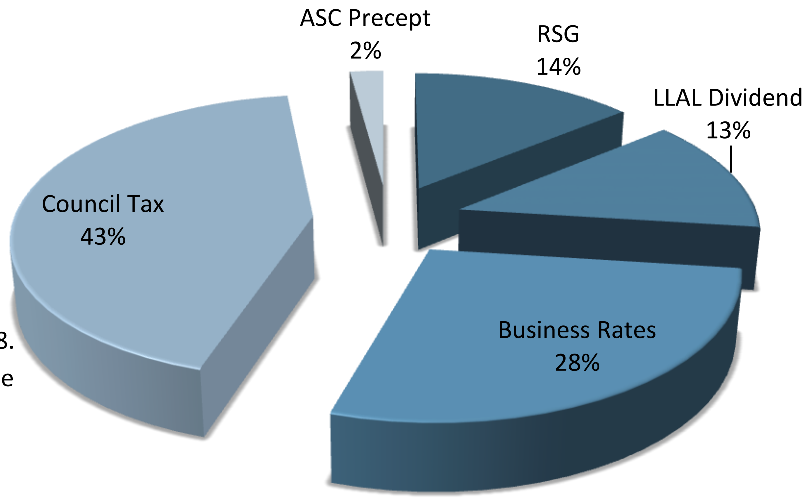
The level of savings required each year could easily vary by £3 million either way. This gap assumes no significant growth in cost of services, an increase in business rates income of £1 million in 2019/20 and a pay award of over 2% for the next two years. The medium term financial plan shows that the position for future years involves significant financial risks and uncertainties.

A reduction in the income received from London Luton Airport Ltd is expected in the short term as the cost of debt financing increases to fund the subsidiaries enhancement and expansion of the airport. As passenger numbers grow the level of income received will return, and eventually, outstrip the level of income currently being received.

REVENUE FINANCING

The Council net revenue expenditure was financed by:

- £64.8 million Council Tax
- £41.8 million Business Rates (including top-up)
- £21.1 million Revenue Support Grant (RSG)
- £19.5 million London Luton Airport Ltd (LLAL) Dividend
- £3.2 million Adults Social Care Precept



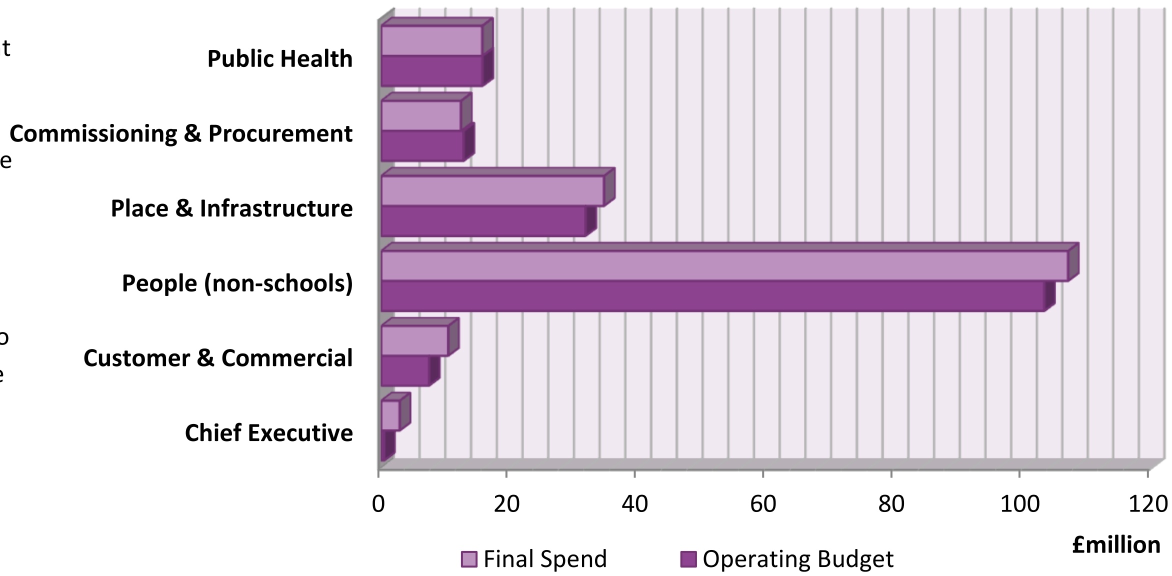
The dividend received from LLAL of £19.5 million (13%) was a significant funding source during 2017/18. This is 2% higher than in 2016/17 and is now comparable to the percentage of RSG. In 2017/18 Revenue Support Grant equates to 14% of the total funding below. This is a drop of 5% compared to 2017/18.

2017/18 DEPARTMENTAL NET SPEND

The Council's final spend by department illustrates the significant service pressures the Council is experiencing. The total revenue outturn has been proactively managed within the set operating budget for the year; however this was assisted by one-off income and fully releasing the annual revenue contingency.

The continued service demands from Homelessness and Adults and Children's social care continue to dominate the prominence of service commitments. These service pressures are expected to increase over the medium to long term creating further pressure on the delivery of other services to the public.

Service demand pressures will continue to put great importance on the Council's ability to deliver service efficiencies, corporate procurement and commissioning savings and transform the way services are delivered.



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Useable Reserves increased by £4.9 million to £117 million during 2017/18. The increase includes additional General Fund Balances of £3.4 million and Capital Receipts of £2.0 million. Of the £117 million, £66 million is ring-fenced for specific projects and service pressures, £24 million is ring-fenced for capital purposes and £11 million is ring-fenced to the Housing Revenue Account. The only non-specific reserve has a balance of £14 million held to cover wider risks and unforeseen service pressures. This is reviewed on an annual basis to ensure it is sufficient to manage the level of risk and uncertainty the Council faces.

During 2017/18 unusable reserves have increased from £488 million to £517 million. Unusable reserves are not available now for the Council to utilise, but they do represent underlying threats and opportunities to the Council. The most notable movement during 2017/18 has been an increase of £33 million in the revaluation reserve. Upward revaluations for Schools (£20 million) and Council Dwellings (£7 million) occurred during the year. These movements were influenced by increased land values and inflationary uplifts in build cost assumptions. These gains cannot be utilised until the assets are sold, but as the majority of the assets are vital to the running of statutory services they are unlikely to be sold.

Council assets and capital financing summary

The Council as at 31st March 2018 holds long-term assets, in the form of operational property, investment property, share capital and debentures, to the combined total of £1.341 billion.

£1.012 billion of the long-term assets held are revalued at a minimum every 5 years.

The Council’s underlying need to borrow (Capital Financing Requirement) is £422 million, of which £300 million is financed by external borrowing. This means the Council has financed the residual capital expenditure by internal cash balances.

During 2017/18 the Councils Capital Financing Requirement increased by £15 million financed in part by an increase in debt of £3 million. This increased the level of internal borrowing by an additional £12 million.

Even with this internal borrowing commitment, the level of investments and cash has increased by £5 million during 2017/18. These additional cash resources were generated by increases of £5 million in cash backed reserves and £12 million in working capital.

REVENUE OUTTURN

The provisional outturn is reported to Executive in June 2018. The report includes the summary table shown. Variations are before the allocation of the contingency budget.

Net spend on General Fund services during 2017/18 is £130.2 million prior to movements in reserves, with a further £1.6 million of spend to be incurred in 2018/19 from the budgets carried forward from the current year.

Overall General Fund reserves have increased by £3.4 million in 2017/18 (Note 21). This includes a net increase of £0.7 million in General Fund Earmarked Reserves. Included within these movements is a transfer of £2.8 million into the Luton Investment Framework (LIF) reserve from the reorganisation reserve. The reserve movement also includes a top-up of £0.061 million to the Public Health Reserve.

School Reserves have increased by £2.637 million to £19.484 million as at 31st March 2018. The entire 2017/18 HRA operational surplus of £2.069 million has been allocated to a specific capital reserve to fund future capital commitments. The HRA general reserve totals £8.311 million at 31st March 2018.

General Fund Position 2017/18 Compared to Operating Budget	Operating Budget	Final Spend	Total Variation
	£million	£million	£ million
Chief Executive	1.439	2.883	1.444
Customer & Commercial	9.827	10.428	0.601
People (non-schools)	106.975	106.910	(0.065)
Place & Infrastructure	32.815	34.672	1.857
Commissioning & Procurement	12.902	12.420	(0.482)
Public Health	15.788	15.727	(0.061)
Public Health Grant	(15.788)	(15.788)	0.000
Corporate Accounts (excl. reserves)	(32.695)	(37.064)	(4.369)
In Year Spend Prior to Reserves	131.263	130.188	(1.075)
Carry Forwards to 17/18 (incl. PH)	0.000	1.560	1.560
Movements in Specific Reserves	(0.364)	(0.851)	(0.487)
Net Underspend Available to Reserves	0.000	0.002	0.002
Net General Fund Expenditure	130.899	130.899	0.000

The Council has continued to manage a number of significant demand-led service pressures over 2017/18, including the high levels of support needed for vulnerable children and families in the town and providing accommodation for members of the community that are homeless, together with other emerging pressures in services that have placed additional strain on the overall Budget. Cost pressures were reported to the Executive at Quarter 1 and early actions were taken to work toward improving the final outturn position for the year including: containing current costs as far as possible, finding compensating cost savings or additional income across the Council and working toward reducing future costs to more sustainable levels.

Although the Council has achieved a balanced outturn position for 2017/18, this is partly due to a number of one-off cost reductions and income gains; and the main cost pressures reported in 2017/18 will continue to place pressure on the 2018/19 budget, alongside the need to deliver £5.8 million of further savings already set in the budget. Plans for managing the ongoing cost pressures, corporate efficiency savings and income targets in 2018/19 and 2019/20 are being further developed and progress will be regularly reported in the monitoring during 2018/19.

The Council's accounting policy on providing for the minimum revenue provision is being discussed with the external auditor and any resulting change for 2017/18 will be included in the audited accounts.

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CAPITAL OUTTURN

The original 2017/18 capital programme for the General Fund totalled £179.1 million with a further £22.6 million for the HRA. Capital projects have been monitored monthly during 2017/18, with progress reported to the Executive on a quarterly cumulative basis.

The final capital spend reported to Executive for the year is £49.704 million for the General Fund and £17.667 million for the HRA. A breakdown of the expenditure compared to the original programme for the year is shown in the table.

In comparison to the original budget the final capital spend is substantially lower. The capital expenditure not incurred during 2017/18 is still expected in later financial years and therefore does not generate a permanent saving to the Council. The provisional outturn identifies a total overspend of £0.6 million on the Wardown Museum Redevelopment project. All other schemes have been financed in full.

The final financing of capital spend compared to the original programme is shown in the table below:

Capital Programme 2017/18 Spend Analysis	Original Programme	Final Capital Spend	Total Variation
	£million	£million	£ million
Place & Infrastructure	21.503	20.569	(0.934)
People Department	21.076	10.052	(11.023)
Chief Executive's Department	4.975	1.484	(3.490)
Customer & Commercial	23.338	7.472	(15.866)
Corporate Projects	108.200	10.126	(98.074)
Total General Fund Programme	179.092	49.704	(129.388)
Housing Revenue Account	22.559	17.667	(4.893)
Total LBC Capital Programme	201.651	67.370	(134.281)

Capital Programme 2017/18 General Fund Funding Analysis	Original Funding	Final Capital Funding	Total Variation
	£million	£million	£ million
Grants & Contributions	27.293	15.174	(12.119)
Revenue Contributions	0.253	1.049	0.796
LLAL Dividend - Capital Element	2.865	4.364	1.499
Capital Receipts	7.610	9.499	1.889
Prudential Borrowing	141.071	19.619	(121.452)
Total General Fund Financing	179.092	49.705	(129.387)

The total underspends of £129.4 million reflects the rephrasing of a number of schemes; which includes:

- £83.2 million in LLAL financing
- £14.9 million in Foxhall Homes financing
- £14.4 million in temporary accommodation
- £10.2 million in ring-fenced funded schools additional school places, new equipment and maintenance.

The additional capital receipts received were generated from a new allocation to the temporary accommodation purchase scheme (TAPS) from the right to buy receipts.

FINANCIAL STATEMENTS EXPLAINED

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing service 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.

Movement in Reserves Statement

This statement 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 setting council tax and dwellings rent.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories – usable and unusable. Usable reserves, i.e. those reserves that the Council may use to provide services, subject to statutory limitations and the need to maintain prudent levels of reserves for financial stability. Unusable reserves cannot be used to fund Council services.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipient of services provided by the Council. Investing activities represent the cash outflows which have been made for intended 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).

Notes to the Accounts

Explanatory notes to explain in more detail the assets and liabilities as at the balance sheet and income and expenditure for the financial year. This section also includes other unique disclosures to local government, such as Member allowances and officer remuneration.

Housing Revenue Account

The Council is required by the Local Government and Housing Act 1989 (section 74) to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is prescribed by statute and the Council is not allowed to fund any expenditure for non-housing services from this account.

Collection Fund Statement

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 of council tax and non-domestic rates from taxpayers and distribution of this income to the Council, Police, Fire and the Government.

Group Accounts

The Council is involved with a number of companies whose assets and liabilities are not included in the Council's single entity statements. Most of these companies are small simple investments and are not included within the Group. Currently only the wholly owned subsidiaries of London Luton Airport Ltd and Foxhall Homes are included in the Group Boundary.

G. PEOPLE PLAN

Our ‘People Plan 2016-19’ explains how we will recruit, communicate with, develop and enable our workforce to deliver the Council’s mission statement and vision. We recognise that staff have been expected to deliver high quality services throughout a sustained period of major change and budget reductions. As a Council, we will respond to further challenges and changes during the next three years, with great optimism for the future. The Organisation key priorities for the engagement, development and support of its people as follows:

- Ensure the Council has a productive, suitably qualified, skilled and motivated workforce, able to deliver services in a more commercial context, and in accordance with the Council’s mission, vision and values
- Ensure managers are able to lead, manage and improve performance of individuals, teams and services
- Promote the Council as an employer of choice, using pro-active attraction, recruitment & retention methods to engage with the community & workforce
- Ensure that our strategic priorities, decisions and actions are informed by accurate, good quality data
- Offer accessible, timely and inclusive learning opportunities to develop people’s skills and knowledge, and measure the impact of learning on behaviours, performance and productivity
- Ensure that employees are confident and resilient to deliver good practice, safe in the knowledge that they have management support, with appropriate systems and the necessary tools to do their job well
- Ensure that all employees understand and are able to meet their safeguarding and other legal responsibilities

In order to deliver these People Priorities, there are seven areas of focused activity, aiming to give our workforce the best possible understanding of what it means to work as “One Council” along with the tools, skills, rewards and experiences to help them both contribute to the realisation of the Council’s vision and to fulfil their own potential.

By valuing and supporting our workforce; providing good quality professional development; ensuring that every member of staff gets appropriate management support and by respecting and understanding the different roles and skills of our staff , we can empower our whole council team to make a real difference to the lives of residents in Luton. These seven key areas are:

- **Enabling Change**
- **Engagement, Communication and Recognition**
- **Employee Development and ‘Growing our Own’**
- **Leadership, Capacity and Capability**
- **Pay and Reward**
- **Attraction, Recruitment and Retention**
- **Performance**

Since the plan’s launch in August 2016 there have been a number of successes:

- **Team Luton** – internal events presented to 925 staff about the new vision
- **Apprenticeship Strategy** – maximising the benefits of the strategy
- **Career pathways** – assist employees in building skills to help progression
- **National Graduate Development Programme** – four new graduates
- **Management & Leadership Development** – new group of 24 managers
- **Employee Well-being** – refresh of the plan to support employees
- **LBC Jobs Site** – Re-branded and updated recruitment website
- **Key Worker Housing Scheme** – Brokerage & shared ownership options
- **Restorative practice** – Support conflict resolution & minimise harassment
- **Employee Value Proposition (EVP)** – ‘Realise the Remarkable’ – associated benefits provided by Luton as an employer of choice.

H. STRATEGIC RISK MANAGEMENT

The Council's updated corporate Risk Management Strategy was approved by Executive in April 2018. It sets out the Council's strategy for the effective management of risks and opportunities. The Audit & Governance Committee are provided with an update of the Council's corporate risks, to assist the committee to fulfil their obligations to periodically review the Authority's corporate risk register and to consider the effectiveness of the Council's risk management arrangements.

Key Risk	Impact	Control Measure Update
Expenditure Control	Failure to keep to approved budget, particularly for demand-led services, new requirements, savings targets, loss of income	• Monthly budget monitoring procedures; including volatile budget reporting & deficit recovery plans • Forecasts and management information to predict patterns (e.g. children's, homelessness) • Financial training for managers to support robust monitoring & deliver services within operational budget • Sufficient budgeted contingency & current pressures in the MTFS to assess financial sustainability
Staff Recruitment & Retention	Failure to recruit/retain staff. Luton not preferred living area. Potentially losing top performing staff and staff not having the right skill set	• People Plan signed off by Corporate Management Team in September 2016 • Internal 'Team Luton' communications and events to inform officers of the Council's vision going forward • New development strategies: Apprenticeship Strategy & Career Pathways • Other schemes: National Graduate Development Programme, Management & Leadership Development, Employee Value Proposition (EVP), Employee Well-being plan
Homelessness	Risk of overspends in Homelessness due demand & costs pressures	• Progress is being made through the work of the Homelessness Tiger Team • Full budget review undertaken
Universal Credit	Universal Credit risks to customers (increased debt, housing instability, communication & process) & to the Council (arrears, collection of HB overpayments & increased vulnerability)	• Reduce negative impact and communicate process and systems for support • Communications & engagement • Minimise the financial cost to the Council • Business intelligence
Significant Projects	Failure to control project expenditure & potential significant abortive costs to be charged to revenue if projects are not successful	• Governance arrangements are in place in LLAL and LBC to monitor and report on significant projects • Significant risks will be reported the Executive as appropriate

All of the major risks are managed by their risk owner. The owner is responsible for implementing control measures to ensure the likelihood and impact of the risk is minimised. The risks recorded within the corporate risk register are reviewed, updated and reported back to the Internal Governance Group, Corporate Leadership Management Team on a regular basis. This is an important process to support better decision making through the understanding of risk, whether a positive opportunity or threat and the likely impact.

STATEMENT OF RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS

A. THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration for those affairs, in line with statute this is the Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts

B. THE RESPONSIBILITIES OF THE SERVICE DIRECTOR (FINANCE & AUDIT)

The Service Director (Finance & Audit) is responsible for the preparation of the Council's Statement of Accounts which are, in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), present fairly the financial position of the Council at the accounting date and the income and expenditure for the year.

In preparing these Statements of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Signed

Dev Gopal

Dev Gopal **FCA, FCPFA, FCCA, CMgr MCMI**
Service Director (Finance & Audit)

C. APPROVAL OF STATEMENT OF ACCOUNTS

The Council's constitution states that the Audit and Governance Committee has the responsibility to approve the Council's Statement of Accounts. The Accounts and Audit Regulations 2015 introduced a requirement for the chair or deputy chair of the meeting at which approval is given to sign the accounts. This formally represents the completion of the Council's approval process of the accounts.

Signed

Roy Davis

Councillor Roy Davis
Chair of Audit & Governance Committee

ANNUAL GOVERNANCE STATEMENT

A. SCOPE OF RESPONSIBILITIES

A1. Luton Borough Council is responsible for ensuring 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

A2. In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility the Council places reliance on the Chief Executive to support the governance and risk management processes. The Council has approved and adopted a code of corporate governance, which was updated in 2013. It can be found at: *http://democracy.luton.gov.uk/cmis5public/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/4534/Committee/1005/Default.aspx*, as item 12 appendix A, or be obtained from the Council's offices at the following address: Town Hall, Luton, LU1 2BQ.

A3. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

B. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

B1. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.

B2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, to manage them effectively, efficiently and economically.

B3. The governance framework has been in place at the Council for the year ended 31st March 2018 and up to the date of approval of the Statement of Accounts.

C. THE GOVERNANCE FRAMEWORK – OUTLINE

C1. This section describes the key elements of the systems and processes that comprise the governance arrangements that have been put in place for the Council and how they are linked to each other.

STRATEGIC PLANNING

C2. This section describes the Council's Strategic Planning Framework.

C3. The Prospectus was produced in 2013 and 'lays the groundwork for Luton's path to prosperity'. It provided a financial assessment for the Council and set a number of propositions in relation to 'business and growth', 'education and lifelong learning' and 'health and social care'.

C4. The Prospectus helped to shape the Luton Investment Framework (LIF) which sets out a 20 year strategy for major transformation of the town through inward investment. The Framework was approved by Executive in June 2015 and a major launch was held for business leaders and the media at an event in April 2016. This Framework effectively replaces the Prospectus. A launch of phase 2 of the LIF took place on 29 June 2017 which focused on skills and health and wellbeing.

C5. A new Corporate Plan 2017-2020 was approved last year, which refreshed the Council's mission, vision and priorities in light of the Investment Framework, and also takes into account new Executive portfolios, senior management structure, organisation development strategy and Council brand. The plan includes latest demographic and business information on Luton, the Council's achievements since the last Corporate Plan was published, what residents have told us, key "place shaping" actions, new performance measures, risks and the Medium Term Financial Plan. It supports the 4 year finance settlement approved by the Department for Communities and Local Government.

C6. The new Investment Framework sets out plans to achieve £1.5billion of private investment, upskill our local workforce, create 18,500 new jobs, build 5,700 new homes and two new schools. It sets out plans to improve the health and wellbeing of Luton residents including increased life expectancy and life choices and provides support to 5,000 families in parenting Luton's young children. The framework includes investment in green travel and carbon reduction. It also sets out investment in the voluntary sector. At the heart of the framework is business growth – attracting new large businesses and improving connectivity by road, rail and air. Central to this is an Enterprise Zone announced by government in 2015 and will stimulate growth around London Luton Airport, the fastest growing airport in the UK. Major infrastructure works are planned, including a new road to open up New Century Park, part of the enterprise zone, and work has begun to build a new passenger transport system (Luton Direct Air Rail Transit (DART) linking Luton Parkway railway station with the airport terminal. Further details on the Investment Framework can be found at *http://www.luton.gov.uk/lutoninvestmentframwork*

C7. The Executive Leader and Deputy Leader presented a report on initial progress on the Investment Framework to Full Council in February 2017, when a decision was taken to invest £2.9m in LIF projects, including £1.9m in skills over 3 years.

C8. The new Corporate Plan will be underpinned by a refreshed set of Corporate Performance Indicators which will be monitored by Overview and Scrutiny board and the Executive on a quarterly basis.

C9. On a more detailed level, 3 year service plans (latest update 2017-2020, produced by each Service Director for their own services), enable the Council to review and manage performance across all areas of Council business. It helps to provide the "golden thread" between corporate strategies such as the People Plan and service delivery projects and actions. Service plans are monitored by the Chief Executive through quarterly Delivery and Accountability meetings. These plans are especially important in the current financial context in which Luton Borough Council needs to save a further £13.9 million over the next two years.

C10. Now that the new corporate plan is in place, the strategic planning framework enables a clear and demonstrable line of sight between the Luton Investment Framework, Corporate Plan, service plans, team plans and people's PPAs. This is the 'golden thread'. Measurement and monitoring take place through a range of delivery mechanisms including performance indicators and individual performance objectives.

ENSURING DELIVERY OF SERVICES AND THE BEST USE OF AVAILABLE RESOURCES

C11. This section explains how the quality of services is measured and how the Council ensures that they are delivered effectively in accordance with its objectives.

C12. Service delivery, and the measurement of quality of services, is linked to the Council's Prospectus themes and corporate objectives through its service planning processes (as detailed above). Specific performance targets are set in line with these objectives. Service, team and project and delivery plans are also prepared to align with this framework. Objectives for individuals are then linked with those team plans through the Personal Performance Appraisals to ensure consistency of service aims and delivery in line with objectives.

C13. The measurement of quality of services is linked through the same process, with team and service performance indicators and targets being set to reflect their expected contributions to meeting corporate objectives and Prospectus themes. The most important performance measures corporately have been (and will continue to be under the new Performance Management Framework) determined by the Council's Corporate Leadership Management Team, and are reported to Executive and Overview Scrutiny Board on a quarterly basis via a 'score card' which includes appropriate targets, commentary and a RAG rating to help monitor and improve performance. In addition, there are a series of indicators mandated by the Government for national assessment of the quality and delivery of key local government services, particularly in relation to children's services and adult social care. These are measured and the assessment externally verified as part of the audit process.

C14. The Council's risk management process is key to ensuring the effective delivery of service. Consideration of risk in order to develop plans including effective risk mitigation measures is designed to enable the Council to deliver effectively, by planning for risks before they happen. It is also designed to enable the Council to take effective advantage of opportunities in a planned and structured way, by ensuring that opportunities that link directly with the Council's overall objectives are the ones that are pursued.

C15. The delivery and accountability meetings referred to above provide an approximately quarterly review and challenge of service and financial performance, risk management, and challenge of specific areas such as sickness, overtime, completion of appraisals, debt and agency costs.

C16. The budget and medium term planning process is directly linked to the delivery of services in line with objectives. Proposals for variations to the budget are assessed in terms of their potential impact, and prioritized accordingly.

C17. The Council's transformation strategy, Luton Together Phase 3, reflects a focus on income generation and service improvement, and is based on the design principles shown in paragraph C10 above. The strategy includes the rolling savings programme, which is subject to regular update and development. Monitoring shows that there was a shortfall in achieving all of the savings planned for 2017/18, with pressures emerging on some income streams and a large shortfall on the delivering the corporate target for procurement savings within the year. The shortfall has been managed within the final outturn position achieved for 2017/18 and final net costs are within the budget set for the year, including the full use of the 2017/18 contingency budget to help meet demand-driven cost pressures in a number of services. The 2018/19 budget has been set with £ 5.9 million of savings and additional income, and some options have been put forward in principle that can contribute towards achieving the 2019/20 target. The corporate target for procurement savings has been re-phased for delivery over 2018/19 & 2019/20 in the latest financial plan. Detailed delivery and implementation plans are being produced and robust monitoring will take place as part of monthly reporting and the Delivery and Accountability meetings. All projects are carefully coordinated, with progress monitored and scrutinised via savings ‘Trackers’. The savings proposals have been developed with members to ensure that all options are considered and prioritised in line with the aims of the Prospectus.

C18. The Council’s value for money is now assessed by the external auditors each year. An unqualified Value for Money ('VFM') opinion was issued in January 2018. The assessment highlighted the risks around Financial Resilience and the LLAL Direct Air Rail Transport System, but had no immediate concerns over how the Council is managing each risk and they will continue to monitor the risks highlighted.

C19. The Council was reported to the Pensions Regulator because of delays in submitting complete and accurate end of year data on pensionable pay and contributions to the Bedfordshire Pension Fund for 2014/15 in accordance with the agreed timescales. The Council worked on an improvement plan with its IT provider, and the data was finally provided. Further, the 2015/16 data was provided to the Bedfordshire Pension Fund by the end of April 2016, as required. However, the external auditors have qualified the end of year returns for the separate Teachers Pension Scheme. The 2016/17 audit for the Teacher’s Pension Scheme will be audited and the outcome of that audit will form part any updates of this report.

ROLES AND RESPONSIBILITIES

C20. The Council’s Constitution sets out the Council’s key functions and who is responsible for them. Part 3 of the Constitution – ‘Responsibility for Functions’ sets out the responsibilities for each Council committee. The scheme of delegation to officers is set out in Parts 6 and 7 of the Constitution.

C21. Part 2 of the Constitution also sets out the Council’s management structure, and the specific functions of three statutory posts that are an important part of the Council’s governance – the Head of Paid Service (the Chief Executive), the Monitoring Officer (the Service Director Human Resources and Monitoring Officer) and the Chief Finance Officer (the Service Director, Finance & Audit).

C22. The Constitution also includes Standing Orders and Financial Regulations, which define how the Council conducts its business in a consistent and appropriate manner.

STANDARDS OF CONDUCT

C23. The Council’s Constitution includes codes of conduct for both members and officers that comply with the requirements of the Localism Act 2011.

C24. Complaints against members are investigated by a subcommittee of the Standards Committee, in conjunction with the Independent Person (IP).

C25. The Council’s Standards Committee is an advisory committee, responsible for the promotion of high standards of conduct. Of the fifteen members on Standards Committee, five are independent members, i.e. not elected members, who are co-opted to serve on the Committee.

C26. Complaints against members are investigated by a subcommittee of the Standards Committee, in conjunction with the Independent Person (IP).

There is a panel of three IPs who can be called upon when required. This was arranged as part of a collaborative process with other public sector bodies locally.

C27. A complaint may be referred to the Standards Committee for investigation, hearing and sanction. During 2017/18, two complaints were made against Members that couldn't be resolved informally. One complaint was against an individual member, and one against a collective group of seventeen members. These complaints went to the Assessment Panel, which is a subcommittee of Standards Committee, both complaints were rejected.

C28. Two Adjudication Panels, a subcommittee of Standards Committee, were heard in 2017/18, arising from complaints made in the previous year. These complaints were rejected.

C29. The Council's three political Group Leaders have determined that training on the Council's Code of Conduct for elected members and the "standards" regime is mandatory for all Councils and is required to be undertaken once every four year period.

C30. At each formal meeting of the Council, the Executive and the Council's Committees, members are reminded to declare any pecuniary interests in relation to the business to be discussed and decisions to be taken. As a necessary part of being a member all members are provided with a Members' Handbook. This contains a section which gives advice on matters relating to compliance with the Code of Conduct.

C31. The Council has a register of member interests, maintained by the Monitoring Officer, in which all registrable interests must be entered for both the elected Member and their spouse or partner. Members are reminded on a regular basis of the need to register their interests. Registrable interests include gifts and hospitality received by members.

C32. During 2017/18 the Council's values were refreshed and promoted to the workforce. Organisational development (OD) activities as part of the Council's OD strategy known as the "People Plan" have focussed on the importance of those values during the year. The focus on a values-led organization, rather than simply an organization with values, emphasizes the importance of conduct in line with those values. .

C33. Each new member of staff receives an induction pack which has been updated during 2017/18, which includes the Code of Conduct for Officers, and the importance of adhering to this Code is emphasised.

C34. In addition, professional staff are subject to the codes of conduct of their particular professions.

STANDING ORDERS, FINANCIAL INSTRUCTIONS, DELEGATIONS, CONTRACT REGULATIONS AND THEIR UPDATE

C35. The Council's Standing Orders, including regulations regarding contracts, and Financial Regulations are part of the Council's Constitution.

C36. The Council has a Constitution Committee, which meets as necessary to consider changes to the Constitution and make recommendations to the full Council, which can also make changes to the Constitution on the recommendation of any of the three statutory officers.

C37. Updates to a number of parts of the Constitution were approved in 2017/18, these were: Articles of the Constitution (part 2); Responsibility for Functions (part 3); Scheme of Members Allowances (part 13), Register of Members (part 15); Complaints Procedure (part 18) and Management Structure (part 19).

C38. Financial Regulations include a section on risk management, and the importance of managing risk within every aspect of management. This is also emphasized in the Risk Management Strategy.

WHISTLEBLOWING AND COMPLAINTS

C39. The Whistleblowing Policy applies to all individuals working in or for the organisation, including elected members, directly employed employees, agency workers, contractors and suppliers. During 2017/18, twelve whistleblowing allegations were received. All were subject to review, some of which involved referrals to other agencies.

C40. Anyone wishing to make a serious allegation typically raises it with their immediate manager. However, this may depend on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice. For these reasons staff can make whistleblowing allegations direct to the Council's Monitoring Officer on a confidential basis.

C41. The Council has set out and published procedures for dealing with complaints, with target times for complaints to be acknowledged, investigated and responded to, and with each department having a nominated complaints co-ordinator to review progress.

FINANCIAL MANAGEMENT ARRANGEMENTS

C42. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a statement on the role of the Chief Financial Officer in 2010. This statement includes a significant number of governance requirements in relation to financial management in general and the role and responsibilities of the Chief Financial Officer (CFO) in particular. These include the requirement that the CFO 'should report directly to the Chief Executive and be a member of the Leadership Team, with a status at least equivalent to the other members.' This is not the case in Luton, and the statement requires the reasons for this to be explained, together with how the arrangements adopted deliver the same impact.

C43. In Luton, along with a number of other Councils, the role of Chief Financial Officer is at Service Director level, rather than at Corporate Director level. This does ensure that the CFO's role is focussed on the core financial and strategic responsibilities rather than being diluted by taking on a wider remit. The CFO reports to the Corporate Director Customer and Commercial. However, the CFO attends all meetings of the Corporate Leadership Management Team (CLMT) as a full team member, attends all corporate officer meetings with elected members, as well as being able to go directly to the Chief Executive whenever necessary.

C44. Luton's financial management arrangements are in line with the other key governance requirements in the CIPFA statement. A member of the Luton Borough Council staff acts as Chief Financial Officer and Company Secretary (on behalf of Luton Borough Council) for London Luton Airport Limited (LLAL), who is responsible for the production of LLAL accounts with assistance from PricewaterhouseCoopers.

THE ROLE AND FUNCTIONING OF THE AUDIT AND GOVERNANCE COMMITTEE

C45. The Audit and Governance Committee of the Council discharges the functions of the Council as required by the Practical Guidance for Local Authorities on Audit Committees published by the Chartered Institute of Public Finance and Accountancy. The Committee, which meets quarterly, helps improve the corporate focus on the core issues arising from internal control, reporting and management, and receives regular reports on Internal Audit reviews, as well as reports from external audit, and an annual review of risk management.

COMPLIANCE WITH LAW AND INTERNAL POLICY AND PROCEDURE

C46. The Chief Executive is responsible for the effective and efficient administration of the Council. The Head of Human Resources and Monitoring Officer as Monitoring Officer is required to ensure that agreed procedures are followed and that the Council conducts its business lawfully and in accordance with all applicable statutes and regulations. If the Monitoring Officer becomes aware that the Council or any Committee or officer on its behalf has or is about to embark upon an unlawful course, then she has a duty to report the matter to either the Full Council or, in the case of executive functions, to the Council's Executive. The precise scope of this duty is set out in Sections 5 and 5A of the Local Government and Housing Act 1989 (as amended).

C47. The Service Director, Finance & Audit as Chief Finance Officer is similarly required to report issues of a financial nature to the Council where they may give rise to a breach of requirements, be they statutory or otherwise.

C48. All papers to be considered by members at formal meetings are scrutinised by the statutory officers, or staff acting on their behalf, to ensure compliance with regulatory requirements. This includes scrutiny by Finance officers to ensure that all expenditure is lawful.

C49. Service Directors are also required to ensure that their services comply with legislation and regulation. They are aided by numerous professional networks, and they are required to review, at the end of each year, that the service has complied with legislation, regulation, internal policy, including the application and maintenance of internal controls and procedure, as part of their annual assurance Statement of Governance and Controls.

C50. Each Service Director and Corporate Director is responsible for the effective use of the human, financial, and information technology resources allocated to their services. The assurance statements referred to above also relate to the effective use of resources to deliver services.

DEVELOPMENT OF MEMBERS AND SENIOR OFFICERS

C51. The Council has a member development programme, and a corporate training programme for officers designed to provide training in key corporate requirements. Transformation workshops have been held quarterly for senior officers to ensure the transformation strategy is being applied throughout the organisation. The personal performance appraisal system has been developed as an assessment of performance and competencies, and has recently been revised slightly in light of feedback and evaluation.

C52. The cross party Member Development Steering Group oversees the learning and development of councillors. The group has implemented a range of initiatives including a new induction process and Councillor Handbook, personal development plans, workshops and e-learning courses.

C53. The Council has been awarded the East of England Charter for Elected Member Development until 2016 and has also committed to a process of continuous improvement over this time. The work of the Member Development Steering Group was awarded a silver award in the 2015 Training Journal Awards for "Best Public Sector Programme".

ENGAGEMENT WITH COMMUNITIES AND OTHER STAKEHOLDERS

C54. The council is committed to listening to its citizens and service users. By understanding the views of local people it is able to provide effective services in line with their needs.

C55. Consultation and community engagement is seen as an integral part of service planning, delivery and decision-making, and this is reflected in the council's values. A six monthly survey of 1,000 residents has been commissioned to monitor perceptions of the town and council service delivery. Its results are used to track awareness and opinions on LIF priorities and impact of transformations on people's lives. The third survey was completed in November 2017.

C56. A planned and coordinated approach to consultation and engagement activities is essential and is facilitated by:

- a corporate team of consultation and engagement practitioners to advise, support and deliver effective and meaningful consultation across the council
- the use of an updated and robust consultation procedure which incorporates internal governance including risk assessing for legal challenge, ensuring consultation is ethical, promoting best practice and quality assurance principles. This is to ensure the council has an organisational framework in place outlining the corporate standard for consultation activities across the organisation
- further development of the Luton consultation partnership portal on which over 1,500 residents are registered to take part in a range of consultation and engagement activities
- the use of mixed methodologies (both qualitative and quantitative) to enhance response rates, ensure methods are inclusive and maximising opportunities for a broader and representative population in the local decision making processes. This is supported by greater use of on-line activities, social media and electronic voting
- consultation on a number of large scale/high profile projects have been successfully delivered to inform the council's strategic priorities and shape services which include the draft waste strategy, Public Spaces Protection Order, selective licensing, housing strategy, several road improvement and parking schemes, Council Tax Reduction scheme, fostering and school expansions.
- maintaining a range of corporate and service specific consultation and user engagement mechanisms including registered residents on Luton consultation portal, service-user databases, planned events
- a coordinated approach to undertaking consultation projects to avoid duplication. Over the last two years around 100 consultation and engagement projects have been delivered and/or supported and several thousands of people have participated/given their views

C57. The council encourages local communities to be involved in action planning and decision-making such as its member-led engagement initiative, now entering its second year. The vast majority of councillors now administrate their own ward Facebook pages, where residents have the opportunity to ask questions, promote local events and discuss local issues. Councillors also organise and run their own 'Let's Talk' events, inviting members of the community to engage with them on a range of topical issues.

C58. The council has a good track record of working with its partners in the statutory and third sector on consultation initiatives. Key areas of joint working include the integration of pharmaceutical needs assessment and better health through better food choices.

C59. Luton Council and Luton Clinical Commissioning Group (LCCG) joined forces to enable Luton people to live healthier lives. Cllr Hazel Simmons, Leader of the Council and Nina Pearson, Chair of LCCG signed a concordat on 29 June 2017, demonstrating each organisation's commitment to improve the outcomes of Luton's residents. Work has begun bringing the commissioning functions of the two organisations together with joint commission arrangements in place, ensuring the public and patients' voice are at the centre of health decision making.

Luton

C60. With regard to communications, the council uses a range of approaches to inform and feed back to citizens including its monthly electronic newsletter eLuton, the website – including videos, social networking opportunities and regular news updates. We also use a mix of traditional local media, direct mailings, member surgeries and exhibitions.

C61. A new communications strategy for 2018-2023 has been approved by senior leaders, supporting an outcome-focussed approach. The team will focus on campaigns which directly align communications activity with the main strategic priorities of the Luton Investment Framework and the corporate plan. By prioritising communications activity on this basis, and ensuring campaigns are well-researched, targeted and measureable, with a dedicated focus on contacting hard-to-reach groups, we will ensure resources are appropriately targeted.

C62. In 2017/18 the council dealt with almost 500 media enquiries, produced over 300 press releases, sent thousands of social media posts and issued dozens of electronic and hardcopy newsletters reaching tens of thousands of Luton residents. The high profile communications, marketing and digital campaigns we delivered included Think Luton Think Investment as part of the Luton Investment Framework, #KeepLutonTidy, #KeepLutonSafe, Let's Talk (MLE) campaigns, #WasteLessRecycleMore, CSE, Fostering & Adoption, Prevent and Counter Extremism, Volunteering, #BeClearOnCancer, Dementia Friendly, Love Luton, Community Cohesion, Elections, Teacher Recruitment, Flying Start, Council Tax, self-care, MyAccount and Do It Online.

C63. The council has been recognised nationally in awards and had significant achievements and honours during 2017/18, which are indicative of the strength of the governance arrangements that have facilitated those achievements.

C64. They include:

- nominated for the Council of the Year category in the annual MJ Awards
- nominated for the Council of the Year and Team of the Year categories in the annual LGC awards.
- the council was awarded 6 Green Flags for its public parks
- awarded Purple Flag status which recognises Luton town centre has an 'entertaining', 'diverse', 'safe' and 'enjoyable' nightlife.
- secured millions of pounds worth of grants for arts and culture, children's social care, to tackle homelessness and for community projects]
- working as part of a consortium, secured £2million of European Social Funding that will benefit a range of projects and initiatives in the most deprived wards in Luton, led by local communities through the Community Led Local Development programme
- the launch of the Aspiration Centre, and the 16x16 skills project for young people which form part of the £1.9 million LIF Skills and Opportunities programme, a three year plan to drive aspiration and highlight opportunities for Luton people.
- launching and co-chairing the new national Special Interest Group on Countering Extremism

C65. In recent years resources have been diverted into managing the council's profile on social media. This includes growing our online audience to get important messages out about council services and responding very quickly to community feedback which in turn has helped to reduce complaints. We now have a combined audience of more than 20,000 followers on the official council Facebook and Twitter accounts alone, with several other departments sending their own tailored messages. Our team works to respond to all urgent enquiries within 24 hours and uses these vital communication channels on a daily basis, sending hundreds of tweets every week.

PARTNERSHIPS

C66. The Council has a large number of collaborative/partnership arrangements with other organisations.

C67. Partnership working is an essential part of modern local government, and the Council's partnership register shows just how many collaborative partnerships, of varying sizes, the Council is involved in. The register has been reviewed and updated by service managers during the course of the year and clearly identifies the Council's key strategic partnerships including funding associated arrangements. This supports coordination across partnerships – for example, collaborative working between the Health and wellbeing Board and the Community Safety Executive.

C68. Officers have produced partnership guidance to ensure that key issues of risk are taken into account prior to the setting up of partnerships, and to ensure that they set up in line with the Council's key objectives.

GROUP GOVERNANCE

C69. The Council owns or controls the entire issued share capital of London Luton Airport Ltd, the company that, by virtue of the requirements of the Airports Act 1986, owns London Luton Airport. The airport is operated by an unrelated entity, London Luton Airport Operations Ltd., under a Concession Agreement, which terminates on 31st March 2031.

C70. London Luton Airport Ltd. is controlled by a board a directors, in accordance with its Memorandum and Articles of Association. Professional, operational and company secretarial advice is provided to the company by the Council under a management services agreement. In 2012/13 the company reviewed its governance arrangements, and this included a rewriting of the management services agreements.

C71. The accounts of London Luton Airport Ltd. are incorporated into the group accounts of Luton Borough Council, and the assessment of governance and controls made by the Service Director of Finance & Audit includes that relating specifically to London Luton Airport Ltd.

C72. In 2017/18 London Luton Airport Limited instigated a major programme of infrastructure works, plus an application for a Development Control Order (DCO), an application for significant expansion, from a current maximum of 18million passengers per annum, up to a maximum of 38million passengers per annum. The funding of this programme is intended to be by way of debenture loans from Luton Borough Council, subject to the Council undertaking due diligence, as shareholder and investor, of loan applications. The principle of issuing debenture loans for the Direct Air Rail Transport Scheme was agreed in 2017/18, up to a maximum of £225 million, with the release of loans dependent on the achievement of agreed project milestones. An initial loan of £15 million has been made.

C73. The Council uses a registered company, Luton Traded Services Limited, as a vehicle through which to trade with the private sector. This company is not affiliated to Luton Borough Council and does not form part of the Group Accounts. The Council undertook some very limited trading in 2017/18 through LTS Ltd. As part of the Council Housing Strategy, the Council has set up a wholly owned housing company (Foxhall Homes) as a residential development company. The company has incurred costs in 2017/18, but not commenced any site development work to date. The capital programme has set aside £30.3 million to provide funding to Foxhall Homes in form of debentures. The Council will also subscribe to the share capital of that company.

D. REVIEW OF EFFECTIVENESS

D1. Luton Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Corporate Directors and Service Directors who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual report, and also by the reviews of the external auditors and other review agencies and inspectorates.

D2. The Risk and Internal Control Group with responsibility for drafting this Annual Governance Statement have considered the governance framework and the system of internal controls. This group has involvement in and oversight of the processes necessary to maintain and reviewing the effectiveness of the governance framework. In producing this statement full regard has been made to the Council's Risk Registers, corporate and departmental, plus those maintained for major projects and those of partners, the quarterly statements of governance produced by Service Directors addressing areas of potential risk in terms of internal controls, and the Delivery and Accountability meetings held by the Chief Executive, the Director of Customer & Commercial Services, and the Service Director of Finance and Audit with all Service Directors that directly review and challenge performance, finance, sickness and risk in each service area.

D3. The Council itself maintains overall control of its governance framework.

D4. The Executive is responsible for all Council functions except as specifically provided otherwise by law (and this is reflected in the Constitution).

D5. The Audit and Governance Committee considered external assessments and internal audit reports throughout the year.

D6. Overview and Scrutiny Board have reviewed and challenged Executive decisions during the year. The Board focussed on an evidence-based approach and the use of Task and Finish groups for particular projects. Such as the debenture loan for London Luton Airport Ltd.

D7. There is a Finance Review Group that is responsible for the scrutiny of the budget and other financial issues.

D8. The Standards Committee oversees the framework of the Code of Conduct for Members on an annual basis.

D9. Internal Audit undertook audits throughout the year using risk-based audit assessments. The service has reported to management on control issues, and produces an annual report to Audit and Governance Committee, which concluded that an adequate level of assurance can be provided in connection with the Council's framework of governance, risk management and control, with some exceptions identified during the year (details noted in Section F below). It states that these exceptions are given for the purpose of highlighting the key areas of risk which existed within the Council's control environment during the year. These areas of risk are not considered to have such an effect as to reduce the overall acceptable level of assurance or materially increase the risk.

D10. The Internal Audit Service works to the standards prescribed by the Public Sector Internal Audit Standards (PSIAS). The Authority's first external assessment on the effectiveness of the Council's Internal Audit Service and compliance with PSIAS and the Code of Ethics took place in March 2018. The External Assessor confirmed that the service "Generally Conforms" with the majority of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. The External Assessor also stated that the service is good in its reflection of the standards and operating with efficiency. The Council's external auditor also carries out an annual review of the Council's internal audit arrangements.

D11. The Chief Finance Officer and Monitoring Officer have provided assurances that no major issues relating to their responsibilities have arisen during 2017/18.

D12. The external auditor's annual audit letter confirmed that the Council's accounts give a true and fair view of the Council's financial affairs for 2016/17. The Audit Results Report, published on the Council's website, issues an unqualified opinion on the Value for Money assessment.

D13. The Annual Audit Report included a number of recommendations to assist the improvement in financial reconciliations and the production of the financial statements. The report highlighted the importance of development in this area, especially in light of the faster closure agenda to be realised in 2017/18. The report recognised that the Council has put in place a robust plan to strengthen its controls, processes, capacity and capability to produce good quality financial statements to meet the faster closure timescales. It did however highlight remaining weaknesses in the bank reconciliation process and related party documentation process. These areas are being strengthened and will form part of the 2017/18 audit review process.

D14. The Council has robust budget monitoring procedures in place with monthly reports provided to the corporate management team and quarterly reports to members. The 2017/18 monitoring identified significant budget pressures in services from early in the year and recovery measures were put in place to address this and work toward achieving a balanced budget by the end of the financial year. The monitoring reports for quarters 3 & 4 predicted a steady improvement in the net forecast outturn position; with the final forecast for the year predicting a small net underspend of £22,000 compared to budget. This includes full deployment of the contingency budget to meet significant budget pressures during the year, including volatile and demand driven services for children's care and for temporary accommodation to reduce homelessness. The final outturn position achieved for 2017/18 is close to the final forecast with a net underspend of around £2,000. The ongoing impact of the cost pressures reported in 2017/18 is being assessed to refine future monitoring, preparation of the 2019/20 Budget and to refresh the Medium Term Financial Strategy.

D15. The Council was reported to the Pensions Regulator because of delays in submitting complete and accurate end of year data on pensionable pay and contributions to the Bedfordshire Pension Fund for 2014/15 in accordance with the agreed timescales. The Council worked on an improvement plan with its IT provider, and the data was finally provided. Further, the 2015/16 data was provided to the Bedfordshire Pension Fund by the end of April 2016, as required. However, the external auditors have qualified the end of year returns for the separate Teachers Pension Scheme. The 2016/17 audit for the Teacher's Pension Scheme has been completed. The audit showed improvements had been implemented, however there are still improvements expected for 2017/18.

D16. Even though major savings have been required for the last 7 years, the vast majority of the savings proposals included in the budget were delivered in full with the exception of procurement savings relating to General Fund.

D17. Outcomes continue to improve in some key areas. The amount of council tax and business rates collected in year, have again improved. This will help maintain vital services during difficult financial times, even though hard choices will have to be made over the coming years.

D18. The new Corporate Management Structure was approved by Executive in March 2017 and is now fully implemented.

D19. In May 2017 Full Council approved an additional service director post for London Luton Airport Ltd to manage the ongoing operations and significant capital projects.

E. REVIEW OF PROGRESS IN RELATION TO SIGNIFICANT GOVERNANCE AND INTERNAL CONTROL ISSUES IN THE 2016-17 STATEMENT

E1. It was expected that achieving the level of savings required for 2016/17 and future years would be very challenging indeed, and would impact significantly on service provision. However, for 2016/17 the level of savings needed was less than originally anticipated due principally to the increase in Council Tax income. As a result the impact on service provision and employment was relatively low.

E2. A number of initiatives have been introduced with the aim of keeping staff sickness under control. However, it has not been possible to reduce sickness levels, which remain above the public sector average.

E3. The self-assessment for Luton's Children Services completed in May 2018 outlines Luton's improvement journey and highlights the changes that have been, and continue to be made to keep children safe, achieve well, and realising our vision of "Putting children, young people and families at the heart of what we do".

E4. Luton's Children's Services Improvement Board agreed to complete the Post Ofsted Action Plan in October 2017 and move into the next phase of improvement. All improvement actions are being reviewed to ensure we have robust evidence and can demonstrate sustained improvement in the areas identified along with incorporating the improvements our audit and assessment has highlighted. There will be particular focus on the impact and effectiveness of our practice, our financial sustainability, the permanent recruitment to our workforce and embedding the family safeguarding model as part of the review of our model of delivery. However, through continuous performance management and evaluation, we recognise that there is more we need to do, with improvements to our assessment service and looked after children service being a priority for the coming months.

E5. We face significant challenges in delivering services for children and their families that keep them safe. Increases in complexity of needs means that we have had to work harder and to generate innovative ways of working to meet these needs now and in the future. We are meeting this challenge head on and the collective determination of our staff, partners, portfolio holder and Executive, along with corporate ownership and determination we are passionate and determined to develop an improved consistency of practice across our model of delivery which has children, young people and families at the heart of our practice.

E6. Reducing social work caseloads has been a key priority and there has been a renewed emphasis on this particularly in the assessment team where we have not yet fully achieved the position we are aiming for. System changes, embedding threshold frameworks and more emphasis on early help professionals becoming involved in children who may historically have been CIN at the earliest point has provided a bedrock to allow us to focus on embedding consistency of practice and impact of our effectiveness. In 2016, we knew from audits and Ofsted confirmed that management oversight was not always consistent. Increased supervision and recent audits show that there is evidence of some good practice emerging however we will work with determination to ensure our plans are timely, focused upon outcomes with the wishes and views of the child at the heart of our practice.

E7. We know the things we need to improve:

- A sustainable resource base for children's services
- The stability and permanence of our workforce and reduced case loads
- The child's journey and workflow through our social care system and the overall effectiveness of our practice

- The number of children who have independent fostering arrangements and reduce those who are placed more than 20 miles from Luton.
- The quality and effectiveness of our looked after children and 14 plus service.

E8. As part of commitment to taking forward the improvement areas identified above work is underway to carefully examine the needs of the Luton population to ensure we have a strong evidence base which will determine if we are fully utilising our resource in the most effective way and if we need to make changes to our model of delivery in order that we can more effectively target children who need our support in a more timely way as part of a more integrated approach across the continuum of need. Improvement requirements will be monitored through the strengthened performance, improvement and accountability meetings with the DCS along with the established governance arrangements including the Children's Services Improvement Board and the LSCB. We are clear about our areas for development as represented by our refreshed improvement plan which outlines our journey, commitment and determination to achieve good outcomes for the children, young people ad families of Luton.

E9. For more detailed information please refer to the document CHILDREN'S SERVICES SELF-ASSESSMENT May 2018 "Putting children, young people and families at the heart of what we do".

E10. The council continues to work with its IT supplier to deliver the transformation programme, however it is running considerably late and the customer experience is not at the level expected. Further discussion is taking place and LBC will have to ensure that the programme is back on track in order to deliver savings as a result of the investments.

E11. In view of these assurances, and whilst acknowledging some issues, the overall framework of governance appears to be working reasonably effectively. Significant governance issues are addressed in the following section. These do need to be seen in the overall context of an effective governance system.

F. SIGNIFICANT GOVERNANCE & INTERNAL CONTROL ISSUES

F1. The key governance, risk management and internal control issues identified from the internal audit reviews carried out during 2017/18 were as follows:

- Internal Audit issued 1 'No' Assurance, 8 'Limited' Assurance, and 3 'Qualified' audit opinions. Management have confirmed that the majority of the recommendations raised have either been fully implemented or are in the process of being implemented.
- 2 debt recovery audit reviews for Social Care Financial Contributions Recovery and Adults' Direct Payments were completed – Monitoring, which identified that internal controls around debt recovery were generally not operating effectively. Both audits resulted in a 'Limited' Assurance opinion. Overall the reviews highlighted that there were considerable delays in taking appropriate recovery action due to a lack of co-ordination between departments in pursuing the recovery of debts; the volume of work and insufficient resources; and the complexity of some cases. In September 2017, the Debt Tiger Team was set up to carry out a corporate review of debt collection, reduce the Council's debt and establish improved and consistent procedures for the management of debt.
- Outstanding weaknesses and gaps in internal control surrounding the management and maintenance of the IT Asset Register; monitoring of employees' permitted use of Mobile Phones and the maintenance of Mobile Phone records; and the management monitoring and completeness of the Commercial Property Management Asset Register have not been fully addressed since the original audit reviews were undertaken. Management have confirmed that since the Internal Audit follow up reviews were undertaken in 2017/18 outstanding

recommendations have now either been fully implemented or are in the process of being implemented.

- During the year concerns were raised with management over user access rights to the payroll system, lack of segregation of duties and the risk of fraud and error. Management introduced compensating controls to address Internal Audit's concerns, however during the physical follow up review there was insufficient evidence to demonstrate that these controls are embedded and working effectively. Discussions are ongoing with management to identify other measures that could be put in place to mitigate this risk.

F2. The 2017/18 outturn shows that there are significant overspends in children's services and accommodation for homelessness (also national issues), together with pressures on maintaining the corporate property estate, revenues collection, information technology and a shortfall against the budget target for procurement savings. The 2017/18 overspends in these areas have been partly met by the central contingency budget, together with cost savings or additional income generated across other Council services and the final outturn positon within budget for the year. The cost of children's services continues to be challenged and measured against the targets set in the Glide Path action plan, to assist in returning the service to a more affordable and sustainable position. The mix of temporary accommodation used to relieve homelessness is also continuing to change, including less use of short term nightly lets and the Council acquiring properties and developing long term solutions to provide a more cost effective housing supply chain. Prevention work is also continuing, with targeted interventions and support to help reduce the number of persons becoming homeless and the number of children becoming looked after by the Council. The underlying causes of the property, revenues collection and information technology costs are being examined to develop measures that will return the services to a position within the budget.

F3. A detailed programme of savings for 2018/19 and future years been developed with a greater emphasis placed on procurement and commissioning savings, as well as efficiency savings achieved through transformation enabled by technology, which will also improve the customer experience. Savings initiatives include a tighter control on level of debts and also on agency spend. The Council will also improve on the amount of income raised through commercialisation and also to make up for the shortfall reported to date. Any delay in the preparation and implementation of the savings plan would lead to savings included in the 2018/19 budget not being achieved. The preparation for the 2019/20 budget in well under way.

F4. The Teachers' Pension Scheme return has been given a qualified audit report by the external auditors. Progress has been made but there are still a few IT issues to be resolved. Officers are working with a view to resolve any remaining issues with a view to avoid any further qualification for 2017/18.

F5. In common with most local authorities in the region, the Council is experiencing difficulties in recruiting permanent qualified staff with experience in areas like social work, project management, construction, and planning. The Council revised People Plan has several initiatives to address recruitment and retention issues. There is a People plan board which meets. Staff sickness needs to be reduced, which remains above the public sector average.

F6. There has been an upward trend in terms of value of uncollected debt amassing on the Council's Balance Sheet. There are a number of underlying issues creating this trend, but they can be attributable to three key themes; Pockets of poor debt collection policies and processes, limited write offs of debts assessed as uncollectible and debt being raised incorrectly or late.

F7. There are actions in place to improve ongoing collection performance and to assess, and collect where possible, outstanding aged debt. Targets have been set as part of the 2018/19 and 2019/20 budget delivery plan.

F8. The Council's wholly owned subsidiary, London Luton Airport Ltd, received an audit recommendation in the 2016/17 audit to facilitate greater levels of segregation of duties and formalise the approval of manual ledger journals. The recommendations have been address by a change in the subsidiaries finance structure.

F9. The Council has been able to close the accounts in order to meet the deadline as set by central government i.e. 31 May 2018. This required considerable planning and input from all the departments. The audit for this year's accounts has progressed well and the auditors can't see any reason why this year's audit won't be completed on time. No significant issues have been raised by the external auditors as part of the interim audit.

G. APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed

Laura Church

Laura Church
Interim Chief Executive

Signed

Hazel Simmons

Councillor Hazel Simmons
Leader of the Council

Luton

INDEPENDENT AUDITOR'S REPORT

A. OPINION

We have audited the financial statements of Luton 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;
- Housing Revenue Account Income and Expenditure Statement, the Housing Revenue Account Movement in Reserves Statement, and the Collection Fund; and
- the related Notes 1 to 45 of the Authority Financial Statements, Notes 1 – 7 of the Housing Revenue Account, Notes 1 – 3 of the Collection Fund, and the accounting policies and notes 1 to 15 of the Group Financial Statements.

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 Luton 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 Service Director (Finance & Audit)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Service Director (Finance & Audit) 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 Service Director (Finance and Audit) 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.

B. OPINION ON OTHER MATTERS PRESCRIBED BY THE LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

ARRANGEMENTS TO SECURE ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in August 2017, we are satisfied that, in all significant respects, Luton 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.

C. RESPONSIBILITY OF THE SERVICE DIRECTOR (FINANCE & AUDIT)

As explained more fully in the Statement of the Service Director (Finance & Audit) Responsibilities set out on page 16, the Service Director (Financer and Audit) is responsible for the preparation of the financial statements, 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 Service Director (Financer and Audit) 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.

D. 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.

E. 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 Luton 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority 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, Luton 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.

F. CERTIFICATE

We certify that we have completed the audit of the accounts of Luton 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.

G. USE OF OUR REPORT

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

Neil Harris

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

9th January 2019

The maintenance and integrity of Luton Borough Council's 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

02

Core Financial Statements

Luton

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing service 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. This is the second year the service segments within the CIES are presented in the same format as the Council's organisational directorates. In previous years the segments were strictly aligned to the service areas described by CIPFA guidance.

2016/17 RESTATED				2017/2018		
Gross Spend £000	**Gross Income £000**	**Net Spend £000**		**Gross Spend £000**	**Gross Income £000**	**Net Spend £000**
7,375	(1,333)	6,042	Chief Executive	4,748	(1,501)	3,247
58,819	(17,829)	40,990	Place and Infrastructure	64,985	(20,320)	44,665
121,659	(108,678)	12,981	Customer and Commercial	122,114	(109,921)	12,193
31,423	(19,537)	11,886	Public Health, Commissioning & Procurement	29,040	(16,788)	12,252
137,456	(32,743)	104,713	People	166,742	(50,617)	116,125
177,984	(173,626)	4,358	Schools Individual Budgets	174,782	(172,358)	2,424
18,576	(38,454)	(19,878)	Housing Revenue Account *(HRA Statements)*	38,539	(38,351)	189
279	(930)	(651)	Other Corporate Accounts	334	(1,208)	(874)
553,571	**(393,130)**	**160,441**	**Total Net Cost of Services**	**601,284**	**(411,062)**	**190,222**
		33,344	Other operating expenditure *(Note 8)*			(2,848)
		(7,626)	Financing and investment income and expenditure *(Note 9)*			(11,752)
		(171,688)	Taxation and non-specific grant income *(Note 10)*			(152,136)
		14,471	**(Surplus) or Deficit on Provision of Services**			**23,486**
		(95,379)	(Surplus)/deficit on revaluation of Property, Plant & Equipment & Heritage *(Note 23)*			(41,827)
		76,871	Re-measurements of the net defined benefit liability *(Note 33)*			(15,198)
		(18,508)	**Other Comprehensive Income and Expenditure**			**(57,025)**
		(4,037)	**Total Comprehensive Income and Expenditure**			**(33,539)**

The relationship between the funding and accounting outturn is reconciled within the Expenditure and Funding Analysis ***(Note 6)*****.**

2016/17 restated to include "Internal Recharges" within departmental segments, not on its own line separately; this has not changed the "total net cost of services".

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "usable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes.

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£'000	£000	£000
Balance at 31 March 2016	**(71,187)**	**(8,405)**	**(1,406)**	**(11,067)**	**(6,884)**	**(98,949)**	**(497,710)**	**(596,659)**
Opening Balance Adjustment	0	0	0	0	0	0	88	88
Revised Balance at 31 March 2016	**(71,187)**	**(8,405)**	**(1,406)**	**(11,067)**	**(6,884)**	**(98,949)**	**(497,622)**	**(596,571)**
Movement in Reserves during 2016-17								
Total Comprehensive Income and Expenditure	31,596	(17,125)	0	0	0	14,471	(18,508)	(4,037)
Adj. between accounting basis & funding basis	(37,329)	15,348	(1,133)	(6,112)	1,390	(27,836)	27,836	0
(Increase) or Decrease in 2016-17	**(5,733)**	**(1,777)**	**(1,133)**	**(6,112)**	**1,390**	**(13,365)**	**9,328**	**(4,037)**
Balance at 31 March 2017	**(76,920)**	**(10,182)**	**(2,539)**	**(17,179)**	**(5,494)**	**(112,314)**	**(488,294)**	**(600,608)**
Movement in Reserves during 2017-18								
Total Comprehensive Income and Expenditure	17,133	6,353	0	0	0	23,486	(57,025)	(33,539)
Adj. between accounting basis & funding basis	(20,561)	(6,818)	(593)	(1,956)	1,509	(28,418)	28,418	0
(Increase) or Decrease in 2017-18	**(3,427)**	**(466)**	**(593)**	**(1,956)**	**1,509**	**(4,932)**	**(28,607)**	**(33,539)**
Balance at 31 March 2018	**(80,348)**	**(10,647)**	**(3,132)**	**(19,135)**	**(3,985)**	**(117,247)**	**(516,900)**	**(634,147)**

Adjustments between accounting basis and funding basis under regulations are explained in more detail in *Note 20*.

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council.

The actuarial valuation of the pensions fund liabilities increased by £9.202 million between Balance Sheet dates.

31/03/2017 £000	Net Assets	*Note*	31/03/2018 £000
1,098,952	Property, Plant & Equipment	*Note 23*	1,126,752
90,349	Investment Property	*Note 24*	102,900
1,045	Intangible Assets	*Note 25*	898
5,806	Heritage Assets	*Note 27*	5,881
94,591	Long Term Investments	*Note 29*	104,589
355	Long Term Debtors		328
1,291,098	**Total Long Term Assets**		**1,341,348**
5,005	Short Term Investments	*Note 29*	3,503
668	Inventories		858
57,156	Short Term Debtors	*Note 35*	71,363
17,140	Cash and Cash Equivalents	*Note 36*	23,389
79,969	**Total Current Assets**		**99,113**
(2,391)	Short Term Borrowing	*Note 29*	(2,396)
(53,389)	Short Term Creditors	*Note 37*	(64,885)
(3,102)	Current Provisions	*Note 38*	(2,810)
(6,581)	Revenue Grants Receipts in Advance	*Note 40*	(8,348)
(65,463)	**Total Current Liabilities**		**(78,439)**
(5,081)	Non Current Provisions	*Note 38*	(5,074)
(9,838)	Capital Grants Receipts in Advance	*Note 39*	(20,703)
(2,795)	Long Term Creditors	*Note 37*	(2,418)
(23,929)	Other Long Term Liabilities	*Note 31*	(23,030)
(392,652)	Pension Scheme Net Liability	*Note 33*	(401,855)
(270,701)	Long Term Borrowing	*Note 29*	(274,796)
(704,996)	**Total Long Term Liabilities**		**(727,876)**
600,608	**Total Net Assets**		**634,147**

BALANCE SHEET

Reserves are reported in two categories – usable and unusable. Usable reserves, i.e. those reserves that the Council may use to provide services, subject to statutory limitations and the need to maintain prudent levels of reserves for financial stability. Unusable reserves cannot be used to fund Council services.

General Fund Reserves includes earmarked reserves ring-fenced for General Fund and Schools service provision.

Housing Revenue Account includes earmarked reserves ring-fenced for housing services.

Capital Receipts Reserve includes capital receipts ring-fenced for General Fund and Housing Revenue Account capital projects.

The current balance consists of £19.135 million of capital receipts ring-fenced for HRA purposes.

31/03/2017 £000	Reserves	*Note*	31/03/2018 £000
(76,920)	General Fund Reserves	*Note 21*	(80,348)
(10,182)	Housing Revenue Account	*Note 21*	(10,647)
(2,539)	Major Repairs Reserve		(3,132)
(17,179)	Capital Receipts Reserve		(19,135)
(5,494)	Capital Grants Unapplied		(3,985)
(112,314)	**Total Usable Reserves**		**(117,247)**
(234,583)	Revaluation Reserve	*Note 22a*	(267,313)
(631,918)	Capital Adjustment Account	*Note 22b*	(634,828)
392,653	Pensions Reserve	*Note 22c*	401,855
1,159	Financial Instruments Adjustment Account	*Note 22d*	1,095
(16,943)	Deferred Capital Receipts	*Note 22e*	(16,938)
(923)	Collection Fund Adjustment Account	*Note 22f*	(3,394)
2,261	Accumulated Leave Reserve	*Note 22g*	2,623
(488,294)	**Unusable Reserves**		**(516,900)**
(600,608)	**Total Reserves**		**(634,147)**

Certification by the Chief Financial Officer

I certify that the statement of accounts presents a true and fair view of the financial position as at 31st March 2018 and its income and expenditure for the year then ended. These financial statements replace the unaudited financial statements which I certified on 31st May 2018.

Dev Gopal

Dev Gopal FCA, FCPFA, FCCA, CMgr MCMI
Service Director, Finance & Audit (s151 Officer) Date: 7th January 2019

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipient 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.

31/03/2017			31/03/2018	
£000	**£000**		**£000**	**£000**
(14,471)		Net surplus or (deficit) on the provision of services	(23,486)	
56,194		Adjustments to net surplus or deficit on the provision of services for non-cash movements	79,002	
(23,715)		Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(26,711)	
	18,008	**Net cash flows from Operating Activities** ***(Note 41)***		**28,805**
	(34,893)	Investing Activities ***(Note 42)***		(24,748)
	(803)	Financing Activities ***(Note 42)***		2,192
	(17,688)	**Net increase or decrease in cash and cash equivalents**		**6,249**
	34,828	Cash and cash equivalents at the beginning of the reporting period		17,140
	17,140	**Cash and cash equivalents at the end of the reporting period**		**23,389**

During 2017/18 the Councils Capital Financing Requirement increased by £15 million financed by new loans to the value of £3 million. This increased the level of internal borrowing by an additional £12 million. Even with this internal borrowing commitment, the level of investments and cash & cash equivalents has increased by £5 million during 2017/18. These additional cash resources were generated by increases of £5million in cash back reserves and £12 million in working capital.

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Notes to the Statements

GENERAL ACCOUNTING POLICIES & JUDGEMENTS SUPPORTING NOTES

NOTE 1) GENERAL ACCOUNTING POLICIES

GENERAL PRINCIPLES AND BASIS OF PREPARATION

The Statement of Accounts summarises Luton Borough Council's transactions for the year ending 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015. The regulations require the accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the following:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
- The Service Reporting Code of Practice for Local Authorities 2017/18

and are supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and 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.

ACCRUALS OF INCOME AND EXPENDITURE

The accounts are maintained on an accruals basis, this means that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. This means that the following applies:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can reliably assume that the transaction will be completed and it is probable that economic benefits associated will flow to the Council.
- Goods procured by the Council are accounted for when consumed, which is normally when they are delivered. Where there is a gap between delivery of goods and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received, including services provided by employees of the Council, are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings are accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised in the accounts, but the cash transaction has not yet happened, a debtor or creditor will be recorded in the Balance Sheet for the relevant amount. For debtors where it is doubtful that the amount due will be received, the balance is reduced and a charge is made to revenue for the income that may not be collected.
- Revenue relating to such things as council tax, general rates, etc. shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates. Revenue should be recognised when it is probable that the economic benefit will flow to the Council, and the amount of revenue can be measured reliably.

OVERHEADS AND SUPPORT SERVICES

In accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017/18 (SeRCOP), the costs of central departments are charged to services broadly on the basis of time spent by officers or an appropriate applicable measurement. Information Management Services are charged on a range of bases such as unit cost for desktop facilities, actual cost for applications, productive hours for application and network support etc. Accommodation is allocated on a floor/desk area occupied basis. The total absorption costing principle is used, the full cost of overheads and support services are shared between users in proportion to the benefits received.

The full service cost is included within the service segments included in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

SCHOOLS RECOGNITION

Schools maintained by the Council are recognised on the Balance Sheet as the balance of control lies with the Council. Consequently all those schools' assets, liabilities, reserves and cash flows are recognised in the financial statements. Voluntary aided and voluntary controlled schools are not recognised on the Council's Balance Sheet as the balance of control for these schools lies with the respective dioceses. The Council does not however recognise schools funded by PF2 arrangements on its balance sheet, but does account for the income & expenditure in the CIES (as per VA & VC schools).

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.

BASIS OF CONSOLIDATION

Subsidiaries are entities that the Council has the power to govern. In the Council's financial statements, the investment in the subsidiary is carried at cost. In the Group financial statements, the subsidiary is accounted for using the acquisition accounting method where assets, liabilities, revenue and expenditure are added in on a line-by-line basis.

The Luton Borough Council Group consists of Luton Borough Council, London Luton Airport Limited (a wholly owned subsidiary of the Council) and Foxhall Homes Limited (a wholly owned subsidiary of the Council).

The Group Accounts have been prepared on the basis of a full consolidation; this means that all transactions between the Group entities are eliminated. The Group only includes these two subsidiaries, no joint ventures or associates.

NOTE 2) ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE YET BEEN ADOPTED

For 2018/19 the Local Authority Accounting Code of Practice includes a number of changes resulting from revisions to accounting standards, these are;

- IFRS9 Financial Instruments introduces changes to classification and measurement of financial assets and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables and available for sale to amortised cost and fair value through other comprehensive income based on the contractual cash flows and business model for holding the assets.

Standards not expected to have significant impact to the Council;

- IFRS15 Revenue from Contracts with Customers including amendments to IFRS15 Clarifications to IFRS15 Revenue from Contracts with Customers
- Amendments to IAS12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS7 Statement of Cash Flows: Disclosure Initiative

NOTE 3) ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts, prepared on a going concern basis, contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items which there are a significant risk of material adjustment in the forthcoming financial year are:

Item	Uncertainty Explanation	Consequences of Uncertainty
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. For HRA dwellings, the use of the major repairs allowance as a proxy for depreciation is no longer acceptable. The new treatment of depreciation is further explained in ***Note 23.***	If the useful lives of assets are reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £1 million for General Fund and £0.4 million for the HRA for every year that useful lives had to be reduced.
Pensions 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. A firm of actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways; during 2017/18, the Council's actuaries advised that the net pension's liability had increased by £9.202 million. Please see ***Note 33*** for sensitivity analysis.
Business Rates Appeals	At 31st March 2018, the Council had a provision for NNDR appeals of £4.472 million (49% of £9.127 million of the total appeals provision attributable to the Collection Fund). Please see Provisions ***Note 38.***	Analyse Local provide up to date analyses and projections of appeals based on the latest appeals data released by the Valuation Office. The estimate can fluctuate significantly between financial years. The four largest known appeals total £3.041 million, which is 33.3% of the total provision. If another significant appeal of £1 million was lodged the provision could increase by 11%. Currently there are 230 known appeals outstanding at an approximate average of £26,137. If the number of known appeals increased by 10%, at the average amount, this would increase the provision by approximately £601,151 (7%).
Doubtful Debts	As at 31st March 2018, the Council had outstanding arrears of £113.981 million, of which £22.340 million is with LLAL and FH ltd. £42.619 million has been provided for in case of non-collection of debts. ***Note 35***. If there was a reduction in the rate of collection there would be an increase need to contribute to the provision on an annual basis.	If the provision was incorrectly calculated and higher than expected debt write offs were required, future financial years would have to incur additional budgetary costs. If the downturn in collection rates was representative of longer term collection, then the Council may need to revise the doubtful debt provision calculation and annual budgeted contribution.

Please note the fair value concept is explained further in ***note 45*** and PPE valuations explained in ***note 23.***

NOTE 4) CRITICIAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

FUNDING

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. This is because the Council is determined to preserve front line services as far as possible.

The Council also prepare the accounts based on it being a going concern.

GROUP BOUNDARIES

The group boundaries have been assessed using the criteria associated with the Code. In line with this, the Council has identified two material subsidiaries (London Luton Airport Ltd and Foxhall Homes Ltd) and produced Group Accounts accordingly.

The Council's group boundary has increased for the wholly owned housing company, Foxhall Homes Ltd, in 2017/18 it's first year as part of the group.

Judgement on the grounds on materiality is that group accounts are required by the Council and are therefore consolidated as such.

SCHOOLS

In accordance with the Code, the Council recognises schools on the Balance Sheet where future economic benefits or service potential associated with the school will flow to the Authority. Where the Authority can employ staff and is responsible for the admission criteria, these schools are recognised.

There are several types of school within the Borough with Community Schools and Foundation Schools recognised on the balance sheet. The schools that are not recognised on the balance sheet are Voluntary Aided, Academies and Free Schools.

School assets are treated as a disposal from the Balance Sheet on the date a school is converted to an academy.

LOCAL ENTERPRISE PARTNERSHIP (LEP)

South East Midlands Local Enterprise Partnership (SEMLEP) is a locally owned public private partnership and therefore involves a large number of stakeholders including 14 local authorities, local businesses, business organisations and many other private, public and third sector organisations.

Luton Borough Council is the accountable body for the SEMLEP. There is a clear governance framework which states Luton Borough Council acts an agent in this arrangement and has no rights to use the funding for local services, unless authorised by the SEMLEP board.

EMBEDDED LEASES

Annually the contracts register is reviewed to ascertain where infrastructure assets are being used solely to deliver services to the Council. The correct accounting treatment for these arrangement is to separate the contract payments into revenue and capital. Currently there are two contracts which have been judged to contain infrastructure assets. They are the highways contract with Volker Highways and the multi-functional devices provided by Danwood. These arrangements are explained in more detail within ***Note 31.***

PROPERTY, PLANT & EQUIPMENT

Judgement is made in assessing PPE assets into appropriate asset categories as prescribed under the Code. These are subject to a degree of interpretation and judgement but given the Code's outlines the Council believe all classifications are as accurate as possible given the circumstances of each asset.

BETTER CARE FUND (BCF)

In respect of the BCF the terms of the Section 75 agreement means that contracts are stand-alone with the financial risk being retained by the lead body. Each partner then manages the contracts with their own providers of BCF services and each partner retains any financial risk relating to those contracts.

The BCF is not a separate legal entity and has been accounted for as a pooled budget arrangement (see ***Note 18***), since it is not an entity, joint operation or joint venture. It should be noted that neither party has unilateral control of the BCF, as decisions of the Board need to be made unanimously.

NOTE 5) EVENTS AFTER THE REPORTING PERIOD

The Draft Statement of Accounts was authorised for issue by the Service Director (Finance & Audit) on 31st May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The uncertainty and complexity of our financial landscape is increased by the as yet unquantifiable impact of Brexit on both local government funding and future legislation. These impacts could turn out to be either positive or negative overall but are likely to affect the Council's key budget factors such as interest and inflation rates, labour costs and property and rental values. This could also lead to additional demand on Council service and a depression in the value of the Council's commercial investments and subsidiaries.

Prior to the 31st March 2018, the Council had been approached to provide financial and practical support to the company which is responsible for the operation of the Vauxhall plant in Luton. Since this time further due diligence has been carried out, and as a result a substantial commitment has been agreed in principal, to support the company and maintain economic regeneration in the region.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT NOTES

NOTE 6) EXPENDITURE AND FUNDING ANALYSIS

2017/18 is the second year of the Expenditure and Funding Analysis note. This note demonstrates how the funding available to the Council for the year 2017/18 been used to provide services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under GAAP is presented more fully in the **Comprehensive Income and Expenditure Statement**.

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
6,035	7	6,042	**Chief Executive**	2,908	339	3,247
35,131	5,859	40,990	**Place and Infrastructure**	30,736	13,929	44,665
12,996	(15)	12,981	**Customer and Commercial**	10,737	1,456	12,193
13,366	(1,480)	11,886	**Public Health, Commissioning & Procurement**	12,387	(134)	12,252
103,899	814	104,713	**People**	112,829	3,296	116,125
3,570	788	4,358	**Schools Individual Budgets**	(2,638)	5,062	2,424
(1,777)	(18,101)	(19,878)	**Housing Revenue Account**	(466)	655	189
(44,792)	44,141	(651)	**Other Corporate Accounts**	(38,785)	37,914	(874)
128,428	**32,013**	**160,441**	**Net Cost of Services**	**127,708**	**62,516**	**190,222**
(135,938)	(10,032)	(145,970)	Other Income & Expenditure	(131,600)	(35,136)	(166,736)
(7,510)	**21,981**	**14,471**	**(Surplus) or Deficit**	**(3,893)**	**27,380**	**23,486**
(79,592)			**Opening General Fund & HRA Balance**	**(87,102)**		
(7,510)			Movement In Year	(3,893)		
(87,102)			**Closing General Fund & HRA Balance**	**(90,995)**		

The movement in year is split between the General Fund and Housing Revenue Account within the **Movement in Reserves Statement**.

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NOTE 6A) EXPENDITURE AND FUNDING ANALYSIS (CONTINUED)

Adjustments from the General Fund to the amounts presented in the **Comprehensive Income and Expenditure Statement**:

2016/17 Adjustments for Capital Purposes (Note 1) £000	2016/17 Net change for the Pensions Adjustment (Note 2) £000	2016/17 Other Differences (Note 3) £000	2016/17 Total Adjustment £000	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	2017/18 Adjustments for Capital Purposes (Note 1) £000	2017/18 Net change for the Pensions Adjustment (Note 2) £000	2017/18 Other Differences (Note 3) £000	2017/18 Total Adjustment £000
0	74	(67)	7	Chief Executive	0	435	(96)	339
0	(84)	5,943	5,859	Place and Infrastructure	0	2,017	11,912	13,929
0	106	(121)	(15)	Customer and Commercial	0	2,288	(832)	1,456
0	(1,480)	0	(1,480)	Public Health, Commissioning & Procurement	0	(134)	0	(134)
0	699	115	814	People	0	3,411	(115)	3,296
0	788	0	788	Schools Individual Budgets	0	5,738	(676)	5,062
(13,287)	(123)	(4,691)	(18,101)	Housing Revenue Account	7,213	263	(6,821)	655
26,378	1,245	16,518	44,141	Other Corporate Accounts	18,967	0	18,947	37,914
13,091	**1,225**	**17,697**	**32,013**	**Net Cost of Services**	**26,180**	**14,017**	**22,320**	**62,516**
1,691	10,650	(22,373)	(10,032)	Other income and expenditure from the Expenditure and Funding Analysis	(21,027)	10,383	(24,492)	(35,136)
14,782	**11,875**	**(4,676)**	**21,981**	**Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services**	**5,152**	**24,400**	**(2,172)**	**27,380**

Other income and expenditure represents the income and expenditure included in the **Comprehensive Income and Expenditure Statement** outside of the Net Cost of Services, and is explained in more detail in the following ***Notes 8, 9 and 10.***

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Note 1 – Capital accounting charges and financing, including; Depreciation, Amortisation, Revaluations, Revenue Expenditure Funded Capital Under Statute (REFCUS), Disposals, Capital Receipts, Minimum Revenue Provision (MRP), Major Repairs Allowance, Direct Revenue Financing and Capital Grants & Contributions.

Note 2 – IAS19 pension adjustments. This includes the accounting adjustments to remove historical deficit contributions and to recognise financing costs and returns for the financial year.

Note 3 – Other accounting adjustments, including; Employee Benefits Accrual, Financial Instruments Accounting Adjustments and Collection Fund Accounting Adjustments. In addition to these accounting adjustments all transfers out of the Net Cost of Services to the Other Income and Expenditure line is incorporated in this column.

The below table illustrates the material items of income and expenditure included in **Net Expenditure Chargeable to the General Fund and HRA Balances** column of the Expenditure Funding Analysis.

2016/17 Depreciation, amortisation, impairment £000	Fees & Charges £000	Internal Recharges £000	Segmental Analysis	2017/18 Depreciation, amortisation, impairment £000	Fees & Charges £000	Internal Recharges £000
1,751	(432)	(12,817)	Chief Executive	1,800	(588)	(15,612)
13,242	(23,309)	(28,428)	Place and Infrastructure	7,379	(26,209)	(28,988)
365	(18,985)	(38,716)	Customer and Commercial	422	(20,655)	(42,850)
1,867	(3,342)	(3,554)	Public Health, Commissioning & Procurement	1,912	(756)	(2,872)
14,851	(22,992)	(6,964)	People	15,919	(37,806)	(7,496)
0	(9,782)	(6,311)	Schools Individual Budgets	0	(8,521)	(4,520)
(1,593)	(38,454)	(526)	Housing Revenue Account	18,994	(38,351)	(128)
445	(3,242)	(1,882)	Other Corporate Accounts	445	(1,216)	(3,131)
30,928	**(120,538)**	**(99,198)**	**Total**	**46,871**	**(134,101)**	**(105,596)**

The significant change year on year on ‘Depreciation, amortisation and impairment’ on the Housing Revenue Account is primarily due to an £18m change in HRA Property, Plant and Equipment revaluation (£11.997 million gain in 2016/17 to a £6.321 million loss in 2017/18) and an £2m change in HRA Investment Properties revaluation (£0.177 million loss in 2016/17 to a £2.167 million loss in 2017/18).

The significant change year on year on ‘Fees and charges’ on the People section is primarily due to much higher income levels from outside bodies for Learning Disabilities and Section 31 purchased care.

NOTE 7) EXPENDITURE AND INCOME ANALYSED BY NATURE

Total expenditure has increased between years mainly due to capital charges relating to disposals, revaluations and depreciation.

Government grants and contributions have fallen year on year but the Council continues to maximise such revenue streams wherever possible.

Interest and investment income has increased between years due to the increased LLAL dividend for 2017/18 of £19.500 million (£17.800 million 2016/17).

* Employee benefits expenses include £30.094 million (£27.413 million in 2016/17) of employee costs for staff not employed by the Council. This represents the staffing costs of the 9 maintained schools (8 in 2016/17) which have Voluntary Aided or Foundation status.

** Internal recharges include all central support cost, internal trading and other inter department charging.

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

2016/17 £000		2017/18 £000
	Expenditure	
235,761	Employee benefits expenses*	250,028
362,405	Other services expenses	370,187
42,065	Support service recharges	55,063
30,928	Depreciation, amortisation, impairment	46,871
11,983	Interest payments	12,092
112	Precepts and levies	113
658	Payments to Housing Capital Receipts Pool	651
32,574	Gain on the disposal of assets	(3,611)
716,485	**Total expenditure**	**731,392**
(99,198)	Internal recharges**	(105,596)
617,288	**Total expenditure**	**625,796**
	Income	
(120,538)	Fees, charges and other service income	(134,101)
(22,186)	Interest and investment income	(24,458)
(111,378)	Income from council tax, non-domestic rates	(112,969)
(348,714)	Government grants and contributions	(330,783)
(602,816)	**Total income**	**(602,311)**
14,471	**Surplus or Deficit on the Provision of Services**	**23,486**

NOTE 8) OTHER OPERATING EXPENDITURE

Other operating Expenditure reported includes all levies payable, total payments made to the Government Housing Receipts Pool in line with statutory arrangements for certain property sales within the Housing Revenue Account and gains/losses generated from in year disposals of non-current assets.

The significant loss in the previous financial year was due to the disposal of Challney Girls School (£22.8 million) and Putteridge High School (£12.4 million) assets who converted to academy status. No Council schools converted to academy status within 2017/18.

31/03/2017 £000		31/03/2018 £000
112	Levies	113
658	Payments to the Government Housing Capital Receipts Pool	651
32,574	Gains/losses on the disposal of non-current assets	(3,611)
33,344	**Total**	**(2,848)**

NOTE 9) FINANCING AND INVESTMENT INCOME AND EXPENDITURE

Financing and investment income and expenditure includes interest receivable and payable on the Council's investment portfolio. The Council's net rental income on the properties it holds purely for investment purposes is also included. It also includes the interest element of the pension fund liability.

The dividend received from the Council's wholly owned subsidiary, London Luton Airport Ltd, increased by £1.700 million between financial years to create a total dividend of £19.500 million for 2017/18 (£17.800 million 2016/17).

31/03/2017 £000		31/03/2018 £000
11,983	Interest payable and similar charges	12,092
10,650	Net interest on the net defined benefit liability	10,383
(4,386)	Interest receivable and similar income	(4,958)
(6,604)	Income and expenditure in relation to investment properties and changes in their fair value ***(Note 24)***	(10,744)
(17,800)	Dividends receivable	(19,500)
(1,469)	Trading and other investment activities ***(Note 19)***	974
(7,626)	**Total Financing and Investment Income and Expenditure**	**(11,752)**

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NOTE 10) TAXATION AND NON-SPECIFIC GRANT INCOME

This note consolidates all non-specific grants and contributions receivable that cannot be directly attributable to service expenditure and therefore not included in the gross income amount relevant to the service area. All capital grants and contributions are credited to non-specific grant income even if service specific. The note also identifies the Council's proportion of council tax and business rates used to fund in year service activities.

In line with Central Government austerity measures, the Council's Central Government funding, titled Revenue Support Grant, has reduced by £7.667 million between years.

31/03/2017 £000		31/03/2018 £000
(64,712)	Council Tax income	(68,224)
(35,825)	Non-domestic rates	(31,186)
(10,841)	Non-domestic rates Top Up Payment	(13,559)
(28,769)	Revenue Support Grant	(21,102)
(3,920)	New Homes Bonus	(3,074)
(1,441)	S31 Business Rates Compensation	(2,651)
(114)	Other grants	0
(26,066)	Capital grants and contributions	(12,340)
(171,688)	**Total Taxation and Non Specific Grant Income**	**(152,136)**

Capital grants and contributions are analysed in more detail below:

31/03/2017 £000	Capital grants and contributions	31/03/2018 £000
(3,685)	Capital Grants -School Condition Allocation	(2,621)
(11,716)	Other Capital Grants - Education	(4,015)
(710)	Devolved Formula Capital	(1,098)
(2,788)	Local Transport Plan Block Allocation Grant	(2,779)
(2,146)	Wardown Park Museum Development Grant	0
(1,672)	Other Government Grants (<£1m)	(866)
(299)	Other Non-Government Grants (<£1m)	(253)
(1,849)	s106 Developers' Contributions	(583)
(1,201)	Luton Dunstable Busway Contributions	(126)
(26,066)	**Total Capital Grants and Contributions**	**(12,340)**

External funding recognised to fund the Capital Programme in 2017/18 has decreased by £13.726 million in comparison to 2016/17.

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NOTE 11) GRANT INCOME CREDITED TO SERVICES

ACCOUNTING POLICY

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 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, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

The Council credited the following grants, contributions and donations to the Net Cost of Services within the Comprehensive Income and Expenditure Statement in 2017/18:

31/03/2017 £000		31/03/2018 £000
	Revenue Grants Credited to Services	
(154,067)	Dedicated Schools Grant	(153,224)
(55,391)	Rent Allowances	(54,280)
(30,252)	Rent Rebates	(27,360)
(16,194)	Public Health Grant (main)	(15,788)
(9,305)	Pupil Premium Grant	(8,720)
(2,630)	Education Services Grant	(816)
(2,811)	Challney Girls PFI - EFA Funding	(2,811)
(2,701)	Infant Free School Meals Grant	(2,678)
(1,668)	Weekly Collection Support Scheme	(1,068)
(1,170)	HB Admin subsidy	(1,098)
(635)	Troubled Families Initiative	(747)
(594)	Disc. Rent All. Ben. Sub. (previously "other")	(1,085)
0	Homelessness Support Grant	(2,728)
0	Improved Better Care Fund	(3,844)
(573)	Unaccompanied Asylum Seeker Grant (previously "other")	(1,033)
0	Adult Learning- Education Skills Fund	(2,092)
(9,209)	Other Grants & Contributions	(10,482)
(287,200)	**Total Revenue Grants Credited to Services**	**(289,853)**
	Capital Grants Credited to Services	
(1,035)	Disabled Facilities Grant	(1,201)
(108)	Other Contributions to House Renovation Grants	(144)
(61)	Other Capital Grants - Education	(417)
(1,204)	**Total Capital Grants Credited to Services**	**(1,762)**
(288,404)	**Total Grants Credited to Services**	**(291,616)**

NOTE 12) DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) from the Department for Education. An element of DSG is recouped by the Department to fund academy schools in the Council's area. The grant can only be applied to meet net expenditure properly included with the ring-fenced schools budget, as defined in the Schools Finance (England) Regulations 2011. The schools budget includes the Individual Schools Budget, which is divided into a budget for each school and a budget for a range of services provided on a council wide basis. The two elements are required to be accounted for on a separate basis.

Details of the deployment of DSG receivable for 2017/18 are as follows:

2016/17 Central Expenditure £000	2016/17 Individual Schools Budgets £000	2016/17 Total £000		2017/18 Central Expenditure £000	2017/18 Individual Schools Budgets £000	2017/18 Total £000
21,948	186,121	208,069	Final DSG before Academy Recoupment	27,253	190,265	217,518
	(54,671)	(54,671)	Academy figure recouped	0	(64,132)	(64,132)
21,948	**131,450**	**153,398**	**Total DSG after Academy Recoupment**	**27,253**	**126,133**	**153,386**
1,666		1,666	Brought forward from previous year	1,123	0	1,123
		0	Carry-forward to next year agreed in advance	0	0	0
23,614	**131,450**	**155,064**	**Agreed initial budgeted distribution in this year**	**28,376**	**126,133**	**154,509**
125		125	In year adjustments	(162)	0	(162)
23,739	**131,450**	**155,189**	**Final budgeted distribution for this year**	**28,214**	**126,133**	**154,347**
(22,616)		(22,616)	Actual Central Expenditure for this year	(25,093)	0	(25,093)
	(131,450)	(131,450)	Actual ISB deployed to schools	0	(126,133)	(126,133)
		0	Local authority contribution for this year	0	0	0
1,123	**0**	**1,123**	**DSG Underspend carried forward**	**3,121**	**0**	**3,121**

NOTE 13) MATERIAL ITEMS OF INCOME AND EXPENDITURE

This note identifies material items of income and expenditure.

- £7.350 million upward revaluation of the Housing Revenue Account Council Dwellings, £61.759 million in 2016/17 (see ***Note 23***)
- £20.349 million upward revaluation of educational assets total, £32.500 million in 2016/17. This was based on £1.928 million schools revalued and £18.421 million indexing schools not formally revalued.
- £36.218 million of depreciation has been charged across the General Fund and Housing revenue Account, £39.802 million in 2016/17 (see ***Note 23***)
- £19.5 million dividend from our wholly owned subsidiary, London Luton Airport Ltd, £17.800 million in 2016/17 (see ***Note 9***).

NOTE 14) MEMBER ALLOWANCES

The Council paid the following amounts to members of the Council during 2017/18:

	2016/17 £000	2017/18 £000
Member Allowances	441	441
Member Expenses	4	5
Total	**445**	**446**

NOTE 15) 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 for non-audit services provided by the Council's External Auditors (Ernst & Young LLP) and their previous auditor (Grant Thornton):

	2016/17 £000	2017/18 £000
Fees payable to Ernst & Young LLP with regard to external audit services carried out by the appointed auditor	122	122
Fees payable to Ernst & Young LLP for the certification of grant claims and returns	28	18
Fees payable to Grant Thornton for the certification of grant claims and returns	6	6
External Audit Costs Total	**156**	**147**

No accrual has been made for disputed 2016/17 and 2017/18 audit fees.

NOTE 16) SENIOR OFFICER REMUNERATIONS

The remuneration of senior employees, defined as those who are members of the Corporate Leadership Management Team, those holding statutory posts, or those whose remuneration £150,000 or more per year, was as set out below.

Post Holder		Salary £000	Employers pension contributions £000	Compensation for loss of office £000	Total Remuneration £000
2016/17					
Chief Executive (Trevor Holden)*		205	25	0	**230**
Corporate Director, Customer and Commercial		129	17	0	**146**
Corporate Director, People		129	17	0	**146**
Corporate Director, Place and Infrastructure		119	16	0	**135**
Corporate Director, Public Health, Commissioning and Procurement		114	16	0	**130**
Corporate Director, Housing & Community Living	*Deleted Jun 2016*	30	2	0	**32**
Service Director, Human Resources and Monitoring Officer		86	12	0	**98**
Service Director, Finance and Audit, Section 151 Officer		81	11	0	**92**
Total 2016/17 Remuneration		**893**	**116**	**0**	**1,009**
2017/18					
Chief Executive (Trevor Holden)*		195	33	0	**228**
Corporate Director, Customer and Commercial		130	22	0	**151**
Corporate Director, People	*Start Jan 2018*	27	4	0	**31**
Corporate Director, People	*Ended Nov 2017*	80	13	0	**93**
Corporate Director, Place and Infrastructure		123	20	0	**143**
Corporate Director, Public Health, Commissioning and Procurement		121	17	0	**137**
Service Director, Human Resources and Monitoring Officer		86	15	0	**101**
Service Director, Finance and Audit, Section 151 Officer		83	14	0	**97**
Total 2017/18 Remuneration		**845**	**138**	**0**	**983**

*Chief Executives' salary for 2017/18 includes election allowances totalling £6,444 (£18,918 in 2016/17).

Due to a restructuring of posts, the role of Corporate Director, Housing & Community Living was deleted in June 2016, so does not occur in 2017/18.

NOTE 16B) OFFICER REMUNERATION BANDINGS

The number of council employees (excluding the Senior Officers shown below) whose remuneration, excluding employer's pension contributions, was £50,000 or more is as follows:

Bandings	2016/17 Council Officers Number	2016/17 Community Schools Number	2016/17 Total Number	2017/18 Council Officers Number	2017/18 Community Schools Number	2017/18 Total Number
£50,000 to £54,999	37	26	**63**	39	29	**68**
£55,000 to £59,999	26	18	**44**	27	19	**46**
£60,000 to £64,999	7	14	**21**	13	13	**26**
£65,000 to £69,999	4	8	**12**	8	10	**18**
£70,000 to £74,999	3	6	**9**	3	7	**10**
£75,000 to £79,999	4	3	**7**	0	3	**3**
£80,000 to £84,999	7	2	**9**	3	2	**5**
£85,000 to £89,999	3	2	**5**	7	1	**8**
£90,000 to £94,999	1	2	**3**	1	2	**3**
£95,000 to £99,999	0	2	**2**	0	1	**1**
£100,000 to £104,999	0	0	**0**	0	1	**1**
£105,000 to £109,999	0	0	**0**	0	0	**0**
£110,000 to £114,999	0	0	**0**	0	0	**0**
Total	**92**	**83**	**175**	**101**	**88**	**189**

Exit package costs are included within the Senior Officer Remuneration note and the Officer Remuneration Banding note. The number and value of exit packages is included in *Note 17*.

The increased number of staff applicable within this note is due primarily to pay awards and increments not more post being created.

NOTE 17) 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 office's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in which the employee worked in the Comprehensive Income and Expenditure Statement.

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 are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable, but unpaid at the year-end.

The Council will recognise a termination benefit at the earlier of the following dates:

- when the authority can no longer withdraw the offer of those benefits, and
- when the authority recognises costs for a restructuring that is within the scope of section 8.2 of the Code and IAS 37 and involves the payment of termination benefits.

The Council terminated the contract of a number of employees in 2017/18, liabilities of £0.748 million (£0.907 million in 2016/17). The exit packages included in the accounts are set out in the table opposite.

Exit Package Cost Band	Number of Exit Packages 2016/17 No.	Number of Exit Packages 2017/18 No.	Cost of Exit Packages 2016/17 £000	Cost of Exit Packages 2017/18 £000
£0 to £20,000	56	69	381	400
£20,001 to £40,000	11	5	318	167
£40,001 to £60,000	4	2	208	93
£60,001 to £80,000	0	0	0	0
£80,001 to £100,000	0	1	0	88
Total	**71**	**77**	**907**	**748**
This consists of:				
Voluntary Exits	31	12	571	127
Compulsory Exits	26	56	222	505
Other Exits	14	9	114	116
Total	**71**	**77**	**907**	**748**

The table includes exit packages relating to schools and external trusts. These exit package costs are all reflected in the Comprehensive Income and Expenditure Statement.

NOTE 18) POOLED BUDGETS

The council has entered into a pooled budget arrangement with NHS Luton Clinical Commissioning Group, in accordance with Section 75 of the National Health Service Act 2006, with any surplus or deficit generated being the responsibility of the respective partner to whom it is attributable to.

In 2017/18 the Council hosted three pooled budgets with NHS Luton; the Better Care Fund (BCF) which now includes the improved BCF (iBCF), the provision of a range of children's services and for the provision of learning disabilities services.

Details of the income and expenditure for each of the pooled budgets are as follows:

Total Expenditure £000	Luton Borough Council £000	NHS Luton £000	2016/17 Net (surplus)/ deficit £000	Pooled Arrangement	Total Expenditure £000	Luton Borough Council £000	NHS Luton £000	2017/18 Net (surplus)/ deficit £000
13,716	(7,171)	(6,545)	**0**	Better Care Fund (including iBCF)	17,925	(9,627)	(8,298)	**0**
3,509	(1,907)	(1,014)	**588**	Children & Young People's Service	2,921	(1,630)	(780)	**511**
353	(204)	(168)	**(19)**	Children Joint Commissioning - Staffing	349	(137)	(137)	**75**
0	0	0	**0**	Children's Public Health Services	289	(274)	(15)	**0**
5,764	(2,266)	(2,857)	**641**	Learning Disability Services – Purchased Care	5,763	(2,988)	(3,785)	**(1,010)**
735	(571)	(251)	**(87)**	Learning Disability Services – Staffing	953	(680)	(273)	**0**
24,077	**(12,119)**	**(10,835)**	**1,123**	**Total**	**28,200**	**(15,336)**	**(13,288)**	**(424)**

In respect of the BCF and iBCF the terms of the section 75 agreement means that contracts are stand-alone with the financial risk being retained by the lead body. Each partner then manages the contracts with their own providers of BCF services and each partner retains any financial risk relating to those contracts.

The BCF is not a separate legal entity and has been accounted for as a pooled budget arrangement (see ***Note 44***), since it is not an entity, joint operation or joint venture. It should be noted that neither party has unilateral control of the BCF, as decisions of the Board need to be made unanimously.

In addition there are a number of joint arrangements with NHS Luton CCG where both parties contribute to integrated services. NHS Luton CCG lead the commissioning of Mental Health services from East London Foundation Trust. The Council's contribution to this in 2017/18 was £1.729 million (£1.727 million 2016/17). The Council also provides 'Equality and Diversity' services to NHS Luton CCG for which the contribution from NHS Luton was £0.028 million in 2017/ 18.

NOTE 19) TRADING AND OTHER INVESTMENT ACTIVITIES

This note incorporates the net (profit) or loss of the Council's trading units and the centrally managed insurance accounts (£0.974 million deficit). The Council's trading units (profit) or loss for 2017/18 is summarised below:

2016/17 Turnover £000	2016/17 Expenditure £000	2016/17 (Surplus)/ Deficit £000	Description	2017/18 Turnover £000	2017/18 Expenditure £000	2017/18 (Surplus)/ Deficit £000
(18,026)	18,250	**224**	Housing maintenance	(20,619)	21,536	**917**
(1,845)	1,640	**(205)**	Insurance	(1,603)	1,817	**214**
(9,281)	9,166	**(115)**	Schools catering service	(9,234)	9,547	**313**
(4,046)	3,716	**(330)**	Property design and maintenance	(3,350)	3,033	**(317)**
(2,481)	2,307	**(174)**	Other trading units	(2,520)	2,367	**(153)**
(35,679)	**35,079**	**(600)**	**Total**	**(37,326)**	**38,300**	**974**
0	**(869)**	**(869)**	**Credit approval arrangements**	**0**	**0**	**0**
(35,679)	**34,210**	**(1,469)**	**Total**	**(37,326)**	**38,300**	**974**

The £0.917 million deficit of 'Housing maintenance' is due to £1.240 million accounting adjustments, predominantly £1.190 million for pensions. Without these the service would have made a surplus.

For 2017/18 the 'Property Design and Maintenance has been partially re-assessed as not meeting the terms of the Code to be classified as a trading operation, no prior period adjustment has been made based on the immateriality of the 2016/17 amount (£0.7 million net).

For 2017/18 the 'Credit Approval Arrangements' has been re-assessed as not meeting the terms of the Code to be classified as a trading operation, no prior period adjustment has been made based on the immateriality of the 2016/17 amount (a £0.869 million credit only).

MOVEMENT IN RESERVES STATEMENT SUPPORTING NOTES

NOTE 20) 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.

2016/17 General Fund Reserves £000	2016/17 Housing Revenue Account £000	2016/17 Major Repairs Reserve £000	2016/17 Capital Receipts Reserve £000	2016/17 Capital Grants Unapplied £000	2016/17 Unusable Reserves £000		2017/18 General Fund Reserves £000	2017/18 Housing Revenue Account £000	2017/18 Major Repairs Reserve £000	2017/18 Capital Receipts Reserve £000	2017/18 Capital Grants Unapplied £000	2017/18 Unusable Reserves £000
						Rev. of Accounting Charges for Capital						
(29,575)	(10,227)	0	0	0	39,802	Charges for depreciation and impairment of non-current assets	(25,711)	(10,506)	0	0	0	36,218
(324)	0	0	0	0	324	Amortisation of intangible assets	(261)	0	0	0	0	261
(3,292)	11,997	0	0	0	(8,705)	Revaluation losses on Property, Plant and Equipment	(7,300)	(6,321)	0	0	0	13,621
671	(177)	0	0	0	(494)	Movements in the market value of Investment Properties	5,396	(2,167)	0	0	0	(3,229)
(2,443)	0	0	0	0	2,443	Revenue Expenditure funded Capital under Statute	(2,192)	0	0	0	0	2,192
(35,927)	(5,498)	0	0	0	41,425	Non-current assets written off on disposal or sale as part of the gain/loss on disposal	(4,288)	(5,573)	0	4	0	9,858

2016/17 General Fund Reserves £000	2016/17 Housing Revenue Account £000	2016/17 Major Repairs Reserve £000	2016/17 Capital Receipts Reserve £000	2016/17 Capital Grants Unapplied £000	2016/17 Unusable Reserves £000		2017/18 General Fund Reserves £000	2017/18 Housing Revenue Account £000	2017/18 Major Repairs Reserve £000	2017/18 Capital Receipts Reserve £000	2017/18 Capital Grants Unapplied £000	2017/18 Unusable Reserves £000
						External Capital Financing Adjustments						
21,737	226	0	0	0	(21,963)	Capital grants and contributions applied to CAA	8,605	437	0	0	0	(9,042)
5,370	0	0	0	(5,370)	0	Capital grants and contributions unapplied recognised in year	5,060	0	0	0	(5,060)	0
0	0	0	0	6,760	(6,760)	Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	6,570	(6,570)
1,425	7,550	0	(8,975)	0	0	Transfer of cash sale proceeds credited as part of the gain/loss on disposal	7,437	6,128	0	(13,565)	0	0
0	(124)	0	124	0	0	Contribution from the Capital Receipts Reserve towards administrative costs of disposals	0	(92)	0	92	0	0
(658)	0	0	658	0	0	Contribution from Capital Receipts to be paid to the government capital receipts pool	(651)	0	0	651	0	0
0	0	0	(1,017)	0	1,017	Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	(5)	0	5
0	0	0	3,098	0	(3,098)	Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	10,867	0	(10,867)

2016/17 General Fund Reserves £000	2016/17 Housing Revenue Account £000	2016/17 Major Repairs Reserve £000	2016/17 Capital Receipts Reserve £000	2016/17 Capital Grants Unapplied £000	2016/17 Unusable Reserves £000		2017/18 General Fund Reserves £000	2017/18 Housing Revenue Account £000	2017/18 Major Repairs Reserve £000	2017/18 Capital Receipts Reserve £000	2017/18 Capital Grants Unapplied £000	2017/18 Unusable Reserves £000
						Capital Financing Requirement Funding						
9,034	0	0	0	0	(9,034)	Statutory prov. for repayment of debt	9,288	0	0	0	0	(9,288)
371	0	0	0	0	(371)	Statutory provision for repayment of debt (PFI)	366	0	0	0	0	(366)
3,390	1,729	0	0	0	(5,119)	Capital expenditure charged against the General Fund and HRA balances	5,413	1,603	0	0	0	(7,015)
0	9,965	(9,965)	0	0	0	Reversal of Major Repairs Allowance credited to the HRA	0	10,178	(10,178)	0	0	0
0	0	8,832	0	0	(8,832)	Use of the Major Repairs Reserve to finance new capital expenditure	0	0	9,585	0	0	(9,585)
						Other Statutory Adjustments						
(8)	7	0	0	0	1	Amount by which finance costs differ from costs chargeable (statute)	59	5	0	0	0	(64)
(32,414)	(325)	0	0	0	32,739	Reversal of items relating to retirement benefits debited or credited to the statement	(45,817)	(1,044)	0	0	0	46,861
20,654	207	0	0	0	(20,861)	Employer's pensions contributions and direct payments to pensioners payable in the year	21,912	550	0	0	0	(22,462)
4,208	0	0	0	0	(4,208)	Council Tax and NNDR income credited differs from income calculated in accordance with statute	2,471	0	0	0	0	(2,471)
452	18	0	0	0	(470)	Officer remuneration charged on an accruals basis differs from amount chargeable under statute	(348)	(15)	0	0	0	362
(37,329)	**15,348**	**(1,133)**	**(6,112)**	**1,390**	**27,836**	**Total Statutory Adjustments**	**(20,561)**	**(6,818)**	**(593)**	**(1,956)**	**1,509**	**28,418**

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NOTE 21) TRANSFER TO/FROM GENERAL FUND & HOUSING REVENUE ACCOUNT

This note reconciles the amounts transferred to and from the General Fund and Housing Revenue Account balances, including transfers to and from named earmarked reserves. Earmarked reserves provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and Housing Revenue Account expenditure.

Reserves Description	Balance at 1 April 2016 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2017 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2018 £000
General Fund							
General Fund Reserve	**(14,021)**	**0**	**0**	**(14,021)**	**0**	**0**	**(14,021)**
Earmarked Reserves							
Invest to Save Reserve	**(3,990)**	1,379	(1,899)	**(4,511)**	16	(704)	**(5,199)**
Specific Risk Management Reserve	**(2,970)**	0	0	**(2,970)**	0	0	**(2,970)**
Service Provision Reserve	**(1,871)**	770	(4,033)	**(5,134)**	2,434	(2,860)	**(5,560)**
Butterfield Profit Share Reserve	**(884)**	200	(153)	**(837)**	79	(281)	**(1,039)**
Recession & Welfare Benefits Reserve	**(1,486)**	15	0	**(1,471)**	0	0	**(1,471)**
Reorganisation Reserve	**(4,137)**	211	(917)	**(4,843)**	3,125	0	**(1,718)**
Major Projects Reserve	**(8,362)**	0	0	**(8,362)**	0	0	**(8,362)**
Insurance Reserve	**(2,784)**	0	(205)	**(2,989)**	214	0	**(2,775)**
Capital Reserve	**(752)**	298	0	**(454)**	0	(80)	**(534)**
Pension Fund Reserve	**(4,459)**	0	(1,425)	**(5,884)**	117	0	**(5,767)**
Public Health Reserve	**(757)**	757	(376)	**(376)**	0	(61)	**(437)**
Investment Reserve	**(1,799)**	599	0	**(1,200)**	284	0	**(916)**
Funding Equalisation Reserve	**(1,037)**	0	(5,066)	**(6,103)**	853	(1,024)	**(6,274)**
Specific Service Reserve	**(1,265)**	542	0	**(723)**	11	(18)	**(730)**
Luton Investment Framework Reserve	**0**	0	0	**0**	149	(2,900)	**(2,751)**
Cremator Mercury Emissions Reserve	**0**	0	0	**0**	28	(171)	**(144)**
Other Reserves	**(196)**	0	0	**(196)**	0	0	**(196)**
Earmarked Reserves Total	**(36,749)**	**4,771**	**(14,074)**	**(46,052)**	**7,309**	**(8,099)**	**(46,843)**
School Reserves	**(20,417)**	**3,570**	**0**	**(16,847)**	**2,413**	**(5,050)**	**(19,484)**
General Fund Total	**(71,187)**	**8,341**	**(14,074)**	**(76,920)**	**9,723**	**(13,149)**	**(80,348)**

Reserves Description	Balance at 1 April 2016 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2017 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2018 £000
Housing Revenue Account							
HRA General Balance	**(8,189)**	**0**	**(122)**	**(8,311)**	**0**	**0**	**(8,311)**
HRA Earmarked Reserves							
Legal Disputes Reserve	**(217)**	0	(52)	**(269)**	0	0	**(269)**
Revenue Contributions to Capital	**0**	0	(1,602)	**(1,602)**	1,603	(2,069)	**(2,068)**
HRA Earmarked Reserves Total	**(217)**	**0**	**(1,654)**	**(1,871)**	**1,603**	**(2,069)**	**(2,337)**
House Revenue Account Total	**(8,406)**	**0**	**(1,776)**	**(10,182)**	**1,603**	**(2,069)**	**(10,647)**

The **Invest to Save Reserve** is to be utilised for initiatives, which will reduce future revenue costs.

The **Specific Risk Management Reserve** is to actively manage risk management as this becomes increasingly important for all councils. As a result, part of the General Reserve has been earmarked to cover potential loss of income, given the importance to the Council of its trading undertakings.

The **Service Provision Reserve** is earmarked for specific budget carry forward requests from 2017/18 to 2018/19.

The **Butterfield Profit Share Reserve** has been created in accordance with the agreement made with the operator of the Business Innovation Centre, the Council's share of the profit is held in this reserve for economic development.

The **Welfare Reform and Recession Reserve** (formerly the Recession Reserve) is intended for use for one-off developments and initiatives to prepare for and mitigate the impact of Welfare Reform, as well as local issues arising as a consequence of the recession that impact on the Council's key priorities.

The **Reorganisation Reserve** is to enable the Council to cover the costs of reorganisations required as a result of budget decisions. A number of approved savings will involve reducing staff numbers and whilst the council aims to redeploy staff wherever possible, redundancy and early payment of pension may become due. This reserve will be used to pay for such costs as they arise. £2.900 million of the £3.125 million transfer out of this reserve went to the Luton Investment Framework Reserve.

The **Major Projects Reserve** has been established in recognition of the scale of major construction projects, particularly infrastructure projects, being undertaken by the Council, principally on the basis of fixed amounts of grant funding from central government. This also recognises that the conditions of grant could require some repayment. The establishment of such a reserve was a recommendation of the Council's Finance Review Group, who undertake the financial scrutiny function.

The **Insurance Reserve** helps to reduce cost of external insurance by self-insurance of certain risks, the reserve is held against claims, which may be received in future years.

The **Capital Reserve** holds contributions from the Income and Expenditure Account to fund future capital expenditure.

The **Pension Fund Reserve** is earmarked for reducing future pension liabilities and will be paid to the Bedfordshire Pension Fund.

The **Public Health Reserve** is held for supporting public health functions and is a requirement of the Public Health grant.

The **Investment Reserve** was set up to fund specific investment projects. Almost all the funds are committed.

The **Funding Equalisation Reserve** was set up to help address future fluctuations in major income sources such as business rates, new homes bonus & government grants.

The **Specific Service Reserve** was set up for specific services where spend is incurred over more than one year and equalisation is required.

The **Luton Investment Framework Reserve** was set up to promote economic development in the town. The £2.9 million was transferred from the Reorganisation Reserve.

The **Cremator Mercury Emissions Reserve** is earmarked for replacement of cremator equipment.

The **HRA Revenue Contributions to Capital Reserve** was created to hold HRA revenue contributions which have been set-a-side for specific future HRA capital schemes.

NOTE 22) UNUSABLE RESERVES

31/03/2017 £000		31/03/2018 £000
(234,583)	Revaluation Reserve (note 22a)	(267,313)
(631,918)	Capital Adjustment Account (note 22b)	(634,828)
392,653	Pensions Reserve (note 22c)	401,855
1,159	Financial Instruments Adj. Account (note 22d)	1,095
(16,943)	Deferred Capital Receipts (note 22e)	(16,938)
(923)	Collection Fund Adjustment Account (note 22f)	(3,394)
2,261	Accumulated Leave Reserve (note 22g)	2,623
(488,294)	**Total Unusable Reserves**	**(516,900)**

All unusable reserves are described below; the movements in year for all reserves with a material balance are also disclosed.

NOTE 22A) REVALUATION RESERVE

The Revaluation Reserve includes 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.

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

31/03/2017 £000		31/03/2018 £000
(146,464)	**Opening Balance**	**(234,583)**
(2,175)	Opening Balance Adjustment	0
(148,639)	**Adjusted Opening Balance**	**(234,583)**
(101,127)	Upward revaluation of assets	(50,626)
5,748	Downward revaluation of assets	8,799
(95,379)	**(Surplus) or deficit on revaluation of non-current assets**	**(41,827)**
9,435	Amount written off to the CAA	9,097
(234,583)	**Closing Balance**	**(267,313)**

NOTE 22B) CAPITAL ADJUSTMENT ACCOUNT

	31/03/2017			31/03/2018
£000	£000		£000	£000
	(644,365)	**Opening Balance**		**(631,918)**
	2,263	Opening Balance Adjustment*		0
	(642,102)	**Adjusted Opening Balance**		**(631,918)**
		Reversal of capital charges debited or credited to the CIES:		
39,802		Charges for depreciation and impairment of non-current assets	36,218	
2,443		Revenue expenditure funded from capital under statute	2,192	
324		Amortisation of intangible assets	261	
41,425		Non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the CIES	9,858	
(8,705)		Revaluation losses on Property, Plant and Equipment	13,621	
(494)		Movements on Investment Properties	(3,230)	
	74,795	**Total reversal of capital charges debited or credited to the CIES**		**58,920**
	(9,435)	Adjusting amounts written out of the Revaluation Reserve		(9,097)
	65,360	**Net written out amount of the cost of non-current assets consumed in the year**		**49,823**
		Capital financing applied in the year:		
(3,098)		Use of the Capital Receipts Reserve to finance new capital expenditure	(10,867)	
(8,832)		Use of the Major Repairs Reserve to finance new capital expenditure	(9,585)	
(21,963)		Capital grants and contributions credited to the CIES that have been applied to capital financing	(9,042)	
(6,760)		Application of grants to capital financing from the Capital grants Unapplied Account	(6,570)	
(9,034)		Minimum Revenue Provision	(9,288)	
(371)		Minimum Revenue Provision (PFI)	(366)	
(5,118)		Capital expenditure charged against the general Fund and HRA balance	(7,015)	
	(55,176)	**Total capital financing applied in year**		**(52,733)**
	(631,918)	**Closing Balance**		**(634,828)**

* There was a 2016/17 opening balance adjustment for the Multi-Functional Device restatement of £0.088 million and the write off of unreconciled Revaluation Reserve balances to the Capital Adjustment Account. This was created by misstated transactions in prior years. The £2.175 million adjustment did not warrant a prior period adjustment.

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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 element of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before April 2007, the date that the Revaluation Reserve was created to hold such gains.

NOTE 22C) 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 pay any pension 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 are due for payment.

31/03/2017 £000		31/03/2018 £000
303,904	**Opening Balance**	**392,653**
32,739	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	46,861
(20,861)	Actual amount charged against the General Fund Balance for pensions in the year	(22,461)
11,878	**Total Movement in Reserves transfers to reserve**	**24,400**
76,871	Re-measurements of the net defined benefit liability debited or credited to Other Comprehensive Income & Expenditure Statement	(15,198)
392,653	**Closing Balance**	**401,855**

Further information on the Pension Fund assets / liabilities can be found ***Note 33***.

NOTE 22D) FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid and discounts received on the early redemption of loans. Premiums are debited and discounts are credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the

General Fund Balance and Housing Revenue Account to the Account in the Movement in Reserves Statement. Over time, the net expense is posted back to the General Fund and Housing Revenue Account balances in accordance with statutory arrangements.

NOTE 22E) DEFERRED CAPITAL RECEIPTS

This 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.

31/03/2017 £000	Deferred Capital Receipts	31/03/2018 £000
(17,960)	**Opening Balance**	**(16,943)**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	0
1,017	Transfer to the Capital Receipts Reserve upon receipt of cash	5
(16,943)	**Closing Balance**	**(16,938)**

NOTE 22F) COLLECTION FUND ADJUSTMENT ACCOUNT

This reserve 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 from taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31/03/2017 £000	Collection Fund Adjustment Account	31/03/2018 £000
3,286	**Opening Balance**	**(923)**
(2,097)	Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(223)
(2,112)	Amount by which non-domestic rates income credited to the CIES is different from non-domestic rates income calculated for the year in accordance with statutory requirements	(2,248)
(923)	**Closing Balance**	**(3,394)**

Please refer the Collection Fund Statements for more information.

NOTE 22G) ACCUMULATED ABSENCES ACCOUNT

This reserve absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

There has been a £0.362 million increase in the 2017/18 statement value.

BALANCE SHEET SUPPORTING NOTES

NOTE 23) PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

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

Recognition

Expenditure on the acquisition of, 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. routine repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Property, Plant and Equipment is capitalised if it is capable of being used for more than one year and items individually have a cost of at least £10,000. They are also capitalised if collectively they have a cost of at least £10,000, where the assets are functionally interdependent, they have broadly simultaneous purchase dates and expected disposal dates and are under single managerial control.

Assets are initially valued 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 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 a Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction - historical cost net of depreciation (community assets are not depreciated).
- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH) on the basis laid down by the DCLG, i.e. open market value less a specified notified percentage known as the social housing discount.
- Council offices – current value, determined as the amount that would be paid in its existing use (existing use value), except for a few offices that are situated close to the council's housing properties, where there is no market

for office accommodation and that are measured at depreciated replacement cost (instant build) as an estimate of current value

- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost, which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (i.e. the cost of reconstructing the building on a modern equivalent basis less accumulated depreciation), is used as an estimate of fair value.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the 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 by:

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

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

Impairment

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

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

- If 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).
- If there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

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

Depreciation is calculated on the following bases:

- Buildings - on a straight–line basis over their estimated useful lives. Assets are depreciated over forty years, unless a different period is advised by the Council's Valuer.
- Housing properties (dwelling and non-dwelling) - in accordance with guidelines the Housing Revenue Account is charged an amount equivalent to the depreciation charged on a straight line basis over its estimated useful lives. The Council no longer uses the Major Repairs Allowance as a proxy for Housing dwelling depreciation.
- Infrastructure - depreciated on the straight-line method using asset lives of up to sixty years.
- Vehicles & Equipment - depreciated on a 25% reducing balance method.

From 2017/18 the Council will no longer depreciated for part years based on date of purchase. The Council's policy is to depreciate in full years only. Although assets in the course of construction are not depreciated until the year in which they are brought into use. The 2016/17 accounts included £1.749 million within the total depreciation of £39.731 million, as part year depreciation.

Where an item of Property, Plant and Equipment asset has a new major component after 1 April 2010 whose cost is significant in relation to the total cost of the item, the component will be depreciated separately. Where significant, components of existing assets are identified as part of the revaluation process.

Where a component 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 amount. This recognition and de-recognition takes place regardless of whether the replaced part had been depreciated separately. The de-minimis level for this recognition and de-recognition is £150,000 (based on the capital expenditure of the new component).

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

The CIES therefore fully reflects the use of assets and the consumption of their economic benefits in the provision of services.

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.

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

Componentisation

The Code requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Within the Council's asset portfolio there are a number of asset classes where componentisation will not be considered, including:

- Equipment – as this is considered immaterial
- Asset classes which are not depreciated – such as land, investment property, heritage assets, community assets, surplus assets and assets held for sale.

The remaining assets, which are contained with the operational portfolio, are often of a specialised nature such as schools and leisure centres. The Council requires the valuation specialists to provide component information for each asset which is then reviewed to assess if inclusion of different components will have a material impact on depreciation.

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 in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

Interest Capitalisation

The Council's accounting policy includes the capitalisation of borrowing costs for qualifying assets as it better reflects the costs of property, plant and equipment and helps ensure that those benefiting from the use of the asset meet those costs.

In applying the accounting policy, the Council has identified that the only scheme which meets the qualifying asset definition is currently the Direct Air Rail Transit scheme being developed by LLAL.

The council's definition of a qualifying asset is an asset that incurs a material amount of debt interest cost during the construction of the asset.

Borrowing costs for non-qualifying assets are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the financial year in which they were incurred.

Effects of Changes in Estimates

In 2017/18 the Council made the decision to no longer depreciate non-current assets for part years from the date of purchase, this is a change in the accounting estimates.

Within the 2016/17 depreciation figure of £39.731 million under the policy of full and part calculations, the split was;

- £37.982 million full years (95.6%)
- £1.749 million part years (4.4%)

This change in estimation technique is considered immaterial at 4.4% of the depreciation total, so has not been retrospectively applied and restated in the 2016/17 accounts.

The change in estimation technique will still materially reflect the asset use, as per Code requirements on this issue.

In 2017/18 the ability to the Major Repairs Allowance (MRA) as a proxy for the annual depreciation charge for the HRA dwellings was removed. There has been the need to develop a new methodology to calculate the annual depreciation charge. The methodology is based on a 70:30 buildings to land ratio, an average cost of all significant components (assumed to be halfway through their lives) and a 60 year residual structure assumption. Using this revised methodology the 2017/18 depreciation charge is £10.178 million. This is estimated to be approximately 4% higher than the previous MRA Proxy calculation.

Movements in Property, Plant & Equipment during 2017/18	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in PPE £000
Cost or Valuation									
At 1 April 2017	**452,039**	**426,593**	**55,450**	**252,606**	**8,790**	**8,014**	**25,971**	**1,229,464**	**0**
Embedded lease adjustment	0	0	0	0	0	0	0	**0**	0
Additions	10,006	14,342	6,790	6,252	22	126	11,689	**49,226**	0
Depreciation written out on revaluation	(10,208)	(7,395)	0	0	0	0	0	**(17,603)**	0
Revaluation increases/ (decreases) to RR	14,360	26,331	0	0	0	1,071	0	**41,762**	0
Revaluation increases/ (decreases) to the CIES	(7,006)	(7,300)	0	0	0	685	0	**(13,621)**	0
Derecognition – disposals	(4,598)	(4,828)	(8,669)	(50,616)	0	(1,680)	0	**(70,391)**	0
Derecognition – other	0	(208)	(6)	0	0	0	0	**(214)**	0
Reclassifications- (to)/from other non-current assets	0	594	0	0	(32)	0	(4,119)	**(3,557)**	0
Other movements in cost or valuation	9,901	(1,576)	1,035	0	0	4,460	(13,820)	**(0)**	0
At 31 March 2018	**464,495**	**446,553**	**54,600**	**208,242**	**8,780**	**12,676**	**19,721**	**1,215,066**	**0**
Accumulated Depreciation & Impairment									
At 1 April 2017	**0**	**(17,485)**	**(35,019)**	**(78,007)**	**0**	**0**	**0**	**(130,512)**	**0**
Embedded lease adjustment	0	0	0	0	0	0	0	**0**	0
Depreciation charge	(10,205)	(12,295)	(5,418)	(8,299)	0	0	0	**(36,218)**	0
Depreciation written out on revaluation	10,208	7,395	0	0	0	0	0	**17,603**	0
Derecognition – disposals	0	1,564	8,538	50,616	0	75	0	**60,793**	0
Derecognition – other	0	14	6	0	0	0	0	**20**	0
Assets reclassified within PPE	(2)	80	0	0	0	(78)	0	**0**	0
At 31 March 2018	**1**	**(20,727)**	**(31,893)**	**(35,690)**	**0**	**(3)**	**0**	**(88,314)**	**0**
Net Book Value at 31 March 2017	**452,039**	**409,108**	**20,431**	**174,599**	**8,790**	**8,014**	**25,971**	**1,098,952**	**0**
Net Book Value at 31 March 2018	**464,495**	**425,826**	**22,707**	**172,551**	**8,780**	**12,673**	**19,721**	**1,126,752**	**0**

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Movements in Property, Plant & Equipment during 2016/17	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in PPE £000
Cost or Valuation									
At 1 April 2016	**398,466**	**402,193**	**57,182**	**258,943**	**8,327**	**5,635**	**14,408**	**1,145,154**	**25,061**
Opening adjustment	0	20,512	(10,608)	(9,266)	0	3	0	**641**	0
At 1 April 2016 (revised)	**398,466**	**422,705**	**46,574**	**249,677**	**8,327**	**5,638**	**14,408**	**1,145,795**	**25,061**
Embedded lease adjustment		0	2,447	0	0	0	0	**2,447**	0
Additions	9,044	13,184	8,910	1,262	463	0	25,363	**58,226**	54
Depreciation written out on revaluation	(9,768)	(23,690)	0	0	0	(162)	0	**(33,620)**	0
Revaluation increases/ (decreases) to RR	48,789	46,137	0	0	0	453	0	**95,379**	0
Revaluation increases/ (decreases) to the CIES	13,184	(3,293)	0	0	0	(1,186)	0	**8,705**	0
Derecognition – disposals	(5,639)	(52)	(2,136)	0	0	0	0	**(7,827)**	0
Derecognition – other		(39,568)	(378)	0	0	0	0	**(39,946)**	(25,115)
Reclassifications	(2,239)	(1,033)	(38)	38	0	3,272	0	**0**	0
Other movements in cost or valuation	202	12,203	71	1,629	0	0	(13,800)	**305**	0
At 31 March 2017	**452,039**	**426,593**	**55,450**	**252,606**	**8,790**	**8,015**	**25,971**	**1,229,464**	**0**
Accumulated Depreciation & Impairment									
At 1 April 2016	**0**	**(11,227)**	**(41,080)**	**(76,395)**	**0**	**0**	**0**	**(128,702)**	**(1,657)**
Opening adjustment	0	(20,512)	10,608	9,266	0	(3)	0	**(641)**	
At 1 April 2016 (revised)	**0**	**(31,739)**	**(30,472)**	**(67,129)**	**0**	**(3)**	**0**	**(129,343)**	**(1,657)**
Embedded lease adjustment	0	0	(1,335)	0	0	0	0	**(1,335)**	0
Depreciation charge	(9,965)	(13,683)	(5,270)	(10,878)	0	(6)	0	**(39,802)**	(640)
Depreciation written out on revaluation	9,768	23,690	0	0	0	162	0	**33,620**	0
Derecognition – disposals	141	52	1,901	0	0	0	0	**2,094**	0
Derecognition – other		4,097	157	0	0	0	0	**4,254**	2,297
Assets reclassified within PPE	56	98	0	0	0	(154)	0	**0**	0
At 31 March 2017	**0**	**(17,485)**	**(35,019)**	**(78,007)**	**0**	**(1)**	**0**	**(130,512)**	**0**
Net Book Value at 31 March 2016	**398,466**	**390,966**	**16,102**	**182,548**	**8,327**	**5,635**	**14,408**	**1,016,452**	**23,404**
Net Book Value at 31 March 2017	**452,039**	**409,108**	**20,431**	**174,599**	**8,790**	**8,014**	**25,971**	**1,098,952**	**0**

REVALUATIONS

The Council carries out a programme that ensures that all significant classes of Property, Plant and Equipment required to be measured at fair value are revalued. The 2017/18 Investment Properties valuations and some freehold operational properties were carried out in-house by Chartered Surveyors in the Fixed Asset Division, all members of the Royal Institute of Chartered Surveyors, as at 31st March 2018.

The HRA housing stock valuations were carried out by DVS (Commercial Arm of the Valuation Office Agency).

The properties were classified as Property Plant and Equipment and were valued to Current Value in Existing Use using either the depreciated replacement costs methodology (for specialised assets) or the investment method. Valuations of vehicles, plant, furniture and equipment are based on purchase prices.

Valuation method/date	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under Construction	Investment Property	Intangible Assets	Heritage assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Held at Historic Cost	0	0	22,707	172,551	8,780	0	19,721	3	898	0	**224,659**
Held at Insurance Valuation	0	0	0	0	0	0	0	0	0	5,881	**5,881**
Valued at Current Value:											
31-Mar-18	464,495	316,101	0	0	0	2,958	0	102,897	0	0	**886,451**
31-Mar-17	0	75,356	0	0	0	6,243	0	0	0	0	**81,599**
31-Mar-16	0	9,098	0	0	0	0	0	0	0	0	**9,098**
31-Mar-15	0	19,316	0	0	0	3,472	0	0	0	0	**22,788**
31-Mar-14	0	5,954	0	0	0	0	0	0	0	0	**5,954**
31-Mar-13	0	0	0	0	0	0	0	0	0	0	**0**
31-Mar-12	0	0	0	0	0	0	0	0	0	0	**0**
Total Cost or Valuation	**464,495**	**425,826**	**22,707**	**172,551**	**8,780**	**12,673**	**19,721**	**102,900**	**898**	**5,881**	**1,236,431**

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CAPITAL COMMITMENTS

At 31st March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years.

The existing contractual commitments, as at 31st March 2018, in excess of £1 million are listed in the table below.

	Contractual commitment	Contract	Value
(a)	Highways Maintenance and Professional Services	Volker Highways Limited	£52.839m
(b)	Marsh Farm Central Area Redevelopment	ENGIE Regeneration Ltd	£9.595m

NOTE 24) INVESTMENT PROPERTY

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

ACCOUNTING POLICY

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated, 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 on disposal.

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

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

FINANCIAL PERFORMANCE

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:

2016/17 £000	Investment properties income & expenditure net (gain)/loss on operations	2017/18 £000
(8,641)	Rental income from investment property	(9,497)
2,530	Direct operating expenses arising from investment property	1,983
(493)	Net gains/losses from fair value adjustments	(3,230)
(6,604)	**Net (gain)/loss on investment property**	**(10,744)**

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MOVEMENT IN FAIR VALUE

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out internally by qualified RICS Registered Valuers in accordance with valuation methodologies as set out in the Royal Institution of Chartered Surveyors Professional Standards (the 'Red Book'). The authority's valuers work closely with the finance officers reporting directly to the Service Director, Finance and Audit on a regular basis regarding all financial matters.

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

31/03/2017 £000	Investment properties movement in value	31/03/2018 £000
79,558	**Opening Balance**	**90,349**
10,602	Additions - Purchases	5,839
0	Disposals	(43)
494	Total gains/losses in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	3,230
(305)	Transfers (to/from Inventories or PPE)	3,524
90,349	**Balance at end of the year**	**102,900**

More information on fair values is included in ***Note 45***.

NOTE 25) INTANGIBLE ASSETS

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

ACCOUNTING POLICY

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets 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 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.

MOVEMENT IN ASSET VALUES

The movement in Intangible Assets is included in the table below:

2016/17 £000	Movement in intangible assets	2017/18 £000
	Balance at start of year:	
1,640	Gross carrying amount	1,763
(394)	Accumulated amortisation	(718)
1,246	**Net carrying amount**	**1,045**
123	**Additions**	114
0	Reclassifications to/from PPE	0
(324)	Amortisation for the period	(261)
	Balance at end of year:	
1,763	Gross carrying amount	1,877
(718)	Accumulated amortisation	(979)
1,045	**Net carrying amount**	**898**

There are no internally generated intangible assets held by the Council.

NOTE 26) 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 re-valued immediately before reclassification and then carried at the lower of the amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on the Assets Held for Sale.

The Council currently has no assets which meets the definition of an Asset Held for Sale. Assets earmarked for transfer to Foxhall Homes Ltd have been classified as surplus assets, not held for sale.

NOTE 27) HERITAGE ASSETS

ACCOUNTING POLICY

The carrying amounts of heritage assets are based on insurance valuations and are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. If it is agreed to dispose of any heritage assets the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The assets held include the Mossman Collection of horse-drawn vehicles, the Shillington Hoard coin collection and the Wenlok Jug. There are various other photographic and furniture collections among the heritage assets held by the Council.

There has been no significant movement in the value of Heritage Assets during 2017/18. No Heritage Asset has been re-insured.

NOTE 28) CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2016/17 £000	Movement in the CFR	2017/18 £000
385,236	**Opening Capital Financing Requirement**	**407,654**
	Capital investment	
58,226	Property, Plant and Equipment *(Note 23)*	49,226
10,602	Investment Properties *(Note 24)*	5,839
123	Intangibles *(Note 25)*	114
2,443	Revenue Expenditure Funded from Capital under Statute *(Note 22b)*	2,192
5,000	London Luton Airport Limited Debenture Loan	10,000
1,200	Embedded lease adjustment	0
	Sources of finance	
(3,098)	Capital Receipts *(Note 22b)*	(10,867)
(28,723)	Government Grants and Other Contributions *(Note 22b)*	(15,611)
(8,832)	Major Repairs Reserve *(Note 22b)*	(9,585)
	Sums set aside from revenue:	
(5,118)	Direct revenue contributions *(Note 22b)*	(7,015)
(9,405)	MRP/loans fund principal *(Note 22b)*	(9,654)
407,654	**Closing Capital Financing Requirement**	**422,292**
22,418	**Underlying increase to borrow**	**14,638**

The Council's accounting policy on providing for the minimum revenue provision is being discussed with the external auditor and any resulting change for 2017/18 will be included in the audited accounts.

NOTE 29) FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument.

Financial Liabilities

Financial liabilities are initially measured at fair value and are carried at their amortised cost. The fair value of loans are valued at carrying value because it is not possible to derive a fair market value for the types of loans currently held by the Council. For most of the Council's borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss 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.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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 de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

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

The Council currently only has equity shares and debentures, in London Luton Airport Ltd and Foxhall Homes Ltd, which have no quoted market price and are therefore currently held at historic cost. These investments are reviewed annually for any impairment loss. The most recent review has determined that no impairment loss is required.

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

CATEGORIES OF FINANCIAL INSTRUMENTS

31/03/2017 Long Term £000	RESTATED 31/03/2017 Current £000	Financial Instrument Category	31/03/2018 Long Term £000	31/03/2018 Current £000
		Investments		
47,921	5,005	Loans and receivables	57,921	3,503
46,670	0	Unquoted equity investments	46,668	0
94,591	**5,005**	**Total Investments**	**104,589**	**3,503**
		Debtors		
355	23,255	Loans and receivables	328	31,817
355	**23,255**	**Total Debtors**	**328**	**31,817**
		Cash & Cash Equivalents		
0	17,140	Cash & Cash Equivalents	0	23,389
0	0	Bank (Bank Overdrawn)	0	0
0	**17,140**	**Total Cash**	**0**	**23,389**
		Creditors		
(2,795)	(39,702)	Financial liabilities at amortised cost	(2,418)	(49,208)
(2,795)	**(39,702)**	**Total Creditors**	**(2,418)**	**(49,208)**
		Other Liabilities		
(22,610)	0	PFI liabilities	(22,244)	0
(1,320)	0	Other liabilities	(786)	0
(23,930)	**0**	**Total Other Liabilities**	**(23,030)**	**0**
		Borrowings		
(270,701)	(2,391)	Financial liabilities at amortised cost	(274,796)	(2,396)
(270,701)	**(2,391)**	**Total Borrowings**	**(274,796)**	**(2,396)**
(202,480)	**3,308**	**Total**	**(195,327)**	**7,106**

2016/17 reclassification of £17m from “Investments- Loans and receivables” to “Cash & Cash Equivalents” to ensure consistency of cash figure with Balance Sheet, this has not changed the total of this note.

INCOME, EXPENSE, GAINS AND LOSSES

The Council's financial instruments have generated the Comprehensive Income and Expenditure Statement entries listed below.

2016/17 Financial Liabilities measured at amortised cost £000	2016/17 Financial Assets: Loans and receivables £000	2016/17 Financial Assets: Unquoted Equity Investment at Cost £000	2016/17 Total £000		2017/18 Financial Liabilities measured at amortised cost £000	2017/18 Financial Assets: Loans and receivables £000	2017/18 Financial Assets: Unquoted Equity Investment at Cost £000	2017/18 Total £000
11,984			**11,984**	Interest expense *(Note 9)*	12,092	0	0	**12,092**
17			**17**	Fee expense	21	0	0	**21**
12,001	**0**	**0**	**12,001**	**Total expense in Surplus or Deficit on the Provision of Services**	**12,113**	**0**	**0**	**12,113**
	(4,384)		**(4,384)**	Interest income *(Note 9)*	0	(4,958)	0	**(4,958)**
		(17,800)	**(17,800)**	Dividend Income *(Note 9)*	0	0	(19,500)	**(19,500)**
	(20)		**(20)**	Fee income	0	(17)	0	**(17)**
0	**(4,404)**	**(17,800)**	**(22,204)**	**Total income in Surplus or Deficit on the Provision of Services**	**0**	**(4,975)**	**(19,500)**	**(24,475)**
12,001	**(4,404)**	**(17,800)**	**(10,203)**	**Net (gain)/loss for the year**	**12,113**	**(4,975)**	**(19,500)**	**(12,361)**

The wholly owned company, London Luton Airport Ltd, dividend increased between years by £1.7 million. This has created the most significant variance between financial years.

FAIR VALUES OF ASSETS AND LIABILITIES

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Estimated ranges of interest rates at 31st March 2018 of 1.47% to 2.29% for loans from the PWLB and 2.34% to 2.77% for other loans receivable and payable based on new lending rates for equivalent loans at that date.

- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

RESTATED 31/03/2017 Carrying amount £000	31/03/2017 Fair value £000	Financial Instruments	31/03/2018 Carrying amount £000	31/03/2018 Fair value £000
(273,092)	(353,637)	Financial liabilities	(277,192)	(351,743)
(25,499)	(30,989)	Long-term creditors	(25,447)	(44,984)
52,925	94,071	Loans and receivables	61,424	103,002
355	355	Long-term debtors	328	328

2016/17 restatement to remove "cash equivalents" erroneously included.

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2018) arising from a commitment to pay interest to lenders below current market rates.

The fair value of the long term creditors is higher than the carrying amount reflecting the ability to borrow at a lower interest rate at the balance sheet date.

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2018) attributable to the commitment to receive interest below current market rates. It should be noted that both the carrying amount and the fair value for both years includes cash in hand at the 31st March.

Shares (representing 100% of the Company's capital) are carried at a historic cost of £44.837 million and have not been revalued to date. The Council has no current intention to dispose of the shareholding.

Debentures are carried at a historic cost of £57.921 million as the income is not fixed or determinable. The Council has no current intention to dispose of the debentures.

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

NOTE 30) NATURE AND EXTENT OF RISK

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury 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. The Council uses the creditworthiness service provided by its Treasury advisers Link Asset Services, their model combines the ratings of all the three main agencies – Fitch, Moody's and Standard and Poors. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the council are detailed below:

Group	Rating	Exposure	Maximum Maturity
A	Combination scoring method - highest band (all at least AA+ with one agency)	£25.0 m	24 Months
B	Combination scoring method - second band (all at least AA- with one agency)	£22.5 m	364 Days
C	Combination scoring method - third band (all at least A with one agency)	£15.0 m	6 Months
D	Combination scoring method - fourth band (all at least A with one agency)	£11.5 m	3 Months
E	UK Local Authorities	£15.0 m	364 Days
F	AAA Rated Money Market Liquidity Funds	£22.5 m	On call
F1	Part owned or supported under guarantee scheme by UK Government	£30.0 m	2 years

Institutions in Groups A to D must all be in countries with a sovereign rating of AAA/AA.

The Council's maximum exposure to credit risk in relation to its investments in banks 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 recoverability applies to all the Council's deposits, but there was no evidence at the 31st March 2018 that this was likely to crystallise.

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Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by the relevant department of the Council.

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, such that only £2.167 million of the total debt past the due date has been outstanding longer than one month.

The analysis below includes all sundry debts before any impairment and excludes any social care debt.

31/03/2017 £000	Debt past due date	31/03/2018 £000
7,396	Less than one month	10,014
212	One to three months	1,147
347	Three months to one year	452
457	More than one year	568
8,412	**Total**	**12,181**

The significant change in debts 'Less than one month' year on year of £2.618 million is due to a £1.323 million invoice owing by Foxhall Homes Ltd, as the Council owns this company the debt is not considered doubtful in terms of collection. The remainder is primarily payroll recharges owing for March unpaid as at 31st March 2018 but paid shortly after in April 2018.

The significant change in debts 'One to three months' year on year of £0.935 million is due primarily to;

- £0.381 million debt with a Scottish City Council (deemed fully collectable)
- £0.133 million of payroll recharges, received in April 2018
- £0.115 million of Market charges where legal action is pending.

In addition to sundry debts, the Council is owed considerable debt in the relation to housing tenants (£10.838 million) and housing benefit overpayments (£12.136 million). Due to the nature of the debt the Council has impaired the debt on a very prudent basis, housing tenants by £10.157 million (93.7%) and housing benefit overpayments by £11.805 million (97.3%).

LIQUIDITY RISK

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that not more than 15% of loans are due to mature within any one year through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

Borrowing age profile	Amount £000
Less than 1 year	2,396
between 12 months & 24 months	0
between 24 months & 5 years	92,856
5 years and above	181,940
Total	**277,192**

There are a number of Lender Option Borrower Option Loans with maturities over 40 years, some of which have call dates within five years.

All trade and other payables are due to be paid in less than one year.

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MARKET RISK

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, 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 Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

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

Sensitivity analysis	£000
Impact on General Fund:	
Interest cost of 1% increase	336
Less: Interest gain from 1% increase	(113)
Net (gain)/loss from increase on General Fund	**223**
Impact on Housing Revenue Account:	
Impact on HRA of above - borrowing	41
Less interest receivable to the HRA - investment	(1)
Net (gain)/loss from increase on Housing Revenue Account	41
Impact on Fair Values:	
Decrease in Fair Value of Fixed Rate Investments	0
Increase in Fair Value of Fixed Rate Borrowing	38,793

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares; it's only current shareholdings are in London Luton Airport Limited and Foxhall Homes Ltd, where the Council owns 100% of the shares and the shares are not traded. More details regarding this shareholding can be found in the Group Accounts. The Council is therefore not exposed to losses arising from movements in the prices of shares.

Foreign Exchange Risk

The Council has no financial assets/liabilities denominated in foreign currencies.

NOTE 31) OTHER LONG TERM LIABILITIES

The long term liabilities recorded in the Balance Sheet represent the agreements listed below:

Ref	Other Long Term Liabilities	31-Mar-17 £000	31-Mar-18 £000
(A)	Challney Girls PFI Scheme	(22,609)	(22,244)
(B)	Multi-functional Devices	(738)	(250)
(C)	Highways Vehicles	(582)	(535)
	Total	**(23,929)**	**(23,030)**

The Challney Girls PFI Scheme (A) is detailed in the next sub-section of this note.

Agreements for Multi-functional Devices (B) and Highways Vehicles (C) are both explain in more detail within the **service concessions** sub-section of this note.

PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Accounting Policy

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Life cycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Building Schools for the Future PFI Scheme

There is a 25 year PFI contract for the construction, maintenance, and facilities management of Challney Girls School. The financial close for the project was achieved on 3 June 2009 and construction commenced almost immediately. The new school building was handed over to the Council on 31st December 2010. The school was one of the Council's Community Schools.

The contract specifies minimum standards for the services provided by the contractor to the school. The contractor took on the obligation to construct the school and maintain it in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the school. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for the costs incurred and future profits that would have been generated over the remaining term of the contract.

During March 2018 the PFI operating body re-financed the full loan debt portfolio. This reduced the level of interest payable with a corresponding uplift in the total liability. The new structure of the debt does not alter the financial relationship the council has with the Local Education Partnership.

Property, Plant and Equipment

The assets used to provide services at the school were recognised on the Council's Balance Sheet until the school converted to Academy status during 2016/17. Details are given in ***Note 23***.

Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31st March 2018 (excluding any estimation of inflation and availability/performance deductions) are as follows:

Liability age profile	Payment for services £000	Capital Charge (MRP) £000	Interest Element £000	Total £000
Payable in 2018/19	1,105	423	2,390	**3,918**
Payable within 2 to 5 years	4,931	2,065	9,058	**16,054**
Payable within 6 to 10 years	6,697	4,582	9,723	**21,002**
Payable within 11 to 15 years	7,494	8,169	6,508	**22,171**
Payable within 16 to 20 years	4,273	7,004	1,468	**12,745**
Total	**24,500**	**22,243**	**29,147**	**75,890**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value for the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2016/17 £000	2017/18 £000
Balance outstanding at start of year	**22,981**	**22,609**
Loan repayments during the year	(2,841)	(2,796)
Interest incurred in the year	2,469	2,430
Balance outstanding at year-end	**22,609**	**22,243**

SERVICE CONCESSIONS

Service concessions are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the assets that are provided under these schemes, and as the Council is to receive substantially all of the assets economic output, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on estimated purchase price) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets related to these contracts which are recognised on the Balance Sheet are revalued and depreciated on a straight line basis over the duration of the contract.

The Council's policy is to charge Minimum Revenue Provision equal to the amount of principal repaid during the financial year. This policy ensures the contract payment is equal to the charge to General Fund.

Multi-Functional Devices

On the 1st April 2013 the Council entered into a five and half years contract for the provision of Multi-Functional Devices across a number of Council sites. The agreement included printing consumables, maintenance costs and the financing charges for the supply of the equipment.

This agreement has been restated as if the assets were recognised as at inception of the agreement. The revenue costs associated with consumables and maintenance costs this will continue to be charged to the associated service. The interest element will be charged to the financing and investment income and expenditure.

An estimate of the original capital value is £2.447 million. This is offset by an equal and opposite financial liability on the Balance Sheet. The residual balance represents a timing difference between the principal repaid and the depreciation charged on the asset. The residual balance is posted to the Capital Adjustment Account.

Highways Vehicles

A new highways contract was entered into with Volker Highways during 2016/17 for them to provide highways maintenance and professional services across the Council's region. Part of the contract includes the purchase of a number of vehicles by Volker Highways to carry out highways work solely for the Luton Borough Council contract. The vehicles are branded and are stored in a Council owned depot. The majority of the annual contract price of £8 million represents the direct labour and management costs of running the highways contract. There will be an element for vehicles and equipment which are used on the contract, but these are not branded or solely used for Luton works. All of these costs will be recognised as revenue expenditure.

Using estimated capital cost per vehicle, provided by a fleet specialist, the embedded asset, and its financing costs, have been stripped out of the £8 million highways annual payment.

Property, Plant and Equipment

The assets used to provide services under the service concession contracts are recognised on the Council's Balance Sheet. Movements in their value are detailed below. These amounts are included within the PPE ***Note 23***.

Agreement	Opening Net Book Value £000	Recognition / Addition £000	Depreciation £000	Closing Net Book Value 31/03/2018 £000
Multi-Functional Devices	667	0	(445)	**222**
Highways Vehicles	579	0	(59)	**520**
Total	**1,246**	**0**	**(504)**	**742**

Payments

The Council makes agreed payments each year to the operators, increased in line with inflation where stated in the contract and similarly reduced if performance falls below minimum standards in any year. Payments remaining to be made under the PFI contract at 31st March 2018 (including an estimate of inflation) are as follows:

Liability age profile	Payment for services £000	Capital Charge (MRP) £000	Interest Element £000	Total £000
Multi-Functional Devices				
Payable in 2018/19	59	250	14	**323**
Payable within 2 to 5 years	0	0	0	**0**
Payable within 6 to 10 years	0	0	0	**0**
Total	**59**	**250**	**14**	**323**
Highways Vehicles				
Payable in 2018/19	7,921	49	29	**8,000**
Payable within 2 to 5 years	31,685	226	89	**32,000**
Payable within 6 to 10 years	29,705	260	35	**30,000**
Total	**69,311**	**535**	**154**	**70,000**
Combined Totals				
Payable in 2018/19	7,981	300	43	**8,323**
Payable within 2 to 5 years	31,685	226	89	**32,000**
Payable within 6 to 10 years	29,705	260	35	**30,000**
Total	**69,370**	**786**	**167**	**70,323**

NOTE 32) PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

TEACHERS' PENSION SCHEME

Teachers employed by the Council are members of the Teachers' Pension Scheme administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the cost by making contributions based on a percentage of scheme members' pensionable salaries.

The Scheme is technically a defined benefit scheme however, the scheme is unfunded. The Department for Education uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes.

For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £7.206 million (2016/17 £7.665 million) to the Teachers Pensions Agency in respect of teachers' retirement benefits.

NHS STAFF PENSION SCHEME

Former NHS employees that work for the Council are permitted to maintain their membership of the NHS Pension Scheme. The Scheme provides these employees with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £0.037 million (2016/17 £0.036 million) to the NHS Pension Scheme in respect of former NHS staff retirement benefits.

NOTE 33) DEFINED BENEFIT PENSION SCHEMES

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, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expenses for services in the year in which employees render services to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off owed on flexi-time schemes) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Post Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Local Government Pensions Scheme, administered by Bedford Borough Council.

- The Teachers' Pension Scheme, administered by the Capital Teachers' Pensions on behalf of the Department for Education.
- NHS Pension Scheme

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

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

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefit scheme.

The liabilities of the Bedfordshire 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 projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.7% (2.6% in 2016/17) based on the indicative rate of return on high quality corporate bonds.

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

- quoted securities – bid value
- unquoted securities – professional estimate
- unitised securities – bid value
- property – market value.

The change in the net pension's liability is analysed into six components:

Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last

actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Bedfordshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Discretionary Benefits

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

Participation in Pension Schemes

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

The Council participates in the following:

The Local Government Pension Scheme, administered locally by Bedford Borough Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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 via the Movement in Reserves Statement.

The transactions on the next page have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year in respect of the Local Government Pension Scheme:

PENSIONS TRANSACTIONS IN THE SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES AND THE MOVEMENT IN RESERVES STATEMENT

2016/17 £000		2017/18 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
(21,839)	Current service cost	(36,351)
(250)	Past service costs	(127)
0	(Gain) / loss from settlements	0
	Financing and Investment Income and Expenditure:	
(10,650)	Net Interest Expense	(10,383)
(32,739)	**Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**(46,861)**
	Other Post-employment Benefits Charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the Net Defined Benefit liability comprising:	
55,273	Return on plan assets (excluding the net interest expense)	(2,838)
6,679	Actuarial gains and (losses) arising on changes in demographic assumptions	0
(154,502)	Actuarial gains and (losses) arising on changes in financial assumptions	18,022
15,679	Other (if applicable)	14
(76,871)	**Total Post-employment Benefits Charged to the Comprehensive Income and Expenditure Statement**	**15,198**
	Movement in Reserves Statement	
32,739	**Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code**	**46,861**
	Actual amount charged against the General Fund Balance for pensions in the year:	
20,010	Employers contributions payable to scheme	21,640
851	Contributions in respect of unfunded benefits	821
20,861	**Total amount charged against the General Fund**	**22,461**

The significant change year on year on ‘Current service costs’ is primarily due to a higher discount rate used by the pensions actuary, being based on market conditions with valuation not controllable by the Council. There has also been a raising of the employers contribution rate in 2017/18 by the Council.

The significant change in ‘Return on plan assets (excluding the net interest expense)’ was due to significantly market conditions in 2016/17, beyond the control of the Council.

PENSIONS ASSETS AND LIABILITIES RECOGNISED IN THE BALANCE SHEET

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

2016/17 £000		2017/18 £000
(939,237)	Present value of the defined benefit obligation	(966,993)
546,584	Fair value of plan assets	565,138
(392,653)	**Net liability arising from defined benefit obligation**	**(401,855)**

Reconciliation of the Movements in the Fair Value of Scheme Assets

2016/17 £000		2017/18 £000
470,815	**Opening balance**	**546,584**
16,536	Interest income	14,293
	Re-measurement gain / (loss):	
55,273	The return on plan assets, excluding the net interest	(2,838)
20,010	Contributions from employer	21,640
5,469	Contributions from employees into the scheme	5,805
(21,519)	Benefits paid	(20,346)
0	Other (if applicable) Effect of Settlements	0
546,584	**Closing balance**	**565,138**

Reconciliation of the movement in the fair value of scheme liabilities

2016/17 £000		2017/18 £000
(774,719)	**Opening balance**	**(939,237)**
(21,839)	Current Service Cost	(36,351)
(27,186)	Interest cost	(24,676)
(5,469)	Contribution from scheme participants	(5,805)
	Re-measurement (gains) and losses:	
6,679	Actuarial (gains) and losses arising on changes in demographic assumptions	0
(154,502)	Actuarial (gains) and losses arising on changes in financial assumptions	18,022
15,679	Other (if applicable)	14
(250)	Past service cost	(127)
0	Effect of settlements	0
22,370	Benefits paid	21,167
(939,237)	**Closing balance**	**(966,993)**

Information about the Defined Benefit Obligation

Employer membership statistics:	Liability split £(000) as at 31-Mar-18	Liability split (%) as at 31-Mar-18	Weighted Average Duration
Active members	397,074	41.6%	22.4
Deferred members	237,217	24.8%	22.6
Pensioner members	320,693	33.6%	11.2
Total	**954,984**	**100.0%**	**17.5**

The weighted duration for 31st March 2018 was 17.5 years, (17.5 on 31st March 2017). Please note that the above figures are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are as they stood at the date of the most recent actuarial valuation of the Employer.

ASSETS COMPOSITION

Quoted Prices 2016/17 Active Market £000	Quoted Prices 2016/17 Inactive Market £000	2016/17 Total £000		Quoted Prices 2017/18 Active Market £000	Quoted Prices 2017/18 Inactive Market £000	2017/18 Total £000
20,127	0	**20,127**	**Cash and cash equivalents**	24,336	0	**24,336**
			Debt Securities			
0	47,405	**47,405**	UK Government	0	45,119	**45,119**
			Private Equity:			
0	0	**0**	All	0	1,562	**1,562**
			Property:			
0	50,226	**50,226**	UK Property	0	50,903	**50,903**
0	0	**0**	Overseas Property	0	0	**0**
0	**50,226**	**50,226**	**Sub-total Property**	**0**	**50,903**	**50,903**
			Other Investment Funds:			
16,489	275,190	**291,679**	Equities	17,923	272,214	**290,137**
46,243	0	**46,243**	Bonds	44,777	0	**44,777**
90,904	0	**90,904**	Other	108,304	0	**108,304**
153,636	**275,190**	**428,826**	**Sub-total Other investment funds**	**171,004**	**272,214**	**443,218**
173,763	**372,821**	**546,584**	**Total Assets**	**192,808**	**365,006**	**565,138**

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.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Pension Fund being based of the latest full valuation of the scheme as at 31st March 2017.

The significant assumptions used by the actuary have been:

Mortality Assumptions:	31/03/2017	31/03/2018
Longevity at 65 for current pensioners:		
Men	22.4	22.4
Women	24.5	24.5
Longevity at 65 for future pensioners:		
Men	24.0	24.0
Women	26.2	26.2
Rate of increase in salaries	2.70%	2.70%
Rate of increase in pensions	2.40%	2.40%
Rate for discounting scheme liabilities	2.60%	2.70%

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 the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, 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, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

SENSITIVITY ANALYSIS

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

Change in assumptions at 31 March 2018	Approximate % increase	Approximate amount (£000)
0.5% decrease in Real Discount Rate	10%	95,051
0.5% increase in the Salary Increase Rate	1%	11,221
0.5% increase in the Pension Increase Rate	9%	82,827

IMPACT ON THE AUTHORITY'S CASH FLOWS

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Bedford Borough Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis.

The triennial valuation based on the position as at 31st March 2017 was completed during 2016/17, and was reflected in the new budgeted contribution to the pension fund in 2017/18. The 2017/18 service rate has increased from 14.1% to 17.3% with annual variations to the lump sum payments for deficit recovery.

NOTE 34) LEASES

COUNCIL AS A LESSEE

Finance lease

The Council current has no lessee finance leases. The service concessions section of ***Note 31***, explains the two agreements which contain embedded assets which the inherent liability is recognised on the Balance Sheet.

Operating leases

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

The operating leases currently held are managed by the Council's maintained schools for vehicles and equipment. The future minimum lease payments due under non-cancellable leases in future years are included in the table.

31/03/2017 £000	Future minimum lease payments	31/03/2018 £000
218	Not later than one year	314
310	Later than one year and not later than five years	516
0	Later than five years	0
528	**Total**	**830**

The expenditure charged to service in the Comprehensive Income and Expenditure Statement during the year was £0.324 million (£0.224 million during 2016/17). There are no contingent rents as the agreements are for vehicles and equipment and which have fixed amounts which will not be reviewed.

COUNCIL AS A LESSOR

Finance lease

The Council current has no lessor finance leases.

Operating lease

The Council leases out property under operating leases for the following purposes:

- to generate investment income
- for the provision of community services
- for economic development purposes

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

31/03/2017 £000	Future minimum lease payments	31/03/2018 £000
8,548	Not later than one year	8,949
27,541	Later than one year and not later than five years	27,250
156,767	Later than five years	151,530
192,856	**Total**	**187,728**

Included in the above is 39.5 acres of land on President Way that the Council rents out to its subsidiary London Luton Airport at an annual rent of £1.925 million (£1.925 million 2016/17).

There are no contingent rents for 2017/18 (nil in 2016/17).

NOTE 35) DEBTORS

The outstanding debtors at 31st March 2018 comprised the following:

2016/17				2017/18		
Debtor £000	**Impairment of asset £000**	**Net debtor £000**	**Debtor Classification**	**Debtor £000**	**Impairment of asset £000**	**Net debtor £000**
1,406	0	**1,406**	Other Local Authority	1,467	0	**1,467**
5,671	0	**5,671**	Central Government	9,618	0	**9,618**
2,961	0	**2,961**	NHS	5,558	0	**5,558**
19,460	0	**19,460**	Public Corporation & Trading *	22,340	0	**22,340**
18,603	(13,018)	**5,585**	Council Tax	22,501	(15,734)	**6,767**
6,429	(3,693)	**2,736**	NNDR	5,716	(3,049)	**2,667**
8,674	(8,383)	**291**	Housing Tenants	10,838	(10,157)	**681**
10,548	(10,098)	**450**	Housing Benefit Overpayments	12,136	(11,805)	**330**
15,959	(1,554)	**14,405**	Other bodies	18,729	(1,872)	**16,856**
4,191	0	**4,191**	Payments in advance	5,079	0	**5,079**
93,902	**(36,746)**	**57,156**	**Total**	**113,981**	**(42,618)**	**71,363**

* Public Corporation & Trading- reflect LBC's trading operations through London Luton Airport Ltd (LLAL) and Foxhall Homes (HF), wholly owned subsidiaries of LBC.

In totality there has been a significant year on year increase in the debtors position. It is noted that of this £20 million gross change almost half is considered debt which does not require impairment (being deemed fully collectable as entities who owe the Council money are unlikely to default). The remaining increases are debts with Council's processes and procedures in place to maximise collection but due to the uncertainty of collection has a proportion provided for against it.

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NOTE 36) 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 three months or under and are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

The balance of Cash and Cash Equivalents is made up of the following elements:

31/03/2017 £000	Cash and cash equivalents classifications	31/03/2018 £000
7,007	Short-term deposits with banks	0
9,994	Money Market Funds	20,396
132	Bank current accounts	2,972
7	Cash held by the Council	21
17,140	**Total**	**23,389**

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NOTE 37) CREDITORS

The outstanding creditors at 31st March 2018 comprised the following:

31/03/2017 £000	Creditor Classification	31/03/2018 £000
	Short Term Creditors	
(1,033)	Other Local Authority	(656)
(9,567)	Central Government	(12,510)
(1,054)	NHS	(1,524)
0	Public Corporations & Trading *	(334)
(1,941)	Council Tax	(2,179)
(2,110)	NNDR	(1,800)
(2,255)	Housing Tenants	(3,204)
(35,429)	Other bodies	(42,678)
(53,389)	**Short Term Total**	**(64,885)**
	Long Term Creditors	
(2,795)	Other bodies	(2,418)
(2,795)	**Long Term Total**	**(2,418)**

* Public Corporation & Trading- reflect LBC's trading operations through London Luton Airport Ltd (LLAL) and Foxhall Homes (HF), wholly owned subsidiaries of LBC.

NOTE 38) 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. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) 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.

MOVEMENT IN BALANCES

Description	Opening £000	Additions £000	Utilised £000	Released £000	Closing £000
2017/18					
Employee related	**(743)**	0	459	221	**(63)**
Insurance related	**(2,121)**	(1,335)	503	343	**(2,610)**
Business Rate Appeals	**(4,653)**	(2,926)	3,107	0	**(4,472)**
Contract related	**0**	0	0	0	**0**
Other provisions	**(666)**	(128)	56	0	**(739)**
Total	**(8,183)**	**(4,389)**	**4,124**	**564**	**(7,884)**
2016/17					
Employee related	**(841)**	(502)	466	134	**(743)**
Insurance related	**(2,408)**	(213)	500	0	**(2,121)**
Business Rate Appeals	**(7,012)**	(281)	2,640	0	**(4,653)**
Contract related	**(3,050)**	0	0	3,050	**0**
Other provisions	**(1,186)**	38	482	0	**(666)**
Total	**(14,497)**	**(958)**	**4,088**	**3,184**	**(8,183)**

All provisions are reviewed annually to ensure they are at an appropriate level. The following tables analyse provisions into current and long-term provisions:

Description	Current provision £000	Between 1 and 5 years £000	Over 5 years £000	Long-term total £000	Total Provision £000
Employee related	**(63)**	0	0	**0**	**(63)**
Insurance related	**(890)**	(1,450)	(270)	**(1,720)**	**(2,610)**
Business Rate Appeals	**(1,118)**	(3,354)	0	**(3,354)**	**(4,472)**
Other provisions	**(739)**	0	0	**0**	**(739)**
Total	**(2,810)**	**(4,804)**	**(270)**	**(5,074)**	**(7,884)**

Employee related – Represents the annual provision held for estimated termination costs: staff redundancy costs and pension strain. As a consequence of core funding reductions, the Council has a rolling programme of savings projects to help plan for and set a balanced budget each year. To achieve this and wider service objectives, a significant number of reviews are undertaken each year to reorganise and reshape how services are delivered by the Council, leading to reductions in the number of staff employed and consequent termination costs.

Insurance related – The Insurance Fund provision holds the balances set aside for potential liabilities in respect of payments that fall within the insurance excesses. A review of the insurance provision is carried out annually using an actuarial forecasting approach which is designed to review the appropriateness of the provisions and reserves for the Council's self-insured claims as at the date of the valuation. This valuation takes into account all known and outstanding (unpaid) claims received from 1998 to date, and also makes a calculation for any incurred but not reported claims (IBNR).

Insurance Issues – Due to the fact that many insurance claims are made and/or settled some years after the incident to which they relate, it is not possible to determine when any claims are likely to be settled and hence a provision is made for insurance losses.

There is an existing provision to cover the potential liabilities in relation to the Council's former Insurers, Municipal Mutual Insurance (MMI). MMI were the insurers for many Local Councils and they collapsed in September 1992. As a mutually created local government insurance company, Councils are responsible for meeting any shortfall on claims. The Supreme Court has determined that employers' liability insurance cover is triggered at the point of exposure to toxic materials rather than when a disease starts to develop. This means that the number of claimants that may arise in relation to policies written by MMI in the past is very difficult to estimate.

As a result the Council established a provision in 2011/12 for the total maximum potential liability estimated to be faced by the Council. In January 2014 the managers of MMI's business informed the Council that it should expect a levy charge of 15% of the potential liability, which is £168,000. However, in view of the uncertainty relating to the extent of such claims, the existing provision has been retained in full at this time.

Business Rate Appeals – The Local Government Finance Act 2012 introduced a business retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the retention of business rates came into effect on 1 April 2013. Luton Borough Council, as a billing authority, is required to make provision for refunding ratepayers who have successfully appealed against the rateable value on their properties. The provision shown is the Council's 49% share of the total amount.

NOTE 39) CAPITAL GRANTS RECEIPTS IN ADVANCE

The following capital grants and contributions have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver if not met.

31/03/2017 £000		31/03/2018 £000
(4,793)	Basic Needs Grant	(11,143)
(3,424)	Weekly Collection	(2,798)
0	Highways Access Project (Local Growth Fund- DCLG)	(1,122)
0	Other Government Grants (<£1m)	(1,018)
(1,512)	s106 Developers' Contributions	(4,128)
(109)	Other Non-Government Grants (<£1m)	(494)
(9,838)	**Total Capital Grants and Contributions**	**(20,703)**

£6 million of the £11 million classified as 'Basic Needs Grant' is advanced receipt of the 2018/19 instalment in 2017/18.

The £4.128 million classified as 's106 Developer Contributions' relates to £2 million for the Luton Airport- Highways access, with another £1.206 million for Napier Park.

NOTE 40) REVENUE GRANTS RECEIPTS IN ADVANCE

The following revenue grants and contributions have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver if not met.

31/03/2017 £000		31/03/2018 £000
(1,355)	Weekly Collection Support Grant	(631)
(1,668)	Family Safeguarding	(1,373)
(952)	Troubled Families	(1,750)
(2,138)	Government Grants under £1m	(1,508)
(468)	Other Grants and Cont. under £1m	(3,087)
(6,581)	**Total Revenue Grants and Contributions**	**(8,348)**

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CASH FLOW STATEMENT SUPPORTING NOTES

NOTE 41) CASH FLOW STATEMENT – OPERATING ACTIVITIES

2016/17 £000	Cash Flow Statement – Operating Activities	2017/18 £000
(14,471)	**Net surplus or deficit on the provision of services**	**(23,486)**
	Adjustments for non-cash items	
40,127	Depreciation and amortisation	36,479
(8,705)	Impairment and downward valuations	13,621
(494)	Movements in the market value of investment properties	(3,230)
2,253	Increase/(decrease) in creditors	9,680
(25,017)	(Increase)/decrease in debtors	(11,317)
(5,490)	Increase/(decrease) in provisions	(299)
217	(Increase)/decrease in inventories	(190)
11,878	Movement in pension liability	24,400
41,425	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	9,858
56,194		**79,002**
	Adjustments for investing and financing activity items	
13	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	10
(8,193)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,845)
(15,535)	Any other items for which the cash effects are investing or financing cash flows	(13,876)
(23,715)		**(26,711)**
18,008	**Net cash flows from operating activities**	**28,805**

The cash flows for operating activities include the following items:

	2016/17 £000	2017/18 £000
Interest paid	(4,370)	(12,161)
Interest received	11,979	4,953
Dividend	6,000	17,800

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NOTE 42) CASH FLOW STATEMENT – INVESTING ACTIVITIES

2016/17 £000	Cash Flow Statement – Investing Activities	2017/18 £000
(68,951)	Purchase of property, plant and equipment, investment property and intangible assets	(55,180)
(5,000)	Purchase of short-term and long-term investments	(10,000)
8,194	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12,846
12,750	Proceeds from short-term and long-term investments	1,500
18,114	Other receipts from investing activities	26,086
(34,893)	**Net cash flows from investing activities**	**(24,748)**

CASH FLOW STATEMENT – FINANCING ACTIVITIES

2016/17 £000	Cash Flow Statement – Financing Activities	2017/18 £000
0	Cash receipts of short- and long-term borrowing	0
1,538	Other receipts from financing activities	(115)
(504)	Cash payments for the reduction of the outstanding liabilities (finance leases)	(899)
0	Repayments of short- and long-term borrowing	0
(1,837)	Other payments for financing activities	3,206
(803)	**Other payments for financing activities**	**2,192**

OTHER SUPPORTING NOTES

NOTE 43) CONTINGENT ASSETS AND LIABILITIES

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

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

At 31st March 2018, the Council had received notification from the Health and Safety Executive that it intends to prosecute the Council in relation to an incident which occurred at a school during June 2016. There remains a level of uncertainty surrounding whether the prosecution would be successful, and if successful, the quantum of the fine that would be charged to the Council.

As at 31 March 2018, there is the potential for appeals in relation to charitable relief exemption for medical facilities, which could result in an 80% reduction in business rates payable. The potential liability to the Council, including back dated rates, could be in the region of £2.5 million if a successful appeal is lodged. This is regarded as a contingent liability because the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority.

At 31st March 2018, the Council had no contingent assets.

NOTE 44) 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. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants credited to the Comprehensive Income and Expenditure Statement is listed in ***Notes 10** and **11**.*

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in ***Note 14**.* During 2017/18 the council did not have any transactions with organisations that Members had a pecuniary interest in.

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Officers

During 2017/18 the council did not have any transactions with organisations that Officers had a pecuniary interest in.

Other Public Bodies (subject to common control by Central Government)

Details of payments made to the Bedfordshire Pension Fund (Bedford Borough Council) for employer's superannuation contributions are shown in ***Note 33***. The Council has a number of pooled budget arrangements with NHS Luton and with South Essex Partnership University NHS Foundation Trust. Details of these arrangements are shown in ***Note 18***.

Other Organisations

The Council paid five organisations monies on which it has Member or Officer representation and which share educational, economic development, social and cultural objectives. All payments under £1k have been evaluated as not material from the Council, and third party, viewpoint.

Organisation	2017/18 expenditure £000	2017/18 income £000	2017/18 debtor £000	2017/18 creditor £000
Luton Cultural Services Trust	3,066	(278)	350	(25)
Active Luton (Leisure Trust)	542	(232)	177	(4)
Barnfield College	374	(69)	68	(227)
Marsh Farm Future	129	(8)	0	(7)
Lewsey Festival Committee	1	0	0	0
Luton BID ltd	430	(8)	0	(70)

Entities Controlled or Significantly Influenced by the Council

Details of the Council's shareholdings and investments in London Luton Airport Limited are disclosed in the introduction to the Group Accounts. The Council is involved with a number of companies whose assets and liabilities are not included in the Council's single entity statements. Most of these companies are small simple investments and the Council's interest does not extend to a relationship that could be classified as a subsidiary, associate or joint venture. None of these companies are included in the group accounts.

London Luton Airport Limited

This company is a full subsidiary of the Council and the Group Accounts consist of the consolidation of its financial statements with those of the Council's. The principal activity of the company is the ownership of airport facilities. In 1998/99 the company entered into a thirty-year concession with London Luton Airport Operations Limited to operate the airport. The Council holds 44,837,002 ordinary £1 shares, equivalent to 100% of the company's share capital carried at a historic valuation of £44.837 million. It also held debentures totalling £57.921 million at 31st March 2018. At the year ended 31st March 2018, the company had net assets of £466.741 million (£459.549 million at 31st March 2017). The 2017/18 profit before tax was £31.273 million and after tax was £26.651 million (profit before tax £52.603 million and after tax was £46.927 million for 2016/17). A dividend of £19.5 million has been declared in 2017/18 and is due to be paid in 2018/19. Debenture interest of £3.826 million was payable by the company to the Council during 2017/18 (£3.883 million in 2016/17).

Foxhall Homes

During 2016/17 the Council established a wholly owned subsidiary called Foxhall Homes. The purpose of the subsidiary which has been established is to optimise council land and property assets including the use of redundant spaces to provide hundreds of much needed new homes. The new subsidiary has not received/paid any cash transactions from/to the Council as of yet but is incorporated into the Group Accounts of the Council owing to amounts owed to the Council during 2017/18.

NOTE 45) FAIR VALUE

INVESTMENT PROPERTIES FAIR VALUE HIERARCHY

Fair valuations have been classified into three levels to signify the level of certainty existing within the underlying valuation assumptions. The three levels are;

- **Level 1** valuations are derived from quoted prices in active markets for identical assets or liabilities
- **Level 2** valuations do not have quoted market prices and there is some element of assumptions being used which are supported by observable market data
- **Level 3** valuations contain at least one input which significantly impacts on the valuation of the asset or liability, and the input cannot be directly supported by market data.

Recurring fair value measurements using	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31/03/2018 £000
Retail	0	32,880	0	**32,880**
Leisure	0	3,240	0	**3,240**
Office Units	0	39,725	0	**39,725**
Industrial	0	11,227	4,170	**15,397**
Other	0	0	11,655	**11,655**
Total	**0**	**87,072**	**15,825**	**102,897**

INVESTMENT PROPERTIES VALUATION METHODS USED TO DETERMINE LEVEL 2 & 3 FAIR VALUES

Significant Observable Inputs – Level 2

For the Level 2 valuations we have based the valuations on the market-based income and investment approach in all the separate categories, assessing rental values by reference to comparable leasing deals in the locality of each asset, with relatively minor adjustments to unit rental values to cater for individual characteristics of the property being valued. Capitalising income streams at an appropriate valuation yield has also been carried out by reference to comparable sales of investment properties with similar characteristics and adopting the capitalisation yields in those comparable deals. The retail, office and some of the industrial properties have been placed in the Level 2 category as relevant comparable evidence of rental value and investment/capital value such that the level of 'observable inputs' is significant.

For our offices throughout the south-east of England comparable capital transactions may be in other towns but of similar types of office building. Adjustments have been made to comparable yields to reflect differences in individual property's features, such as unexpired lease term, strength of tenant covenant, quality of specification and micro location. For a Level 2 valuation we would seek to base valuations on very similar comparable transactions so that the adjustments made in the valuation for these factors are not significant – so that the "observable inputs" (i.e. the comparable evidence) are significant determinants in each valuation.

Significant Observable Inputs – Level 3

Those assets that are in the categories of some 'Industrial' properties, the development sites and all of those categorised as 'Others' have been placed in the Level 3 category. The valuation method is largely similar to that used for Level 2 properties, assessing rental values and capital values separately and applying suitable investment yields to income streams, but more significant adjustments to rents and yields deriving from other transactions may have been applied, using the valuer's experience and judgement of the property investment market, than the minor adjustments made in Level 2 valuations. Where the comparable evidence of similar assets is thin, or where the adjustments we have to make to the valuations using the valuer's judgement are material, and are thus 'unobservable inputs', we would place the valuations in the Level 3 category. There have been no transfers between level 2 and level 3 categories.

Quantitative information about Fair Value measurement of Investment properties using significant Unobservable Inputs – Level 3

Category	31/03/2018 Value	Valuation Method	Unobservable Inputs	Range	Sensitivity
Industrial	£4.170 million	Income and Investment Yield market approach	Investment yields	5.0% - 11.5%	Significant changes in the investment yield used will result in significant change to capital value
Others	£11.655 million	Income and investment yield market approach and site valuation by market	Site values; residential	£800,000 - £1,000,000 per acre	Significant changes in any of these variables/inputs are likely to have a material impact on the fair value capital valuations
		Comparable evidence	Site values; commercial	£500,000 per acre	
		Comparable evidence	Investment yields	7.25% - 15%	
		Comparable evidence	Playing field values	£20,000 per acre	
		Comparable evidence	Rental value of health centres	£12.00 - £12.50 per sq ft	

FINANCIAL INSTRUMENTS FAIR VALUE HIERARCHY

The only financial instruments held by the Council which are classified as Available for sale are the investments in London Luton Airport Ltd. These investments are held at historical cost as there is no active market or reliable market comparators which could be used to generate a supported fair value. The Council reviews the subsidiaries accounts on annual basis to ensure no impairment is required to the value of the investment held on the balance sheet. These valuations are therefore classified as level 3.

04

Supplementary Statements and Supporting Notes

HOUSING REVENUE ACCOUNT (HRA) STATEMENTS

HRA INCOME AND EXPENDITURE ACCOUNT AND MOVEMENT ON HRA BALANCE

The HRA Income and Expenditure Statement 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.

The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The HRA Income and Expenditure Statement is consolidated into the Comprehensive Income and Expenditure Statement.

2016/17 restatement due to main Comprehensive Income and Expenditure Statements "Internal Recharges" restatement, so figures consistent between both statements.

2016/17 £000	Comprehensive Income & Expenditure Statement	2017/18 £000
RESTATED	**Expenditure**	
11,358	Repairs and maintenance	12,443
5,487	Supervision and management	6,084
2,494	Rents, rates, taxes and other charges	2,510
399	HRA services' share of Corporate and Democratic Core	202
10,227	Depreciation and impairment of non-current assets	10,506
(11,997)	Upward revaluation of non-dwellings	6,321
0	Impairment Reversal	0
177	Movement in fair value of Investment Properties	0
0	Revenue Expenditure funded by Capital Under Statute	0
94	Debt management costs	90
337	Movement in the allowance for bad debts	383
18,576	**Total Expenditure**	**38,539**
	Income	
(33,712)	Dwelling rents	(33,146)
(1,155)	Non-dwelling rents	(1,259)
(2,841)	Tenant services and facilities charges	(3,482)
(526)	Leaseholders services and facilities charges	(316)
(220)	Contributions towards expenditure	(147)
(38,454)	**Total Income**	**(38,351)**
(19,878)	**Net Cost for HRA Services**	**189**
	HRA Share of the operating income and expenditure	
(1,928)	(Gain) or loss on sale of HRA non-current assets	(462)
0	Movement in fair value of Investment Properties	2,167
4,719	Interest payable and similar charges	4,721
(53)	Interest and investment income	(58)
241	Net interest on the net defined benefit liability	233
(226)	Capital contributions receivable	(437)
(17,125)	**(Surplus) or deficit for the year on HRA services**	**6,353**

MOVEMENT ON THE HRA STATEMENT

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

It is consolidated into the Movement in Reserves Statement.

2016/17 £000	Movement in Reserves Statement	2017/18 £000
(8,189)	**Balance on the HRA at the end of the previous year**	**(8,311)**
(17,125)	(Surplus) or deficit for the year on HRA services	6,353
	Adjustments between accounting and funding basis:	
(10,227)	Charges for depreciation and impairment of non-current assets	(10,506)
11,997	Revaluation losses on Property, Plant and Equipment	(6,321)
(177)	Movements in the market value of Investment Properties	(2,167)
0	Revenue Expenditure funded from Capital under Statute	0
(5,498)	Non-current assets written off on disposal or sale as part of the gain/loss on disposal	(5,573)
226	Capital grants and contributions applied to capital financing	437
7,550	Transfer of cash sale proceeds credited as part of the gain/loss on disposal	6,128
(124)	Contribution from the Capital Receipts Reserve towards administrative costs of disposals	(92)
1,729	Capital expenditure charged against the General Fund and HRA balances	1,603
9,965	Reversal of Major Repairs Allowance credited to the HRA	10,178
7	Amount by which finance costs differ from costs chargeable in accordance with statute	5
(325)	Reversal of items relating to retirement benefits debited or credited to the statement	(1,045)
207	Employer’s pensions contributions and direct payments to pensioners payable in the year	550
18	Amount by which officer remuneration charged on an accruals basis differs from remuneration chargeable in accordance with statute	(15)
(1,777)	**Net (increase) or decrease before transfers to or from reserves**	**(466)**
1,655	Transfer to or (from) earmarked reserves	466
(122)	**(Increase) or decrease in year on the HRA**	**(0)**
(8,311)	**Balance on the HRA at the end of the current year**	**(8,311)**

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HRA STATEMENT SUPPORTING NOTES

HRA 1) MOVEMENTS IN ASSET VALUES

	Dwellings £000	Land & Buildings £000	VPFE £000	Surplus £000	Investment Property £000	2017/18 Total £000	2016/17 £000
Opening	**452,039**	**6,920**	**29**	**2,974**	**5,045**	**467,007**	**409,814**
Additions/Transfer	19,905	(70)	0	175	3,944	23,954	11,534
Depreciation	(10,205)	(291)	(10)	0	0	(10,506)	(10,227)
Revaluations	7,354	233	0	1,756	(2,167)	7,176	61,384
Disposals	(4,598)	(232)	0	(743)	0	(5,573)	(5,498)
Closing	**464,495**	**6,560**	**19**	**4,162**	**6,822**	**482,058**	**467,007**

HRA 2) HOUSING STOCK

Balance Sheet Date	Houses and bungalows				Flats			Total
	1 Bedroom	2 Bedrooms	3 Bedrooms	>3 Bedrooms	1 Bedroom	2 Bedrooms	3 Bedrooms	
31-Mar-17	126	770	2,599	131	2,363	1,580	226	**7,795**
31-Mar-18	125	768	2,562	129	2,361	1,594	223	7,762
Change	**(1)**	**(2)**	**(37)**	**(2)**	**(2)**	**14**	**(3)**	**(33)**

The average dwelling value is £0.060 million (£0.058 million in 2016/17).

HRA 3) VACANT POSSESSION VALUES

The vacant possession value of dwellings as at 31st March 2018 is £1,220 million (£1,187 million in 2016/17). The vacant possession value of a property is defined as an opinion of the best price at which the sale of the property would have been completed unconditionally for cash consideration on the date of the valuation. The difference between the vacant possession value and the balance sheet value shows the economic cost to the Government of providing council housing at less than open market value.

Luton

HRA 4) MAJOR REPAIRS RESERVE

Authorities are required by regulation to establish and maintain a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all Housing Revenue Account assets. Capital spending on Housing Revenue Account assets is then funded from the reserve without being charged to the Housing Revenue Account. The movements of the Major Repairs Reserve can be found in ***Note 20***.

HRA 5) CAPITAL EXPENDITURE AND FINANCING

Capital Financing	2016/17 £000	2017/18 £000
Prudential Borrowing	7,022	4,648
Capital Grants	225	437
Direct Revenue Financing	1,729	1,603
Major Repairs Reserve	8,832	9,585
Capital Receipts	2,314	1,394
Total Capital Expenditure	**20,122**	**17,667**

The £4.648 million is with regard to Marsh Farm Re-development solely.

HRA 6) CAPITAL RECEIPTS RECONCILIATION

Capital Receipts	2016/17 £000	2017/18 £000
Sale of Council Houses	(8,348)	(7,046)
Mortgage receipts	0	0
HRA receipts in year	**(8,348)**	**(7,046)**
Less: Statutory pooling	658	651
Total Capital Receipts	**(7,691)**	**(6,395)**

HRA 7) RENT AND ARREARS

Central Government policy is to reduce housing rents by 1% per year for the four years until 2020/21.

Type	Number of Bedrooms	Lowest £	Highest £	Typical £
Houses & Bungalows	1	54.67	113.90	80.95
	2	71.56	163.10	89.22
	3	76.60	163.10	96.35
	4 or more	92.52	119.88	104.62
Flats	1	46.62	119.79	74.26
	2	56.53	152.58	82.33
	3	85.28	98.54	90.78

Rent arrears at 31st March 2018 were £2.744 million (£2.424 million at 31st March 2017), against which a provision for bad debt of £2.640 million (£2.315 million at 31st March 2017) has been made.

Luton

COLLECTION FUND STATEMENTS

COLLECTION FUND ANNUAL STATEMENT

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.

2016/17 NNDR £000	2016/17 Council Tax £000	Collection Fund Statement	2017/18 NNDR £000	2017/18 Council Tax £000
		Income		
-	(79,319)	Income from Council Tax	-	(84,093)
(68,590)	-	Income collectable from business rates	(66,295)	-
(68,590)	**(79,319)**	**Total Income**	**(66,295)**	**(84,093)**
		Expenditure		
		Prior year estimated surplus / (deficit)		
437	-	Central Government	(2,935)	-
428	(912)	Luton Borough Council	(2,876)	564
-	(117)	Bedfordshire Police Authority	-	71
9	(65)	Beds and Luton Combined Fire Authority	(59)	40
874	**(1,094)**	**Total Prior years estimated surplus / (deficit)**	**(5,869)**	**674**
		Precepts and Demands		
33,963	-	Central Government	32,463	-
33,284	63,528	Luton Borough Council	31,814	67,438
-	8,004	Bedfordshire Police Authority	-	8,260
679	4,473	Beds and Luton Combined Fire Authority	649	4,616
67,926	**76,005**	**Total Precepts and Demands**	**64,926**	**80,314**
		Charges to Collection Fund		
255	-	Costs of Collection	246	-
381	173	Write-offs charged to Collection Fund	2,860	136
(90)	1,702	Change in allowance for impairment	(1,314)	2,740
(2,640)	0	Appeals charged to Collection Fund	(3,295)	0
(2,174)	0	Change in provision for appeals	2,926	0
(252)	-	Transitional Protection payments	1,227	-
(4,520)	**1,875**	**Total Charges to Collection Fund**	**2,651**	**2,876**
64,280	**76,786**	**Total Expenditure**	**61,708**	**83,864**
(4,310)	**(2,533)**	**Deficit/(Surplus) for year**	**(4,587)**	**(229)**

COLLECTION FUND MOVEMENT IN RESERVES

The surplus generated in 2017/18 for Business Rates and Council Tax has improved the level of reserves held for both funds.

The closing reserves balances can then be split by the major preceptors. This is shown in the following note.

2016/17 NNDR £000	2016/17 Council Tax £000	Collection Fund Statement	2017/18 NNDR £000	2017/18 Council Tax £000
		Movement in Collection Fund Balance during year		
(4,310)	**(2,533)**	**Deficit/(Surplus) for year**	**(4,587)**	**(229)**
7,908	(702)	Deficit/(Surplus) brought forward	3,598	(3,235)
3,598	**(3,235)**	**Deficit/(Surplus) carried forward**	**(989)**	**(3,464)**

COLLECTION FUND SUPPORTING NOTES

CF 1) SPLIT OF THE COLLECTION FUND BALANCES SHARE BY MAJOR PRECEPTOR

Council Tax reserves are split across the major preceptors based on the precept demands place on the Collection Fund.

Business Rates are proportioned based on a set percentage across the major preceptors.

- 50% Central Government
- 49% Luton Borough Council
- 1% Beds and Luton Combined Fire Authority

2016/17 NNDR £000	2016/17 Council Tax £000	Major preceptor splits	2017/18 NNDR £000	2017/18 Council Tax £000
1,799	-	Central Government	(495)	-
1,763	(2,686)	Luton Borough Council	(485)	(2,909)
-	(352)	Bedfordshire Police Authority	-	(356)
36	(197)	Beds and Luton Combined Fire Authority	(10)	(199)
3,598	**(3,235)**	**Total reserve balance**	**(989)**	**(3,464)**

CF 2) INCOME FROM BUSINESS RATES

The Council is a billing authority and collects from local businesses an amount equal to the rateable value of their property, multiplied by the uniform rate set nationally by government. In unitary authority areas such as Luton, the Council will retain 49% of the rates yield.

There is inherent volatility in the Non-Domestic Rates yield as the tax base is based on notional property rental values. The Council now benefits from any growth in yield, subject to a levy on disproportionate gains, but also shares the risk of any negative volatility in yield, subject to a national safety net system that will ensure retained yield does not fall below 92.5% of the Council's baseline funding requirement as determined by the Government.

Ratepayers have a right to appeal against the rateable value attributed to their property under certain circumstances. It is necessary to establish a provision for the estimated loss in yield, but it is difficult to form an accurate estimate of the potential liability to the Council that will arise due to outstanding rating appeals because appeals are determined independently by the Valuation Office Agency or, in some cases, the Valuation Tribunal.

The total 2017 non-domestic rateable value at 31st March 2018 was £171.3 million (£170.5 million at 31st March 2017). The 2017/18 rating multiplier set by central government was 47.9p per £ (49.7p per £ in 2016/17) and the 2017/18 small business multiplier was 46.6p per £ (48.4p in 2016/17).

CF 3) INCOME FROM COUNCIL TAX

The Council's tax base for 2017/18 was 49,733.30 (49,151.29 in 2016/17). This is the number of chargeable dwellings in each of the valuation bands adjusted for discounts and non-collection and converted into an equivalent number of band D properties.

Band	Value at April 1991	Number of Dwellings	Ratio (9th)	Council Tax
A	Disabled Relief	13	5	£958.48
A	Under 40,000	18,253	6	£1,076.59
B	40,000 – 52,000	26,599	7	£1,256.02
C	52,000 – 68,000	22,401	8	£1,435.46
D	68,000 – 88,000	7,731	9	£1,614.88
E	88,000 – 120,000	3,404	11	£1,973.74
F	120,000 – 160,000	1,051	13	£2,332.61
G	160,000 – 320,000	258	15	£2,691.47
H	Over 320,000	32	18	£3,229.76

GROUP ACCOUNTS

ACCOUNTING POLICY

BASIS OF CONSOLIDATION

Subsidiaries are entities that the Council has the power to govern. In the Council's financial statements, the investment in the subsidiary is carried at cost. In the Group financial statements, the subsidiary is accounted for using the acquisition accounting method where assets, liabilities, revenue and expenditure are added in on a line-by-line basis.

The Group Accounts include all supporting notes which are materially changed by the amalgamation with the subsidiary's financial statements.

The Luton Borough Council Group consists of Luton Borough Council, London Luton Airport Limited (a wholly owned subsidiary of the Council) and Foxhall Homes Limited (a wholly owned subsidiary of the Council). The Group Accounts have been prepared on the basis of a full consolidation; this means that all transactions between the Group entities are eliminated.

The Group only includes these two subsidiaries and no joint ventures or associates.

LONDON LUTON AIRPORT LIMITED

This company is a full subsidiary of the Council and the Group Accounts consist of the consolidation of its financial statements with those of the Council's.

The principal activity of the company is the ownership of airport facilities. In 1998/99 the company entered into a thirty-year concession with London Luton Airport Operations Limited to operate the airport. The Council holds 44,836,999 ordinary £1 shares, equivalent to 100% of the company's share capital carried at a historic valuation of £44.837 million. It also held debentures totalling £57.921 million at 31st March 2018.

At the year ended 31st March 2018, the company had net assets of £466.741 million (£459.549 million at 31st March 2017). The profit before tax was £31.273 million and after tax was £26.651 million (profit before tax £52.603 million and after tax was £46.927 million for 2016/17).

A dividend of £19.5 million has been declared in 2017/18 and is due to be paid in 2018/19. Debenture interest of £3.862 million was payable by the company to the Council during 2017/18 (£3.883 million in 2016/17).

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Concession Contracts

On 20 August 1998 (‘the concession date’) the company entered into a concession contract with an unrelated entity, London Luton Airport Operations Limited (“LLAOL”).

Under the terms of this contract LLAOL was granted a concession to operate the airport for a period of 30 years (‘the concession period’) and a lease over the company’s land and buildings. In return LLAOL undertook to pay an annual concession fee to the company comprising of £3 million as a minimum fixed payment or a greater amount based on workload units (being each departing and arriving passenger and each 100 tonnes of freight) as prescribed in the concession agreement and, subject to the continuing growth of passenger numbers, fund an extensive capital investment programme. At the end of the concession period the assets, liabilities and operations of the airport revert to the ownership and use of the company.

In August 2012 a supplemental agreement to the concession contract was reached between LLAL and LLAOL. This agreement commits the operators to undertake a significant programme of development works to increase the Airport’s capacity to handle throughput of up to 18 million passengers per year, in return for an extension of the Concession Period to March 31st 2031. The concession agreement was further amended in January 2014 to provide for a scheme to rebate the Concession Fee Rate payable by the airport operator in certain circumstances, in order to encourage passenger growth.

At the concession date the trading assets and liabilities of the company were transferred to LLAOL at book value. No profit or loss arose on the transfer of these assets and liabilities. The employees of the company were also transferred to LLAOL.

As the company no longer operates the airport itself, the land and buildings have become investment properties. At the instruction of the company, Deloitte LLP has valued the freehold interest in London Luton Airport as at 31st March 2016. The next valuation is due to be undertaken as at 31st March 2020; it has, however, been agreed that, given the rate at which passenger numbers are currently growing, and the other developments currently being carried out by the company, the valuation will be reviewed annually in the intervening periods to ensure the investment properties are reflected at fair value.

Fixed Assets

The company includes investment properties at their fair value at the balance sheet date on the basis of the external valuer’s valuation. Any gains or losses through the change in fair value are recorded through the income statement.

Given the rapid growth in passenger numbers at the airport over the past two years, and the acquisition by the company of a number of strategic property assets adjacent to or connected with the airport, the Board commissioned a full valuation as at 31st March 2016, and this has been reviewed and updated at 31st March 2018.

The balance of Property, Plant & Equipment consists of expenditure incurred to date on the Direct Air Rail Transit (DART) project. This is not operational as of 31st March 2018 and therefore it is classified as Assets Under Construction and is therefore valued at historical cost.

The ongoing capital expenditure incurred in relation to the major schemes is only capitalised when it meets the definition of an asset and the future economic benefits or service potential will flow to the authority, and the cost of the item can be measured reliably.

FOXHALL HOMES LIMITED

This company is a full subsidiary of the Council and the Group Accounts consist of the consolidation of its financial statements with those of the Council's.

2017/18 represents the first year of inclusion within the Group accounts of Foxhall Homes Ltd, this includes the period from inception (February 2017) to the Balance sheet date (31st March 2018). The period of February to March 2017 having been previously been assessed as immaterial to 2016/17 accounts.

The principal activity of the company is to provide the Council with a means to develop a mix of property types of different tenures, maximising resources to assist in the delivery of much needed homes. The Council holds 1 ordinary £1 shares, equivalent to 100% of the company's share capital.

At the year ended 31st March 2018, the company had net assets of negative £0.470 million (net liabilities). The loss before and after tax was £0.470 million.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost of providing service for the group in accordance with generally accepted accounting practices. Councils raise taxation and other charges to cover expenditure in accordance with regulations which may differ from the accounting cost.

		31/03/2017 RESTATED				31/03/2018
Spend £000	Income £000	Net Spend £000	Group	Spend £000	Income £000	Net Spend £000
7,375	(1,273)	**6,102**	Chief Executive	4,748	(1,313)	**3,435**
58,819	(15,904)	**42,915**	Place and Infrastructure	64,985	(16,051)	**48,934**
121,660	(108,212)	**13,448**	Customer and Commercial	122,114	(109,282)	**12,832**
31,423	(19,292)	**12,131**	Public Health, Commissioning & Procurement	29,040	(16,548)	**12,492**
137,456	(32,706)	**104,750**	People	166,742	(50,617)	**116,125**
177,984	(173,626)	**4,358**	Schools Individual Budgets	174,782	(172,358)	**2,424**
18,576	(38,454)	**(19,878)**	Housing Revenue Account	38,539	(38,351)	**189**
279	(20)	**259**	Other Corporate Accounts	334	(1,208)	**(874)**
553,572	**(389,487)**	**164,085**	**Total Net Cost of Services**	**601,284**	**(405,726)**	**195,558**
		33,344	Other operating expenditure			**(2,848)**
		(46,073)	Financing and investment income and expenditure *(Note GRP 1)*			**(28,391)**
		(171,688)	Taxation and non-specific grant income			**(152,136)**
		(20,332)	**(Surplus) or Deficit on Provision of Services**			**12,183**
		5,674	Tax expenses of subsidiary (LLAL)			**4,622**
		0	Tax expenses of subsidiary (Foxhall Homes)			**0**
		(14,658)	**Group (Surplus) or Deficit on Provision of Services**			**16,805**
		(95,379)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			**(41,827)**
		76,996	Re-measurements of the net defined benefit liability			**(7,915)**
		(18,383)	**Other Comprehensive Income and Expenditure**			**(49,742)**
		(33,041)	**Total Comprehensive Income and Expenditure**			**(32,937)**

2016/17 restated to include “Internal Recharges” within departmental segments, not on its own line separately; this has not changed the “total net cost of services”.

GROUP MOVEMENT IN RESERVES STATEMENT

This statement summarises the differences between the outturn on the Group Comprehensive Income and Expenditure Account and the movement on the General Fund Balance and Housing Revenue Account. It also 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 or (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.

Group	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied Reserve	LLAL Profit & Loss Account	Foxhall Homes Profit & Loss Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2016	**(71,187)**	**(8,405)**	**(1,406)**	**(11,067)**	**(6,884)**	**(402,629)**	**0**	**(501,578)**	**(480,788)**	**(982,366)**
Opening Bal. Adjustment								**0**	88	**88**
Revised Balance at 31 March 2016	**(71,187)**	**(8,405)**	**(1,406)**	**(11,067)**	**(6,884)**	**(402,629)**	**0**	**(501,578)**	**(480,700)**	**(982,278)**
Movement in Reserves 2016/17										
Total Comprehensive Income & Expenditure	31,596	(17,125)				(29,004)	0	**(14,533)**	(18,508)	**(33,041)**
Adj. between accounting basis & funding basis under regulations	(37,329)	15,348	(1,133)	(6,112)	1,390	0	0	**(27,836)**	27,836	**0**
(Increase) or Decrease in 2016/17	**(5,733)**	**(1,777)**	**(1,133)**	**(6,112)**	**1,390**	**(29,004)**	**0**	**(42,369)**	**9,328**	**(33,041)**
Balance at 31 March 2017	**(76,920)**	**(10,182)**	**(2,539)**	**(17,179)**	**(5,494)**	**(431,633)**	**0**	**(543,947)**	**(471,372)**	**(1,015,319)**
Movement in Reserves 2017/18										
Total Comprehensive Income & Expenditure	17,133	6,353	0	0	0	(7,193)	470	**16,759**	(49,696)	**(32,937)**
Adj. between accounting basis & funding basis under regulations	(20,561)	(6,818)	(593)	(1,956)	1,509	0	0	**(28,418)**	28,418	**0**
(Increase) or Decrease in 2017/18	**(3,427)**	**(465)**	**(593)**	**(1,956)**	**1,509**	**(7,193)**	**470**	**(11,655)**	**(21,282)**	**(32,937)**
Balance at 31 March 2018	**(80,348)**	**(10,647)**	**(3,132)**	**(19,135)**	**(3,985)**	**(438,826)**	**470**	**(555,603)**	**(492,655)**	**(1,048,258)**

Luton

GROUP BALANCE SHEET

The group balance sheet shows the value of assets and liabilities recognised by the group. These are funded by the usable and unusable reserves of the Council.

The significant change year on year within Investment Properties, is further outlined in ***Note GRP3.***

31/03/2017 £000	Net Assets (Group)	31/03/2018 £000
1,098,951	Property, Plant & Equipment *(Note GRP 3)*	1,153,890
649,536	Investment Property *(Note GRP 3)*	674,122
1,045	Intangible Assets	898
5,806	Heritage Assets	5,881
1,833	Long Term Investments *(Note GRP 6)*	1,831
355	Long Term Debtors	328
1,757,526	**Total Long Term Assets**	**1,836,950**
5,005	Short Term Investments	3,503
668	Inventories	1,533
44,741	Short Term Debtors *(Note GRP 4)*	57,926
37,286	Cash and Cash Equivalents *(Note GRP 5)*	27,718
87,700	**Total Current Assets**	**90,680**
0	Cash and Cash Equivalents (Bank Overdrawn)	0
(2,391)	Short Term Borrowing	(2,396)
(56,432)	Short Term Creditors *(Note GRP 7)*	(74,649)
(3,102)	Current Provisions *(Note GRP 8)*	(2,810)
(6,581)	Revenue Receipts in Advance	(8,348)
(68,506)	**Total Current Liabilities**	**(88,203)**
(59,333)	Non Current Provisions *(Note GRP 8)*	(59,037)
(9,838)	Capital Grants Receipts in Advance	(20,703)
(2,795)	Long Term Creditors	(2,418)
(23,929)	Other Long Term Liabilities	(23,030)
(394,805)	Net Pensions Asset/Liability *(Note GRP 9)*	(411,185)
(270,701)	Long Term Borrowing	(274,796)
(761,401)	**Total Long Term Liabilities**	**(791,169)**
1,015,319	**Total Net Assets**	**1,048,258**

31/03/2017 £000	Reserves (Group)	31/03/2018 £000
(76,920)	General Fund Reserves	(80,348)
(10,182)	Housing Revenue Account	(10,647)
(2,539)	Major Repairs Reserve	(3,132)
(17,179)	Capital Receipts Reserve	(19,135)
(5,494)	Capital Grants Unapplied	(3,985)
(431,633)	LLAL Profit & Loss Account	(438,825)
0	Foxhall Homes Profit & Loss Account	470
(543,947)	**Total Usable Reserves**	**(555,603)**
(234,583)	Revaluation Reserve	(267,313)
(631,917)	Capital Adjustment Account	(634,828)
392,653	Pensions Reserve	409,179
1,159	Financial Instruments Adjustment Account	1,095
(22)	Deferred Capital Receipts	(17)
(923)	Collection Fund Adjustment Account	(3,394)
2,261	Accumulated Leave Reserve	2,623
(471,372)	**Unusable Reserves**	**(492,655)**
(1,015,319)	**Total Reserves**	**(1,048,258)**

GROUP CASH FLOW STATEMENT

The group cash flow statement shows the changes in the cash and cash equivalents of the Group, classifying cash flows as operating, investing and financing activities for the Group. Operating cash flow shows the funding and expenditure on services for the group. Investing activities shows the extent to which cash outflows are made to contribute to future service delivery of the group. Cash flows from financing activities show payments and receipts for investing and borrowing activities.

31/03/2017 £000	Group	31/03/2018 £000
14,533	Net surplus or (deficit) on the provision of services	**(16,759)**
37,640	Adjustments to net surplus or deficit on the provision of services for non-cash movements ***see note GRP10***	80,938
(23,715)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities ***see note GRP10***	(26,711)
28,458	**Net cash flows from Operating Activities**	**37,468**
(37,379)	Investing Activities ***see note GRP11***	(49,227)
(1,025)	Financing Activities ***see note GRP12***	2,192
(9,946)	**Net increase or decrease in cash and cash equivalents**	**(9,568)**
47,232	Cash and cash equivalents at the beginning of the reporting period	37,286
37,286	**Cash and cash equivalents at the end of the reporting period**	**27,718**

GRP 1) FINANCING AND INVESTMENT INCOME AND EXPENDITURE

31/03/2017 £000		31/03/2018 £000
11,983	Interest payable and similar charges	12,092
10,650	Net interest on the net defined benefit liability	10,383
(503)	Interest receivable and similar income	(445)
(66,734)	Income and expenditure in relation to investment properties and changes in their fair value	(51,396)
0	Dividends Receivable	0
(1,469)	Trading and other investment activities	974
(46,073)	**Total Financing and Investment Income and Expenditure**	**(28,391)**

Inter group debenture interest of £4.603 million and the dividend of £19.5 million has been removed from the single entity amounts. The LLAL operating profit is then included.

GRP 2) EXTERNAL AUDIT COSTS

2016/17 £000		2017/18 £000
156	Single entity audit costs *(Note 15)*	147
33	LLAL audit services procured from PWC LLP	45
0	Foxhall Homes audit services procured from PWC LLP	10
189	**External Audit Costs Total**	**202**

GRP 3) PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTIES

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:

2016/17 £000	Investment properties income & expenditure net (gain)/loss on operations	2017/18 £000
(48,279)	Rental income from investment property	(52,973)
3,889	Direct operating expenses arising from investment property	137
(32,670)	Net gains/losses from fair value adjustments	(7,925)
10,326	Charitable Donations	9,365
(66,734)	**Net (gain)/loss on investment property**	**(51,396)**

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

2016/17 £000	Investment properties movement in value	2017/18 £000
599,083	**Opening Balance**	**649,536**
18,088	Additions - Purchases	17,038
0	Disposals	(43)
32,670	Total gains/losses in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	7,925
(305)	Transfers (to/from Inventories or PPE)	(334)
649,536	**Balance at end of the year**	**674,122**

For Investment Property Fair Value explanations please see ***Note GRP15.***

The following table summarise the movement in the fair value of property, plant and equipment over the year:

2016/17 £000	Property, Plant & Equipment movement in value	2017/18 £000
1,016,452	**Opening Balance**	**1,098,952**
58,226	Additions - Purchases	72,506
(5,733)	Disposals	(9,598)
8,705	Total gains/losses in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	(13,621)
21,607	Other Adjustments	(1,730)
(305)	Transfers (to/from Inventories or PPE)	7,382
1,098,952	**Balance at end of the year**	**1,153,890**

During 2018/19 there has been £34.665 million of expenditure capitalised for major LLAL projects; including £23.3 million in the Direct Air Rail Transit. This includes capitalised interest of £0.8 million incurred in relation to the scheme. The remaining capital expenditure is in relation to the planning application to expand the airport to 18 million passengers per annum, the development of Bartlett Square, Century Park enterprise zone and the required access road.

LLAL has set aside reserves as mitigation against any major scheme risks during the development and construction stages of the aforementioned schemes.

GRP 4) DEBTORS

2016/17 Debtor £000	2016/17 Impairment of asset £000	2016/17 Net debtor £000	Debtor Classification (Group)	2017/18 Debtor £000	2017/18 Impairment of asset £000	2017/18 Net debtor £000
1,406	0	**1,406**	Other Local Authority	1,467	0	**1,467**
6,050	0	**6,050**	Central Government	10,446	0	**10,446**
2,961	0	**2,961**	NHS	5,558	0	**5,558**
0	0	**0**	Public Corporation & Trading	0	0	**0**
18,603	(13,018)	**5,585**	Council Tax	22,501	(15,734)	**6,767**
6,429	(3,693)	**2,736**	NNDR	5,716	(3,049)	**2,667**
8,674	(8,383)	**291**	Housing Tenants	10,838	(10,157)	**681**
10,548	(10,098)	**450**	Housing Benefit Overpayments	12,136	(11,805)	**330**
22,205	(1,554)	**20,651**	Other bodies	26,398	(1,872)	**24,525**
4,611	0	**4,611**	Payments in advance	5,485	0	**5,485**
81,487	**(36,746)**	**44,741**	**Total**	**100,544**	**(42,618)**	**57,926**

GRP 5) CASH AND CASH EQUIVALENTS

LLAL use Money Market Funds and bank accounts as a form of liquidity instruments.

2016/17 £000	Cash & Cash Equivalents	2017/18 £000
7,007	Short-term deposits with banks	687
14,714	Money Market Funds	20,616
15,558	Bank current accounts	6,394
7	Cash held by the Council	21
37,286	**Total**	**27,718**

GRP 6) LONG TERM INVESTMENTS

2016/17 £000	Long Term Investments	2017/18 £000
94,591	Single Entity Long Term Investments *(note 29)*	104,589
(92,758)	Investments in subsidiary (LLAL)	(102,758)
0	Investments in subsidiary (Foxhall Homes)	0
1,833	**Total**	**1,831**

The majority of the single entity investments are the share capital and debentures held by LLAL.

GRP 7) CREDITORS

2016/17 £000	Creditor Classification (Group)	2017/18 £000
(1,033)	Other Local Authority	(733)
(12,384)	Central Government	(15,171)
(1,054)	NHS	(1,524)
0	Public Corporations & Trading	0
(1,941)	Council Tax	(2,179)
(2,110)	NNDR	(1,800)
(2,255)	Housing Tenants	(3,204)
(35,655)	Other bodies	(50,038)
(56,432)	**Total**	**(74,649)**

The creditors held with Luton Borough Council in the LLAL accounts have been removed.

GRP 8) PROVISIONS

2016/17 £000	Provisions (Group)	2017/18 £000
(8,183)	Single Provisions *(note 38)*	(7,884)
(54,252)	Subsidiary Deferred Tax Liability (LLAL)	(53,963)
0	Subsidiary Deferred Tax Liability (Foxhall Homes)	0
(62,435)	**Total**	**(61,847)**

The Group Accounts have a significantly higher provision balance due to the inclusion of LLAL's deferred tax liability.

GRP 9) NET PENSIONS ASSET/LIABILITY

2016/17 £000	Other Long Term Liabilities (Group)	2017/18 £000
(392,652)	Single Entity Other LT Liabilities *(note 33)*	(409,179)
(2,153)	Subsidiary Pensions Liability (LLAL)	(2,006)
0	Subsidiary Pensions Liability (Foxhall Homes)	0
(394,805)	**Total**	**(411,185)**

Luton

GRP 10) CASH FLOW STATEMENT – OPERATING ACTIVITIES

2016/17 £000	Cash Flow Statement – Operating Activities (Group)	2017/18 £000
14,533	**Net surplus or deficit on the provision of services**	**(16,759)**
	Adjustments for non-cash items	
40,127	Depreciation and amortisation	36,479
(8,705)	Impairment and downward valuations	13,621
(32,670)	Movements in the market value of investment properties	(7,925)
3,824	Increase/(decrease) in creditors	17,895
(14,478)	(Increase)/decrease in debtors	(11,790)
(4,044)	Increase/(decrease) in provisions	(588)
217	(Increase)/decrease in inventories	(865)
11,944	Movement in pension liability	24,253
41,425	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	9,858
0	Other non-cash items charged to the net surplus or deficit on the provision of services	0
37,640		**80,938**
	Adjustments for investing and financing activity items	
13	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	10
(8,193)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,845)
(15,535)	Any other items for which the cash effects are investing or financing cash flows	(13,876)
(23,715)		**(26,711)**
28,458	**Net cash flows from operating activities**	**37,468**

The group interest received is only £0.445 million after the Group inter-transactions are removed. Interest paid is £12.092 million, which is consistent with the single entity accounts. ***GRP1 Note.***

GRP 11) CASH FLOW STATEMENT – INVESTING ACTIVITIES

2016/17 £000	Cash Flow Statement – Investing Activities (Group)	2017/18 £000
(76,438)	Purchase of property, plant and equipment, investment property and intangible assets	(89,659)
0	Purchase of short-term and long-term investments	0
0	Other payments for investing activities	0
8,195	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12,846
12,750	Proceeds from short-term and long-term investments	1,500
18,114	Other receipts from investing activities	26,086
(37,379)	**Net cash flows from investing activities**	**(49,227)**

GRP 12) CASH FLOW STATEMENT- FINANCING ACTIVITIES

2016/17 £000	Cash Flow Statement – Financing Activities (Group)	2017/18 £000
1,538	Other receipts from financing activities	(115)
(725)	Cash payments for the reduction of the outstanding liabilities (finance leases)	(899)
0	Repayments of short- and long-term borrowing	0
(1,838)	Other payments for financing activities	3,206
(1,025)	**Net cash flows from financing activities**	**2,192**

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GRP 13) LEASES

All other information regarding leases is unaltered from the single entity statements.

Group Lessor - Operating Lease

On 20th August 1998 ('the concession date') the company entered into a concession contract with an unrelated entity, London Luton Airport Operations Limited ("LLAOL").

Under the terms of this contract LLAOL was granted a concession to operate the airport for a period of 30 years ('the concession period') and a lease over the company's land and buildings. In return LLAOL undertook to pay an annual concession fee to the company comprising of £3 million as a minimum fixed payment or a greater amount based on workload units (being each departing and arriving passenger and each 100 tonnes of freight) as prescribed in the concession agreement and, subject to the continuing growth of passenger numbers, fund an extensive capital investment programme. At the end of the concession period the assets, liabilities and operations of the airport revert to the ownership and use of the company.

In August 2012 a supplemental agreement to the concession contract was reached between LLAL and LLAOL. This agreement commits the operators to undertake a significant programme of development works to increase the Airport's capacity to handle throughput of up to 18 million passengers per year, in return for an extension of the Concession Period to March 31st 2031. The concession agreement was further amended in January 2014 to provide for a scheme to rebate the Concession Fee Rate payable by the airport operator in certain circumstances, in order to encourage passenger growth.

At the concession date the trading assets and liabilities of the company were transferred to LLAOL at book value. No profit or loss arose on the transfer of these assets and liabilities. The employees of the company were also transferred to LLAOL.

As the company no longer operates the airport itself, the land and buildings have become investment properties. At the instruction of London Luton Airport Limited, Deloitte LLP have valued the freehold interest in London Luton Airport as at 31st March 2016. The next valuation is due to be undertaken as at 31st March 2020; it has, however, been agreed that, given the rate at which passenger numbers are currently growing, and the other developments currently being carried out by the company, the valuation will be reviewed annually in the intervening periods to ensure the investment properties are reflected at fair value.

In 1998 London Luton Airport (LLAL) granted a "Concession to Operate" lease of the Airport to London Luton Airport Operations (LLAOL). The future minimum lease payments due in respect of this in future years is detailed in the table.

Capital Financing	31/03/2017 £000	31/03/2018 £000
Not later than one year	3,000	3,000
Later than one year and not later than five years	12,000	12,000
Later than five years	30,000	27,000
Total	**45,000**	**42,000**

GRP 14) RELATED PARTIES

The Council is required to disclose material group 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. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council. In addition to the disclosures included in ***Note 44*** the following donations were made by London Luton Airport Ltd:

Organisation	Number of Councillor/Officer Representatives	Amount (£)	Nature of service
Luton Cultural Services Trust	2	£2,754,000	Leisure & Culture
Active Luton	3	£1,471,000	Leisure & Culture
Luton CAB	2	£423,000	Citizen Enablement
Luton Law Centre	2	£167,500	Citizen Enablement
Luton Rights	3	£120,500	Citizen Enablement
You Turn	1	£80,000	Community Safety
Safer Luton Partnership	1	£66,000	Community Safety
Luton Foodbank	1	£50,000	Citizen Enablement
Luton Mediation	1	£35,000	Community Safety
Marsh Farm Futures	2	£30,000	Community Involvement
Centre for Youth and Community Dev.	1	£25,000	Health & Wellbeing
Total		**£5,222,000**	

A disclosure limit of £1k has been applied to this disclosure. All transactions under £1k have been assessed as not material from the viewpoint of the Group, and the related party.

Foxhall Homes had no cash transaction in 2017/18 therefore could have no related party transactions.

Fair valuations have been classified into three levels to signify the level of certainty existing within the underlying valuation assumptions. The below table summarises the consolidated investment properties included in the Group Accounts for LLAL included at fair value.

Recurring fair value measurements using	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000
Freehold Interest in London Luton Airport	0	0	536,500
Office Units	0	2,000	0
Industrial	0	5,530	0
Other	0	2,565	10,775
Total	**0**	**10,095**	**547,275**

The following have not been included in the table but are included in the Group Balance Sheet figure for Investment Properties:

- £102.9 million Luton Borough Council single entity investment properties (see Note 45)
- £13.676 million LALL investment properties assets under construction which relate to Bartlett Square, Century Park and the Development Consent Order. These costs are held at historical cost
- £0.363 million of expenditure incurred by Foxhall Homes which is currently assets under construction and valued at historical cost.

Significant Observable Inputs – Level 2

For the Level 2 valuations we have based the valuations on the market-based income and investment approach in all the separate categories, assessing rental values by reference to comparable leasing deals in the locality of each asset, with relatively minor adjustments to unit rental values to cater for individual characteristics of the property being valued. Capitalising income streams at an appropriate valuation yield has also been carried out by reference to comparable sales of investment properties with similar characteristics and adopting the capitalisation yields in those comparable deals. The office, some of the industrial properties and other have been placed in the Level 2 category as relevant comparable evidence of rental value and investment/capital value such that the level of 'observable inputs' is significant.

For our offices throughout the south-east of England comparable capital transactions may be in other towns but of similar types of office building. Adjustments have been made to comparable yields to reflect differences in individual property's features, such as unexpired lease term, strength of tenant covenant, quality of specification and micro location. For a Level 2 valuation we would seek to base valuations on very similar comparable transactions so that the adjustments made in the valuation for these factors are not significant – so that the "observable inputs" (i.e. the comparable evidence) are significant determinants in each valuation.

Significant Observable Inputs – Level 3

The Freehold Interest in London Luton Airport has been placed in the Level 3 category the valuers have adopted an explicit discounted cash flow methodology and made assumptions regarding passenger growth and RPI forecasts based on our analysis of historical trends and knowledge of other airports. At reversion (2031) it is assumed that the freeholder would sell the Airport. This is consistent with the methodology previously adopted. The valuers have capitalised all income from passenger and cargo throughput and have made appropriate deductions for management fees and the rent payable on the additional 40 acres to arrive at a forecast net income each year. As well as adopting an explicit discounted cash flow methodology the valuers also undertook a 'cross-check' using a traditional yield approach. The valuation of £536,500,000 (rounded) reflects a Net Initial Yield of 8.05% based on current income. This is considered a prudent level recognising the nature of the interest.

The two of the assets categorised as "Others" have been place in the Level 3 category. One site is Bartlett Square a brownfield site which has a value of £1.275 million where the valuation has had regard to the potential development value of the site, reflecting inherent planning risk and has applied an average acreage rate of £0.35 million, which is at the higher end of the market range but allows for the proximity to Luton Airport Parkway. The other site is Century Park, valued at £9.5 million, a land site which has outline planning permission for commercial development. Due to the scale of the development proposal no directly comparable land sales have occurred in the area over recent years, however the valuers have had sight of a number of recent land transactions that have occurred. Due to the size and complexity of the site there are a large number of unknown factors that influence its marketability, and therefore end value. As such the valuers have used the residual value method to establish a land value per acre, which is then deferred into the future on the basis of expected market take up. This is consistent with the prior year and reflects the continued barriers that need to be overcome to deliver development at this site.

05

Glossary

Accounting Polices

Accounting policies define the process whereby transactions and other events are reflected in the financial statements.

Accrual Accounting

The concept that items of income and expenditure are included in the accounts in the year they are earned or incurred, not when the money is received or paid.

Budget

This is a statement of the expected level of service to be provided expressed in monetary terms, over a set period of time including both revenue and capital expenditure.

Capital Adjustment Account

This account was formed on 1 April 2007 from the consolidation the former Capital Financing Account and the Fixed Asset Restatement Account. Transactions on the account since reflect the financing of capital expenditure, the adjustment for the Minimum Revenue Provision and adjustments to the value of assets in the balance sheet which cannot be accounted for in the Revaluation Reserve. This account cannot be used to fund revenue expenditure

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value of an existing fixed asset.

Capital Receipts

Proceeds from the sale of fixed assets and repayment of advances. These are either set aside for the repayment of loans or used to finance new capital expenditure.

Carry Forwards

These are year-end under spends which have been approved by Members to be carried forward into the next year to support specific expenditure.

CIPFA

This is the Chartered Institute of Public Finance and Accountancy, the accountancy body which sets and monitors professional standards and provides guidance for public services accounting.

Code of Practice on Local Authority Accounting in the United Kingdom ('the Code')

The ‘Code’ is the accounting standards which CIPFA have published for Local Authorities to follow when producing the Statement of Accounts. The ‘Code’ translates International Financial Reporting Standards (IFRS) into compatible rules and regulations for Local Authorities to apply.

Collection Fund

This fund receives all income raised through Council Tax and Non-Domestic Rates. The fund then disperses funds to the Income and Expenditure Account, pays the precepts to the Bedfordshire Police Authority and Bedfordshire and Luton Combined Fire Authority, and transfers the Non-Domestic Rate income to the Central Government national pool for redistribution.

Community Assets
Assets that the council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and works of art.

Contingent Liability
A contingent liability is a possible obligation arising from past events that will only be confirmed by future events. An example of a contingent liability would be a court case or employment tribunal case, which had commenced, but not concluded at the year-end.

Council Tax
This is the means of raising money locally to pay for local authority services. This is a property-based tax where the amount levied depends on the valuation of each dwelling.

Creditors
Amounts owed by the Council for goods or services that it has received but for which payment had not been made by the balance sheet date of 31 March.

Current Assets
These are assets that can be readily realised and converted into cash.

Current Liabilities
These are liabilities that are due for payment immediately or in the short term.

Current Service Cost (Pensions)
This is the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include the termination of employees' service sooner than expected and the termination of or amendment to the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors
Amounts owed to the Council where services have been delivered but for which payment has not been received by the balance sheet date.

Deferred Liabilities
These are sums due to be paid by the Council in future periods.

Defined Benefit Scheme
This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated Replacement Cost
A method employed in valuing land and buildings where a market value basis is not readily available. For example this method might be used for valuing schools, where there is no market for the asset in its existing use.

Depreciation
This is the measure of the value of fixed assets, used to provide services, consumed during the accounting period and is based on the expected useful life of the asset. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset.

Doubtful Debts
A provision made for debts which might not be paid, based on the age and particular circumstances relating to the debt.

Earmarked Reserves

These reserves represent the monies set aside that can only be used for the specified use or purpose.

Emoluments

Amounts paid to employees of the council, including expenses or non-monetary benefits that are taxable net of employee pension contributions.

Estimation Techniques

The methods adopted by the council to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Events after the Balance Sheet Date

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

Exceptional items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give a fair representation to the accounts.

Extraordinary items

These are material items, needing a separate disclosure because they are activities that fall outside of the ordinary activities of the authority.

Fair Value

The fair value of an asset 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.

Financial Reporting Standards (FRS's)

These are statements of accounting standards issued by the Accounting Standards Board. Accounting standards apply to all companies, and other kinds of entities that prepare accounts that are intended to provide a true and fair view. The extent to which they apply to local authorities is determined by the SORP.

Foundation School

A school that receives funding from the Council, but where the governing body owns the land and buildings. Many of these schools were formerly grant maintained schools.

General Fund

This is the council's main revenue fund to which revenue receipts are credited and from which revenue liabilities are discharged. The movement on the fund in the year represents the excess of income over expenditure.

Government Grants

Financial assistance provided to the council by government departments, inter-government agencies and similar bodies to enable services to be provided.

Group Accounts

These show the revenue account and balance sheet including regulated companies of the Council. There are wo companies that falls within the regulations, these are London Luton Airport Ltd and Foxhall Homes.

Historical Cost

The value of the capital expenditure originally occurred when the asset was purchased, constructed or enhanced.

Housing Revenue Account (HRA)

This is the ring-fenced account that records the income and expenditure relating to the provision of council housing.

Impairment

This is a reduction in the value of a fixed asset below its carrying amount on the balance sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

Infrastructure Assets

These are fixed assets that cannot be assigned to others and hence have no value to other entities. Examples of infrastructure assets are highways and footpaths.

Intangible Assets

This is expenditure that is of a capital nature, but where no tangible asset exists. An example of intangible asset is a computer software licence.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) underlie the preparation and presentation of financial statements in a consistent format so that users from different countries can interpret financial information. Local Government produced IFRS compliant accounts for the first time in 2010/11.

Inventory

The amount of unused or unconsumed inventory (stocks) held by the council in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Investment Properties

An interest in land and/or buildings where construction work and improvements are complete and it is held for its investment potential, with any rental income being negotiated at arm's length.

Investments (Pensions Fund)

The investments of the Pensions Fund are accounted for in the accounts of the Fund, which is administered by Bedford Borough Council. However the council is required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investments (Non-Pensions Fund)

A long-term investment is an investment that is held for use on a continuing basis. The council's long-term investments mainly relate to the capital investment in London Luton Airport Ltd and in land development. In addition long-term investments include surplus funds that are invested for periods in excess of twelve months. Short-term investments, which are classified as current assets, comprise deposits of temporary surplus funds with banks or similar institutions.

Liabilities

Amounts the authority either owes or anticipates owing to others, whether they are due for immediate payment or not.

Long Term Debtors

These are amounts due to the council more than one year after the balance sheet date.

Major Repairs Allowance (MRA)

The MRA is a government subsidy that was introduced to replace the Housing Revenue Account borrowing for repairs.

Major Repairs Reserve (MRR)

This reserve is for capital expenditure on HRA assets.

Minimum Revenue Provision (MRP)

This is the minimum amount that must be charged to an authorities income and expenditure account each year, as a notional redemption cost of the authority's credit liabilities, for example an element of the principal repayment of outstanding loans.

Net Book Value

The amount at which fixed assets are included in the balance sheet, for instance their historical cost or current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, for instance the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Non-operational Assets

Fixed assets held by the council, but not used or consumed in the delivery of services or for the service or strategic objectives of the council. Examples of such assets include investment properties and assets that are surplus to requirements, pending their sale.

Non Domestic Rates (NDR)
This is a rate in the pound set by central government at a standard countrywide rate, applied to the rateable value of each premise not being used for domestic purposes. It is collected locally by the council and paid over to central government. Central government then redistribute NDR to council's by revenue grant in proportion to the population of each authority.

Operational Assets
Fixed assets held and occupied, used or consumed by the council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the authority.

Precept
The levy made by other authorities, namely the police authority and the combined fire authority, on the council, requiring the council to collect income from council taxpayers on their behalf.

Provisions
Provisions represent sums set aside in the accounts to meet future expenditure where the specific liability is known to exist but is of uncertain amount or timing.

Prudential Borrowing
This is borrowing by local authorities without government financial support, but in accordance with the CIPFA prudential code of local authority borrowing to finance capital expenditure.

Public Works Loan Board (PWLB)
This is a government body that provides loans to local authorities for financing capital expenditure.

Revaluation Reserve
IFRS compliant account introduced for the first time in 2007-08 that reflects revaluations of assets from 1 April 2007, enabling assets to be shown in the balance sheet at current value. The overall balance is attributable to identifiable assets and impairment can only be charged here if a previous valuation gain was greater than or equal to the impairment being credited to the reserve. This account does not represent additional resource available to the Council.

Reserves
These monies set aside are mainly available to meet future commitments. Earmarked reserves are allocated for a specific purpose. Three of the reserves, the Capital Adjustment Account, the Pensions Reserve and the Revaluation Reserve cannot be used to meet commitments.

Revenue Contributions to Capital Outlay
These are contributions from the income and expenditure account to finance capital expenditure.

Revenue Support Grant
This is the amount of general Central Government grant support for local authority expenditure. In addition there are specified grants directly related to particular services and costs.