

# STATEMENT OF ACCOUNTS 2016-2017



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## NARRATIVE REPORT

### 1. Background

Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative statement with the Statement of Accounts.

As a part of the requirement to provide a narrative statement, regulation 8(2) of the Accounts and Audit Regulations 2015 stipulates that a local authority must provide information on its “financial performance and economy, efficiency and effectiveness in its use of resources over the financial year”.

This Narrative Report provides information about Exeter, including the key issues affecting the Council and its accounts. It also provides a summary of the financial position at 31 March 2017 and is structured as follows:

- An introduction to Exeter
- Key information about Exeter City Council
- The Corporate Plan
- Financial Performance 2016/17
- Non-Financial Performance 2016/17
- Future Financial Plans
- Statement from Chief Finance Officer

### 2. Introduction to Exeter

Exeter's history goes back to Roman times with 2/3rds of the Roman Wall still visible. Exeter Cathedral is prominent in the centre of this bustling city. This and other historic buildings help to make Exeter a popular tourist attraction.

Below are some key facts about Exeter:

**Population:** Exeter, the capital city of Devon, has an estimated population of 127,300 and is at the heart of a travel to work area of over 470,000 inhabitants.

**Employment:** The city's wider area includes much of the district council areas of East Devon, Teignbridge and Mid Devon. 289,000 of these residents are of working age and just under 243,500 are employed. Well over half the workforce is well qualified, substantially higher than the national average.

**Commuters:** Approximately 35,000 people commute into Exeter on a daily basis.

**Geography:** Exeter is one of two large urban centres within the rural county of Devon, Plymouth being the other.

**Total companies:** 4,877 registered for business rates in Exeter.

**Average City Centre footfall:** 800,000 people per month.

**Exeter specialisms:** The largest number of meteorologists and climate change specialists in the UK are based in Exeter.

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The Times Higher Education World University Rankings lists University of Exeter as 93<sup>rd</sup> in the world and it was ranked as 7<sup>th</sup> in the latest Times and Sunday Times Good University Guide.

**Culture:** The Council’s Royal Albert Memorial Museum was named Museum of the Year in 2012, the city has four theatres, its own currency – the Exeter Pound and Exeter was chosen to be a Host City for the Rugby World Cup 2015 and Radio 1’s Big Weekend.

**Retail:** Exeter’s retail scene that currently features most major national stores including John Lewis was refreshed in the summer of 2016 with the opening of seven new restaurants within the Guildhall Shopping and Dining Centre. Ikea has plans for a new store to be built on the outskirts of the city centre; a Ground Breaking Ceremony to celebrate the start of construction for the new store was held on 17 May 2017.

**Sport:** Exeter Chiefs play in the English Premiership, the top level of domestic rugby union in England. Founded in 1871, the club play their home games at Sandy Park, which is located on the outskirts of the city. Exeter City Football Club is a professional association football club. The team play in League Two, the fourth tier of the English football league system.

As a legacy from the Rugby World Cup 2015, Active Exeter initiatives seek to improve levels of activity. Exeter aims to be the most active city in the South West by 2018.

**3. Key Information about Exeter City Council**

The City Council provides a range of services within the city including housing, refuse collections and recycling, planning, economic development, tourism, leisure and arts facilities. The Council also provides housing and council tax benefits as well as collecting the council tax on behalf of the county council, police and fire services. Its policies are directed by the Political Leadership and implemented by the Strategic Management Team and Officers of the Council.

**Exeter City Council’s Mission Statement**

‘We will enhance Exeter as the regional capital working with our partners to improve the quality of life for all people living, working in and visiting the city’.

**Political Structure in the 2016/17 Municipal Year**

There are 39 councillors on Exeter City Council, representing the 13 wards of the City. The current political make-up of the Council is:

Labour	28
Conservative	8
Liberal Democrat	1
Green Party	1
Vacant	1

The Council holds elections by thirds over a four-year cycle; one third of seats being contested in each of the three years and elections to Devon County Council taking place in the fourth.

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### Management Structure

During 2016/17 the Council undertook a senior management restructure. With effect from 1 April 2017, the new senior management structure is set out below:

Updated 25 Aug 17



## NARRATIVE REPORT

### Council Employees

The Council employs 680 people in full time and part time contracts (March 2017). In the context of managing scarce public resources, remuneration at all levels within the Council needs to be adequate to secure and retain high-quality employees dedicated to the service of the public, but at the same time providing value for money to the residents of Exeter.

The Council works within a pay and reward framework that takes account of regional and national variations, local market factors, is open and transparent and complies with equal pay legislation.

With effect from 1 January 2014, the Council adopted the Living Wage as its minimum pay scale, which ensures that all staff are paid at least a living wage or more.

#### 4. The Council's Corporate Plan

One of the key strategic documents that frames the actions of the Council is the Council's Corporate Plan. This is a working document that exists to help Councillors, staff and partners work together to deliver the vision for Exeter. The Corporate Plan was approved by Full Council on 6 October 2015. Work is currently being undertaken to prepare a new Corporate Plan. There are currently five key strands to the strategy:

- Provide services to meet customer's needs
- Reduce operating costs
- Invest in the City
- Grow the economy
- Support Exeter's communities

### How we performed

The table, opposite, provides some key achievements against the five key strands of the Corporate Plan.

#### Services to Meet Customers Needs

- Adopted a Clean Streets Strategy with a central objective to improve standards of cleanliness in the City, particularly the city centre
- A comprehensive survey of our social housing stock in order to inform investment requirements and budget planning commenced in 2016-17
- The Council is within the top 10% of well-performing councils in terms of waste produced per household
- The Safe Sleep project saw an additional 26 bed spaces in the city between 1 December and 29 February to provide shelter from the cold and severe weather
- A scheme aimed at reducing alcohol related crime and disorder in Exeter won a national award. Exeter's Best Bar None initiative scooped the Most Innovative Scheme in February at awards supported by the Home Office

#### Reduce Operating Costs

- The transfer of Exwick and Flowerpot playing fields to Exeter College but with continued use by the community resulting in reduced operational costs
- 4th lowest council tax in the country
- The shared ICT service with East Devon and Teignbridge District Council's, Strata Service Solutions Ltd, distributed savings of £100,000 in 2016/17
- £1.728million Council savings achieved in 2016/17

#### Invest in the City

- a £12million redevelopment of the Guildhall Shopping and Dining Centre resulted in the opening of seven new restaurants including Absurd Bird; their first venture outside of London

#### Grow the Economy

- Bus and Coach station re-development by the Crown Estates for a mixed development of restaurants, retails and leisure and a new bus station is progressing
- Exeter Science Park is home to the Met Office's new High Performance Computer complex. The complex forms part of the vision of a world leading centre of predictive environmental science at the Park
- Dextco Ltd, was established to fund and implement low carbon energy projects across Devon to deliver a reliable, low cost energy infrastructure which will encourage inward investment

#### Support Exeter's Communities

- Working in partnership with Teignbridge District Council, the Council helped to host Radio 1's Big Weekend attended by up to 50,000 people over the two-days
- The City Council became a member of the Exeter Dementia Action Alliance, joining 50 organisations within Exeter, working to make the city dementia friendly
- As part of the Get Active Exeter campaign, Exeter has achieved number 1 spot in the region for the highest number of residents over the age of 16 who undertake at least 150 minutes of sport or activity a week, according to Sport England
- Helped to facilitate the move of Plough & Share Credit Union to Exeter, which will provide residents with a broader range of financial products, support and advice
- A £100,000 contribution to the new Community Hub planned for Pinhoe to replace the existing library, helping to provide a wider community facility

**What's next?**

<p><b>Services to Meet Customers Needs</b></p> <ul style="list-style-type: none"> <li>- Procure and implement a digital customer platform and maximise opportunities for customers to self-serve via digital services</li> <li>- Ensure the efficiency and effectiveness of the housing function matches or aims to match that of best-in-class providers</li> <li>- Implementation of an enhanced management service to Council residents of older persons' housing from 1 April 2017</li> <li>- Prepare business case for the introduction of a new food waste collection service</li> <li>- A new brand for the city 'Visit Exeter' is being launched by the tourism team</li> </ul>
<p><b>Reduce Operating Costs</b></p> <ul style="list-style-type: none"> <li>- The City Council is supporting Exeter City Futures in striving to become an energy independent and congestion free city by 2025, achieving environmental and financial benefits</li> <li>- Continue to practice good budget discipline</li> <li>- Introduce a new Procurement Function in order to comply with legislation and delivery of value for money for the Council</li> </ul>
<p><b>Invest in the City</b></p> <ul style="list-style-type: none"> <li>- Continue to progress the delivery of the leisure complex, St Sidwell's Point, which will be a major attraction for the city and bring health and wellbeing benefits</li> <li>- Ikea has plans for a new store to be built on the outskirts of the city centre and work is expected to start in Spring 2017</li> <li>- A new Entertainment Venue Advisory Group has been set up to assess whether Exeter needs a new entertainment venue in the city</li> <li>- Set up a new vehicle for delivering new housing and commercial schemes within the city</li> </ul>
<p><b>Grow the Economy</b></p> <ul style="list-style-type: none"> <li>- Two new 'grow-on' buildings and a new car park for visitors will be the latest developments at Exeter Science Park, providing 18,500 sq ft of premium office and laboratory space in Exeter</li> <li>- Continue working in partnership with East Devon, Mid Devon and Teignbridge District Council on a shared economic development strategy for Exeter and Heart of Devon (EHOD) 2017-20</li> </ul>
<p><b>Support Exeter's Communities</b></p> <ul style="list-style-type: none"> <li>- Working in partnership with the RFU and Exeter Chiefs, the Council was successful in securing that the European Rugby 7's tournament will be hosted at Sandy Park in 2016 and the next 2 years. The Council will be working with England Rugby and Active Devon to develop rugby 7s in schools, colleges, universities and rugby clubs within Exeter and Devon.</li> </ul>

**5. Financial Performance 2016/17**

The 2016/17 revenue budget process was influenced and framed by the continued need to make significant reductions in expenditure whilst progressing Council priorities, due to reductions in funding from central government. This process is ongoing and will be continuously reviewed as the Council develops a stronger understanding of the financial challenges it faces, which include:

**Government Announcements:**

- The Local Government Finance Bill intended to provide a framework for a reformed 100% Business Rate Retention system to enable local authorities to retain business rate revenues to fund local services. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities and some government grants will be phased out. However, the omission of the Bill in the Queens Speech on 21 June 2017 has led to uncertainty regarding the business rate reforms.
- Changes to the new homes bonus scheme were announced as part of the Local Government Finance Settlement in December 2016. The number of years for which payments are made will reduce from six to five years in 2017/18 and further reduced to four years from 2018/19. The funding released from this measure will contribute towards adult social care costs. Exeter City Council received £4.2m in new homes bonus in 2016/17, it therefore represents a significant source of funding.
- The requirement to pay a 'high value levy' to the Government in respect of high value vacant local authority housing.

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### 2016/17 Service Revenue Outturn

In preparing the Medium Term Financial Plan for 2014/15 to 2019/20, saving targets of £0.975m were factored in for 2016/17, resulting in a £0.044m contribution to the General Fund Balance.

The outturn for 2016/17 resulted in a £0.252m transfer from the General Fund Balance.

The Council's current policy is such that the minimum level of the General Fund Balance will remain above £3 million. This is considered prudent taking into account the potential level of financial risk facing the Council in the medium term.

	Revised Annual Budget £'000	Year End Outturn £'000	Variance to Budget £'000
SCRUTINY - PEOPLE	3,798	2,921	(877)
SCRUTINY - PLACE	9,818	7,286	(2,532)
SCRUTINY - CORPORATE	4,293	6,421	2,128
Less Notional Capital Charges	(2,881)	(3,007)	(126)
<b>Service Committee Net Expenditure</b>	<b>15,028</b>	<b>13,621</b>	<b>(1,407)</b>
Net Interest	300	72	(228)
Investment Loss (Glitnir)	0	113	113
New Homes Bonus	(4,232)	(4,232)	0
Revenue Contribution to Capital	0	1,414	1,414
Minimum Revenue Provision	875	766	(109)
Voluntary Revenue Provision	2,000	747	(1,253)
<b>General Fund Expenditure</b>	<b>13,971</b>	<b>12,501</b>	<b>(1,470)</b>
Transfer To/(From) Working Balance	(2,349)	(252)	2,097
Transfer To/(From) Earmarked Reserves	568	(331)	(899)
<b>General Fund Net Expenditure</b>	<b>12,191</b>	<b>11,919</b>	<b>(272)</b>
<b>Met By:</b>			
Formula Grant	(5,802)	(5,811)	(9)
Business Rates Growth / Pooling Gain	(1,359)	(1,034)	325
CIL Income	0	(45)	(45)
Council Tax	(5,030)	(5,030)	0
	0	0	0
<b>Working Balance</b>	<b>£ 5,517</b>	<b>£ 5,265</b>	

### 2016/17 Capital Outturn

The Council spent £9.942m on its Capital Programme in 2016/17 compared to the revised forecast spend of £13.009m. The capital expenditure, by strategic theme, and financing of this expenditure is set out below.

The variance between the outturn forecast and actual outturn for the year was £3.067m. This will require the re-profiling of planned expenditure into future years, therefore does not present any financial issues for the Council.

	2016/17 Forecast Outturn £'000	2016/17 Outturn £'000	Variance £'000
<b>Capital Expenditure</b>			
Help me find somewhere to live	3,865	2,868	(997)
Keep place looking good	414	400	(14)
Keep the environment safe & healthy	1,038	701	(337)
Provide great things for me to see & do	358	82	(276)
Deliver good development	2,692	2,116	(576)
Well run Council	1,021	433	(588)
Maintain our property assets	3,621	3,342	(279)
<b>Total Expenditure</b>	<b>13,009</b>	<b>9,942</b>	<b>(3,067)</b>
<b>Resources</b>			
Major Repairs Reserve	395	313	(82)
Capital Receipts	1,488	274	(1,214)
Grants and Contributions	1,519	1,237	(282)
Community Infrastructure Levy (CIL)	1,066	890	(176)
Revenue Contributions	6,312	6,104	(208)
Prudential Borrowing	2,230	1,125	(1,105)
<b>Total Financing</b>	<b>13,009</b>	<b>9,942</b>	<b>(3,067)</b>



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### Key achievements in 2016/17 Capital Programme:

- **£3m Exeter Flood Defence Scheme**  
Phase 1 of the scheme got underway in 2014 and saw construction work just downstream of Exeter Quay. Phase 2 of Exeter's £32m scheme started in July 2016, aims to reduce flood risk to 3,200 homes and businesses. Work is progressing well with 25,000 tonnes of material moved from Bromham's Farm to Cowley field and work started in September on a new flood embankment around Exwick playing fields. The Council contributed £3m to the scheme in 2014/15.
- **Children's Play Areas**  
A new play for the under 12s has been installed to serve the locality at Gate Meadow, improvements have been made to two play areas at Sylvan Heights and a popular trampoline has been provided at Cowick Barton play area.
- **£3.3m Improvements to Council Housing**  
An extensive range of improvement works were undertaken to the Council's social housing stock including; kitchen and bathroom replacements, adaptations, electrical re-wiring, roof replacements and enhancements to footpaths and walls.
- **New Homes Bonus**  
The allocation of New Homes Bonus funding helped to facilitate the construction of a new Countess Wear Village Hall and improvements to St. Sidwell's Community Centre.

- **£1.4m Council Own Build – Wave 2**  
Work started on site at Vaughan Road in October 2016 to develop 26 new one and two-bedroom social housing apartments for people over the age of 60. Designed and built to the low energy Passiv-haus environmental standards. Completion is expected in October 2017.



Work in progress at Vaughan Road



Artist impression of completed scheme at Vaughan Road

## NARRATIVE REPORT

### Housing Revenue Account

The Housing Revenue Account (HRA) is a ring-fenced landlord's account for the running of the Council's housing stock.

During 2016/17 the HRA reported an operating surplus of £1.5m, this was after making a £4.7m revenue contribution to capital expenditure. The surplus was transferred to the HRA working balance.

This leaves the HRA working balance at £8.567m.

The Council's current policy is such that the minimum level of the HRA working balance will remain above £4 million. This is considered prudent taking into account the potential level of financial risk facing the HRA in the medium term.

The key risk relates to the High Value Assets Levy, which may require the Council to make a payment to the Government in respect of its 'high value' housing. Due to the uncertainty regarding the definition of 'high value' and calculation of the levy payable, it was considered prudent to increase the contingency from £3 million to £4 million.

### Key achievements

In addition to the achievements in the Capital Programme, highlighted above. The HRA commenced an extensive stock condition survey in order to better inform future asset management plans.

A review of the Neighbourhood Warden Service was also undertaken, resulting in a new structure for the provision of housing and housing-related support services to tenants in older person's accommodation with effect from 1 April 2017.

### HRA Benchmarking

Each year the HRA participates in a benchmarking exercise to assess performance and satisfaction in comparison with similar organisations within a peer group. The peer group comprises 57 other local authority social housing landlords. The results of the most recent exercise were:

Headline measures	Value	Quartile	Performance
<b>Cost headlines</b>			
Overheads as a % of direct revenue costs	8%	Upper	Costs in lowest 25% of peer group
Total cost per property of Housing	£262.60	Upper	Costs in lowest 25% of peer group
Total cost per property of Responsive Repairs & Void Works	£617.74	Upper	Costs in lowest 25% of peer group
Total cost per property of Major Works & Cyclical Maintenance	£2,225.50	Lower	Costs in highest 25% of peer group*
<b>Operation performance headlines</b>			
Current tenant arrears as a percentage of rent due	1.81%	Middle upper	Better than average of the peer group
Rent arrears of former tenants as % rent due (excluding voids)	0.74%	Upper	Within top 25% of peer group
Average re-let in days (standard re-lets)	21.23	Upper	Within top 25% of peer group
Rent loss due to empty properties (voids) as % rent due	1.22%	Middle lower	Below average of the peer group
Average number of calendar days taken to complete repairs	8.10	Middle upper	Better than average of the peer group
Percentage of repairs completed at the first visit	98.40%	Upper	Within top 25% of peer group
Percentage of dwellings that are non-decent at the end of the year	2.90%	Lower	Bottom 25% of peer group
Percentage of properties with a valid gas safety certificate	99.94%	Middle lower	Below average of the peer group
Staff turnover in the year %	4.30%	Upper	Within top 25% of peer group
Sickness absence average working days lost per employee	10.40	Middle lower	Below average of the peer group

\* Higher costs in 2015/16 due to resolving damp ingress issues

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### Pension Fund

The Council has net pension liabilities of £121.060 million in the Balance Sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund. A full actuarial valuation was undertaken in 2013 to review the contribution levels of the Council which was set at 14.1% of pensionable pay for future service and a varying cash figure in respect of past service (£1.393m in 2016/17). A recent actuarial valuation of the Devon Pension Fund, published on 31 March 2017 informs contribution rates for 2017-2020.

### Borrowing

The Capital Financing Requirement is £90.269million of which £57.882million relates to the HRA. The Government have put a limit on the amount of borrowing the authority can have for the purposes of the HRA, called the 'debt cap' and current borrowing is up to the 'debt cap' resulting in no scope for any additional HRA borrowing.

Actual borrowing is £10m in the form of a 2 year loan from another Local Authority. The rest of the requirement is managed via internal borrowing.

## 6. Non-Financial Achievements 2016/17

Although times are challenging for Exeter City Council and the Local Government sector as a whole, below are some of the positive outcomes during the last financial year:

- A scheme aimed at reducing alcohol related crime and disorder in Exeter won a national award. Exeter's innovation has been to develop a mobile app which allows

people to find out how long queues are at night clubs, Queue Tracker, which won the Most Innovative Scheme at the Best Bar None Awards. Best Bar None is a national accreditation scheme supported by the Home Office.

- The City Council was ranked number 1 in October 2016's social media rankings for all local authorities in the UK. GovRank ranks all 400 councils in the UK for their digital performance in communicating to the public.  
  
Exeter topped the rankings following the devastating fire that destroyed the Royal Clarence Hotel. During that time, the Council successfully communicated updates across all media, including Facebook and Twitter, keeping the public and businesses informed.
- Working in partnership, Exeter City Council and Teignbridge District Council won the Tourism Event of the Year Award at the English Riviera and South Devon Tourism and Hospitality Awards, for their role on the successful BBC Radio 1's Big Weekend. Held over the Bank Holiday weekend of May 28/29, the Big Weekend saw headline acts including Coldplay, Mumford and Sons and Ellie Goulding perform at Powderham Castle.
- For the second year in a row Trip Advisor awarded its Certificate of Excellence to the Royal Albert Memorial Museum and the Underground Passages.

## NARRATIVE REPORT

### Performance Measures 2016/17

One of the priorities for 2016/17 for the Lead Portfolio Holder was to introduce a Council-wide performance framework.

Progress has been made during the financial year with a new performance management framework due to go live in 2017. In the interim, below are some of the performance statistics currently available for 2016/17:

<b>Services to Meet Customers Needs</b>
- 61,884 visitors to the Customer Service Centre (Jan '16 to Dec '16)
- 20 minutes - average time to deal with customer at a desk in the Customer Service Centre
- 106,165 calls received by the Call Centre (Jan '16 to Dec '16)
- 2,375,810 car park tickets sold
<b>Reduce Operating Costs</b>
- 96.8% Council Tax collection rate
- 97.2% NDR collection rate
- 1.71% current tenant arrears in respect of HRA rents
- Average re-let time for council dwellings of 23.93 days (standard voids)
<b>Invest in the City</b>
- 731 investment enquiries for Exeter handled by Economy and Tourism Services resulting in 18 investment conversions in Exeter
- 43 major planning applications; 65% determined within statutory period or within period agreed with applicant
733 minor/other planning applications; 64% determined with statutory period or within period agreed with applicant
<b>Grow the Economy</b>
- 145 jobs created as a result of investment conversions in Exeter
<b>Support Exeter's Communities</b>
- 97,539 customer visits to the Pyramids Swimming Centre
- 63,805 customer visits to the Exeter Arena
- 11,002 customer visits to the Clifton Hill Driving Range
- 231,428 visitors to the Royal Albert Memorial Museum
- 18,365 visitors to the Underground Passages
- 32,866 attendance at Exeter Corn Exchange events

### Future Financial Plans

#### Revenue

During the settlement for 2016/17, the Government offered local authorities the opportunity to apply for a 4 year agreed settlement subject to producing an efficiency plan. The Council took up this offer and were notified in November that the Government had agreed the settlement. The Council's Medium Term Financial Plan reflects the 4 year settlement figures and also takes into account inflation, identified spending pressures and savings identified. Overall, the Council has a balanced budget over the medium term without requiring any further savings in addition to those already identified.

**Medium Term Revenue Plan (2017/18 – 2020/21)**

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
<b>Resources</b>				
Revenue Support Grant	1,320	869	365	-
Business Rates Income (assumed by Government)	3,857	3,981	4,123	4,200
Business Rates growth	1,200	1,229	1,226	1,260
Business Rates pooling benefit	150	150	150	-
New Homes Bonus	3,597	2,500	2,400	2,400
Council Tax	5,338	5,472	5,697	5,925
<b>Likely resources</b>	<b>15,462</b>	<b>14,201</b>	<b>13,961</b>	<b>13,785</b>
<b>Expenditure</b>				
<b>Service expenditure</b>				
Committee expenditure base budget	12,549	12,852	12,074	11,687
Inflation	110	300	300	300
Potential increase in service costs	1,458	(523)	(45)	75
Identified Savings	(1,265)	(555)	(642)	(439)
	12,852	12,074	11,687	11,623
Net Interest	150	150	150	150
Repayment of debt	764	1,051	988	896
Additional repayment of debt	1,000	1,000	1,000	1,000
	14,766	14,275	13,825	13,669
<b>Other funding</b>				
Contribution to/ (from) earmarked reserves	769	80	180	180
Contribution to/ (from) balances - Other	(73)	(154)	(44)	(64)
	696	(74)	136	116
<b>Total Net Budget</b>	<b>15,462</b>	<b>14,201</b>	<b>13,961</b>	<b>13,785</b>
<b>Balanced Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening General Fund Balance	3,669	3,596	3,442	3,398
Closing General Fund Balance	3,596	3,442	3,398	3,334

**HRA Medium Term Revenue Plan (2017/18 – 2020/21)**

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
<b>Resources</b>				
Rents	18,810	18,810	18,622	18,620
1% Rent reduction		(188)	(186)	-
Service Charges	1,070	1,092	1,114	1,137
Other	843	844	857	869
<b>Likely resources</b>	<b>20,723</b>	<b>20,558</b>	<b>20,407</b>	<b>20,626</b>
<b>Expenditure</b>				
HRA expenditure base budget	11,300	11,735	11,803	12,234
Inflation	435	258	361	376
Remove non-recurring budgets	-	(260)	-	-
Spending Pressure - Tree Maintenance	-	70	70	70
Depreciation / amortisation	2,936	2,936	2,936	2,936
Revenue Contribution to Capital Outlay	6,497	4,497	2,500	2,500
Net interest	1,859	1,915	1,915	1,915
	23,027	21,151	19,585	20,031
<b>Other Funding</b>				
Contribution to / (from) HRA Working Balance	(2,304)	(593)	822	595
<b>Total Net Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening HRA Working Balance	7,472	5,168	4,575	5,397
Closing HRA Working Balance	5,168	4,575	5,397	5,992

The HRA Medium Term Revenue Plan reflects the 1% reduction in social rents for 4 years from a 2015/16 baseline, in accordance with the Welfare Reform and Work Act 2016.

**Capital Programme (2017/18 – 2020/21)**

<b>GENERAL FUND - CAPITAL PROGRAMME 2017/18 AND FUTURE YEARS</b>				
<b>SCHEMES LISTED WITHIN COUNCIL PURPOSES</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Keep the environment safe & healthy	1,965	-	-	-
Keep place looking good	514	400	400	-
Help me find somewhere to live	1,409	379	379	379
Provide great things for me to see & do	333	56	57	-
Deliver good development	1,696	19,644	4,594	-
Maintain the assets of our city	68	-	-	-
Well run Council	2,528	184	154	154
<b>TOTAL GENERAL FUND CAPITAL PROGRAMME</b>	<b>8,513</b>	<b>20,663</b>	<b>5,584</b>	<b>533</b>
<b>FINANCING:</b>				
Capital Receipts	1,784	1,532	4,595	-
Disabled Facility Grant	405	379	379	379
New Homes Bonus	975	11,723	-	-
Community Infrastructure Levy	721	6,389	-	-
Other Grants and Contributions	392	560	-	-
Revenue Contributions to Capital Outlay	-	-	-	-
Prudential Borrowing	4,236	80	610	154
<b>TOTAL GENERAL FUND CAPITAL FINANCING</b>	<b>8,513</b>	<b>20,663</b>	<b>5,584</b>	<b>533</b>
<b>HOUSING REVENUE ACCOUNT - CAPITAL PROGRAMME 2017/18 AND FUTURE YEARS</b>				
	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
Investment in existing stock	11,121	11,372	7,106	5,898
Information Technology	175	-	-	-
Provision of new council homes	7,409	6,339	183	-
<b>TOTAL HRA CAPITAL PROGRAMME</b>	<b>18,705</b>	<b>17,711</b>	<b>7,289</b>	<b>5,898</b>
<b>FINANCING:</b>				
Major Repairs Reserve	7,600	5,755	4,106	2,998
Capital Receipts	2,866	1,000	500	400
Commutated Sums	434	5,466	183	-
Other Grants and Contributions	1,308	994	-	-
Revenue Contributions to Capital	6,497	4,496	2,500	2,500
<b>TOTAL HRA CAPITAL FINANCING</b>	<b>18,705</b>	<b>17,711</b>	<b>7,289</b>	<b>5,898</b>

## NARRATIVE REPORT

The Capital Programme, above, reflects the plans approved in the 2017/18 Budget Book along with budgets slipped from 2016/17 and the associated financing.

The Council is undertaking an ambitious capital programme, most notably the £26million development of a new state of the art leisure centre, St Sidwell's Point, illustrated below.

The leisure complex will boast a 20-metre teaching pool, a confidence pool and an eight lane 25-metre pool with room for up to 250 spectators. The complex will be the first in the UK built to rigorous environmental Passiv-haus standards, meaning a saving of around 70% on energy costs compared to similar sized leisure developments.



Further examples of our major schemes are:

- £6.25million approved investment in the new bus station. The new, modern bus station will replace the tired and dated bus station in Paris Street. Below is how the bus station might look:



- £10.85million Extra care development in St Loyes. This is a purpose built, self-contained, housing for older and disabled people with care and support needs.





**Message from Dave Hodgson, Chief Finance Officer**

In spite of the challenges presented by the reduction in government grant, Exeter City Council has delivered its plans within budget and set aside funds to protect itself in the future. The Council remains ambitious and seeks to ensure that Exeter becomes stronger through economic growth, whilst supporting the local residents with excellent services.

The ability to maintain service provision, whilst embarking on an ambitious capital programme is evidence of the sound financial management approach adopted by the Council.

The Council has a balanced medium term financial plan and is well placed to face the challenges of further reductions in grant including planned reforms for business rates retention.

The Council has expressed an interest in being a 100% rates retention pilot authority, but the omission of the Local Government Finance Bill in the Queen's Speech on 21 June 2017 has led to uncertainty regarding the business rate reforms.



**Dave Hodgson CPFA  
Chief Finance Officer**

The Councils new IT Company Strata, set up in partnership with East Devon and Teignbridge District Councils has completed its second full year in operation and has delivered a refund in excess of that agreed at the start of the financial year.

In delivering the accounts by the new statutory deadline (a year earlier than it becomes law), the finance team have once again shown their professionalism and commitment by dealing with ever more complex accounts and accounting frameworks.



**Councillor Natalie Vizard  
Chair – Audit and Governance Committee**

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

### The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

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

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code except where stated in the Accounting Policies
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

### Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Exeter City Council at the reporting date and of its income and expenditure for the year ended 31 March 2017.



Dave Hodgson CPFA  
Chief Finance Officer  
20 September 2017

## EXPLANATION OF THE CORE FINANCIAL STATEMENTS AND EXPENDITURE AND FUNDING ANALYSIS

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. These statements contain a number of different elements which are explained below:

### **Core Financial Statements and Expenditure and Funding Analysis**

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

**Expenditure and Funding Analysis** shows how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's committees.

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

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

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

## CORE FINANCIAL STATEMENT

### Comprehensive Income and Expenditure Statement

From 2016/17 local authorities are required to report their Cost of Services based on the way in which they operate and manage services. There is no longer a requirement for the service analysis to be based on the definition of total cost or the service expenditure analysis in the Service Reporting Code of Practice. This new format means that the service section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed. The 2015/16 comparatives have been restated to the new reporting format. There is no impact on the balance sheet as a result of this change in accounting policy.

2015-2016 (Restated)			2016-2017			Notes
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
48,216	(45,734)	2,482	46,930	(43,604)	3,326	
23,303	(16,379)	6,924	25,297	(17,107)	8,190	
9,431	(3,323)	6,108	10,631	(3,745)	6,886	
17,656	(21,214)	(3,558)	13,303	(21,247)	(7,944)	
750	(263)	487	708	(363)	345	
<b>99,356</b>	<b>(86,913)</b>	<b>12,443</b>	<b>96,869</b>	<b>(86,066)</b>	<b>10,803</b>	
		(1,052)			(5,077)	13
		453			491	14
		(19,008)			(20,112)	15
		<b>(7,164)</b>			<b>(13,895)</b>	
		<b>Other Comprehensive Income and Expenditure</b>				
		(8,758)			(42,214)	26
		0			405	26
		(11,036)			28,361	26
		<b>(19,794)</b>			<b>(13,448)</b>	
		<b>(26,958)</b>			<b>(27,343)</b>	

## EXPENDITURE AND FUNDING ANALYSIS

### Expenditure and Funding Analysis

2015-2016	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (Note 8) £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Scrutiny Committee - People	2,318	164	2,482
Scrutiny Committee - Place	3,562	3,362	6,924
Scrutiny Committee - Corporate	4,613	1,495	6,108
Housing Revenue Account	627	(4,185)	(3,558)
Strata Service Solutions Ltd	0	487	487
<b>Net Cost of Services</b>	<b>11,120</b>	<b>1,323</b>	<b>12,443</b>
Other income and expenditure	(12,035)	(7,572)	(19,607)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(915)</b>	<b>(6,249)</b>	<b>(7,164)</b>

<b>Opening General Fund and HRA Balance at 31 March 2015</b>	<b>(11,838)</b>
Add surplus on General Fund and HRA Balance in Year	(915)
<b>Closing General Fund and HRA Balance at 31 March 2016</b>	<b>(12,753)</b>

Analysed between General Fund and HRA Balances	General Fund	HRA	Total
Opening Balance at 31 March 2015	(3,974)	(7,864)	(11,838)
(Surplus) or Deficit in Year	(1,542)	627	(915)
<b>Closing General Fund and HRA Balance at 31 March 2016</b>	<b>(5,516)</b>	<b>(7,237)</b>	<b>(12,753)</b>

## EXPENDITURE AND FUNDING ANALYSIS

### Expenditure and Funding Analysis

2016-2017	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (Note 8) £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Scrutiny Committee - People	2,909	417	3,326
Scrutiny Committee - Place	4,629	3,561	8,190
Scrutiny Committee - Corporate	6,084	802	6,886
Housing Revenue Account	(1,538)	(6,406)	(7,944)
Strata Service Solutions Ltd	0	345	345
<b>Net Cost of Services</b>	<b>12,084</b>	<b>(1,281)</b>	<b>10,803</b>
Other income and expenditure	(13,370)	(11,328)	(24,698)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(1,286)</b>	<b>(12,609)</b>	<b>(13,895)</b>

<b>Opening General Fund and HRA Balance at 31 March 2016</b>	<b>(12,753)</b>
Add surplus on General Fund and HRA Balance in Year	(1,286)
<b>Closing General Fund and HRA Balance at 31 March 2017</b>	<b>(14,039)</b>

Analysed between General Fund and HRA Balances	General Fund	HRA	Total
Opening Balance at 31 March 2016	(5,516)	(7,237)	(12,753)
(Surplus) or Deficit in Year	252	(1,538)	(1,286)
<b>Closing General Fund and HRA Balance at 31 March 2017</b>	<b>(5,264)</b>	<b>(8,775)</b>	<b>(14,039)</b>

## CORE FINANCIAL STATEMENT

### Movement in Reserves Statement

	General Fund Balance (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Authority Reserves (£'000)
<b>Balance at 31 March 2015</b>	<b>(3,974)</b>	<b>(5,903)</b>	<b>(7,864)</b>	<b>(1,181)</b>	<b>(5,215)</b>	<b>(950)</b>	<b>(25,087)</b>	<b>(218,048)</b>	<b>(243,135)</b>
<b><i>Movement in Reserves during 2015-2016</i></b>									
Total Comprehensive Income & Expenditure	(4,446)	0	(2,718)	0	0	0	(7,164)	(19,794)	<b>(26,958)</b>
Adjustments between Accounting basis and funding basis under statutory provisions (note 11)	3,150	0	3,345	(2,336)	(1,128)	(734)	2,297	(2,297)	0
Transfers to / (from) Earmarked Reserves	(246)	246	0	0	0	0	0	0	0
<b>(Increase) / Decrease in 2015-2016</b>	<b>(1,542)</b>	<b>246</b>	<b>627</b>	<b>(2,336)</b>	<b>(1,128)</b>	<b>(734)</b>	<b>(4,867)</b>	<b>(22,091)</b>	<b>(26,958)</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>(5,516)</b>	<b>(5,657)</b>	<b>(7,237)</b>	<b>(3,517)</b>	<b>(6,343)</b>	<b>(1,684)</b>	<b>(29,954)</b>	<b>(240,139)</b>	<b>(270,093)</b>

## CORE FINANCIAL STATEMENT

### Movement in Reserves Statement

	General Fund Balance (£'000)	Earmarked Reserves (£'000)	Housing Revenue Account (£'000)	Capital Receipts Reserve (£'000)	Major Repairs Reserve (£'000)	Capital Grants Unapplied (£'000)	Total Usable Reserves (£'000)	Unusable Reserves (£'000)	Total Authority Reserves (£'000)
<b>Balance at 31 March 2016 carried forward</b>	<b>(5,516)</b>	<b>(5,657)</b>	<b>(7,237)</b>	<b>(3,517)</b>	<b>(6,343)</b>	<b>(1,684)</b>	<b>(29,954)</b>	<b>(240,139)</b>	<b>(270,093)</b>
<b><i>Movement in Reserves 2016-2017</i></b>									
Total Comprehensive Income & Expenditure	(4,570)	0	(9,325)	0	0	0	(13,895)	(13,448)	<b>(27,343)</b>
Adjustments between Accounting basis and funding basis under statutory provisions (note 11)	5,084	0	7,787	(6,910)	(2,421)	(2,400)	1,140	(1,140)	<b>0</b>
Transfers to / (from) Earmarked Reserves	(262)	262	0	0	0	0	0	0	<b>0</b>
<b>(Increase) / Decrease in 2016-2017</b>	<b>252</b>	<b>262</b>	<b>(1,538)</b>	<b>(6,910)</b>	<b>(2,421)</b>	<b>(2,400)</b>	<b>(12,755)</b>	<b>(14,588)</b>	<b>(27,343)</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>(5,264)</b>	<b>(5,395)</b>	<b>(8,775)</b>	<b>(10,427)</b>	<b>(8,764)</b>	<b>(4,084)</b>	<b>(42,709)</b>	<b>(254,727)</b>	<b>(297,436)</b>




**CORE FINANCIAL STATEMENT**

**Balance Sheet**

2015-16 £'000	2016-2017 £'000	Note
346,780	390,511	16
37,419	39,256	17
22,643	22,643	18
705	672	
860	5,437	20
13,326	13,198	20
<b>421,733</b>	<b>471,717</b>	
180	198	
10,617	14,194	21
429	3,002	20
482	1,047	23
17,025	21,088	22
<b>28,733</b>	<b>39,529</b>	
(10,016)	(10,000)	20
(14,532)	(15,802)	24
<b>(24,548)</b>	<b>(25,602)</b>	
(56,906)	(56,906)	20
(9,386)	(10,068)	33
(119)	(174)	
(89,414)	(121,060)	40
<b>(155,825)</b>	<b>(188,208)</b>	
<b>270,093</b>	<b>297,436</b>	
<b>Financed by:</b>		
29,954	42,709	25
240,139	254,727	26
<b>270,093</b>	<b>297,436</b>	

These financial statements replace the unaudited financial statements certified by the Chief Finance Officer, Dave Hodgson, on 25 May 2017.

**Dave Hodgson, CPFA**  
Chief Finance Officer

  
20-09-17

## CORE FINANCIAL STATEMENT

### Cash Flow Statement

2015-2016 £'000	2016-2017 £'000	Notes
(7,164) Net (surplus) or deficit on the provision of services	(13,895)	
Adjustments to net surplus or deficit on the provision of services for non-cash		
(10,251) movements	(4,690)	
Adjustments for items included in the net surplus or deficit on the provision of		
888 services that are investing and financing activities	1,385	
<b>(16,527) Net cashflows from Operating Activities</b>	<b>(17,200)</b>	27
14,678 Investing Activities	13,367	28
(1,728) Financing Activities	(230)	29
<b>(3,577) Net (Increase) or decrease in cash and cash equivalents</b>	<b>(4,063)</b>	
<b>13,448 Cash and cash equivalents at the beginning of the reporting period</b>	<b>17,025</b>	
<b>17,025 Cash and cash equivalents at the end of the reporting period</b>	<b>21,088</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### **GENERAL PRINCIPLES**

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance.

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.

#### **ACCOUNTING POLICIES**

##### **ACCRUALS OF INCOME AND EXPENDITURE**

The revenue accounts of the Council are maintained on an accruals basis, that is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

##### **Customer and client receipts**

Customer and client receipts in the form of sales, fees, charges and rents are accrued for when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.

##### **Supplies**

Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date received and consumption, they are carried forward as inventories on the Balance Sheet.

##### **Expenses in relation to services received (including services provided by employees)**

Expenses in relation to services received are recorded as expenditure when the services are received rather than the payments made.

##### **VAT**

VAT payable is included as an expense only to the extent that it is irrecoverable. VAT receivable is excluded from income.

##### **Interest**

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

##### **Creditors / Debtors**

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

## NOTES TO THE FINANCIAL STATEMENTS

### **CAPITAL RECEIPTS**

Capital receipts are sums received by the Authority from the sale of assets. Receipts arising from Housing Right to Buy sales may be retained providing the local authority has signed an agreement to re-invest the receipts in the provision of replacement homes within 3 years. Exeter City Council entered into such an agreement on 27 June 2012.

A de minimis level of £10,000 has been agreed in respect of all capital receipts and any receipts for the sale of an asset which total less are accounted for as income in the income & expenditure account.

### **CASH AND CASH EQUIVALENTS**

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

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

### **CONTINGENT ASSETS / LIABILITIES**

Contingent assets / liabilities arise where an event has taken place, but the potential asset / obligation will only be confirmed by future, uncertain events not wholly within the control of the authority. They are not recognised in the Balance Sheet, but are disclosed by way of a note to the accounts.

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.

### **COUNCIL TAX AND NON-DOMESTIC RATES (NDR)**

The Council is a billing authority and acts as an agent, collecting council tax and NDR on behalf of the major preceptors (including government for NDR) and, as principal, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

#### **Accounting for Council Tax and NDR**

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

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

#### **Pool of Authorities for Non Domestic Rates**

The Local Government Finance Act 2012 permits the Secretary of

## NOTES TO THE FINANCIAL STATEMENTS

State to designate two or more relevant authorities as a pool of authorities. Exeter City Council are party to such a pool and need to recognise their share of the income and expenditure (and debtors and creditors) in accordance with the agreed arrangements for distribution of the pool together with accounting requirements.

### EMPLOYEE BENEFITS

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end, including wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. They are recognised as an expense in the year in which the employees render service to the Authority. An accrual is made for the cost of holiday entitlements earned but not taken before the year-end. The accrual is charged to the relevant service but reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment or for the officer to take voluntary redundancy before the normal retirement date. They are charged to the Comprehensive Income and Expenditure Statement when the Authority is committed to the termination of employment.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Authority in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, the notional debits and credits are replaced with the debits for the cash paid to the Pension Fund and pensioners.

#### Post-employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme, which is administered by Devon County Council. The Local Government Pension Scheme is a defined benefit scheme (retirement lump sums and pensions) earned as employees worked for the Authority.

The Pensions Fund's Actuary has provided updated figures for the year based on the last valuation in 2016.

The liabilities of the pension fund attributable to the Authority have been measured on an actuarial basis using the projected unit method – 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 future earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate based on the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond.

The assets attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unutilised securities - current bid price
- property – market value

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

#### Service cost

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the

## NOTES TO THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement to the services for which the employees worked

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – charged to the Comprehensive Income and Expenditure Statement
- Net interest on the defined benefit liability (asset) – the change during the year in the net defined benefit liability (asset) that arises from the passage of time charged to the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both at the beginning of the year, 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

- The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset)
- 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

### Contributions paid to the pension fund

- Cash paid as employer's contributions to the pension fund in settlement of liabilities

The treatment of the above has been mirrored in the Housing Revenue Account where full disclosure has been included.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means the notional debits and credits for retirement benefits are removed and replaced with the debits for cash paid (or due to be paid at year end). These movements are appropriated to the Pension Reserve. The negative balance on the Pension Reserve reflects the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities are accrued in the year of the decision to make the award and accounted for using the same policies applied to the Local Government Pension Scheme.

### EVENTS AFTER THE BALANCE SHEET DATE

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

- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but disclosure of the nature and an estimate of the financial impact is disclosed in the notes to the accounts, if material
- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

## NOTES TO THE FINANCIAL STATEMENTS

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

### **FAIR VALUE**

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

### **FINANCIAL INSTRUMENTS**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For all the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year.

#### **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. They are initially measured at fair value and carried at their amortised cost. Annual credits to 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 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 in the year.

The council has made a number of loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a higher effective rate of interest than the rate receivable. Statutory provisions require that the impact on the General Fund Balance is the interest receivable for the financial year and is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payment due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement. In respect of sundry debtors, assets are considered to be impaired when they are six months old.

Any gains and losses that arise on de-recognition of an asset are credited/debited to the Comprehensive Income and Expenditure Statement.

#### **Available-for-sale Assets**

Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to 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.

## NOTES TO THE FINANCIAL STATEMENTS

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow
- Equity shares with no quoted market prices – independent appraisal of company valuations

Accounting standards provide a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value at year-end:

Hierarchy	Inputs
Level 1 inputs	Quoted prices in active markets for identical assets
Level 2 inputs	Inputs that are observable for the asset, either directly or indirectly
Level 3 inputs	Unobservable inputs

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

Where assets are identified as impaired because of likelihood arising from a past event that payment due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement along with any accumulated gains / losses previously

recognised in the Available for Sale Reserve.

Where fair value cannot be reliably measured, the instrument is carried at cost.

### GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received.

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS

### Business Improvement District

A Business Improvement District (BID) scheme applies for Exeter city centre which is administered by Exeter BID Company. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as the agent for the scheme and since it is collecting the BID levy income on behalf of the Exeter BID Company most BID transactions are not recognised in the Comprehensive Income and Expenditure Statement, except the reimbursement of collection costs and any BID levies payable in respect of Council premises, e.g. the Guildhall.

### Community Infrastructure Levy (CIL)

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

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions, as set out above.

### HERITAGE ASSETS

The Council has a number of Heritage Assets. Heritage Assets are recognised and measured in accordance with the policies on property, plant and equipment. However, some of the measurement rules are relaxed, as detailed below.

**Property / Infrastructure / Statues** – the Council owns a range of assets around the City which are of historic value. The Council does not believe that reliable cost or valuation information can be obtained for these items because of the diverse nature of the assets and lack of comparable market values, therefore they have been

entered at nil value into the accounts.

**Museum exhibits / Art / Civic Regalia** – A non-electronic register of the Assets is held by the Museum and Guildhall and from this an insurance valuation has been produced. The Council will use the insurance valuation, as at 31 March 2017, as a measurement of the valuation of the assets. The assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Impairments and disposals are treated as per the policy on Property, Plant and Equipment.

### INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures.

However, these interests are not considered to be material. In accordance with the Code, group accounts do not need to be prepared where an authority's interest is not considered to be material. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### INVESTMENT PROPERTIES

#### Recognition

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 for the delivery of services, or is held for sale.

#### Measurement

Investment properties are initially measured 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.

## NOTES TO THE FINANCIAL STATEMENTS

### Valuation Process / Disposals

The fair value of the authority's investment property is measured annually according to market conditions at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Unless market or other factors suggest a different use by market participants would maximise value, it is assumed that current use is the best and highest use.

Gains and losses on revaluation are posted to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains or loss on disposal.

### Income

Rental income is credited to the Financing and Investment Income line and results in a gain to the General Fund balance. However, revaluation and disposal gains and losses are reversed out in the Movement in Reserves Statement and posted to either the Capital Adjustment Account or Capital Receipts Reserve.

### Valuation Technique

Three valuation techniques can be applied:

- Market approach – use of prices and other information generated by market transactions
- Cost approach – assessment of the amount required to replace the service capacity of an asset
- Income approach – conversion of future amounts (cash flows) to a single current amount

Accounting standards provide a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value at year-end:

Hierarchy	Inputs
Level 1 inputs	Quoted prices in active markets for identical assets
Level 2 inputs	Other inputs observable for the asset (e.g. comparable properties, adjusted for relative square metres of floor space)
Level 3 inputs	Unobservable inputs (e.g. projected cash flows)

### Depreciation

Investment properties are not depreciated.

### JOINT OPERATIONS

Joint operations are arrangements where contractual agreements are in place under which two or more parties share control. The parties each have rights to the assets and obligations for the liabilities relating to that arrangement.

Joint operations are recognised in the single entity statements by bringing in the authority's share of the assets, liabilities, revenue and expenses of the arrangement.

Exeter City Council, East Devon District Council and Teignbridge District Council each share control of Strata Service Solutions Ltd (Strata), which was incorporated under the Companies Act 2006 for the provision of a shared Information Communications Technology service. The single entity statements for each authority reflect their respective shares of Strata. However, the accompanying notes to the Council's financial statements only include information relating to Strata where this would make a material difference to the usefulness of the notes.

## NOTES TO THE FINANCIAL STATEMENTS

### LEASES

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

Where a lease covers land and buildings these are considered separately.

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

#### *The Council as Lessee Finance leases*

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value at inception (or the present value of minimum payments if lower). The asset is matched by a liability for the obligation to pay the lessor.

Initial direct costs are added to the carrying amount and any initial premium paid is applied to write down the lease liability. Contingent rents are charged as expenses in the period incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset – applied to write down the lease liability
- A finance charge debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets. However, depreciation is charged over the term of the lease where this is lower than the useful life.

The Council is not required to raise council tax to fund these charges; however it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, amortisation, revaluation and impairment losses are therefore replaced by this contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

#### *Operating Leases*

Rentals are charged to the relevant service in the Comprehensive Income and Expenditure Statement on a straight line basis regardless of the pattern of payments (e.g. a rent free period at the commencement of the lease).

#### *The Council as Lessor Finance leases*

Where the Authority grants a finance lease over a property or an item of plant and equipment, the asset is written out of the Balance Sheet as a disposal. The carrying amount of the asset is written off to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal and offset against the Council's net investment in the lease, with a matching long-term debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the asset – applied to write down the lease debtor
- Finance income credited to the Financing and Investment

## NOTES TO THE FINANCIAL STATEMENTS

- Income line in the Comprehensive Income and Expenditure Statement

The Council is not allowed to increase the General Fund balance by this income and is required to treat the income as a capital receipt. Premiums are posted to the Capital Receipts Reserve via the Movement in Reserves Statement. Where the amount due is to be settled by rentals in future financial years, the amount is credited to the Deferred Capital Receipts Reserve and released to the Capital Receipts Reserve when the payments are made, with the actual payment used to write down the long-term debtor.

The written-off values of the assets do not form a charge against council tax and is appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### *Operating Leases*

Where the Council grants an operating lease, the asset remains on the Council's Balance Sheet and rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement on a straight line basis regardless of the pattern of payments (e.g. a premium paid at the commencement of the lease). Initial costs are charged to the carrying amount of the asset and charged as an expense on the same basis as rental income.

### **OVERHEADS AND SUPPORT SERVICES**

The cost of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance with the following exceptions:

- The Housing Revenue Account is debited with a fair share of support services and overheads in accordance with the Local Government and Housing Act 1989.

- Support services are charged to services that are required to achieve full cost recovery including; building control, land charges, vehicle licensing, licensing of houses in multiple occupation and investment properties.

### **PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information in respect of the Authority's financial position or performance. Where a change is made, it is applied retrospectively by adjusting the opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

### **PROPERTY, PLANT AND EQUIPMENT**

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

### *Recognition*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts. Expenditure that maintains but does not enhance an asset, such as repairs and maintenance is charged as an expense when it is incurred.

## NOTES TO THE FINANCIAL STATEMENTS

### Measurement

Assets are initially measured at cost. Only those costs that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement. A de minimis level of £10,000 has been agreed for capital expenditure. Any costs below this are charged to revenue. The costs of assets acquired other than by purchase is deemed to be its fair value or in the case of an exchange, the carrying amount of the asset given up by the authority.

### Donated Assets

Donated assets are measured initially at fair value and the difference to the consideration paid is credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement, unless there are conditions. Until the conditions are satisfied, the gain is held in a Donated Assets Account. When gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out in the Movement in Reserves Statement to the Capital Adjustment Account.

### Balance Sheet Valuation

Assets are carried in the Balance Sheet using the following measurements bases:

Class	Basis of Measurement
Infrastructure, community assets and assets under construction	Depreciated historical cost
Council dwellings	Current value based on existing use value – social housing (EUV-SH)
Non-property assets with short useful lives and/or low values	Depreciated historical cost

Class	Basis of Measurement
All other assets	Current value of the asset in its existing use (EUV). Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used

### Revaluations

Asset 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. A full valuation is performed on a rolling basis to cover 20% of assets per annum over a five-year cycle. Assets not included in the full valuation are also assessed in order to ensure that carrying amounts are not materially different to current values at the year-end.

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

A decrease in value is 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 the 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 in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE FINANCIAL STATEMENTS

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

Impairment reviews are undertaken each year to assess whether there is evidence of a reduction in an asset's value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as a decrease in value, as set out above.

Where an impairment loss is subsequently reversed, it is credited to the relevant service 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 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 and assets that are not yet available for use.

The following policies are used for depreciation:

- Freehold land and community assets are not depreciated
- Assets under construction are not depreciated
- Newly acquired assets are depreciated from 1 April following their purchase.
- Full year depreciation is charged in the year an asset is disposed of.
- A reducing balance method of depreciation is used for vehicles and assumes the following life expectancies and residual values:

Acquisition value	Life expectancy	Residual value
£10,000 – £14,999	6 years	12%
£15,000 - £19,999	7 years	11%
£20,000 - £49,000	6 years	12%
Over £50,000	7 years	4%

A straight-line method of depreciation is used for the assets below and assumes the following life expectancies:

Asset	Life expectancy	Residual value
Plant & equipment	5 to 10 years	Nil
Infrastructure	20 years	Nil
Operational properties	Up to 60 years (unless otherwise specified)	As specified by the Valuers

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.

### Components

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has a Componentisation Policy and components are determined in accordance with the policy. For example, key components of council dwellings are depreciated on a straight line basis and assume the following life expectancies:

Kitchens and Bathrooms	30 years
Windows	30 years
Roofs	60 years

## NOTES TO THE FINANCIAL STATEMENTS

### Disposals

When an asset is disposed of or decommissioned, the carrying value of the asset is written off in the Comprehensive Income and Expenditure Statement along with any proceeds from the disposal as part of the gain or loss on disposal.

The gain or loss is the amount by which the proceeds are more (gain) or less (loss) than the carrying amount of the fixed asset. Any revaluation gains in the Revaluation Reserve relating to the disposed assets are transferred to the Capital Adjustment Account.

Statutory regulations require that the gain or loss on the disposal of assets is reversed out in the Movement in Reserves Statement.

### Non-current Assets Held for Sale

When it becomes probable that the carrying value will be recovered principally through a sale transaction, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Fair value is the price that would be received in an orderly transaction between market participants at the measurement date, which should be measured at highest and best use. Fair value for social housing being disposed of under right-to-buy (RTB) legislation is the discounted RTB value.

Losses in fair value are charged to the Comprehensive Income and Expenditure Statement. Gains are recognised only up to the amount of any previous losses. Depreciation is not charged on assets held for sale.

If an asset no longer meets the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of the previous carrying amount adjusted for depreciation or revaluations that would have been recognised during that time and their recoverable amount of the date of the decision not to sell.

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

### PROVISIONS

The Council sets aside provisions for future expenses. These are charged to the service in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and held on the Balance Sheet. When payments are eventually made they are charged to the provision carried in the Balance Sheet.

Provisions are required to be recognised in the accounts when:

- The Council has a present obligation (legal or constructive) as a result of a past event;
- It is probable that a transfer of economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

### RESERVES

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service and the reserve is transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

## NOTES TO THE FINANCIAL STATEMENTS

### REVENUE CHARGES FOR NON-CURRENT ASSETS

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

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

The Council is not required to raise council tax to fund these charges; however it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, amortisation, revaluation and impairment losses are therefore replaced by this contribution in the General Fund Balance (referred to as MRP; Minimum Revenue Provision) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

Since the introduction of self-financing for the Housing Revenue Account (HRA) a new statutory framework has been established to allow depreciation to be a real charge. The HRA is required to set aside an amount equal to depreciation into the Major Repairs Reserve.

### 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 account in the Comprehensive Income and Expenditure Statement. Where it is funded by capital resources or borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account is made so that there is no impact on the level of Council Tax.

### 2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

Local authorities are required to report the impact of accounting changes that will be required by a new standard that has been issued but not yet adopted. For 2016/17, they comprise:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

The 2017/18 Code of Practice on Local Authority Accounting has adopted these new or amended standards, any accounting changes will therefore be implemented from 1 April 2017.

The impact of the accounting changes is not yet known or reasonably estimable. However, the Code does not anticipate that the amendments will have a material impact on the information provided in the local authority financial statements, i.e. there is unlikely to be a change to the reported net cost of services or the Surplus or Deficit on the Provision of Services.



## NOTES TO THE FINANCIAL STATEMENTS

### 3. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

#### Funding for Local Government

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

#### Group Accounts

The Council is the sole shareholder of Exeter Business Centre, has an associate interest in Exeter Canal and Quay Trust, it has a 21.5% shareholding in the Exeter Science Park Limited, a 16.66% shareholding in the Monkerton Heat Company Limited and a 20% shareholding on Dextco Limited. It has been determined that group accounts do not need to be prepared as the authority's interest in these entities are not considered to be material. Please refer to Note 34 for more details.

#### Joint Operation

Strata Service Solutions Ltd is a registered company which has been established to assist the three authorities; Exeter City Council, East Devon District Council and Teignbridge District Council, in the provision and operation of shared ICT services. It is deemed to be a joint operation due to the inherent rights to the assets and obligations for liabilities each authority has relating to the joint arrangement, based upon the following

facts and circumstances:

- The three authorities have joint control of the entity. Each authority has one nominated Director and each Director has one vote. The Directors are responsible for the management of the Company's business, for which purpose they may exercise all the powers of the company with decisions made collectively and unanimously.
- The Company is required by the Councils to carry out the tasks as set out in the Business Plans and Service Plans and is limited to the business and objectives as set by the Councils
- The Company's revenue derives from the financial allocations set and controlled by each of the Councils
- There are no plans for Strata to do anything other than provide services to the three authorities. The Company has been established as an in-house mutual trading local authority controlled company to assist them in the provision of services.

Joint operations are not consolidated into group accounts, instead each authority has recognised in its financial statement its share of assets, liabilities, revenue and expenses pertaining to Strata Service Solutions Ltd. Please refer to Note 35 for more details.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet, for which there is a significant risk of material adjustment are as follows:

Item	Uncertainties	Effect if actual result differs from Assumptions
<b>Pensions Liabilities</b>	Estimates of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate would result in a decrease of £4.384m in the pension liability and £0.144m in the Projected Service Cost. However the assumptions interact in a complex way. During the year the actuaries have amended the liability by £46.921m as a result of assumptions being updated.
<b>Arrears</b>	At the Balance Sheet date, the Council had a balance of £17.514m for short-term debtors. Impairment of doubtful debts totalling £3.320m has been made, but in the current economic climate it is not certain that this will be sufficient.	If collection rates were to deteriorate a doubling of the amount of impairment would lead to an additional £3.320m being set aside.
<b>Valuation of Property, Plant and Equipment and Depreciation</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance (R&M) that will be incurred. The economic climate makes it uncertain that the Council can sustain its current spending on R&M bringing into doubt the useful lives assigned	If the useful life is reduced depreciation will increase and the carrying value of asset will fall. It is estimated that the depreciation charge for other land and building will increase by £29,160 for every year that the useful life is reduced by.
<b>Fair Value Measurements – Investment Properties</b>	The Authority uses significant unobservable inputs to measure the fair value of some of its investment properties including assumptions regarding rent growth and yield.	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties.
<b>Fair Value Measurements – Financial Instruments</b>	When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured based on other observable data or judgement. These judgements typically include considerations such as uncertainty and risk.	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for financial assets or liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. EVENTS AFTER THE BALANCE SHEET DATE

The draft 2016/17 Statement of Accounts was authorised for issue by the Chief Finance Officer, D Hodgson CPFA, on 25 May 2017. Events after this date have not been recognised in the 2016/17 Statement of Accounts. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 6. NON- ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2017 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date:

#### Leaving the European Union

On 23 June 2016 the EU referendum took place and the people of the United Kingdom voted to leave the European Union. The impact on local authorities may not be clear for some time. Prime Minister Theresa May triggered Article 50 on 29 March 2017. This means Britain should officially leave the EU no later than April 2019. For the next two years Britain will undertake complex negotiations to agree the terms of its exit. In the meantime, the UK will remain a member of the EU and will be bound by its legal and treaty obligations.

The Council will need to monitor events and consider any accounting and financial reporting implications including the impact of volatility in financial markets on investment strategies.

#### Reduce Social Housing Rents by 1% a year for 4 years

With effect from 1 April 2016, the Welfare Reform and Work Act 2016 requires social housing landlords to reduce social housing rents by 1% a year for 4 years from a 2015/16 baseline. The financial year 2016/17 was Year 1 out of 4 of implementing the 1% rent cut.

Over the 4 year period the 1% reduction in rents is expected to reduce rental income by £7.9 million compared to income projections made prior to the Government's social rents policy change.

#### Business Rate Retention

The Local Government Finance Bill intended to provide a framework for a reformed 100% Business Rate Retention system. Under the reformed system local government would take on new responsibilities to reflect additional tax income and some central Government grants would be phased out, in order to ensure the reforms are fiscally neutral. Although originally planned to be introduced in 2019/20, the omission of the Bill in the Queens Speech on 21 June 2017 has led to uncertainty regarding the business rate reforms.

#### High Value Asset Levy

The Government introduced powers in the Housing and Planning Act 2016 in respect of the sale of local authority higher value vacant housing. The impact on the Council is pending both the definition of higher value homes and the mechanism by which the government will calculate the amount payable. The Government confirmed that authorities will not be required to make payments in 2017/18.

## NOTES TO THE FINANCIAL STATEMENTS

### 7. PRIOR PERIOD RESTATEMENT OF COST OF SERVICES EXPENDITURE AND INCOME

The 2016/17 Code of Practice on Local Authority Accounting introduced the requirement for local authorities to present expenditure and income on services based on the authority's internal management reporting structure. This change ended the requirement for the service analysis on the face of the Comprehensive Income and Expenditure Statement to be based on the definition of total cost in accordance with the Service Reporting Code of Practice (SERCOP).

Following this, the policy on the treatment of support service costs was amended to reflect the authority's arrangements for accountability and performance.

This note shows how the income and expenditure for each of the Council's committees has been restated to reflect the changes to support service recharges, which have ended with the exception of those to the Housing Revenue Account and certain services that are required to be maintained on a total cost basis.

	Former SERCOP Basis			Restated Internal Management Basis			
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure	Net adjustment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Scrutiny - People	49,074	(45,715)	3,359	48,216	(45,734)	2,482	(877)
Scrutiny - Place	24,851	(13,429)	11,422	23,303	(16,379)	6,924	(4,498)
Scrutiny - Corporate	6,359	(5,626)	733	9,431	(3,323)	6,108	5,375
Housing Revenue Account	17,656	(21,214)	(3,558)	17,656	(21,214)	(3,558)	-
Strata Service Solutions Ltd	750	(263)	487	750	(263)	487	-
<b>Cost of Services</b>	<b>98,690</b>	<b>(86,247)</b>	<b>12,443</b>	<b>99,356</b>	<b>(86,913)</b>	<b>12,443</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 8. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

<b>Adjustments between Funding and Accounting Basis 2015-16</b>				
	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	(Note 1)	(Note 2)	(Note 3)	
	£'000	£'000	£'000	£'000
Scrutiny Committee - People	(18)	187	(5)	164
Scrutiny Committee - Place	1,744	1,649	(31)	3,362
Scrutiny Committee - Corporate	395	(1,380)	2,480	1,495
Housing Revenue Account	(2,468)	167	(1,884)	(4,185)
Strata Service Solutions Ltd	-	-	487	487
<b>Net Cost of Services</b>	<b>(347)</b>	<b>623</b>	<b>1,047</b>	<b>1,323</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(7,767)</b>	<b>3,170</b>	<b>(2,975)</b>	<b>(7,572)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement</b>				
<b>Surplus or Deficit on the Provision of Services</b>	<b>(8,114)</b>	<b>3,793</b>	<b>(1,928)</b>	<b>(6,249)</b>
<b>Adjustments between Funding and Accounting Basis 2016-17</b>				
	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	(Note 1)	(Note 2)	(Note 3)	
	£'000	£'000	£'000	£'000
Scrutiny Committee - People	25	327	65	417
Scrutiny Committee - Place	2,643	1,014	(96)	3,561
Scrutiny Committee - Corporate	(502)	(1,401)	2,705	802
Housing Revenue Account	(4,626)	41	(1,821)	(6,406)
Strata Service Solutions Ltd	-	-	345	345
<b>Net Cost of Services</b>	<b>(2,460)</b>	<b>(19)</b>	<b>1,198</b>	<b>(1,281)</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(12,125)</b>	<b>3,173</b>	<b>(2,376)</b>	<b>(11,328)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement</b>				
<b>Surplus or Deficit on the Provision of Services</b>	<b>(14,585)</b>	<b>3,154</b>	<b>(1,178)</b>	<b>(12,609)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1: Adjustments for Capital Purposes

Adjustments for capital purposes reflect:

- **For services** this column adds in depreciation and impairment and adjusts for revenue expenditure funded from capital under statute and removes the revenue contribution to capital made by the Housing Revenue Account.
- **Other income and expenditure from the Expenditure and Funding Analysis** adjusts for statutory charges for capital financing i.e. Minimum Revenue Provision, Voluntary Revenue Provision and other capital contributions are deducted. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written-off. The pooling payment in respect of properties sold under the right-to-buy scheme, capital grants and the gain on donated assets are also recognised.

### Note 2: Net Change for the Pensions Adjustments

Net changes for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs
- **For other income and expenditure from the Expenditure and Funding Analysis** – the net interest on the defined benefit liability is charged to the CIES

### Note 3: Other Differences

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

- **For services** reflects the Council's proportional shares of Strata Service Solutions cost of services, the removal of investment property net income as this is reported below the net cost of services and the removal of interest costs as they are also reported below the net cost of services.
- **For other income and expenditure from the Expenditure and Funding Analysis** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the financial year and the income recognised under generally accepted accounting practices. This is a timing difference. The adjustments also reflect interest costs and investment property net income, which are reported as financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 9. SEGMENT REPORTING

The net expenditure figures in the Expenditure and Funding Analysis for the Council's committees include the following particular amounts of income and expenditure:

	People £'000	Place £'000	Corporate £'000	Housing Revenue Account £'000
<b>2015-16</b>				
<b>Expenditure</b>				
Benefit payment	41,148	-	-	-
Revenue Contribution to Capital	-	-	-	5,772
Interest expense	-	-	-	1,882
Depreciation	-	2,286	-	2,551
Impairment	-	-	-	3,303
<b>Income</b>				
Benefit subsidy	(38,532)	-	-	-
Car park income	-	(6,709)	-	-
Revenues from other external sources	(7,202)	(9,669)	(4,654)	(20,891)
Revenues from transactions with other operating segments of the authority	(339)	(901)	(1,573)	(97)
<b>2016-17</b>				
<b>Expenditure</b>				
Benefit payment	39,527	-	-	-
Revenue Contribution to Capital	-	-	-	4,689
Interest expense	-	-	-	1,795
Depreciation	-	2,657	-	2,722
<b>Income</b>				
Benefit subsidy	(37,557)	-	-	-
Car park income	-	(6,770)	-	-
Revenues from other external sources	(6,047)	(10,337)	(4,531)	(20,862)
Revenues from transactions with other operating segments of the authority	(303)	(819)	(1,424)	(230)

### 10. EXPENDITURE AND INCOME ANALYSED BY NATURE

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

	2015-16 £'000	2016-17 £'000
<b>Expenditure</b>		
Employee benefits expenses	24,307	26,129
Other service expenses	67,954	66,365
Depreciation, amortisation, impairment	8,994	5,116
Interest payments	2,220	2,360
Net interest on the net defined benefit liability	3,132	3,155
Pension Fund administration expenses	42	64
Payments to Housing Capital Receipts Pool	463	414
<b>Total expenditure</b>	<b>107,112</b>	<b>103,603</b>
<b>Income</b>		
Fees, charges and other service income	(47,909)	(46,659)
Interest and investment income	(4,899)	(5,024)
Income from council tax, non-domestic rates	(9,841)	(9,887)
Government grants and contributions	(47,352)	(46,456)
Capital grants and contributions	(2,718)	(3,917)
Gain on the disposal of assets	(1,557)	(5,555)
<b>Total income</b>	<b>(114,276)</b>	<b>(117,498)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(7,164)</b>	<b>(13,895)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

#### General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. The General Fund Balance summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment. The balance is not available to be applied to fund HRA services.

#### Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function.

#### Capital Receipts Reserve

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

#### Major Repairs Reserve

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

#### Capital Grants Unapplied

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



## NOTES TO THE FINANCIAL STATEMENTS

	Usable Reserves									
	2015-16					2016-17				
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Comprehensive Income and Expenditure Statement</b>										
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:										
~ Pension costs (transferred to or from the Pensions Reserve)	(3,480)	(432)	-	-	-	(2,963)	(322)	-	-	-
~ Financial instruments (transferred to the Financial Instruments Adjustment Account)	29	-	-	-	-	27	-	-	-	-
~ Council Tax and NDR (transfers to or from the Collection Fund)	513	-	-	-	-	44	-	-	-	-
~ Holiday pay (transferred to the Accumulated Absences Reserve)	7	2	-	-	-	(47)	27	-	-	-
~ Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	1,809	(7,048)	-	-	(739)	1,222	(2,573)	-	-	(2,438)
<b>Total Adjustments to the Comprehensive Income and Expenditure Statement</b>	<b>(1,122)</b>	<b>(7,478)</b>	<b>0</b>	<b>0</b>	<b>(739)</b>	<b>(1,717)</b>	<b>(2,868)</b>	<b>0</b>	<b>0</b>	<b>(2,438)</b>
<b>Adjustments between Revenue and Capital Resources</b>										
~ Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	861	2,539	(3,400)	-	-	4,288	3,285	(7,573)	-	-
~ Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(49)	49	-	-	-	(53)	53	-	-
~ Payments to the Government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(463)	-	463	-	-	(414)	-	414	-	-
~ Posting of HRA resources from revenue to the Major Repairs Reserve	-	2,561	-	(2,561)	-	-	2,734	-	(2,734)	-
~ Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	818	-	-	-	-	766	-	-	-	-
~ Voluntary provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,477	-	-	-	-	747	-	-	-	-
~ Adjustment to Long Term Debtor Repayments	-	-	(121)	-	-	-	-	(75)	-	-
~ Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,579	5,772	-	-	-	1,414	4,689	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>4,272</b>	<b>10,823</b>	<b>(3,009)</b>	<b>(2,561)</b>	<b>0</b>	<b>6,801</b>	<b>10,655</b>	<b>(7,181)</b>	<b>(2,734)</b>	<b>0</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Usable Reserves									
	2015-16					2016-17				
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000
<b>Capital Financing Adjustments</b>										
~ Use of the Capital Receipts Reserve to finance capital expenditure	-	-	683	-	-	-	-	274	-	-
~ Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	1,433	-	-	-	-	313	-
~ Application of capital grants to finance capital expenditure	-	-	-	-	5	-	-	-	-	38
~ Cash payments in relation to deferred capital receipts	-	-	(10)	-	-	-	-	(3)	-	-
<b>Total Capital Financing Adjustments</b>	0	0	673	1,433	5	0	0	271	313	38
<b>Total Adjustments</b>	<b>3,150</b>	<b>3,345</b>	<b>(2,336)</b>	<b>(1,128)</b>	<b>(734)</b>	<b>5,084</b>	<b>7,787</b>	<b>(6,910)</b>	<b>(2,421)</b>	<b>(2,400)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. MOVEMENTS IN EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in the year. There are no HRA earmarked reserves.

	Balance 31 March 2015	Transfers in	Transfers out	Balance 31 March 2016	Transfers in	Transfers out	Balance 31 March 2017
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
New Homes Bonus	2,047	270	(654)	1,663	789	(469)	1,983
Strategic Review	51	-	-	51	-	-	51
Capital Fund	700	25	-	725	-	-	725
Other Planning Reserves	204	-	(23)	181	-	(35)	146
Leisure Reserves	182	687	-	869	57	(225)	701
Economic Development	73	-	(33)	40	-	-	40
Housing GF Reserves	82	7	-	89	10	-	99
Redundancy Reserve	392	131	(223)	300	120	(300)	120
Museum Reserves	540	-	(78)	462	-	(25)	437
NNDR Deficit	794	-	(487)	307	334	(307)	334
Other Earmarked Reserves	575	186	(4)	757	6	(286)	477
Strata Usable Reserves	263	-	(50)	213	-	69	282
<b>Total</b>	<b>5,903</b>	<b>1,306</b>	<b>(1,552)</b>	<b>5,657</b>	<b>1,316</b>	<b>(1,578)</b>	<b>5,395</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 13. OTHER OPERATING EXPENDITURE

	2015-16	2016-17
	£'000	£'000
Pension Fund Administration Expenses	42	64
Payment to the Government's Housing		
Capital Receipt Pool	463	414
(Gain) / losses on the disposal of non-current assets	(1,557)	(5,589)
(Gain) / losses on disposal of assets - Strata Service Solutions Ltd	-	34
	<b>(1,052)</b>	<b>(5,077)</b>

### 14. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2015-16	2016-17
	£'000	£'000
Interest payable and similar charges	2,220	2,360
Net interest on the net defined benefit liability	3,082	3,109
Net interest on the net defined benefit liability - Strata Service Solutions Ltd	50	46
Interest receivable	(266)	(493)
Income and expenditure in relation to investment properties and changes in their fair value	(4,339)	(4,471)
Other investment income	(290)	(58)
Interest receivable - Strata Service Solutions Ltd	(4)	(2)
	<b>453</b>	<b>491</b>

### 15. TAXATION AND NON-SPECIFIC GRANT INCOME

	2015-16	2016-17
	£'000	£'000
Council tax income	(4,787)	(5,101)
Non-domestic rates	(5,054)	(4,786)
Non-ringfenced government grants	(6,449)	(6,308)
Capital grants and contributions	(2,718)	(3,917)
	<b>(19,008)</b>	<b>(20,112)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings and Garages £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Infrastructure Assets £'000s	Community Assets £'000s	Surplus Assets £'000s	Assets under Construction £'000s	Total Property, Plant and Equipment £'000s
<b>Cost or valuation</b>								
As at 1 April 2015	208,858	110,866	14,679	4,063	4,666	-	4,204	347,336
Additions	7,158	1,471	2,983	126	86	-	2,197	14,021
Donations	81	-	-	-	-	-	-	81
Revaluations - Revaluation Reserve	(422)	5,361	-	-	-	-	-	4,939
Revaluations - CIES	-	16	-	-	-	-	-	16
Impairments - CIES	(3,330)	(214)	-	-	-	-	-	(3,544)
Derecognition - disposals	(1,397)	(221)	(578)	-	-	-	-	(2,196)
Reclassifications - held for sale	(354)	-	-	-	-	-	-	(354)
Reclassifications - other	3,648	198	-	-	-	-	(3,648)	198
Other movements - Strata Service Solutions Ltd	-	-	(55)	-	-	-	-	(55)
<b>Gross Book Value At 31 March 2016</b>	<b>214,242</b>	<b>117,477</b>	<b>17,029</b>	<b>4,189</b>	<b>4,752</b>	<b>0</b>	<b>2,753</b>	<b>360,442</b>
<b>Depreciation and impairments</b>								
At 1 April 2015	-	(1,133)	(9,600)	(2,153)	-	-	-	(12,886)
Depreciation Charge	(2,469)	(1,552)	(974)	(181)	-	-	-	(5,176)
Depreciation written out to Revaluation Reserve	2,426	1,391	-	-	-	-	-	3,817
Impairment - CIES	26	-	-	-	-	-	-	26
Derecognition - disposals	17	2	538	-	-	-	-	557
<b>Accumulative Depreciation At 31 March 2016</b>	<b>0</b>	<b>(1,292)</b>	<b>(10,036)</b>	<b>(2,334)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(13,662)</b>
<b>Balance Sheet amount at 31 March 2016</b>	<b>214,242</b>	<b>116,185</b>	<b>6,993</b>	<b>1,855</b>	<b>4,752</b>	<b>0</b>	<b>2,753</b>	<b>346,780</b>
<b>Balance Sheet amount at 1 April 2015</b>	<b>208,858</b>	<b>109,733</b>	<b>5,079</b>	<b>1,910</b>	<b>4,666</b>	<b>0</b>	<b>4,204</b>	<b>334,450</b>

**NOTES TO THE FINANCIAL STATEMENTS**

	Council Dwellings and Garages £'000s	Other Land and Buildings £'000s	Vehicles, Plant & Equipment £'000s	Infrastructure Assets £'000s	Community Assets £'000s	Surplus Assets £'000s	Assets under Construction £'000s	Total Property, Plant and Equipment £'000s
<b>Cost or valuation</b>								
As at 1 April 2016	214,242	117,477	17,029	4,189	4,752	-	2,753	<b>360,442</b>
Additions	3,671	28	1,152	47	86	-	3,737	<b>8,721</b>
Donations	140	-	-	-	-	-	-	<b>140</b>
Revaluations - Revaluation Reserve	30,768	7,205	-	-	-	-	-	<b>37,973</b>
Revaluations - CIES	-	816	-	-	-	-	-	<b>816</b>
Impairments - CIES	(63)	(3)	-	-	-	-	-	<b>(66)</b>
Derecognition - disposals	(1,450)	(25)	(460)	-	-	-	(19)	<b>(1,954)</b>
Reclassifications - held for sale	(978)	-	-	-	-	-	-	<b>(978)</b>
Reclassifications - other	-	-	-	-	-	-	-	<b>0</b>
Other movements - Strata Service Solutions Ltd	-	-	(61)	-	-	-	-	<b>(61)</b>
<b>Gross Book Value At 31 March 2017</b>	<b>246,330</b>	<b>125,498</b>	<b>17,660</b>	<b>4,236</b>	<b>4,838</b>	<b>0</b>	<b>6,471</b>	<b>405,033</b>
<b>Depreciation and impairments</b>								
At 1 April 2016	-	(1,292)	(10,036)	(2,334)	-	-	-	<b>(13,662)</b>
Depreciation Charge	(2,607)	(1,749)	(1,198)	(186)	-	-	-	<b>(5,740)</b>
Depreciation written out to Revaluation Reserve	2,589	1,652	-	-	-	-	-	<b>4,241</b>
Impairment - CIES	-	201	-	-	-	-	-	<b>201</b>
Derecognition - disposals	18	-	420	-	-	-	-	<b>438</b>
<b>Accumulative Depreciation At 31 March 2017</b>	<b>0</b>	<b>(1,188)</b>	<b>(10,814)</b>	<b>(2,520)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(14,522)</b>
<b>Balance Sheet amount at 31 March 2017</b>	<b>246,330</b>	<b>124,310</b>	<b>6,846</b>	<b>1,716</b>	<b>4,838</b>	<b>0</b>	<b>6,471</b>	<b>390,511</b>
<b>Balance Sheet amount at 1 April 2016</b>	<b>214,242</b>	<b>116,185</b>	<b>6,993</b>	<b>1,855</b>	<b>4,752</b>	<b>0</b>	<b>2,753</b>	<b>346,780</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Capital Commitments

At 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2017/18 at a cost of £4.603m. Similar commitments at 31 March 2016 were £2.870m.

The major commitments are:

	<b>2016-17</b>
	<b>£'000</b>
Property refurbishment and improvement	317
Property acquisitions	55
New construction	2,834
Vehicles and equipment	916
Grants	124
Information technology	357
	<b>4,603</b>

### Revaluations

The significant assumptions applied in estimating fair value are set out in the statement of accounting policies. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuations are carried out by the Council's in-house valuers; registered with the Royal Institution of Chartered Surveyors.

	<b>Council Dwellings</b>	<b>Other Land and</b>	<b>Total</b>
	<b>£'000s</b>	<b>Buildings</b>	<b>£'000s</b>
		<b>£'000s</b>	<b>£'000s</b>
<b>Carried at historical cost</b>	-	-	-
<b>Valued at fair value in:</b>			
2016-17	246,330	72,962	<b>319,292</b>
2015-16	214,242	45,091	<b>259,333</b>
2014-15	208,858	67,531	<b>276,389</b>
2013-14	198,914	-	<b>198,914</b>
2012-13	-	91,542	<b>91,542</b>

### Non-operational Property, Plant and Equipment (Surplus Assets)

The authority does not have any material surplus assets.

## NOTES TO THE FINANCIAL STATEMENTS

### 17. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the Financing and Investment income and expenditure line in the CIES.

	2015-16	2016-17
	£'000	£'000
Rental income from investment property	2,921	3,112
Direct operating expenditure arising from investment property	(497)	(479)
<b>Net gain / (loss)</b>	<b>2,424</b>	<b>2,633</b>

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.

#### Fair Value Hierarchy

Details of the authority's investment properties and information about fair value hierarchy as at 31 March 2016 are as follows:

Class of Asset	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2016
	£'000	£'000
Industrial	3,307	3,307
Retail	26,731	26,731
Leisure	2,744	2,744
Other Commercial	4,637	4,637
<b>Total</b>	<b>37,419</b>	<b>37,419</b>

Class of Asset	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2017
	£'000	£'000
Industrial	3,475	3,475
Retail	27,831	27,831
Leisure	3,042	3,042
Other Commercial	4,908	4,908
<b>Total</b>	<b>39,256</b>	<b>39,256</b>

The movements in the fair value of investment properties over the year are summarised below:

	2015-16	2016-17
	£000s	£000s
Balance at 1 April	35,702	37,419
Additions :		
Purchases	-	-
Construction	-	-
Subsequent expenditure	-	-
Disposals	-	-
Net gains / losses from fair value adjustments	1,915	1,837
Transfers:		
to/from Property, Plant & Equipment	(198)	-
<b>Balance at 31 March</b>	<b>37,419</b>	<b>39,256</b>

#### Valuation Techniques used to Determine Level 3 Fair Values for Investment Properties

#### Significant Observable Inputs – Level 3

The industrial, retail, leisure and other commercial assets in the portfolio are valued using the income approach, where the



## NOTES TO THE FINANCIAL STATEMENTS

expected cash flows from the properties are discounted utilising market derived rates. This is used to establish the present value of the net income.

This approach has been developed using internal data supplemented where possible with evidence from analysis of relevant recent market transactions and external market reports/reviews. This requires a number of assumptions such as the duration and timing of cash flows, current market rental value, rent growth, occupancy levels, void periods, covenant strength, risk and maintenance costs (where appropriate) etc.

The industrial, retail, leisure and other commercial assets are therefore categorised as level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine fair value. There is no reasonably available information which indicates market participants would use alternative assumptions.

### Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

### Reconciliation of Fair Value Measurements Categorised within Level 3 of the Fair Value Hierarchy

	Industrial	Retail	Leisure	Other Commercial	Fair value as at 31 March 2017
Level 3 fair value measurements	£'000	£'000	£'000	£'000	£'000
Balance at 1 April	3,307	26,731	2,744	4,637	37,419
Gains/(losses) recognised in the CIES resulting from changes in the fair value	168	1,100	298	271	1,837
Additions	-	-	-	-	0
Disposals	-	-	-	-	0
<b>Level 3 balance at 31 March</b>	<b>3,475</b>	<b>27,831</b>	<b>3,042</b>	<b>4,908</b>	<b>39,256</b>

### Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs

Property type	Lease type	Rent type	Fair value as at 31 March 2017 £'000	Valuation technique used to measure fair value	Unobservable inputs	Range / percentage used	Sensitivity
Industrial	Commercial	Market	1,228	Income approach	Rent & Yield	Rent £3.50 - £8 psf Yield 8 - 10%	Significant changes in rental levels or yield will result in a significantly lower or higher fair value
	Ground	Nominal	1,166	Income approach	Rent & Yield	Rent £3.50 - £8 psf Yield 5 - 6%	Significant changes in rental levels or yield will not result in a significant difference to the fair value
	Ground	Gearred	1,081	Income approach	Yield	Yield 5 - 6%	Significant changes in yield will result in a significantly lower or higher fair value
Retail	Commercial	Market	11,038	Income approach	Rent & Yield	Rent £14 (neighbourhood) - £52 (city centre secondary) psf ITZA. Yield 10 - 15%	Significant changes in rental levels or yield will result in a significantly lower or higher fair value
	Ground	Nominal	2,783	Income approach	Rent & Yield	Rent £20 (out of town) - £150 (High St) psf ITZA. Yield 6 - 10.5%	Significant changes in rental levels or yield will not result in a significant difference to the fair value
	Ground	Gearred	14,010	Income approach	Yield	Yield 5 - 7%	Significant changes in yield will result in a significantly lower or higher fair value
Leisure	Commercial	Turnover	3,042	Income approach	Yield	Yield 10 - 17%	Significant changes in yield will result in a significantly lower or higher fair value
Other commercial	Commercial	Market	3,628	Income approach	Rent & Yield	Rent £5 - £10 psf Yield 10 - 15%	Significant changes in rental levels or yield will result in a significantly lower or higher fair value
	Ground	Gearred	157	Income approach	Yield	Yield 7.5%	Significant changes in yield will result in a significantly lower or higher fair value
	Ground	Nominal	1,123	Income approach	Yield	Yield 5.5 - 12%	Significant changes in yield will not result in a significant difference to the fair value

## NOTES TO THE FINANCIAL STATEMENTS

### 18. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Museum Exhibits £'000	Civic Regalia and Paintings at the Guildhall £'000	Artefacts at St Nicholas Priory £'000	Total £'000
<b>Cost or Valuation</b>				
1 April 2015	19,817	2,663	163	22,643
Additions	-	-	-	0
Disposals	-	-	-	0
Revaluations	-	-	-	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-	-	0
<b>31 March 2016</b>	<b>19,817</b>	<b>2,663</b>	<b>163</b>	<b>22,643</b>
<b>Cost or Valuation</b>				
1 April 2016	19,817	2,663	163	22,643
Additions	-	-	-	0
Disposals	-	-	-	0
Revaluations	-	-	-	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-	-	0
<b>31 March 2017</b>	<b>19,817</b>	<b>2,663</b>	<b>163</b>	<b>22,643</b>

### 19. FURTHER INFORMATION ON THE COLLECTIONS

#### St Nicholas Priory

St Nicholas Priory is the 900 year old guest wing of a former Benedictine Priory in Exeter City Centre. Adorned with quality replica furniture and painted in the bright colours of the period, the Priory is presented as the 1602 home of the wealthy Hurst family. The display of Elizabethan items is from the city's collection.

#### Guildhall

The Guildhall is home to a number of fine art portraits painted between the 17<sup>th</sup> and 19<sup>th</sup> Century. They include a portrait of Princess Henrietta Anne, daughter of King Charles I, who was born in Exeter and a number of other prominent local people. There are a number of portraits by Thomas Hudson including one of George II as Prince of Wales.

#### Royal Albert Memorial Museum

RAMM cares for a wonderful and diverse collection consisting of approximately one and a half million individual objects and specimens from all over the globe. They are divided into the following curatorial departments: antiquities; ethnography; natural history, decorative and fine arts. The collections contain items of local, national and international importance, and many are of outstanding historical or cultural significance.

#### Other Heritage Assets

The Council owns a range of assets around the City which are of historic value including; the Roman Wall, Underground Passages, Catacombs and various statues. These have not been valued and do not form part of the figure held in the Balance Sheet.

## NOTES TO THE FINANCIAL STATEMENTS

### 20. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

##### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board
- Short-term loans from other local authorities
- Finance leases detailed in Note 34
- Trade payables for goods or services received
- Capital grants received in advance

##### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under two classifications and comprise:

##### *Loans and Receivables*

- Cash in hand
- Bank current and deposit accounts
- Fixed term deposits
- Loans made for service purposes or to other local authorities
- Lease receivables detailed in Note 34
- Trade receivables for goods or services delivered

##### *Available for sale*

- Money market funds
- Equity investments in Exeter Science Park Limited
- Equity investment in Dextco Limited
- Investment in the Local Authorities' Property Fund

## NOTES TO THE FINANCIAL STATEMENTS

### Financial Instruments - Balances

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

	Long-term		Current	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
<b>Financial Liabilities</b>				
<b>Borrowings</b>				
Loans at amortised cost:				
PWLB	56,906	56,906	-	-
Other local authorities/public bodies	-	-	10,016	10,000
<b>Other Long Term Liabilities</b>				
Liabilities at amortised cost:				
Long term creditors	119	174	-	-
Capital grants receipts in advance	9,386	10,068	-	-
<b>Creditors</b>				
Liabilities at amortised cost:				
Short term creditors	-	-	14,532	15,602
<b>Total Financial Liabilities</b>	<b>66,411</b>	<b>67,148</b>	<b>24,548</b>	<b>25,602</b>
<b>Financial Assets</b>				
<b>Investments</b>				
Unquoted equity investment at cost	778	782	-	-
Loans and receivables:				
Loans made for service purposes	1,868	1,734	-	-
Lease receivables	11,458	11,464	-	-
Impaired investments	82	-	429	-
<b>Cash and Cash Equivalents</b>				
Loans and receivables:				
Short term investments	-	-	8,007	15,008
Cash (including bank accounts)	-	-	3,008	2,071
Available-for-sale investments:				
Local Authorities' Property Fund	-	4,655	-	-
Money market funds	-	-	6,010	7,011
<b>Debtors</b>				
Loans and receivables	-	-	10,617	14,194
<b>Total Investments</b>	<b>14,186</b>	<b>18,635</b>	<b>28,071</b>	<b>38,284</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Income, Expense, Gains and Losses

The gains and losses in the Comprehensive Income and Expenditure Account in relation to Financial Instruments for Investments and Borrowing are made up as follows.

	2015-16			2016-17		
	Measured at Amortised Cost Liabilities £'000s	Loans and Receivables £'000s	Financial Assets £'000s	Measured at Amortised Cost Liabilities £'000s	Loans and Receivables £'000s	Financial Assets £'000s
			<b>Total</b>			<b>Total</b>
Interest Expenses	2,220	-	2,220	2,360	-	2,360
<b>Total Expense</b>	<b>2,220</b>	<b>0</b>	<b>2,220</b>	<b>2,360</b>	<b>0</b>	<b>2,360</b>
Interest Income	-	(266)	(266)	-	(494)	(494)
Increase in fair value	-	-	0	-	-	0
Gains on Derecognition	-	-	0	-	-	0
<b>Total income</b>	<b>0</b>	<b>(266)</b>	<b>(266)</b>	<b>0</b>	<b>(494)</b>	<b>(494)</b>
Gains on Revaluation	-	(63)	(63)	-	-	0
Loss on Derecognition	-	-	0	-	113	113
<b>(Surplus)/Deficit on Revaluation</b>	<b>0</b>	<b>(63)</b>	<b>(63)</b>	<b>0</b>	<b>113</b>	<b>113</b>
<b>Net (Gain)/Loss for the year</b>	<b>2,220</b>	<b>(329)</b>	<b>1,891</b>	<b>2,360</b>	<b>(381)</b>	<b>1,979</b>

### Material Soft Loans Made by the Authority

Soft loans are those advanced at below market rates in support of the Council's service priorities.

The largest loan given by the Council was for £1m towards funding the building of the Science Park centre, in two loan advances of £500,000 with interest charged at 2.55% and 2.62% respectively. The loans are repayable on maturity along with accrued interest in 2023/24.

	2015-16 £'000s	2016-17 £'000s
<b>Balance at start of year</b>	<b>735</b>	<b>786</b>
New loans granted in the year	-	-
Fair value adjustment on initial recognition	-	-
Accrued interest	51	52
<b>Nominal value at 31 March</b>	<b>786</b>	<b>838</b>

### Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid by Exeter Science Park Ltd.

### Reclassification of Financial Instruments

During the year the Council has not reclassified any financial instruments, or transferred any financial instruments that would require a change in the recognition of that instrument. The Council has not pledged any financial assets as collateral for liabilities or contingent liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

### Fair Value of Financial Instruments

#### *Financial Assets Classified as Available for Sale*

Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For the Council this includes shares in money market funds, whereby the fair value is taken from the market price and shares in the Local Authorities' Property Fund, whereby the fair value reflects the published bid price.

The Council's equity shareholding in the Exeter Science Park Limited and Dextco Limited is held at cost as a fair value cannot be reliably measured.

#### Unquoted Equity Instrument Measured at Cost

The Authority has a 21.5% shareholding in Exeter Science Park Limited. The shares are carried at cost of £727,115 and have not been valued as a fair value cannot be measured reliably. This is the eighth year of operation for the company. There are no established companies with similar aims in the Authority's area whose shares are traded and which might provide comparable market data. The Authority has no current intentions to dispose of its shareholding. Similarly, the Authority has a 20% shareholding in Dextco Limited, which was incorporated in December 2016. The company does not yet have an established trading history, therefore the shares are carried at cost.

#### *Financial Assets Classified as Loans and Receivables and Financial Liabilities*

Financial assets classified as loans and receivables and financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been calculated using the following methods and assumptions:

- The fair value of short term debtors and creditors (trade payables and receivables) is assumed to be the invoiced or billed amount less an estimate of impairment for the collectability of that debt.
- The fair value of finance leases (receivable) have been calculated by discounting the contractual cash-flows at the appropriate PWLB annuity loan rate
- The fair value of loans and investments such as fixed term deposits, the fair value has been assessed by using a discount rate for deposits of similar length with a comparable lender as at 31<sup>st</sup> March 2017
- The fair value of soft loans is arrived at by taking the authority's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.
- The fair value of long-term creditors and capital grants received in advance is assumed to approximate to the carrying value as it is considered unlikely, owing to historical experience, that they will require repayment.

## NOTES TO THE FINANCIAL STATEMENTS

### Financial Assets Measured at Fair Value

Fair values are shown in the table below, split by their level in the fair value hierarchy:

	Fair Value Level	Balance Sheet Fair Value		Balance Sheet Fair Value	
		31 March 2016	31 March 2016	31 March 2017	31 March 2017
		£'000	£'000	£'000	£'000
<b>Financial Assets Held at Fair Value</b>					
Available for Sale:					
Money market funds	1	6,010	6,010	7,011	7,011
Unquoted equity investment	3	778	778	782	782
Local Authorities' Property Fund	1	-	-	4,655	4,655
<b>Financial Assets Held at Amortised Cost</b>					
Loans and receivables:					
Loans made for service purposes	2	1,868	1,868	1,734	1,734
Lease receivables	3	11,458	11,458	11,464	11,464
Impaired investments	2	511	511	-	-
Short term investments	2	8,007	8,007	15,008	15,008
Cash (including bank accounts)	2	3,008	3,008	2,071	2,071
Short term debtors	3	10,617	10,617	14,194	14,194
<b>Total Financial Assets</b>		<b>42,257</b>	<b>42,257</b>	<b>56,919</b>	<b>56,919</b>
<b>Financial Liabilities Held at Amortised Cost</b>					
Long term loan from PWLB	2	56,906	65,359	56,906	79,345
Short term borrowing	2	10,016	10,016	10,000	10,000
Long term creditors	3	119	119	174	174
Capital grants receipts in advance	3	9,386	9,386	10,068	10,068
Short term creditors	3	14,532	14,532	15,602	15,602
<b>Total Financial Liabilities</b>		<b>90,959</b>	<b>99,412</b>	<b>92,750</b>	<b>115,189</b>

The fair value of our long term loan from PWLB of £79.345million (£65.359million 15/16) is higher than the principal sum because the Council has a fixed rate loan at a rate higher than currently available borrowing from the market.

## NOTES TO THE FINANCIAL STATEMENTS

### 21. SHORT TERM DEBTORS

	2015-16 £'000	2016-17 £'000
Government Departments	2,519	2,038
Other Local Authorities	1,249	1,357
Public Body	264	29
Sundry Debtors	9,835	13,719
Debtors of Strata Service Solutions Ltd	178	371
	14,045	17,514
Provision for bad debts	(3,428)	(3,320)
<b>Total Short Term Debtors</b>	<b>10,617</b>	<b>14,194</b>

### 22. CASH AND CASH EQUIVALENTS

	2015-16 £'000	2016-17 £'000
Cash held by the Council	13	14
Bank current accounts	2,814	1,760
Money Market Funds	6,010	7,011
Short-term investments	8,007	12,006
Short-term call accounts	-	6
Strata - Cash at bank and in hand	181	291
<b>Total cash and cash equivalents</b>	<b>17,025</b>	<b>21,088</b>

### 23. ASSETS HELD FOR SALE

	Current	
	2015-16 £'000s	2016-17 £'000s
<b>Balance at 1 April</b>	<b>281</b>	<b>482</b>
Assets newly classified:		
Property, plant and equipment	399	1,047
Intangible assets	-	-
Other assets / liabilities	-	-
Revaluation losses	-	-
Revaluation gains	2	-
Impairment losses	-	-
Assets declassified:		
Property, plant and equipment	(45)	(69)
Intangible assets	-	-
Other assets / liabilities	-	-
Assets sold	(155)	(413)
Transfers between current and non-current		
Other movements	-	-
<b>Balance at 31 March</b>	<b>482</b>	<b>1,047</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 24. SHORT TERM CREDITORS

	Restated	
	2015-16	2016-17
	£'000	£'000
Government Departments	1,946	2,487
Other Local Authorities	2,480	3,110
Public bodies	75	233
Sundry Creditors	9,938	9,665
Creditors of Strata Service Solutions Ltd	93	107
<b>Total Short Term Creditors</b>	<b>14,532</b>	<b>15,602</b>

The 2015/16 comparatives have been restated in respect of NDR balances; transferring them from Government Departments and Other Local Authorities to Sundry Creditors, as they are balances with the ratepayer.

### 25. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 11.

	2015-16	2016-17
	£'000	£'000
<b>Usable Reserve</b>		
General Fund Balance	5,516	5,264
Housing Revenue Account	7,237	8,775
Capital Receipts Reserve	3,517	10,427
Major Repairs Reserve	6,343	8,764
Earmarked Reserves	5,657	5,395
Capital Grants Unapplied	1,684	4,084
<b>Balance at 31 March</b>	<b>29,954</b>	<b>42,709</b>

### 26. UNUSABLE RESERVES

	2015-16	2016-17
	£'000	£'000
<b>Unusable Reserve</b>		
Revaluation Reserve	89,358	130,209
Available for Sale Financial Instruments Reserve	-	(405)
Capital Adjustment Account	229,499	235,229
Financial Instrument Adjustment Account	(288)	(260)
Deferred Capital Receipts Reserve	11,587	11,594
Pensions Reserve	(89,414)	(121,060)
Collection Fund Adjustment Account	(148)	(104)
Accumulated Absences Account	(455)	(476)
<b>Total Unusable Reserves</b>	<b>240,139</b>	<b>254,727</b>

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the authority arising from increases in the value of its property, plant and equipment (and intangible assets). The balance is reduced when assets with accumulated gains are:

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

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

## NOTES TO THE FINANCIAL STATEMENTS

2015-16 Revaluation Reserve £'000	2016-17	
	£'000	£'000
81,901 Balance at 1 April		89,358
10,960 Upward revaluation of assets	42,221	
Downward revaluation of assets and impairment losses not charged to (2,202) CIES	(7)	
8,758 Surplus / (deficit) on revaluation		42,214
Difference between fair value depreciation and historical cost (1,020) depreciation	(1,218)	
(281) Accumulated gains on assets sold	(145)	
(1,301) Amount written off to CAA		(1,363)
<b>89,358 Balance at 31 March</b>		<b>130,209</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

2015-16 Available for Sale Financial £'000 Instruments Reserve	2016-17	
	£'000	£'000
Balance at 1 April		0
Upward revaluation of assets	-	
Downward revaluation of investments not charged to the Surplus/(Deficit) on the Provision of Services	(405)	
0		(405)
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of - Other Investment Income		-
<b>0 Balance at 31 March</b>		<b>(405)</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

## NOTES TO THE FINANCIAL STATEMENTS

### Capital Adjustment Account

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 11 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2015-16 Capital Adjustment Account £'000	2016-17	
	£'000	£'000
222,676	Balance at 1 April	229,499
	Charges for depreciation and	
(8,801)	impairment of non-current assets	(4,919)
(193)	Amortisation of intangible Assets	(197)
	Revenue expenditure funded from	
690	capital under statute	(174)
	Amounts of non-current assets	
	written-off on disposal or sale as part	
(1,513)	of the gain/loss on disposal	(1,820)
(9,817)		(7,110)
	Adjusting amounts to Revaluation	
1,020	reserve	1,218
	Net amount written out of the cost of	
213,879	non-current assets in year	223,607

2015-16 Capital Adjustment Account £'000	2016-17	
	£'000	£'000
	Capital finance applied in year:	
683	Use of Capital receipts reserve	274
1,433	Use of the Major Repairs Reserve	313
	Capital Grants and contributions	
1,979	applied - CIES	1,505
	Capital Grants and contributions	
5	applied - CGU Account	38
	Statutory provision for financing	
818	capital	766
	Voluntary provision for financing	
1,477	capital	747
	Capital Expenditure charged directly	
7,351	to the General Fund and HRA	6,104
13,746		9,747
	Movements in the market value of	
1,915	Investment Properties	1,837
	Movement in the Donated Assets	
80	Account	140
(121)	Repayment of Long Term Debtors	(102)
<b>229,499</b>	<b>Balance at 31 March</b>	<b>235,229</b>

### Financial Instruments Adjustment Account

The Financial Instruments 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 benefiting from gains per statutory provisions.

## NOTES TO THE FINANCIAL STATEMENTS

2015-16 Financial Instruments Adjustment Account £'000	2016-17 £'000	£'000
(317) Balance at 1 April		(288)
Premiums incurred in year and		
- charged to CIES	-	
Proportion of premiums incurred in previous years to be charged to		
- General Fund	-	
0		0
Amount by which finance costs charged to CIES differ from finance		
29 costs charged in year under statute		28
<b>(288) Balance at 31 March</b>		<b>(260)</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Account 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 authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the

authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015-16 Pensions Reserve £'000	2016-17 £'000
(96,538) Balance at 1 April	(89,414)
Remeasurements of the net defined	
11,036 benefit liability/(asset)	(28,361)
Reversal of items relating to	
(7,596) retirement benefits in the CIES	(7,352)
Employers pension contributions and	
3,684 direct payments to pensioners	4,067
<b>(89,414) Balance at 31 March</b>	<b>(121,060)</b>

### Deferred Capital Receipts Reserve

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

2015-16 Deferred Capital Receipts £'000	2016-17 £'000
11,451 Balance at 1 April	11,587
Transfer of Finance Lease Premium	
146 to CIES	10
Transfer to Capital Receipts Reserve	
(10) upon receipt of cash	(3)
<b>11,587 Balance at 31 March</b>	<b>11,594</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NDR income in the CIES as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2015-16 Collection Fund Adjustment Account	2016-17
£'000	£'000
(661) Balance at 1 April	(148)
Amount by which council tax and NNDR income credited to CIES differs from that calculated for the 513 year under statute	44
<b>(148) Balance at 31 March</b>	<b>(104)</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015-16 Accumulated Absences Account	2016-17
£'000	£'000
(464) Balance at 1 April	(455)
Settlement / cancellation of previous 464 year's accrual	455
(455) Amounts accrued at the end of year	(476)
Amount by which remuneration charged to CIES differs from g remuneration charged for the year	(21)
<b>(455) Balance at 31 March</b>	<b>(476)</b>

## 27. CASHFLOW STATEMENT – OPERATING ACTIVITIES

	2015-16	2016-17
	£'000	£'000
<b>Net (surplus) / deficit on provision of Services</b>	(7,164)	(13,895)
Depreciation	(5,301)	(5,870)
Impairment	(3,500)	952
Amortisation	(193)	(197)
Investment (losses) / gains	63	(113)
Donated assets	81	140
Pension liability	(3,912)	(3,286)
Carrying amount of non-current assets sold	(1,796)	(1,964)
Movement in investment properties	1,915	1,837
Capital grants applied	-	-
Finance lease income	(146)	10
Other	(1,342)	(66)
Movement in inventories	(14)	18
Movement in debtors	1,099	4,257
Movement in creditors	2,795	(408)
Items classified elsewhere	888	1,385
<b>Net cashflows from Operating Activities</b>	<b>(16,527)</b>	<b>(17,200)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 28. CASHFLOW STATEMENT – INVESTING ACTIVITIES

	2015-16	2016-17
	£'000	£'000
Purchase of non-current assets	15,023	10,814
Purchase of short and long-term investments	132,500	181,500
Other payments for investing activities	2,040	2,076
Proceeds from the sale of non-current assets	(3,375)	(7,638)
Proceeds of short and long-term investments	(130,500)	(168,500)
Other receipts for investing activities	(1,010)	(4,885)
<b>Net cash flows from investing activities</b>	<b>14,678</b>	<b>13,367</b>

### 29. CASHFLOW STATEMENT – FINANCING ACTIVITIES

	2015-16	2016-17
	£'000	£'000
Cash receipts of short and long-term borrowing	(10,000)	-
Other receipts for financing activities	(1,728)	(230)
Cash payments for the reduction of liabilities relating to finance leases	-	-
Repayments of short and long-term borrowing	10,000	-
Other payments for financing activities	-	-
<b>Net cash flows from financing activities</b>	<b>(1,728)</b>	<b>(230)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30. MEMBERS ALLOWANCES

The authority paid the following amounts to members of the council during the year:

	2015-16	2016-17
	£'000	£'000
Salaries	8	9
Allowances	261	301
Expenses	-	1
<b>Total</b>	<b>269</b>	<b>311</b>

### 31. OFFICER REMUNERATION

The table below sets out the remuneration paid to or receivable by the authority's Council's Strategic Management Team:

	Salary, fees & allowances	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions (inc. strain payments)	Total
<b>2016-17</b>							
Chief Executive & Growth Director	111,100	496	-	-	<b>111,596</b>	15,665	<b>127,261</b>
Deputy Chief Executive **	90,658	-	-	-	<b>90,658</b>	72,171	<b>162,829</b>
Communications Director (started 27/2/17)	6,250	-	-	-	<b>6,250</b>	881	<b>7,131</b>
Assistant Director Economy *	65,933	525	-	76,628	<b>143,086</b>	13,657	<b>156,743</b>
Assistant Director Environment *	66,161	161	-	71,519	<b>137,841</b>	103,880	<b>241,721</b>
Assistant Director Customer Access	65,933	391	-	-	<b>66,324</b>	9,297	<b>75,621</b>
Assistant Director Finance	65,933	110	-	-	<b>66,043</b>	9,297	<b>75,340</b>
Assistant Director City Development *	65,933	-	-	75,351	<b>141,284</b>	15,992	<b>157,276</b>
Assistant Director Housing *	65,933	-	-	42,145	<b>108,078</b>	16,423	<b>124,501</b>
Assistant Director Public Realm *	65,933	459	-	61,302	<b>127,694</b>	9,297	<b>136,991</b>
Corporate Manager - Property	57,691	327	-	-	<b>58,018</b>	8,134	<b>66,152</b>
Corporate Manager - Policy/Communications/Community Engagement	57,801	93	-	-	<b>57,894</b>	8,150	<b>66,044</b>
Corporate Manager - Democratic/Civic Support	57,801	287	-	-	<b>58,088</b>	8,150	<b>66,238</b>
Corporate Manager - Legal	66,730	-	-	-	<b>66,730</b>	9,409	<b>76,139</b>

\* Voluntary/compulsory redundancies agreed during 2016/17, following senior management re-structure

\*\* Flexible retirement agreed March 2017

## NOTES TO THE FINANCIAL STATEMENTS

2015-16	Salary, fees & allowances	Expenses	Taxable Benefits	Compensation for Loss of Office	Total Remuneration	Employers Pension Contributions	Total
Chief Executive & Growth Director	110,000	110	-	-	<b>110,110</b>	15,510	<b>125,620</b>
Deputy Chief Executive	89,760	102	-	-	<b>89,862</b>	12,656	<b>102,518</b>
Assistant Director Economy	65,280	637	-	-	<b>65,917</b>	9,204	<b>75,121</b>
Assistant Director Environment	65,506	283	-	-	<b>65,789</b>	9,236	<b>75,025</b>
Assistant Director Customer Access	65,280	46	-	-	<b>65,326</b>	9,204	<b>74,530</b>
Assistant Director Finance	65,280	134	-	-	<b>65,414</b>	9,204	<b>74,618</b>
Assistant Director City Development	65,280	0	-	-	<b>65,280</b>	9,204	<b>74,484</b>
Assistant Director Housing	65,280	43	-	-	<b>65,323</b>	9,204	<b>74,527</b>
Assistant Director Public Realm	65,280	600	-	-	<b>65,880</b>	9,204	<b>75,084</b>
Corporate Manager - Property	57,120	285	-	-	<b>57,405</b>	8,054	<b>65,459</b>
Corporate Manager - Policy/Communications/Community Engagement	57,340	243	-	-	<b>57,583</b>	8,085	<b>65,668</b>
Corporate Manager - Democratic/Civic Support	57,230	393	-	-	<b>57,623</b>	8,069	<b>65,692</b>
Corporate Manager - Legal	57,120	42	-	-	<b>57,162</b>	8,054	<b>65,216</b>

The authority's other employees receiving more than £50,000 remuneration in the year (excluding employer's normal pension contributions) were:

Remuneration band	Number of employees	
	2015-16	2016-17
£50,000 - £54,999	-	3
£55,000 - £59,999	-	1
£60,000 - £64,999	-	3
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	1
£95,000 - £99,999	-	-
£100,000 - £104,999	1	1

Note; the 2015/16 comparatives have been restated to exclude senior officers



## NOTES TO THE FINANCIAL STATEMENTS

### 32. EXTERNAL AUDIT COSTS

In authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	2015-16	2016-17
	£'000	£'000
Core Audit Fees payable to KPMG with regard to external audit services carried out by the appointed auditor *	58	62
Fees payable to Grant Thornton for the certification of grant claims and returns **	22	-
Fees payable to KPMG for the certification of grant claims and returns	16	18
Fees payable to Grant Thornton in respect of other services ***	4	-
	<b>100</b>	<b>80</b>

\* Additional £4k fee for overruns on the Value For Money conclusion

\*\* Additional fees incurred in 2015/16 due to significant testing work undertaken in respect of the housing benefit subsidy claims for 2014/15

\*\*\* Charge for VAT related advice (£3,516 – 2015/16)

### 33. GRANTS, CONTRIBUTIONS AND DONATIONS

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2015-16	2016-17
	£'000	£'000
<b>Credited to Taxation and non-specific grant income</b>		
Council taxpayers	(4,787)	(5,101)
Revenue Support Grant	(2,899)	(2,031)
New Homes Bonus	(3,529)	(4,232)
NDR	(5,054)	(4,786)
Community Infrastructure Levy	(21)	(45)
Other Capital Grants & Contributions	(2,718)	(3,917)
<b>Total</b>	<b>(19,008)</b>	<b>(20,112)</b>
<b>Credited to Services</b>		
Benefit Subsidy	(38,532)	(37,557)
NDR Cost of Collection	(220)	(220)
CT/HB Admin Grant	(560)	(534)
Other Grants and Contributions	(1,591)	(1,837)
<b>Total</b>	<b>(40,903)</b>	<b>(40,148)</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

	2015-16	2016-17
Capital Grants receipts in advance	£'000	£'000
Land at Beacon Avenue	(58)	(5)
Environmental Cont - Rydon Lane	(13)	(13)
Affordable Housing - Cowick St	(413)	(353)
Community Facility - Western Way	(39)	(44)
Leisure Contribution - Hill Barton	(68)	(65)
Local Energy Networks	(78)	(28)
Leisure Contribution - Newcourt	(1,104)	(1,166)
Community Facility - Newcourt	(323)	(354)
Affordable Housing - Newcourt	(246)	(249)
Extracare - St Loyes	(5,632)	(5,273)
Leisure Contribution - Earls Park	(95)	(96)
Affordable Housing - Earls Park	(907)	(916)
Leisure Contribution - St Loyes	(278)	(280)
Affordable Housing - Holland Park	-	(315)
Leisure Contribution - Holland Park	-	(95)
Leisure Contribution - Rydon Lawns	-	(29)
Leisure Contribution - Kingfisher House	-	(46)
Leisure Contribution - Harrington Lane	-	(264)
Leisure Contribution - Monkerton	-	(218)
Leisure Contribution - Rydon Place	-	(179)
Other Grants	(132)	(80)
<b>Total</b>	<b>(9,386)</b>	<b>(10,068)</b>

## 34. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence or to be controlled or influence 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** – has significant influence over the general operations of the Council, providing the statutory framework, the majority of the funding, and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits).

**Council Members** – have direct control over the council's financial and operating policies. The total of member allowances paid in 2016/17 is shown in Note 30. During the financial year, the Council paid grants to organisations totalling £324,910 (£306,757 2015/16) in which five members had positions on the governing body. In all instances, the grants were made with proper considerations of declarations of interest. The relevant members did not take part in any discussion relating to the grants. Payments totalling £30,100 were also made to organisations in which two members had an interest in respect of goods and services.

## NOTES TO THE FINANCIAL STATEMENTS

### RELATED PARTIES (Continued)

**Other public bodies** – Exeter City Council is part of a designated pool for the retention of business rates, which allows local authorities to be treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

### Entities Controlled or Significantly Influenced by the Authority

#### Exeter Business Centre Ltd

Exeter Business Centre Ltd (EBC) main purpose is the letting of affordable business units to support small businesses.

The Authority controls EBC through its ownership of 100% of the shares in the Company and it is deemed to be a subsidiary. EBC had net assets of £107,773 as at 31 March 2017 (£102,322 as at 31 March 16).

#### Exeter Canal and Quay Trust Ltd

Exeter Canal and Quay Trust (ECQT) has a charitable status and its main objectives are to preserve and develop the Exeter Canal and Quay area.

ECQT is deemed to be an associate company, as the company is limited by guarantee and the Council has significant influence through its representation on the Trust board. The Council leases a number of assets to ECQT on a long term basis at nil rent, with the exception of Double Locks Hotel whereby rent is 5% of turnover divided equally between ECQT and the Council (£27,428 in 2016/17). ECQT also contributed £103,225 towards Council costs mostly in respect of running the Quay House Visitors Centre.

#### Exeter Science Park Ltd

The principal activity of the Company is to ensure the successful delivery of the Science Park by enabling the market for the Science Park to be developed through connections with the knowledge base at the University of Exeter, the Met Office and the Peninsula College of Medicine and Dentistry. The largest shareholder is Devon County Council (49.9%) along with the University of Exeter (21.5%) and East Devon District Council (7.1%).

The Authority has a 21.5% shareholding in the Company. It is deemed to be an associate due to the Council's ownership interest and significant influence. The Council has previously provided a loan of £1m towards funding the building of the Science Park centre, in two loan advances of £500,000 with interest charged at 2.55% and 2.62% respectively. The loans are repayable on maturity in 2023/24.

The Council's share in the net assets of Exeter Science Park Ltd is £253,920 at 31 March 2017 (£393,051 31 March 2016).

#### Exeter City Futures Community Interest Company

The Authority is a registered Member of Exeter City Futures Community Interest Company, which is a type of company designed in particular for social enterprises that want to use their profits and assets for the public good. The primary objectives of the Company are to promote and work towards the decarbonisation of the City of Exeter. During 2016/17 the authority incurred expenditure of £23,160 to help facilitate the start-up and promotion of the Exeter City Futures programme.

## NOTES TO THE FINANCIAL STATEMENTS

### Monkerton Heat Company Limited

The company was set up to help facilitate the formation of a district heating network, as part of planning requirements relating to five major residential developments at Monkerton. Exeter City Council is a shareholder along with the five developers.

The purpose of the company is to hold a 999 year head lease for the pipelines and to grant an 80 year sub-lease to the energy supplier – both leases at nil consideration. As a result, the company is considered a dormant company as it is not carrying on any kind of business activity or receiving any form of income.

### Dextco Limited

Dextco was incorporated on 1<sup>st</sup> December 2016. It was established to fund and implement low carbon energy projects across Devon to deliver a reliable, low cost energy infrastructure which will encourage inward investment, thereby driving growth in the local economy and skilled jobs for the workforce. Exeter City Council is one of five equal shareholders comprising; Devon County Council, Royal Devon & Exeter NHS Foundation Trust, University of Exeter and Teignbridge District Council.

Dextco Limited is deemed to be a joint venture, as it is a separate legal entity with shareholders that have equal and collective control with decisions made unanimously. During the year the Council paid £5,001 for its shareholding and provided a grant of £46,500 to the company; funded by Section 106 receipts.

### 35. INTERESTS IN JOINT OPERATIONS

Exeter City Council, Teignbridge District Council and East Devon District Council each have interests in a joint operation called Strata Service Solutions Ltd, a registered company (company number 09041662) whose registered office is Civic Centre, Paris Street, Exeter, Devon, EX1 1JN. The Company was established on 30 October 2014.

The business of the Company is the operation and provision of a shared information communications technology service to each of the Councils including;

- A source of expertise regarding information technology
- A resilient and reliable ICT infrastructure
- A service desk that maintains and supports devices, operating systems and core applications
- Information security and information management services
- Developing and implementing business systems to meet Council business objectives
- A Street Name and Numbering function

The proportions of ownership interests are; Exeter City Council (35.936%), Teignbridge District Council (27.372%) and East Devon District Council (36.692%). Each authority has equal voting rights, with decisions taken collectively and unanimously.

## NOTES TO THE FINANCIAL STATEMENTS

The figures that have been consolidated into the Council's single entity financial statements in respect of Strata Service Solutions Ltd are:

	Accumulative to 2015-16 £'000's	In Year 2016-17 £'000's
<b>Adjustments to CIES</b>		
Fees	(3,153)	(2,364)
Cost of sales	1,518	1,020
Admin expenses	1,896	1,689
Transfer of pension scheme liability	1,136	0
<b>Cost of Services</b>	<b>1,397</b>	<b>345</b>
Loss/(Gain) on disposal of assets	(194)	34
Net interest on the net defined benefit liability	69	46
Interest receivable	(5)	(2)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,267</b>	<b>423</b>
Remeasurement of the net defined benefit liability	(143)	1,143
<b>Total CIES</b>	<b>1,124</b>	<b>1,566</b>
	Accumulative to 2015-16 £'000's	In Year 2016-17 £'000's
<b>Adjustments to Balance Sheet</b>		
Property, plant & equipment	457	(61)
Intangible assets	705	(33)
Investment in Strata removed upon consolidation and replaced with proportional share of assets and liabilities	(1,325)	(432)
<b>Total Long Term Assets</b>	<b>(163)</b>	<b>(526)</b>
Inventories	3	(1)
Short Term Debtors	178	193
Cash & cash equivalents	181	110
<b>Total Current Assets</b>	<b>362</b>	<b>302</b>
Short Term Creditors	(93)	(14)
<b>Total Current Liabilities</b>	<b>(93)</b>	<b>(14)</b>
Capital Grants Receipts in Advance	(16)	(54)
Pension Scheme Liability	(1,214)	(1,274)
<b>Total Long Term Liabilities</b>	<b>(1,230)</b>	<b>(1,328)</b>
<b>Net assets</b>	<b>(1,124)</b>	<b>(1,566)</b>
Financed by:		
Usable Reserves	213	69
Unusable Reserves	(1,337)	(1,635)
<b>Total Reserves</b>	<b>(1,124)</b>	<b>(1,566)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 36. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2015-16	2016-17
	£'000	£'000
<b>Opening Capital Financing Requirement</b>	<b>91,227</b>	<b>92,030</b>
<b>Capital Investment</b>		
Intangible Assets	-	-
Property, Plant and Equipment	14,021	8,721
Investment Properties	-	-
Long Term Debtors	345	(90)
Long Term Investments	-	5
REFCUS	644	1,190
<b>Sources of Finance</b>		
Capital Receipts	(683)	(274)
Government grants and other contributions	(2,439)	(2,127)
Sums set aside from revenue	(8,784)	(6,416)
Minimum Revenue Provision	(818)	(766)
Voluntary Revenue Provision	(1,477)	(747)
Repayment of Long Term Debtors	(6)	(1,257)
<b>Closing Capital Financing Requirement</b>	<b>92,030</b>	<b>90,269</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (unsupported by Government financial assistance)	803	(1,761)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>803</b>	<b>(1,761)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 37. LEASES

#### Council as a Lessee

##### Finance Leases

The Council has acquired a number of its investment properties and some small items of equipment under finance leases. However the items of equipment are below the Council's de minimis for treatment as capital expenditure and they have therefore been treated as operating leases, with the rental charge being charged to the relevant service within the net cost of services.

In respect of investment properties, there are fifteen assets, which have been leased in under finance leases, owing to the length of the lease. However, none of the fifteen leases attracted a lease premium payment, nor is there an annual lease payment due. The assets therefore have been initially recognised in the accounts at zero, being the lower of the net present value of the lease payments or the fair value of the asset. Where appropriate the assets have been revalued to reflect the value to the Council of the lease, were the Council to sell it at market value.

The Council therefore has no minimum lease payments in respect of finance leases.

##### Operating Leases

The Council holds some capital assets, principally property, plant and equipment under operating lease agreements. The majority of the lease payments represent rent payments to property owners who have provided property on short term lease arrangements (3-5 years) for temporary accommodation. Rental payments made in the year amounted to £636,741 (2015/16 £696,708). The future minimum lease payments due under non-cancellable leases in 2017/18 can be broken down as follows:

Due to expire in 2017/18 (or on 1 year rolling agreements)	£6,372
2 – 5 Years	£615,369
5+ Years	£15,000

## NOTES TO THE FINANCIAL STATEMENTS

### Council as a Lessor

#### Finance Leases

The Authority has thirty nine leases, which would be classified as finance leases under IFRS. The asset valuation in the Balance Sheet is therefore based on the freehold interest in the asset.

Twenty six of the leases were entered into prior to 2010 and therefore the Council has taken advantage of the statutory regulations allowing the income received to be retained as revenue income.

The gross investment is made up of the following amounts

	2015-16 £'000	2016-17 £'000
Finance Lease Debtor		
• Current	115	119
• Non-current	11,458	11,464
Unearned finance income	11,573	11,583
Unguaranteed Residual Value	18,595	22,678
<b>Gross investment in Lease</b>	<b>30,168</b>	<b>34,261</b>
<b>Minimum lease payments are:</b>		
5 + Years	608	614

#### Operating Leases

The Council leases out approximately 270 Commercial Premises. Investment income totalling £2,633,448 has been received in respect of these properties during 2016/17 (£2,424,191 in 2015/16).

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

Due to expire in 2017-18 (or on 1 year rolling agreements)	£465,329
2 – 5 Years	£868,023
5+ Years	£1,772,614

Note 17 sets out the value of the investment properties in the accounts. As they are investment properties, they are carried at their fair value and no depreciation is charged.



## NOTES TO THE FINANCIAL STATEMENTS

### 38. IMPAIRMENT LOSSES AND REVERSALS

During 2016/17, the Council recognised impairment losses of £64,284 in relation to its council dwellings and operational land and buildings. Impairment losses of £1,014,400 charged to the Surplus and Deficit on the Provision of Services in previous financial years were also reversed. The reversal predominantly relates to an increased valuation in respect of the Civic Centre. The market for offices has improved and a shortage of office supply in Exeter has resulted in higher rental values.

The impairments are reflected in Note 16 which reconciles the movement over the year in the Property, Plant and Equipment balances.

### 39. TERMINATION BENEFITS

The Authority terminated the contracts of a number of employees in 2016/17, incurring liabilities of £552,616 in redundancy payments (£123,477 2015/16) and £218,597 in pension strain payments (£90,443 2015/16), which have been charged to the Comprehensive Income and Expenditure Statement. Of this total, £439,677 is payable to senior officers following the senior management restructure, as disclosed in Note 31 (redundancy and strain payments). The number of exit packages with the total cost per band are set out below:

Exit Package Cost Band	Number of employees		Total Cost of exit packages in each band	
	2015-16	2016-17	2015-16 £'000	2016-17 £'000
<b>Compulsory Redundancies</b>				
Less than £20,000	3	1	30	5
£20,001 - £39,999	1	1	33	36
£40,000 - £59,999	-	-	-	-
£60,000 - £79,999	-	1	-	61
<b>Other Departures Agreed</b>				
Less than £20,000	2	3	17	41
£20,001 - £39,999	3	3	64	90
£40,000 - £59,999	-	1	-	49
£60,000 - £79,999	1	1	70	78
£80,000 - £99,999	-	3	-	245
£100,000 - £149,999	-	-	-	-
£150,000 +	-	1	-	166
<b>Total</b>	<b>10</b>	<b>15</b>	<b>214</b>	<b>771</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 40. DEFINED BENEFIT PENSION SCHEMES

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

- Exeter City Council participates in the Local Government Pension Scheme, which is administered by Devon County Council in accordance with the Local Government Pension Scheme Regulations 2013. The Pension Fund Committee oversees the management of the Fund.
- The Local Government Pension Scheme is a defined benefit statutory scheme and currently provides benefits based on career average revalued earnings.
- Although the Council only participates in the Local Government Pension Scheme, a number of early retirements mean that there is an element of unfunded liabilities for the Council to cover.
- The Pension Reserve shows the City Council's current deficit in the Devon County Council Pension Fund. The figure has been derived from an actuarial valuation as at 31 March 2016 rolled forward to take into account changes in the intervening period.

### Basis for Estimating Assets and Liabilities

The most recent valuation was carried out as at 31 March 2016 and has been updated by Barnett Waddingham, independent actuaries to the Devon County Council Pension Fund as at 31 March 2017.

To assess the value of the liabilities at 31 March 2017, the actuaries have rolled forward the value of the Employer's liabilities calculated for the funding valuations as at 31 March 2016, using financial assumptions that comply with IAS 19.

To calculate the asset share the actuaries have rolled forward the assets at 31 March 2016 allowing for investment returns, contributions paid into and estimated benefits paid from the Fund by the Council and its employees.

### Scheduled Contributions

Exeter City Council's contribution rate over the accounting period was 14.1% of pensionable pay. The contribution rates certified for Exeter City Council at 31 March 2016 valuation are as follows:

#### Future Service Pay

April 2017 to March 2018	15.8% of pensionable pay
April 2018 to March 2019	15.8% of pensionable pay

#### Past Service Deficit

April 2017 to March 2018	£1.321 million
April 2018 to March 2019	£1.352 million

The estimated value of employer contributions for 2017-18 is £3.599m.

## NOTES TO THE FINANCIAL STATEMENTS

The estimated asset allocation as at 31 March 2017 is as follows:

Asset Share	2015-16		2016-17	
	£'000	%	£'000	%
Equities	25,094	24	28,844	24
Overseas Equities	33,416	31	41,711	34
Infrastructure	3,937	4	4,668	4
Gilts	2,864	3	3,580	3
Other Bonds	3,688	4	3,066	3
Property	11,645	11	10,495	9
Cash	2,318	2	3,203	3
Target Return Portfolio	15,146	15	17,810	15
Alternative assets	5,875	6	6,574	5
<b>Total</b>	<b>103,983</b>	<b>100</b>	<b>119,951</b>	<b>100</b>

The main assumptions used for the purposes of IAS 19 are as follows:

	2015-16	2016-17
Discount rate for scheme liabilities	3.6% pa	2.7% pa
Rate of increase in salaries	4.1% pa	4.2% pa
Rate of increase in pensions	2.3% pa	2.7% pa
Rate of inflation - RPI	3.2% pa	3.6% pa
- CPI	2.3% pa	2.7% pa
Longevity at 65 – current pensioners		
Men	22.9	23.4
Women	26.2	25.5
Longevity at 65 – future pensioners		
Men	25.2	25.6
Women	28.6	27.8
Avg long term expected rate of return		
Conversion of pension into lump sum		
Pre April 2008 permitted amount	50%	50%
Post April 2008 permitted amount	50%	50%

## Transactions Relating to Post-employment Benefits

The cost of retirement benefits is reported in the cost of services when they are earned by employees, rather than when the benefits are actually 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 benefits is reversed out via the Movement in Reserves Statement as follows:

CIES	2015-16 £'000	2016-17 £'000
<b>Net Services Cost</b>		
Current Service Cost	4.242	4.035
Loss / (gain) on curtailment	0.180	0.156
(Gain)/Loss from settlements	0.000	(0.059)
<b>Other Operating Expenditure</b>		
Administration expenses	0.043	0.065
<i>Financing and Investment Income and Expenditure</i>		
Net interest on the net defined benefit liability	<u>3.131</u>	<u>3.155</u>
	<b>7.596</b>	<b>7.352</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges	(7.596)	(7.352)
Employers contributions	3.684	4.067

## NOTES TO THE FINANCIAL STATEMENTS

### Reconciliation of the Movements in the Fair Value of Scheme Assets:

	2015-16 £'000	2016-17 £'000
Opening fair value of assets	104.091	102.053
Opening fair value of Strata assets	1.806	1.930
Interest income	3.468	3.723
Remeasurement gains / (losses)	(3.506)	13.928
Administration expenses	(0.043)	(0.065)
Contributions by the employer	3.835	3.910
Contributions by participants	0.916	0.978
Net benefits paid out	(6.584)	(6.346)
Settlement prices received / (paid)	(0.000)	(0.160)
<b>Closing fair value of assets</b>	<b>103.983</b>	<b>119.951</b>

### Reconciliation of the Present Value of Scheme Liabilities (Defined Benefit Obligation):

	2015-16 £'000	2016-17 £'000
Opening present value of liabilities	199.184	190.253
Opening present value of Strata liabilities	3.251	3.144
Current service cost	4.242	4.035
Interest cost	6.600	6.878
Contributions by participants	0.916	0.978
<i>Remeasurement (gains) and losses:</i>		
Change in demographic assumptions	0.00	(0.668)
Change in financial assumptions	(14.326)	47.589
Experience loss(gain)	(0.065)	(4.789)
Benefits paid out	(6.306)	(6.071)
Past service cost, including curtailments	0.180	0.156
Liabilities assumed / (extinguished) on settlements	(0.000)	(0.219)
Unfunded pension payments	(0.279)	(0.275)
<b>Closing present value of liabilities</b>	<b>193.397</b>	<b>241.011</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Pension Assets and Liabilities Recognised in the Balance Sheet:

	2015-16 £'000	2016-17 £'000
Present value of defined benefit obligations	193.397	241.011
Fair Value of Scheme Assets	(103.983)	(119.951)
<b>Net Liability in Balance Sheet</b>	<b>89.414</b>	<b>121.060</b>

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions.

The sensitivity analysis below sets out the impact on the defined benefit obligations for each change while all other assumptions remain constant:

	Increase in assumption £'000	Decrease in assumption £'000
Longevity (increase or decrease by 1 year)	250.171	232.198
Rate of increase in salaries (increase or decrease by 1%)	241.619	240.408
Rate of increase in pensions (increase or decrease by 1%)	244.868	237.226
Rate for discounting scheme liabilities (increase or decrease by 1%)	236.627	245.480

### 41. CHARITABLE AND TRUST FUNDS

The Council administers 5 charitable/trust funds related to Leisure and Museum services, principally from legacies left by individual Exeter inhabitants over a period of years. The funds do not represent assets of the Council and are not included in the Consolidated Balance Sheet.

The funds are:

	Value of fund at 1.4.16 £'000	Expenditure £'000	Income £'000	Value of fund at 31.3.17 £'000
Reynolds Chard Bequest	386	-	17	403
Veitch Bequest	21	-	1	22
Dorothy Holman Trust	26	-	-	26
Bowling Green Marshes	-	-	-	-
Topsham Recreation Ground	17	-	-	17
	<b>450</b>	<b>-</b>	<b>18</b>	<b>468</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 42. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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 authority
- liquidity risk – the possibility that the authority 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 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 the Council's finance team, under policies approved by full Council as set out in the 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. As a result of the Council's exposure to Icelandic Banks, the Council's in-house criteria have been significantly tightened. The latest Strategy was approved on 21 February 2017.

Deposits are not made with banks and financial institutions unless they are rated independently (by both Fitch and Moody's credit rating agencies) and based in the UK or are a local authority. There are a range of investment limits relating to both value and length of deposit depending on rating. For example UK institutions with the highest rating of rates F1+ have a maximum investment of £4 million for up to 364 days, Foreign institutions that deal in Sterling and are rated F1+ have a maximum investment of £3 million for up to 180 days, whilst the lowest rating the Council will accept (F1 and P-1) have a maximum investment of £3 million for up to 90 days. Up to £5 million can be invested in a money market fund and £ 5 million in a property fund.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Amount at 31/03/2017</b>	<b>Historical experience of default</b>	<b>Historic experience adjusted for market conditions at 31/03/2017</b>	<b>Estimated maximum exposure to default and uncollectability</b>
	<b>£'000</b>	<b>%</b>	<b>%</b>	<b>£'000</b>
Deposits with banks and other financial institutions	15,008	4.3	5	750
Trade and other Receivables – Sundry Debt	13,829	10	15	2,074
Other statutory debts	365	10	15	55
<b>Total</b>	<b>29,202</b>			<b>2,879</b>

## NOTES TO THE FINANCIAL STATEMENTS

The Council has varying credit terms for customers. In reviewing the Council's sundry debt (excluding Council Tax, Business Rates or money owed by the Government in respect of Business Rates etc): Out of the £13.719m sundry debt in Note 21, some £10.131m is invoiced debt. £3.308m of this invoiced debt is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>£'000</b>
30 days – 1 year	1,028
1 – 2 years	946
2 – 3 years	455
3 – 4 years	327
4 – 5 years	226
5 + years	326
<b>Total</b>	<b>3,308</b>

### Liquidity Risk

As the Council has ready access to borrowings from 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. The Council has one long-term loan, taken out on 28 March 2012 to cover the HRA self-financing payment. This loan is due for repayment in 2062. There is a risk of having to replenish this loan at unfavourable interest rates.

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

### Market risk

#### *Interest rate risk*

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

- borrowings at variable rates – the interest expenses charged to the Income and Expenditure will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure 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 CIES. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the CIES and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income & Expenditure.



## NOTES TO THE FINANCIAL STATEMENTS

The Council has a number of strategies for managing interest rate risk; however it has not borrowed using variable rate loans for many years.

If on the 31 March 2017 the interest rates are 1% higher than the actual interest rates the financial impact would be:

### **Borrowing:**

The Council's short term fixed rate borrowing as at 31 March 2017 was taken out over 2 years. A 1% increase in interest rates would increase the cost by £100,000 per annum. The Council's long-term borrowing has been taken out over a period of 50 years and matures in 2062. A 1% increase in interest rates would increase the cost of borrowing by £568,840 a year.

### **Investments:**

It is reasonable to assume that the Council's investments in "cash" accounts should increase by the change in interest rates. A 1% increase would generate an additional £88,000 over a year. In respect of the fixed term deposits of £15m a 1% increase in interest rates would have decreased the fair value by £150,000.

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

### *Price Risk*

The authority does not generally invest in equity shares but does have shareholdings to the value of £732k in a number of associates and joint ventures on the Balance Sheet, held at historic cost.

As the shareholdings have arisen in the acquisition of specific interests, the authority is not in a position to limit its exposure to price movements by diversifying its portfolio. However, the authority can monitor factors that might cause a fall in the value of specific shareholdings through having significant influence.

The Council has investments which are classified as 'available for sale', including a £5m investment in the CCLA Local Authorities' Property Fund. At the end of each financial year the value of the local authority's investment is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

### *Foreign Exchange Risk*

The authority has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

## NOTES TO THE FINANCIAL STATEMENTS

### 43. STATUTORY HARBOUR AUTHORITY

Exeter City Council is the harbour authority for the Exe Estuary.

An annual Statement of Account relating to harbour activities is required to be prepared, in accordance with the 1964 Harbours Act.

	2015-16	2016-17
	£'000	£'000
<b>Income</b>		
Fees and Charges	(80)	(80)
	<b>(80)</b>	<b>(80)</b>
<b>Expenditure</b>		
Employees	30	26
Premises	56	93
Supplies and Services	29	34
Transport	7	13
Support Services	13	-
Capital Charges	2	2
	<b>137</b>	<b>168</b>
<b>Net cost of Harbour Activities as included in the Comprehensive Income and Expenditure Statement</b>	<b>57</b>	<b>88</b>

## HRA INCOME & EXPENDITURE ACCOUNT

2015-2016		2016-2017
£'000	Income	£'000
(19,664)	Dwelling rents	(19,547)
(479)	Non dwelling rents	(521)
(748)	Charges for services and facilities	(794)
<b>(20,891)</b>	<b>Total Income</b>	<b>(20,862)</b>
	<b>Expenditure</b>	
7,074	Repairs and maintenance	5,622
4,142	Supervision and management	4,277
19	Rents, rates, taxes and other charges	13
5,865	Depreciation and impairment of non-current assets	2,797
8	Debt management costs	9
68	Increase/(decrease) in bad debt provision	28
<b>17,176</b>	<b>Total Expenditure</b>	<b>12,746</b>
<b>(3,715)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>(8,116)</b>
157	HRA share of Corporate and Democratic Core	172
<b>(3,558)</b>	<b>Net Cost of HRA Services</b>	<b>(7,944)</b>

## HRA INCOME & EXPENDITURE ACCOUNT

2015-2016		2016-2017
£'000	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:	£'000
(955)	(Gain) or loss on sale of HRA non-current assets	(1,386)
1,986	Interest payable and similar charges	1,989
(104)	Interest and investment income	(195)
265	Net interest on the net defined benefit liability (asset) and administration expenses	281
(352)	Capital grants and contributions receivable	(2,070)
<b>(2,718)</b>	<b>(Surplus )or deficit for the year on HRA services</b>	<b>(9,325)</b>

### Movement on the HRA Statement

2015-2016		2016-2017
£'000		£'000
(7,864)	Housing Revenue Account surplus brought forward	(7,237)
(2,718)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(9,325)
<u>3,345</u>	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year	<u>7,787</u>
<b>627</b>	<b>(Increase) or decrease in the HRA Balance</b>	<b>(1,538)</b>
<b>(7,237)</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>(8,775)</b>

## HRA – NOTES TO THE ACCOUNT

### 1. HRA DWELLINGS

	Flats	Houses and Bungalows	Total
At 31 March 2016	2,582	2,396	4,978
At 31 March 2017	2,563	2,381	4,944

### 2. VACANT POSSESSION VALUE OF DWELLINGS

At 1 April 2017 the vacant possession value of the dwellings was £692.374 million, this compares to the tenanted market value in the Balance Sheet of £242.231 million. The difference of £450.143 million represents the economic cost to the Government of providing council housing at less than open market rents.

### 3. COUNCIL'S OWN BUILD SCHEME

The Council's Own Build scheme involves the development of 21 homes at Sivell Place and Merlin Crescent. Whilst the developments remain within the overall umbrella of the Housing Revenue Account, the costs and incomes arising from the developments are accounted for separately as part of their build costs were financed from borrowing. The cost of servicing the borrowing will therefore be met from the rent income received from the completed dwellings.

### 4. IMPAIRMENT CHARGES

Impairment charges of £0.063m (£3.303million 2015/16) were debited to the HRA Income and Expenditure Account in 2016/17 although they were reversed out in the Statement of Movement on the HRA Balance, to avoid having an impact on rent levels, in accordance with the Code of Practice.

### 5. HRA CAPITAL RECEIPTS

The following capital receipts were received during the year from disposals of land, houses and other property within the authority's HRA:

	2015-16 £'000	2016-17 £'000
Land	-	-
Dwellings	2,464	3,191
Repayment of discounts	36	44
	<b>2,500</b>	<b>3,235</b>
Less amount pooled	(463)	(414)
	<b>2,037</b>	<b>2,821</b>

## HRA – NOTES TO THE ACCOUNT

### 6. BALANCE SHEET VALUATIONS OF ASSETS

	Dwellings £'000	Garages £'000	Vehicles, Plant & Equipment £'000	Intangible Assets £'000	Assets Under Construction £'000	Assets Held for Sale £'000	Total £'000
At 31 March 2016	210,142	4,100	441	-	611	482	215,776
At 31 March 2017	242,231	4,100	377	-	2,939	1,047	250,694

Within the valuation of Council dwellings as at 31 March 2017 of £242.231m, £122.697m was attributable to the value of land (2015/16 £106.505m) and £119.534m to buildings (2015/16 £103.637m).

### 7. HRA CAPITAL EXPENDITURE

HRA capital expenditure amounted to £5.620 million during 2016/17 (£7.885 million 2015/16), the expenditure and sources of finance were as follows:

	Total Expenditure £'000	Sources of Finance				
		Major Repairs Reserve £'000	Revenue Contributions £'000	Borrowing £'000	Grants & Other Contributions £'000	Capital Receipts £'000
Land	-	-	-	-	-	-
Houses	5,463	156	4,689	-	506	112
Other Property	157	157	-	-	-	-
<b>Total</b>	<b>5,620</b>	<b>313</b>	<b>4,689</b>	<b>0</b>	<b>506</b>	<b>112</b>

## HRA – NOTES TO THE ACCOUNT

### 8. DEPRECIATION

The depreciation charges for the year in respect of HRA assets were:

	2015-16	2016-17
	£'000	£'000
Operational assets		
Dwellings	2,415	2,552
Garages	54	55
Equipment	93	127
<b>Total depreciation charged</b>	<b>2,562</b>	<b>2,734</b>
Less depreciation written off - disposals	(17)	(18)
Less depreciation written off - revaluations	(2,426)	(2,589)
Less depreciation written off - impairments	(26)	-
<b>Total depreciation</b>	<b>93</b>	<b>127</b>

## COLLECTION FUND

This account reflects the statutory requirements for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated with other accounts of the billing authority.

2015-2016			2016-2017		
Council Tax	NDR	Total	Council Tax	NDR	Total
£'000	£'000	£'000	£'000	£'000	£'000
<b>Income from:</b>					
55,291	-	55,291	58,578	-	58,578
-	(155)	(155)	-	(59)	(59)
-	77,771	77,771	-	78,505	78,505
55,291	77,616	132,907	58,578	78,446	137,024
<b>Expenditure</b>					
Demands on the Fund by:					
5,974	-	5,974	6,208	-	6,208
2,764	769	3,533	2,873	784	3,657
40,937	6,925	47,862	43,367	7,056	50,423
4,693	30,779	35,472	4,962	31,359	36,321
-	38,474	38,474	-	39,198	39,198
-	220	220	-	220	220
68	-	68	68	-	68
Bad and doubtful debts					
245	534	779	342	275	617
310	(40)	270	(53)	90	37
-	(1,261)	(1,261)	-	(469)	(469)
54,991	76,400	131,391	57,767	78,513	136,280
<b>(300)</b>	<b>(1,216)</b>	<b>(1,516)</b>	<b>(811)</b>	<b>67</b>	<b>(744)</b>
(1,512)	1,983	471	(1,812)	767	(1,045)
<b>(1,812)</b>	<b>767</b>	<b>(1,045)</b>	<b>(2,623)</b>	<b>834</b>	<b>(1,789)</b>



## COLLECTION FUND

### NOTES:

#### 1. Council Taxbase

The council tax base, for tax setting purposes, is calculated by reference to the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. The figures for 2016/17 were:

Band	Dwellings	Less Discounts	Conversion Factor	Band D equivalents
A relief	20	9	5/9ths	6
A	9,592	3,758	6/9ths	3,889
B	14,100	3,255	7/9ths	8,435
C	12,630	1,925	8/9ths	9,516
D	7,589	748	9/9ths	6,841
E	3,673	262	11/9ths	4,169
F	1,712	111	13/9ths	2,313
G	843	49	15/9ths	1,323
H	30	3	18/9ths	54
<b>Band D equivalent</b>				<b>36,546</b>
Less Hardship relief (Band D)				(22)
<b>Total Band D equivalent</b>				<b>36,524</b>
Collection rate @ 97%				(1,095)
<b>Tax base</b>				<b>35,429</b>

#### 2. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values (£187.475m at March 2017) multiplied by a uniform rate 49.7p (48.4p for those receiving small business relief) for 2016/17.



Exeter City Council

# Annual Governance Statement

2016-17

### Scope of Responsibility

Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016). This statement explains how Exeter City Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, paragraph 4(3), which required all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the seven principles of good governance and the arrangements the Council has put in place to meet each of these principles:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social and environmental benefits
4. Determining interventions necessary to optimise the achievement of the intended outcomes
5. Developing the Council's capacity. Including the capability of its leadership and individuals within it
6. Managing risk and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability

A copy of the Council's code is available on our website at <https://exeter.gov.uk/Code>

### The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled together with activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its purposes and to consider whether those purposes have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at Exeter City Council for the year ended 31 March 2017 and up to the date of the approval of the annual statement of accounts.

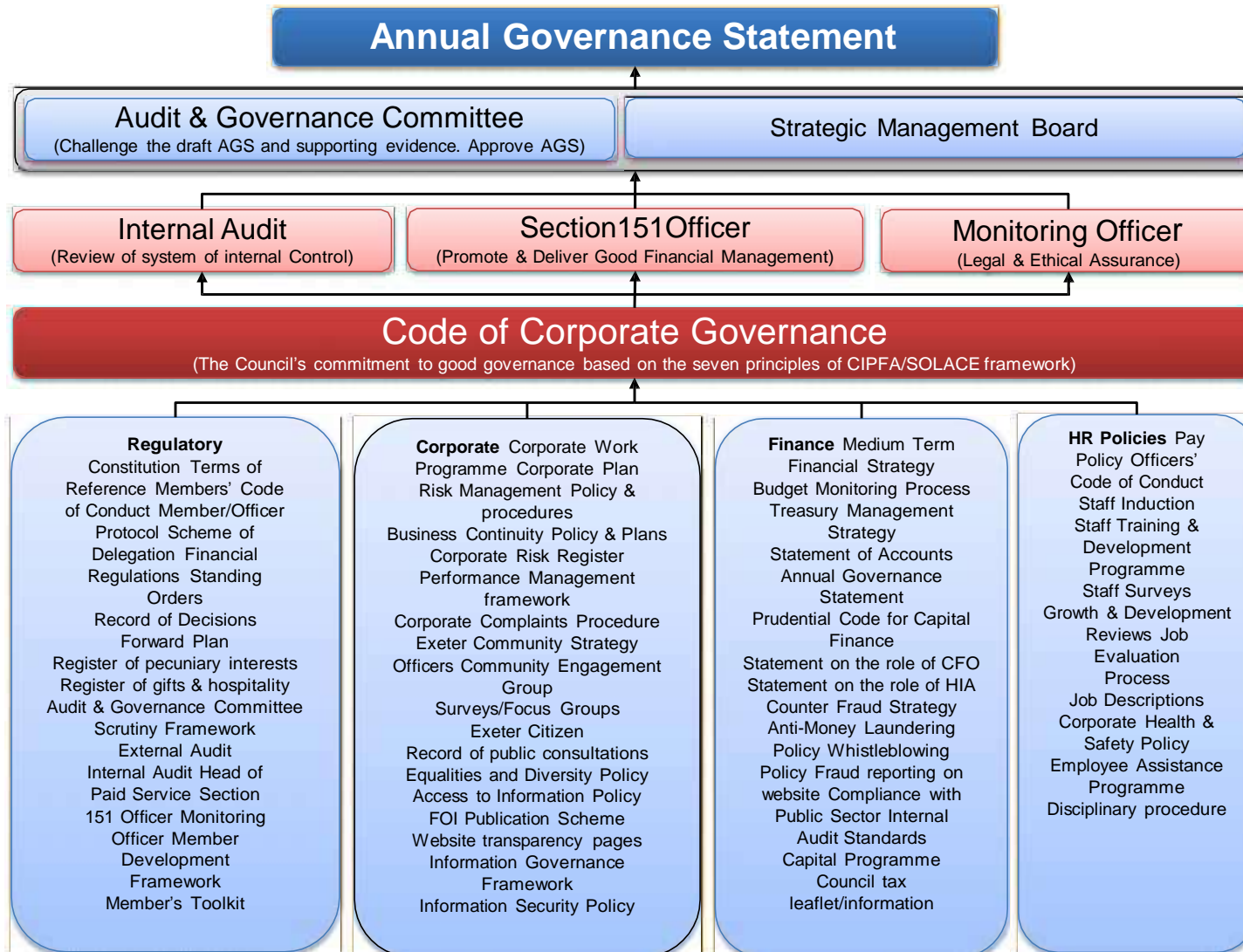
### The Governance Framework

The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Corporate Plan. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

The local Code of Corporate Governance is reviewed annually through the Audit and Governance Committee. This last happened on 7 December 2016 and is due to be reviewed again in March 2018. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Strategic Management Board (SMB) which comprises the Chief Executive and Growth Director, Deputy Chief Executive, Directors and Chief Finance officer (Section 151).

The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

**ANNUAL GOVERNANCE STATEMENT**



### Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

- ✓ The work of the Strategic Management Board who have responsibility for the development and maintenance of the governance environment
- ✓ The work of Executive who are responsible for considering overall financial and performance management and receive comprehensive reports throughout the year;
- ✓ The work of Scrutiny Committee Corporate who monitor the overall financial performance of the Council;
- ✓ The work of the Audit & Governance Committee who monitors the standards of conduct of Members, effectiveness of risk management, the work of Internal Audit and the system of internal control;
- ✓ The Section 151 Officer is responsible for delivering and overseeing the financial management of the Council
- ✓ The Monitoring Officer who provides assurance that the Council has complied with its statutory and regulatory obligations;
- ✓ Annual reviews of the Council's key financial and non financial systems by Internal Audit against known and evolving risks which are reported on a quarterly basis to the Audit & Governance Committee;
- ✓ Annual reviews of the Council's financial accounts and records by the External Auditors leading to their opinion as published in the year-end statements;
- ✓ Ongoing reviews of strategic and operational risks in each service area and the conduct of risk analysis and management in respect of major projects undertaken by the Council;
- ✓ Reviews and, where appropriate, updates of the Council's Constitution including Financial Regulations and Standing Orders
- ✓ Comments made by other review agencies and inspectorates

### Corporate Governance Review

In February 2017, Internal Audit undertook a review of the Council's Corporate Governance Framework against the Framework *Delivering Good Governance In Local Government* (revised edition published spring 2016). The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- that there is sound and inclusive decision making
- and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities

The results of this review have been reported to the Audit and Governance Committee.

## ANNUAL GOVERNANCE STATEMENT

### Financial Management Arrangements

The council's financial management arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2010) as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The section 151 Officer is a member of the Council's Strategic Management Team.

### Internal Audit

The Internal Audit Service has been managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013. As required by regulations an annual review on the effectiveness of Internal Audit was undertaken in the form of a self-assessment against both the PSIAS and the Application Note using CIPFA's checklist. The results of the review confirm that the Internal Audit Service conforms with the PSIAS and that there are not issues of 'non-conformance' that need to be included in this statement.

All key systems were audited in 2016/17 and a total of 18 audit reports have been provided to management and the Audit and Governance Committee.

Based on the assurance work undertaken by Internal Audit, the Audit Manager has provided an opinion on the adequacy of the control environment as part of the Annual Internal Audit Report which concluded that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy.

### External Audit

In September 2016 the Council's external auditor (KPMG) issued an unqualified audit opinion on the Authority's financial statements and a part qualified audit opinion in respect of Value for Money in that they concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned sustainable outcomes for taxpayers and local people **except for** its arrangements for procuring supplies and services effectively with partners and third parties.

### Corporate Complaints

In 2016/17 the Council responded to 116 (2015/16 – 119) corporate customer complaints. All complaints were responded to by the relevant Assistant Director or Corporate Manager so that any issues identified could be actioned.

### Performance Management

During 2016/17 key performance indicators were monitored monthly at SMT Performance meetings. The Council is currently in the process of developing and implementing a new performance management framework. However, this is currently on hold until the new Senior Management Board (SMB) are in place in order that they will be able to input to the process. It is hoped that the new framework will be presented to SMB before October 2017.

6

**Update on significant issues 2015-16**

Issue No.	Issue Identified	Summary of Action Taken
1	STRATA – there are currently no performance measures in place which results in a lack of accountability	<p>The service standards were included as part of the updated business plan, which was approved by Strata JEC on 16/1/17 and full Council 21/2/17.</p> <p>Completed – no further action required.</p>
2	Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern.	This will continue to be monitored as part of the internal audit plan and any issues arising will be reported to Audit and Governance Committee quarterly.
3	Reduction in resources – general reductions in staffing numbers increase the impact of staff absences and other service interruptions. Absences may also increase owing to greater pressure of work and loss of motivation. Internal Audit are aware of instances where long term sickness is impacting on service delivery.	This will continue to be monitored as part of the internal audit plan and any issues arising will be reported to Audit and Governance Committee quarterly.
4	Contract Regulations – current contract regulations conflict with the legislative requirements of the Public Contract Regulations 2015, therefore the Council is at risk of breaching legislation.	<p>A review of contract regulations has been being undertaken to provide an interim solution to be approved by Executive. A full review will be undertaken following the appointment of the new Procurement team.</p> <p>This will continue to be monitored quarterly by Audit and Governance Committee.</p>



**Update on significant issues 2015-16**

Issue No.	Issue Identified	Summary of Action Taken
5	<p>Procurement – the Council currently does not have a procurement function in place that is fit for purpose. A recent audit of procurement identified a number of shortcuts in the procurement process e.g. extending contracts rather than retendering, a lack of effective contract management. The Interim Procurement Officer left the authority at the end of March and has not been replaced. However, the Council has engaged a consultant to review the current procurement process to help meet the requirements of the Public Contract Regulations 2015 but this review has yet to be finalised.</p>	<p>New structure to deal with procurement was approved by Executive 11.10.16. AD Finance authorised to proceed to consultation stage in accordance with the Council's organisational change policy.</p> <p>Procurement Steering Group now in place and meeting monthly</p> <p>Final business case was approved by Executive 14.02.17.</p> <p>Job Evaluation forms for the new team have now been drafted and sent to HR. Following JE the posts will be advertised with a view to having the new team in place by September 2017.</p>
6	<p>Increase in commercial activities - as the Council increases the number of new companies that it sets up e.g. Strata, ESCO (District Heating Scheme), there is a requirement for existing staff to act as directors of these new companies, sometimes without training or being fully aware of their responsibilities or liabilities under the role. Staff that take on a Directorship of a Council company have a conflict of interest i.e. they have a legal obligation to work in the interest of the company as a director, but that could mean they then don't work in the best interests of the Council. In addition, with the requirement to increase the Council's commerciality as a response to the current economic climate, staff must not forget the principles of public life and their obligations.</p>	<p>Training has now been delivered to all relevant staff and Councillors. The Council has now fulfilled its responsibilities regarding this issue.</p> <p>Completed – no further action required.</p>

## ANNUAL GOVERNANCE STATEMENT


### Significant Governance Issues 2016-17


This Statement is intended to provide reasonable assurance. It is stressed that no system of control can provide absolute assurance against material misstatement or loss. In concluding this overview of the Council's governance arrangements, no significant issues have been identified. However we continue to make enhancements and improvements to our governance arrangements and these are listed in the table below. Progress will be subject to regular monitoring by the Audit and Governance Committee.

Issue No.	Key area of focus
1	A new performance management framework is currently being developed. The new framework will be presented to SMB once the new appointments to SMB have joined the Council but is hoped that the system will be implemented by October 2017 at the latest.
2	Medium Term Financial Plan to be reviewed and updated to link to both corporate priorities and the corporate work programme and to include the Council's Value for Money Strategy
3	<p>Services are currently struggling to deliver the capital programme predominantly due to either a lack of resources in some service areas or a skills gap in respect of procurement processes and procedures in other areas.</p> <p>Lack of resources issues – Members need to make a decision whether to modify the capital programme to fit with resources available or to increase resources in order to meet expectations.</p> <p>Procurement training issues - once the new Procurement Team is in place, a series of training programmes will be embarked upon to support those staff with procurement responsibilities.</p> <p>The BID process in respect of the capital programme will be updated for 2017/18.</p>
4	The Council needs to continue its work to implement processes and procedures to ensure proper governance and management of its information assets. To date, work has been undertaken to draft the Information Governance Framework and a report is due to be considered by SMB which will give approval for the Council to compile an Information Asset Register to enable improved management of risks and security of the Council's information assets.

Approval of the Annual Governance Statement

Through the action referred to on the previous page, we propose over the coming year to focus on the key areas, with a view to further enhancing our governance arrangements and we will monitor their implementation and operation as part of our next annual review.

Signed:  ..... Date: 20/09/17 .....  
Councillor Natalie Vizard  
Chair of Audit & Governance Committee

Signed:  ..... Date: 20-09-17 .....  
Dave Hodgson CPFA  
Chief Finance Officer & Section 151 Officer

Signed:  ..... Date: 20/9/17 .....  
Councillor Pete Edwards  
Leader of the Council

Signed:  ..... Date: 20/9/17 .....  
Karime Hassan  
Chief Executive & Growth Director

## AUDITORS REPORT

### **Independent auditor's report to the members of Exeter City Council**

We have audited the financial statements of Exeter City Council for the year ended 31 March 2017 on pages 19 to 96. 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 2016/17.

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

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director of Finance, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 97 to 106 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' (CIPFA/SOLACE 2016 Edition); or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24

- of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

### Conclusion on Exeter City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's responsibilities

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

#### Auditor's responsibilities

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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

## AUDITORS REPORT

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.

### **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 C&AG in November 2015, as to whether Exeter City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Exeter City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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, Exeter City Council had put in place

proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Basis for qualified conclusion**

Proper arrangements include procuring supplies and services effectively to support the delivery of strategic priorities. In 2015/16 the Authority's internal auditors reviewed the procurement service and identified a number of arrangements with suppliers where the Authority's procurement policies, including contract management, had not been properly adhered to. The Authority has raised this as a significant governance issue within its Annual Governance Statement and agreed an action plan in 2016/17 to address the weaknesses identified by the review. The Authority made some progress in implementing the action plan in 2016/17 but our testing identified that some actions remained outstanding as at 31 March 2017. During 2016/17 issues remained within the procurement process where the Council had not followed its own procurement policies by failing to operate an appropriate procurement exercise and had incurred expenditure with external suppliers that was not supported by appropriate contractual terms.

### **Qualified conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Exeter City Council put in place proper arrangements to secure economy,

## AUDITORS REPORT

efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

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

A handwritten signature in black ink, appearing to read 'Darren Gilbert', is positioned below the certificate text.

**Darren Gilbert**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
66 Queen Square  
Bristol  
BS1 4BE

20 September 2017

## GLOSSARY OF TERMS

<b>Accounting Period</b>	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.	<b>Balances</b>	Working balances are reserves needed to finance expenditure in advance of income from debtors, precepts and grants. Any excess may be applied at the discretion of the authority, to reduce future demands on the Collection Fund or to meet unexpected costs during the year. Balances on holding accounts and provisions are available to meet expenditure in future years without having adverse effect on revenue expenditure.
<b>Accrual Basis</b>	The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made	<b>Budget</b>	A statement of the income and expenditure policy plan of the Council over a specified period. The most common is the annual Revenue Budget expressed in financial terms and including other physical data, e.g. manpower resources.
<b>Actual</b>	Actual, as opposed to budget, expenditure and income directly attributable to an accounting period, generally referred to as actuals.	<b>Capital Expenditure</b>	This is expenditure on the acquisition of a fixed asset, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.
<b>Appointed Auditors</b>	From 1 April 2015 the appointment of External Auditors to Local Authorities is undertaken by Public Sector Audit Appointments Limited, an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. This role was previously undertaken by the Audit Commission. KPMG is the Council's appointed Auditor.	<b>Capital Financing</b>	The raising of money to meet the cost of capital expenditure. Capital expenditure may be financed by borrowing, leasing, and contributions from revenue accounts, the proceeds from the sale of capital assets, capital grants and contributions from developers or others.
<b>Associate Companies</b>	An associate is an entity over which the Council has significant influence.		



## GLOSSARY OF TERMS

<b>Capital Grants</b>	Government grant towards capital expenditure on a specific service or project.	<b>Chargers</b>	charges, General Fund Balances, specific grants and any funding from reserves.
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	CIPFA is the leading professional accountancy body for public services.	<b>Creditors</b>	Amounts owed by the Authority for work done, goods received or services rendered, but for which payment was not made at the balance sheet date.
<b>Collection Fund</b>	This is a statutory fund kept separate from the main accounts of the Council. It records all income due from the Council Tax, National Non Domestic Rates and Revenue Support Grant and shows the precept payments due to Devon County Council, Police and Crime Commissioner for Devon and Cornwall, Devon & Somerset Fire and Rescue Service and Exeter City Council.	<b>Current Service Cost</b>	This is an increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.
<b>Community Assets</b>	These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and may have restrictions on their disposal.	<b>Current Assets</b>	Assets that can be expected to be consumed or realised during the next accounting period.
<b>Contingent Liability or Assets</b>	These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately and for which provision has not been made in the Council's accounts.	<b>Current Liabilities</b>	Amounts that will become due or could be called upon during the next accounting period.
<b>Council Tax Requirement</b>	This is the estimated revenue expenditure on General Fund services that will be financed from the Council Tax after deducting income from fees and	<b>Curtailment</b>	The cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year/
		<b>Debtors</b>	Amounts due to the Council that have not been received at the balance sheet date.
		<b>Deferred Liabilities</b>	This represents the liability for principal repayments on finance leases.

## GLOSSARY OF TERMS

<b>Depreciation</b>	This is the measure of the wearing out, consumption or other reduction in the useful economic life of property, plant and equipment.	<b>Finance Lease</b>	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.
<b>Earmarked Reserves</b>	The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.	<b>Financial Instruments</b>	Is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
<b>Employee Costs</b>	These include salaries, wages and allied national insurance and superannuation costs payable by the City Council, together with training expenses and charges relating to the index-linking of pensions of former employees.	<b>Financial Year</b>	The local authority financial year commences 1 April and finishes 31 March the following year.
<b>External Audit</b>	The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.	<b>Financial Regulations</b>	These are a written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.
<b>Final Accounts</b>	Accounts prepared for an accounting period, usually in a summarised form. These accounts show the net surplus (profit) or deficit (loss) on individual services and a balance sheet is prepared for them. They are produced as a record of stewardship and are available to interested parties. Local authorities are required to publish each year a Statement of Accounts (final accounts and balance sheet) as specified in the Accounts and Audit Regulations 2011.	<b>Government Grants</b>	Payments by central government towards local authority expenditure. They must be specific e.g. Housing Benefits, or general e.g. Revenue Support Grant.
		<b>Housing Benefit</b>	This is an allowance to persons receiving little or no income to meet, in whole or part, their rent. Benefit is allowed or paid by local authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to local authorities. Benefits paid to the Authority's own tenants are known as rent rebates and

## GLOSSARY OF TERMS

	that paid to private tenants as rent allowances.		
<b>Housing Revenue Account</b>	Local authorities are required to maintain a separate account, the Housing Revenue Account, which sets out the expenditure and income arising from the provision of Council housing.	<b>Provision (MRP)</b>	applying a percentage of outstanding debt in accordance with the Council's approved policy.
<b>Impairment</b>	A reduction in the value of assets below its value brought forward in the Balance Sheet. Factors which may cause such a reduction include; fall in general prices, a decline in an asset's market value and evidence of obsolescence or physical deterioration.	<b>Non Domestic Rates (NDR)</b>	NDR is also referred to as business rates; is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. Authorities can voluntarily form a business rate retention pool, where all authorities in the pool can benefit from keeping a proportion of business rate revenue as well as growth on the revenue that is generated in their area to spend on local services.
<b>Interest</b>	An amount received or paid for the use of a sum of money when it is invested or borrowed.		
<b>Inventories</b>	Items of raw materials and stores an authority has procured to use on a continuing basis which it has not used.	<b>Net Book Value</b>	The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.
<b>Investment Properties</b>	Property, which can be land or a building or part of a building or both, that is held solely to earn rentals or for capital appreciation or both, rather than for operational purposes.	<b>Non-Current Assets</b>	Assets that can be expected to be of use or benefit to the Authority in providing its service for more than one accounting period.
<b>Materiality</b>	Information is material if omitting it or misstating it could influence the decisions that users make on the statement of accounts.	<b>Operating Lease</b>	A lease under which ownership of the asset remains with the lessor; the lease costs are revenue expenditure to the Authority.
<b>Minimum Revenue</b>	The minimum amount that must be charged to an authority's revenue accounts and set aside as a provision for credit liabilities. It is calculated by	<b>Precepts</b>	The amount levied by various Authorities that is collected by the Council on their behalf. The major precepting authorities in Exeter are

## GLOSSARY OF TERMS

Devon County Council, Devon and Somerset Fire and Rescue Service and Devon and Cornwall Police Authority.

there are many difficulties in its use because value, as such, is a subjective measure and there are rarely supporting objective measures. The Audit Commission is required to consider value for money with the three objectives of economy of input, efficiency of operation and effectiveness of output in service provision.

### **Prior Period Adjustments**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

### **Property, Plant and Equipment (PPE)**

Tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used during more than one year.

### **Public Works Loan Board (PWLB)**

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities

### **Revenue Expenditure Financed by Capital under Statute**

Expenditure which has been legally capitalised but which does not produce a fixed asset for the council, e.g. renovation grants for homeowners.

### **Revenue Support Grant**

A grant paid by government to meet a proportion of the local authority expenditure necessary to provide a standard level of service throughout the country.

### **Value for Money**

An expression describing the benefit obtained (not just in financial terms) for a given input of cash.

The phrase is widely used within public bodies, but



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