



Cambridge City Council Civic Affairs

Date: Thursday, 4 June 2020

Time: 5.30 pm

Venue: This is a virtual meeting and therefore there is no physical location for this meeting [To view meeting click here](#)

Contact: democratic.services@cambridge.gov.uk, tel:01223 457000

Agenda

- | | | |
|---|-------------------------------|-------------------|
| 1 | Apologies | |
| 2 | Declarations of Interest | |
| 3 | Minutes | (Pages 3 - 8) |
| 4 | Public Questions | |
| 5 | Annual Governance Statement | (Pages 9 - 12) |
| 6 | Statement of Accounts 2018/19 | (Pages 13 - 216) |
| 7 | Internal Audit Plan 2020/21 | (Pages 217 - 252) |

Civic Affairs Members: Sargeant (Chair), Davey (Vice-Chair), Chadwick, Dalzell, O'Reilly and Thornburrow

Alternates: Martinelli and Moore

Information for the public

[To view meeting click here](#)

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CIVIC AFFAIRS

18 May 2020

5.30 - 6.06 pm

Present: Councillors McPherson (Chair), Sargeant (Vice-Chair), Chadwick, Dalzell, Davey and Thornburrow

Officers:

Chief Executive: Antoinette Jackson

Democratic Services Manager: Gary Clift

Committee Manager: James Goddard

Committee Manger: Sarah Steed

Others Councillors Present:

Councillor Herbert

Coucillor Bick

FOR THE INFORMATION OF THE COUNCIL

20/8/Civ Apologies

Apologies were received from Rob Bennett, the Council's Independent Person.

20/9/Civ Declarations of Interest

No interests were declared.

20/10/Civ Minutes

The minutes of the meetings held on 29 January 2020 were approved as a correct record and signed by the Chair.

20/11/Civ Public Questions

There were no public questions.

20/12/Civ Virtual Council Meetings-conventions

The Committee received a report from the Democratic Services Manager proposing local conventions on how council meetings would operate in a

virtual way arising from the provisions in the Coronavirus Act 2020 and associated Regulations

The Committee received a report detailing the conventions to apply to virtual meetings. In response to a question, the Committee was advised that there would be a way for audio public contributions from the public were the MS Teams environment incompatible. This was one of the reasons for requiring two days notice from the public so that any technical issues could be resolved prior to a meeting.

Resolved (unanimously) to recommend to Council

- i) The conventions for virtual meetings are adopted as appended to the minute
- ii) The conventions are reviewed after one month of operation and that the Civic Affairs Committee is authorised to make any changes following the review and at any time until 7 May 2021 taking into account any advice from the Council's Monitoring Officer.

20/13/Civ Nominations for Committees for the Municipal Year 2020/21

The Committee considered a report and update paper (published on 18 May) setting out the proposed Committees and the nominations received. The Committee considered the rules on political balance set out in the Local Government and Housing Act 1989 in developing the recommendations.

The Committee were asked to note a correction to the Vice-Chair of Civic Affairs Committee from Councillor Thornburrow to Councillor Davey.

Resolved to:

- (i) Recommend to Council to agree the number and size of committees, depart from proportionality on the Planning Committee and to note the nominations listed below:

Environment and Community Scrutiny Committee 8 (5 Labour + 3 Lib Dem)
Smart, Davies, Hadley, Collis, Barnett
Summerbell, Matthews, Payne
Alternates – O'Reilly, Sheil, McGerty, Gehring

Planning and Transport Scrutiny Committee 8 (5 Labour + 3 Lib Dem)

Smart, Bird, Collis, Green, Baigent

Bick, Porrer, Chadwick

Alternates – McQueen, Lab TBC, Matthews

Housing Scrutiny Committee 8 (5 Labour + 3 Lib Dem)

Todd-Jones, Bird, Thittala, Hadley, Sheil

Martinelli, Porrer, McGerty

Alternates – Barnett, Smart, Cantrill, Page-Croft

Strategy and Resources Scrutiny Committee 6 (4 Labour + 2 Lib Dem)

Davey, Barnett, Green, Davies

Bick, Dalzell

Alternates – O'Reilly, Collis, Cantrill, Payne

Civic Affairs Committee 6 (4 Labour + 2 Lib Dem)

Sargeant, Thornburrow, Davey, O'Reilly

Dalzell, Chadwick

Alternate – Moore, Martinelli

Employment (Senior Officer) Committee 6 (4 Labour + 2 Lib Dem)

Sargeant, Thornburrow, Herbert, Sheil

Bick, Porrer

Alternates: Massey, Dalzell

Licensing Committee 11 (7 Labour + 4 Lib Dem)

Bird, Thittala, McQueen, Massey, Moore, McPherson, Lab TBC

Gehring, Pippas, Page-Croft, Summerbell

Alternates – Johnson, Cantrill

Planning Committee 9 (5 Labour+ 3 Lib Dem +1 Independent)

Smart, Baigent, Green, Thornburrow, McQueen

Tunnacliffe, Lord, Porrer

Hipkin

Alternates – Bird, Price, Page-Croft

Cambridge City Joint Area Committee (with County Council) 6 (4 Labour + 2 Lib Dem)

Sargeant, Smart, Massey, Robertson

Martinelli, Tunnacliffe

Alternates – Bird, McGerty

Cambridgeshire and Peterborough Combined Authority - 1 seat

Herbert

Alternate - Davey

Cambridgeshire and Peterborough Combined Authority Overview and Scrutiny Committee 1 Labour + 1 Lib Dem

Price

Gehring

Alternates – McQueen, Summerbell

Cambridgeshire and Peterborough Audit and Governance Committee 1 Labour + one alternate

Davey

Alternate – Price

Greater Cambridge Partnership Joint Assembly 3 (2 Labour + 1 Lib Dem)
Davey, Massey
Bick

Joint Development Control Committee - Cambridge Fringes 6 (4 Labour+ 2 Lib Dem)
Sargeant, Baigent, Thornburrow, Smart
Tunnacliffe, Matthews
Alternates – Price, Moore, Porrer, Page-Croft

- (ii) Recommend to Council to agree the nominations for Chairs and Vice Chairs as below:

	Chair	Vice Chair
Environment and Community Services	Smart	Davies
Planning and Transport	Smart	Bird
Housing	Todd-Jones	Bird (nb. Tenant/Leaseholder is Chair of Part 1 of the meeting)
Strategy & Resources	Davey	Barnett
Civic Affairs	Sargeant	Davey
Licensing	Bird	Thittala
Planning	Smart	Baigent

- iii. Noted there were no constitutional updates.

20/14/Civ Date of next two meetings

The Committee agreed the date of the next meeting as Thursday 4 June at 5.30pm and that the meeting after would take place on Wednesday 8 July and not 22 July as previously scheduled.

The meeting ended at 6.06 pm
CHAIR

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Item

Annual Governance Statement and Local Code of Governance

To:

Civic Affairs Committee [04/06/2020]

Report by:

Jonathan Tully, Head of Shared Internal Audit Service

Tel: 01223 - 458180 Email: jonathan.tully@cambridge.gov.uk

Wards affected:

All

1. Introduction / Executive Summary

- 1.1 This report considers the Annual Governance Statement (AGS) for 2018/19, and the Local Code of Corporate Governance, for consideration by the Civic Affairs Committee.
- 1.2 The purpose of this report is to provide an update on the Annual Governance Statement, which was previously approved by the Committee on 24th July 2019.

2. Recommendations

- 2.1 Members of the committee should note that there have been no changes made to the Annual Governance Statement that they approved previously.

3. Background

Scope of the AGS

3.1 Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the AGS, spans the whole range of the Council's activities and includes those designed to ensure that:

- The Council's policies are implemented in practice;
- High quality services are delivered efficiently and effectively;
- The Council's values and ethical standards are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Its financial statements and other published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

Arrangements for compiling the AGS

3.2 The Accounts and Audit Regulations require the Council to review its governance arrangements, and prepare an AGS to accompany the Statement of Accounts. The AGS should communicate how we complying with our Local Code of Governance.

3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA), in conjunction with the Society of Local Authority Chief Executives (SOLACE), have produced a framework for delivering good governance in local government. The framework guidance "Delivering Good Governance in Local Government Framework 2016" is used as a guide in compiling the AGS.

3.4 Arrangements for compiling the AGS have been coordinated through Internal Audit, with input from the Head of Legal Services (the Council's Monitoring Officer) in conjunction with the Head of Corporate Strategy, and Head of Finance (the Council's s151 Officer).

3.5 Assurances from the work of the Internal Audit team have been reviewed and have been used to inform the AGS and its associated action plan. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

Arrangements for reporting on and signing off the AGS

- 3.6 The Accounts and Audit regulations require the Committee to approve the AGS in advance of the Statement of Accounts, and this was completed in July 2019.
- 3.7 The Statement of Accounts have been reviewed by the External Auditors following the approval of the AGS. Any significant material findings, or matters arising, would need to be reflected in the final version of the AGS.
- 3.8 A final version of the AGS now accompanies the Statement of Accounts. We have referred to the delay in the Statement of Accounts being concluded. External Audit have now reviewed the AGS and there no further matters to report.
- 3.9 A timeline of events is illustrated below for clarity.

Date	Activity
May 2019	The draft AGS and Statement of Accounts is completed.
June 2019	Members of the Committee were invited to a workshop. An overview of the AGS, plus governance arrangements, was presented.
July 2019	The draft AGS was presented to the Civic Affairs committee on 24th July 2019 and was approved. The draft AGS has also been issued to the External Auditors to review as part of the draft Statement of Accounts.
September 2019	The External Audit review commenced. Any material changes are taken into account and may require the AGS is updated.
October 2019	An update was verbally reported to the Civic Affairs committee (no change). Delay to concluding the Statement of Accounts noted.
May 2020	The External Audit review is concluded. No further changes are required.
June 2020	Target date for the Statement of Accounts to be approved with the accompanying final and formatted version of the AGS.

4. Implications

(a) Financial Implications

None.

(b) Staffing Implications

None

(c) Equality and Poverty Implications

There are no implications.

(d) Environmental Implications

None.

(e) Procurement Implications

None.

(f) Community Safety Implications

None.

5. Consultation and communication considerations

Key officers have been consulted in compiling the draft AGS and Local Code of Governance. The draft AGS was issued to Members of the Civic Affairs Committee, and the Council's External Auditors for comment.

6. Background papers

Background papers used in the preparation of this report:

- Delivering Good Governance in Local Government (CIPFA 2016)
- Accounts and Audit (England) Regulations 2015
- CIPFA good practice guidance on AGS presentation

7. Appendices

None

8. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Jonathan Tully, Head of Shared Internal Audit Service, tel: 01223 - 458180, email: jonathan.tully@cambridge.gov.uk.



Item

STATEMENT OF ACCOUNTS 2018/19

To:

Civic Affairs Committee 04/06/2020

Report by:

Jody Etherington, Deputy Head of Finance

Tel: 01223 - 458130 Email: jody.etherington@cambridge.gov.uk

Wards affected:

None directly affected

1. Introduction

- 1.1 The external audit of the Statement of Accounts for 2018/19 by EY is largely complete. Before giving their formal opinion on the accounts there is a requirement to present their audit findings and to obtain a Letter of Representation signed by both the Head of Finance and a member on behalf of 'those charged with governance'. Under the Council's constitution, this responsibility rests with the Civic Affairs Committee.
- 1.2 EY will be at the meeting to present and discuss their audit findings.

2. Recommendations

- 2.1 That the Committee receive the Audit Results Report presented by EY.
- 2.2 That the Statement of Accounts for the year ended 31 March 2019 be approved, subject to any remaining amendments per recommendation 2.3.

- 2.3 That authority be delegated to the Chair of the meeting to approve any amendments to the Statement of Accounts arising from remaining audit procedures, provided that these do not have a material impact on the Council's reserves.
- 2.4 That the Chair of the meeting be authorised to sign the Letter of Representation and Statement of Accounts for the financial year ended 31 March 2019 on behalf of the Council.

3. Background

- 3.1 Civic Affairs Committee reviewed the accounting policies and significant areas of judgement in relation to 2018/19 at its meeting on 30 January 2019.
- 3.2 Draft unaudited accounts were published on the Council's website on 26 July 2019, in line with the requirement in the Accounts and Audit Regulations to publish accounts by 31 July each year.
- 3.3 EY commenced the audit of the draft Statement of Accounts in September 2019, and the audit is now almost complete. A revised Statement of Accounts is attached at Appendix 1.
- 3.4 Within the Statement of Accounts, there is one disclosure note still to complete (note 42) in respect of additional disclosures required concerning the impact of Covid-19 on the Council's finances. This is a recent development, and officers are currently working with EY to agree suitable wording for the note. Further details are set out at paragraph 6.3 below.
- 3.5 This year's audit has taken significantly longer than usual due to a number of factors. The loss of several key officers within the Finance service had an adverse impact on the timeliness and quality of the draft Statement of Accounts and supporting working papers, which meant that EY were required to input more time and effort to complete their audit procedures. In addition, EY have acknowledged that some of this additional time was not used as efficiently as it might have been due to their own resourcing challenges. Finally, the impact of Covid-19 and resulting lockdown provisions has led to further delay towards the end of the process.

4. Council Financial Results for 2018/19

- 4.1 The Council's financial performance is summarised in the main financial statements.
- 4.2 The Movement in Reserves Statement shows an overall increase in the Council's usable reserves of £32.5 million, to £144.9 million.
- 4.3 There was a net increase of £14.6 million in respect of the capital receipts reserve which can only be used to support capital expenditure. This reserve will be utilised in future years in accordance with the capital programme.
- 4.4 General Fund unallocated reserves increased by £2.4 million to £15.8 million, whilst General Fund earmarked reserves increased by £0.2 million to £25.0 million.
- 4.5 HRA reserves increased by £2.6 million to £11.6 million. HRA earmarked reserves increased by £4.6 million to £15.7 million. This increase most notably reflects a 'set-aside' contribution to reserves in respect of possible future debt redemption or reinvestment.
- 4.6 A more detailed analysis of the movement of both General Fund and HRA earmarked reserves is shown in note 6 to the Statement of Accounts.
- 4.7 There is a table of page vii of the Narrative Report which reconciles the outturn position of portfolios reported to scrutiny committees to the movement on General Fund and HRA general and earmarked reserves. The Expenditure and Funding Analysis (note 1 to the Statement of Accounts) then reconciles this position to the statutory accounting results detailed in the Comprehensive Income and Expenditure Statement.
- 4.8 The Comprehensive Income and Expenditure Statement shows a net surplus on provision of services (measured according to proper accounting practice) of £4.5 million, compared to a net surplus of £17.8 million in 2017/18. Major reasons for the change include:
 - Revaluation losses of £13.2 million were charged to HRA expenditure in respect of Council dwellings, compared with gains credited of £6.6 million in 2017/18. Note that while this impacts on the surplus on provision of services, the effect is reversed out of

the HRA through the Movement in Reserves Statement, so there is no impact on the Council's usable reserves.

- Financing and investment income is net of £7.7 million revaluation losses in respect of investment property, compared with gains of £2.7 million in 2017/18.
- Taxation and non-specific grant income includes capital grants of £21.7 million, compared with £7.4 million in 2017/18. Most of the difference relates to £13.6 million of devolution grant funding from central government for the delivery of new Council homes.
- There was a decrease in net expenditure on the Communities portfolio of £2.5 million, due primarily to a revaluation loss of £3.1 million which was recognised in 2017/18 on the Clay Farm Community Centre, compared with a small gain of £22,000 in 2018/19.

4.9 The Balance Sheet details the value of the Council's assets and liabilities. The Council's total net assets have decreased by £17.9 million, to £732.7 million. Key movements to note include:

- Net revaluation losses of £16.3 million on property, plant and equipment, consisting of a net loss of £18.1 million on Council dwellings, and a net gain of £1.8 million on other land and buildings.
- Net revaluation losses of £7.7 million on investment properties, consisting of a loss of £10.9 million on the central Cambridge shopping centre portfolio, and a £3.2 million gain on other investment properties.
- An increase in the net pension liability of £24.4 million, of which £19.3 million relates to actuarial losses.

5. Group Financial Statements

5.1 The Group Financial Statements consolidate the performance of the Council with its subsidiaries (Cambridge City Housing Company, Cambridge Live, and Cambridge Live Trading Ltd), and the Cambridge Investment Partnership (CIP) entities.

5.2 The accounts of the Cambridge City Housing Company (CCHC) show a profit for the year of £189k. After eliminating transactions with the Council and aligning accounting policies with the group, the total comprehensive income for CCHC included in the Group Financial Statements is £388k. However, under the Council's accounting policies £128k (relating to property revaluations) is

credited to unusable reserves, leaving a net credit to usable reserves of £260k (compared to a net charge of £18k in 2017/18).

- 5.3 The accounts of Cambridge Live and Cambridge Live Trading Ltd (together the Cambridge Live Group) have been consolidated into the Group Financial Statements for the first time this year. The Council took direct control of these entities on 1 October 2018, and recognised an impairment of £480k at this date to reflect the value of the net liabilities assumed. Between 1 October 2018 and 31 March 2019, the accounts of the Cambridge Live Group show a further loss of £947k, which includes impairment of property, plant and equipment of £237k, and actuarial losses on the pension fund of £565k. After eliminating transactions with the Council, the total comprehensive expenditure for the Cambridge Live Group included in the Group Financial Statements (excluding the initial impairment) is £1,047k.
- 5.4 The total cost to the Group as a whole in 2018/19 of assuming the Cambridge Live Group operations was £1,405k. However, it should be noted that this includes £839k in relation to the pension fund liability, which will be transferred to the Council's pension reserve in 2019/20. The impact on usable reserves was therefore £566k.
- 5.5 As a joint venture the Council is required to include its share of the financial results of CIP as a single line in the Group Comprehensive Income and Expenditure Statement and the Group Balance Sheet. During the year, 2 new CIP entities were set up, so that there are now 3 entities in total; an overall operating company, plus 2 specific development companies for Mill Road and Cromwell Road. Two of these entities (the operating company and Cromwell Road development company) had no transactions during the year, and nil net assets at year-end. The Mill Road development company accounts showed a loss of £500k, reflecting the fact that development was ongoing and sales of finished units had not yet commenced at year-end. The Council's share of the partnership's net liabilities at year-end was £457k. Taking this into account, and in accordance with proper accounting practice, the consolidation value in the Group Financial Statements was nil.

6. Audit Results

- 6.1 International Auditing Standards require the auditor to communicate a number of matters to those charged with governance before

issuing their audit opinion. EY's Audit Results Report is attached at Appendix 2. They will be at the meeting to discuss their report and audit findings.

- 6.2 Subject to completion of the outstanding audit work set out on page 5 of their report, EY propose to issue an unqualified audit report. A draft is provided at Section 3 of the Audit Results Report.
- 6.3 The current Covid-19 situation poses a risk to financial resilience for all local authorities, and as a result EY have sought additional evidence on the Council's future financial resilience and the impact this may have on the Statement of Accounts. This work is currently in progress and EY have highlighted that this may impact the audit report, which will need to go through an EY internal consultation process to ensure that it provides the appropriate assurance to the Council and its stakeholders. EY will provide a verbal update on this at the meeting.
- 6.4 The combined impact of the issues set out at paragraph 3.4 above has resulted in a higher than usual volume and value of adjustments to the draft Statement of Accounts. These are set out in detail within Section 4 of the Audit Results Report. It should be noted, however, that many of the adjustments made do not impact upon the Council's usable reserves as they are either presentational in nature, or relate to transactions where the impact is reversed through the Movement in Reserves Statement (such as property revaluations). It should be further noted that many of the adjustments are complex in nature, and that one adjustment often impacts on several parts of the financial statements. For example, a change in property valuations can impact the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Housing Revenue Account Statement and several disclosure notes.
- 6.5 The table below summarises the impact of the audit adjustments made on the Council's reserve position and surplus on provision of services. The most significant adjustments are explained in more detail below the table:

(£000)	General Fund	HRA	Other Usable Reserves	Unusable Reserves	Total Council Reserves	(Surplus) on provision of services
Draft Statement of Accounts	15,415	11,539	102,339	631,239	760,532	(6,881)
Total impact of audit adjustments	362	81	15,152	(43,436)	(27,841)	2,332
Revised Statement of Accounts	15,777	11,620	117,491	587,803	732,691	(4,549)
Adjustments include:						
1) Council dwellings revaluation	0	0	0	(30,516)	(30,516)	9,511
2) Capital grant recognition	0	0	0	0	0	(13,505)
3) Adjustments in respect of property, plant and equipment and investment property	(68)	82	(7)	3,267	3,274	10,875
4) Capital financing adjustment – Cromwell Rd	0	0	9,834	(9,834)	0	0
5) S106 contributions – timing of income recognition	0	0	4,938	0	4,938	(4,938)
6) Pension Fund liability revaluation	0	0	0	(4,902)	(4,902)	0
Other adjustments	430	(1)	387	(1,451)	(635)	389
Total	362	81	15,152	(43,436)	(27,841)	2,332

- 6.6 Council dwellings revaluation – The Council is required to revalue its Council dwellings on an annual basis, and an external valuer's report is commissioned for this purpose. Upon review of this valuation report, EY identified that the indexation applied by the valuer did not cover the full year, and as a result the valuation was overstated by £30.5m. Of this amount, £21.0m has been charged to the revaluation reserve, whilst the remaining £9.5m is charged initially to the HRA, but then reversed out through the Movement in Reserves Statement so that there is no overall impact on usable reserves. We have already engaged in discussions with the valuers with a view to working with them to minimise the risk of a similar issue occurring in future years. However, it should be said that the risk can never be completely eliminated due to the timing of the valuation and the audit; by the time the audit is undertaken there will invariably be additional market data available to auditors which was not available to the valuer at the time of valuation.
- 6.7 Capital grant recognition – This adjustment of £13.5m reflects capital grant income which was initially recognised directly in the capital grants unapplied reserve, rather than the correct treatment which is to recognise this first as income in the Comprehensive Income and

Expenditure Statement, and then transfer the amount to the capital receipts reserve through the Movement in Reserves Statement. This is an accounting adjustment – there is no impact on the Council's net asset or total reserve position.

- 6.8 Adjustments in respect of property, plant and equipment and investment property – This line reflects a number of adjustments which were required following issues in maintaining the Council's fixed asset register, and reconciling this to the general ledger at year-end. The vast majority of these adjustments have no impact on usable reserves under statutory accounting requirements.
- 6.9 Capital financing adjustment – Cromwell Rd – This is an accounting adjustment to the timing of the application of capital financing in respect of the Cromwell Road development. Whilst the capital receipts reserve has increased by £9.8m as a result, this balance remains committed to the project and will be applied in future years.
- 6.10 S106 contributions – timing of income recognition – When the Council receives S106 contributions with conditions attached, it has historically held these contributions on the Balance Sheet until the conditions were met. However, the Code requires instead that income be recognised when it is probable that conditions will be met, which represents a slightly earlier point of recognition. As a result, £4.9m of contributions have been released to the capital grants unapplied reserve. Again, the funds remain committed to their respective projects, and will be expended in future years in line with the capital programme.
- 6.11 Pension Fund liability revaluation – This adjustment reflects late changes to the actuarial estimate of the net pension fund liability as a result of the McCloud ruling, and differences between earlier estimates of pension fund asset values and their actual values at the year-end. As a result, the pension fund liability increased by £4.9m.
- 6.12 In addition to the audit adjustments, EY have also made a number of recommendations throughout their report in relation to Council systems, processes and internal controls. The recommendations made relate to the following areas:-
- Property valuations, including a recommendation that more information is provided to the Council's external valuers at the

- start of the valuation process, and that management review the appropriateness of any indexation applied by valuers.
- Maintenance of the Council's fixed asset register.
 - Issues with the technical spreadsheet model used to produce the draft Statement of Accounts, which contributed towards some of the audit issues found.
 - Management review of the draft Statement of Accounts prior to audit.

These recommendations are set out in full at Appendix 4 to this report, together with details of the steps already taken by officers to address them.

7. Letter of Representation

- 7.1 International Auditing Standards require the auditor to have received a Letter of Representation drawn up by the Council that provides written confirmation on matters that might be relevant or significant to the Statement of Accounts. This letter is signed as near as possible to the date of the auditor issuing opinion. The auditing standard requires that the letter is 'discussed and agreed by those charged with governance and signed on their behalf...to ensure that all those charged with governance are aware of the representations on which the auditor intends to rely in expressing the auditor's opinion on those financial statements.'
- 7.2 A draft Letter of Representation has been provided at Appendix 4. EY will be present at the meeting to answer any questions.

8. Audit Fee

- 8.1 As set out at paragraph 3.4 above, this year's audit has taken longer than usual, and has required a significant level of additional input by both auditors and Council officers. This will impact on the level of audit fee charged, and EY have provided further details of their fee proposal on page 40 of their Audit Results Report. It should be noted that the fees proposed are still subject to agreement with the authority and Public Sector Audit Appointments (PSAA), who oversee the external audit regime for all local authorities.

9. 2019/20 Statement of Accounts and Audit

- 9.1 Given the issues encountered during the 2018/19 audit, there has been early positive engagement between officers and EY to ensure

that lessons have been learned for 2019/20. Some of the steps already taken include:

- Agreement of a revised and realistic timetable which sees a draft Statement of Accounts published by mid-July (approximately 2 weeks earlier than last year), and the audit complete in time to report to the Civic Affairs meeting in October 2020.
- Improvements to the resourcing situation within the Finance service, including the recruitment of a permanent Deputy Head of Finance and Senior Accountant (Technical & Financial Accounting).
- Improvements to the approach for project managing the closedown process, including making use of Microsoft Teams for the first time, regular progress meetings, and more robust review processes for the draft Statement of Accounts, supporting working papers, and key reconciliations.
- An agreement with the auditors to focus on higher risk areas (e.g. property valuations) early on in the audit wherever possible.

As a result, we are confident that the process for 2019/20 will be a lot smoother.

- 9.2 The current Covid-19 situation does provide additional challenges in terms of changes to our normal ways of working. However, this also presents an opportunity to make better use of technology throughout the audit process, for example holding virtual meetings with the auditors through Microsoft Teams, and providing audit evidence remotely through the EY client portal and screen sharing. This has worked well so far, and we intend to continue these positive steps going forwards.
- 9.3 It should be noted that, due to the Covid-19 situation, MHCLG have recently extended the deadline for the publication of 2019/20 until 30 November. However, draft accounts will still need to be published by 31 August to allow the public inspection period to commence. We are currently in discussions with EY about what this may mean for the audit timetable, although it is not anticipated that there will be any significant impact on the original plan to report audit findings to the Civic Affairs Committee in October 2020, as set out above.

10. Implications

a) Financial Implications

Included in the report above.

b) Staffing Implications

None

c) Equality and Poverty Implications

None

d) Environmental Implications

None. Paper copies of the Statement of Accounts document will only be produced on request. An electronic version will be available on the Council's website.

e) Procurement Implications

None

f) Community Safety Implications

None

11. Consultation and communication considerations

The Statement of Accounts will be published on the Council's website with a notice advertising that the audit of the accounts has been concluded.

12. Background papers

Background papers used in the preparation of this report:

- Statement of Accounts 2018/19

13. Appendices

- Appendix 1 – Statement of Accounts 2018/19
- Appendix 2 – EY Audit Results Report
- Appendix 3 – Audit Recommendations and Responses

- Appendix 4 – Draft Letter of Representation

14. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Jody Etherington, Deputy Head of Finance, tel: 01223 - 458130, email: jody.etherington@cambridge.gov.uk.



STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED

31 MARCH 2019

This document is published on our website

FINAL FRONT COVER TO FOLLOW

Cambridge City Council

Statement of Accounts 2018/19

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Narrative Report

The Statement of Accounts, set out on pages 1 to 103, contains a series of statements, summarising the financial implications to the Council of delivering services in the period from 1 April 2018 to 31 March 2019. In addition, details of the Council's assets and liabilities at the beginning and end of the Council's financial year are presented.

The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (the 'Code'). The Code is based on International Financial Reporting Standards (IFRS) and sets out the format and content of the key financial statements and accompanying notes in this publication.

In addition to the Council's Statement of Accounts, consolidated Group Financial Statements are also presented. The key financial statements are as follows:

- ◆ Movement in Reserves Statement
- ◆ Comprehensive Income and Expenditure Statement
- ◆ Balance Sheet
- ◆ Cash Flow Statement
- ◆ Housing Revenue Account
- ◆ Collection Fund
- ◆ Group Movement in Reserves Statement
- ◆ Group Comprehensive Income and Expenditure Statement
- ◆ Group Balance Sheet
- ◆ Group Cash Flow Statement

These accounts are supported by a comprehensive set of notes together with a Statement of Accounting Policies of the Council and a glossary of terms. An index to the main notes to the accounts is provided on page 7.

The accounts aim to provide information so that members of the public, including electors and residents of Cambridge, Council members, partners, stakeholders and other interested parties can:

- ◆ understand the overarching financial position of the Council;
- ◆ have confidence that public money has been accounted for in an appropriate manner; and
- ◆ be assured that the financial position of the Council is sound and secure.

Review of 2018/19

This Narrative Report is designed to explain the most significant features of the accounts and to provide information on the Council's use of resources.

It includes a review of achievements against the Council's Corporate Plan which was reviewed by the Council's Strategy and Resources Committee in July 2019, alongside a review of the financial performance for the year.

Corporate Plan – Review of 2018/19

The Corporate Plan for 2016-19 lists the key activities which Cambridge City Council has undertaken over a three-year period in order to achieve our strategic objectives and vision.

An Annual Report shows what has been achieved each year against each of the objectives contained within the Corporate Plan. For the third year of the Corporate Plan our headline achievements have been:

Delivering sustainable prosperity for Cambridge and fair shares for all

- ◆ Spent just over £572,000 to deliver 22 projects set out in our Anti-Poverty Strategy to improve the lives of local people living on low incomes in the city.
- ◆ Supported neighbourhood community development projects in Abbey, Arbury and Kings Hedges wards and started the process of realigning our resources so that we can ensure support to the communities and areas of highest need.
- ◆ Funded a number of projects that enabled a total of 323 people to gain the digital skills to access online services.
- ◆ Our Children and Young People's Participation Service provided over 730 sessions, which were attended by just over 25,000 children.
- ◆ Continued to fund Cambridge Citizens' Advice Bureau to provide vital local legal, debt and money advice free to city residents in most need, including the provision of outreach advice in two community centres and two GP settings.

Tackling the city's housing crisis and delivering our planning objectives

- ◆ Investigated nearly 280 complaints concerning housing standards and empty properties and served 25 enforcement notices and 2 fixed penalty notices to bring about improvements. One landlord was prosecuted for failure to comply with an improvement notice.
- ◆ Helped bring back into use 26 empty homes, ensured that 182 occupied properties were brought up to standard and trained 46 landlords and property agents in good housing management practice.
- ◆ Identified 21 new sites for council housing schemes that will deliver a net gain of 536 new council homes overall.
- ◆ Prevented or relieved from homelessness just over 260 households threatened with losing their homes, provided homelessness advice to 863 households and found accommodation for 112 people at risk of rough sleeping.
- ◆ Completed the introduction of a shared planning service, whilst maintaining performance levels above government targets, with 97% of all major decisions made on time.

Making Cambridge safer and more inclusive

- ◆ Dealt with just over 1,850 complaints relating to noise nuisance and served a total of 35 abatement notices.
- ◆ Dealt with over 500 cases of antisocial behaviour, of which 423 were assessed as being either medium or high risk.

Narrative Report

- ◆ Cleared 1,080 incidents of fly-tipping, removed abandoned belongings found on the city centre streets and worked with local homeless charities to reunite belongings with their owners, where possible.
- ◆ Resettled over 100 refugees, helping them to integrate into the city and to become self-sufficient and independent.
- ◆ Continued to prioritise work to reduce domestic violence, achieving re-accreditation as a White Ribbon Campaign Local Authority. We continued work in local schools to raise awareness of older school children about child sexual exploitation, healthy relationships and sexual consent.

Investing in improving transport and tackling congestion

- ◆ Worked closely with Cambridge BID and other retailers to look at parking issues and delivery vehicle movements in Cambridge to try to move people away from using their car and reduce congestion, in a way that does not adversely affect local trade.
- ◆ Continued to work in partnership to help deliver Greater Cambridge Partnership infrastructure schemes, such as the Chisholm Trail, cross city cycling schemes and the West of Cambridge package, to support the sustainable growth of the city.
- ◆ Procured a new pay-by-phone supplier for our surface car parks, providing access by both phone and web-enabled mobile app, to make the customer experience better.
- ◆ Continued to work with our partners to develop the citywide provision of electric vehicle charging, to help make the city cleaner and greener.

Protecting our City's unique quality of life

- ◆ Continued to provide accessible swimming pools and sports facilities with just over 880,000 visits during the year.
- ◆ Provided a free exercise referral scheme for people attending two GP health centres located in disadvantaged areas in the city, with 142 individuals participating.
- ◆ Funded 97 voluntary and community groups through our £900,000 community grants programme. These groups delivered 137 services and activities to help reduce social or economic inequality among Cambridge residents with the greatest needs.
- ◆ Delivered an extensive programme of infrastructure, environmental and cultural improvements across our city's streets and open spaces, investing over £2 million in projects to enhance community cohesion and the quality of life of city residents and visitors.
- ◆ Continued to implement our Tree Strategy, to protect, manage and enhance our tree stock, planting 312 trees in our parks and open spaces, processing over 632 applications for works to protected private trees and served 45 tree preservation orders.

Protecting essential services and transforming council delivery

- ◆ Dealt with just under 320,000 contacts at our Council's Customer Service Centre and used self-serve technologies to improve our performance with 86% of calls resolved at first point of contact. The number of transactions through the internet has more than doubled over the past three years.
- ◆ Invested in additional commercial properties, with plans for more investment in coming years, to generate more income for the Council and to enhance the retail offering within the city centre.

Narrative Report

- ◆ Worked with shared service partners to jointly procure replacements for major business systems to enable the redesign of services, to deliver services digitally to our customers and to reduce costs.
- ◆ £227 million in Housing Infrastructure Funding was awarded to relocate a waste water treatment plant working with Anglian Water to enable the development of a new mixed use residential and commercial quarter.
- ◆ Successfully relocated our operational depot from Mill Road to Cowley Road, freeing up land for the development of more than 230 homes, 50% of which will be council rented.

Tackling climate change, and making Cambridge cleaner and greener

- ◆ Collected 99.78% of household bins as planned, with 51% of household waste diverted from landfill.
- ◆ Made significant improvements to the energy efficiency of the Guildhall, installing LED lighting, double-glazing, improved controls on the heating system, replacement roofing and insulation and a photovoltaic system to provide fossil-free electricity.
- ◆ Supported our licensed taxi fleet to move away from diesel to ultra-low emission powered vehicles, with the number of fully electric taxis increasing from 2 to 25.
- ◆ Continued to apply the council's planning document on sustainable construction and energy and water efficiency to all major developments, achieving certification to Code Levels 4 and 5 and ensuring housing schemes met water efficiency requirements of no more than 110 litres/person/day.

Review of Financial Performance 2018/19

Revenue Spending and Income

General Fund Services

For 2018/19, the Council agreed a budget for net spending by committees of £22.8 million. The council tax for City Council services was set at £191.75 for Band D properties. The outturn figures, as reported to members, do not reflect a number of statutory accounting adjustments made at the year-end or the presentational requirements of the Code.

Narrative Report

The table below compares the outturn figures by portfolio for the General Fund with the budget.

(£000s)	Final budget	Actual	Difference
Communities	7,476	7,585	109
Streets and Open Spaces	6,265	6,009	(256)
Environmental Services and City Centre	4,413	4,458	45
Planning, Policy and Transport	(971)	(1,047)	(76)
General Fund Housing	3,822	3,673	(149)
Finance and Resources	(5,183)	(6,272)	(1,089)
Strategy and Transformation	7,027	7,149	122
Total Portfolio Expenditure	22,849	21,555	(1,294)
Capital accounting adjustments	(6,323)	(6,363)	(40)
Capital plan expenditure funded from General Fund reserves	1,514	1,038	(476)
Total	18,040	16,230	(1,810)
Financed by:			
Revenue Support Grant	(571)	(571)	0
New Homes Bonus	(5,595)	(5,596)	(1)
Non-domestic rates share – net income	(3,757)	(3,929)	(172)
Non-domestic rates reliefs -- compensatory government grants	(1,205)	(1,522)	(317)
Other grants	(45)	(76)	(31)
Council tax	(8,227)	(8,227)	0
Net contributions to/(from) earmarked reserves – before year-end accounting adjustments	2,112	4,734	2,622
Contributions to/(from) General Fund reserves	(752)	(1,043)	(291)
Total	(18,040)	(16,230)	1,810

The Council's actual net portfolio revenue expenditure was £1,810,000 less than the final budget set for the year. A variety of factors contributed to this overall position, including underspends on shared services and higher levels of income on commercial property.

Under statutory regulation the amount of business rates credited to the General Fund in 2018/19 is based on an estimate, with any resulting difference being recovered from the General Fund or paid to it in future years. Taking into account the levy payment due to central government for the year on growth above the assumed baseline, the charge for recovery of previous years' deficits and business rate relief compensatory grants from central government, the income credited to the General Fund was £489,000 above the budget.

As noted above the outturn presentation differs from that required by the Code for the Statement of Accounts. The table below reconciles the difference between the total spend as reported at outturn with the amount chargeable to the General Fund and that presented in the Comprehensive Income and Expenditure Statement (CIES).

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(£000s)	Actual per outturn report	Depreciation and amortisation	Interest and property income reported below net cost of services in the CIES	Application of earmarked reserves for capital financing	Other adjustments	Net amount chargeable / (credited) to the General Fund
Communities	7,585	(1,899)	72	0	(60)	5,698
Streets and Open Spaces	6,009	(954)	282	0	201	5,538
Environmental Services and City Centre	4,458	(477)	116	0	(245)	3,852
Planning, Policy and Transport	(1,047)	(1,632)	105	0	(806)	(3,380)
General Fund Housing	3,673	(87)	146	0	(584)	3,148
Finance and Resources	(6,272)	(1,208)	8,486	0	272	1,278
Strategy and Transformation	7,149	(37)	91	0	(436)	6,767
Other Operating Income and Expenditure	0	0	(9,298)	0	(441)	(9,739)
Total Portfolio Expenditure	21,555	(6,294)	0	0	(2,099)	13,162
Capital accounting adjustments	(6,363)	6,294	0	0	56	(13)
Capital plan expenditure funded from General Fund reserves	1,038	0	0	3,660	344	5,042
Other statutory adjustments	0	0	0	0	(154)	(154)
Total	16,230	0	0	3,660	(1,853)	18,037
Financed by:						
Revenue Support Grant	(571)	0	0	0	0	(571)
New Homes Bonus	(5,596)	0	0	0	0	(5,596)
Non-domestic rates share – net income	(3,929)	0	0	0	(126)	(4,055)
Non-domestic rates reliefs – compensatory government grants	(1,522)	0	0	0	54	(1,468)
Other grants	(76)	0	0	0	(660)	(736)
Council tax	(8,227)	0	0	0	0	(8,227)
Net contributions to/(from) earmarked reserves	4,734	0	0	(3,660)	(854)	220
Contributions to/(from) General Fund reserves	(1,043)	0	0	0	3,439	2,396
Total	(16,230)	0	0	(3,660)	1,853	(18,037)

Overall, a net contribution to General Fund reserves of £2,396,000 has been reflected in the financial statements against a budgeted use of reserves of £752,000. At the 31 March 2019 the reserve stood at £15,777,000.

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Housing Revenue Account

The table below compares the final outturn figures (before statutory accounting adjustments) for the HRA as reported to Housing Scrutiny Committee in June 2020, with the final budget for 2018/19.

(£000s)	Final budget	Actual	Difference
Dwellings rents and other income	(42,172)	(42,205)	(33)
Expenditure	28,014	27,762	(252)
Net cost of HRA services	(14,158)	(14,443)	(285)
Interest receivable on HRA balances	(789)	(873)	(84)
Loan interest	7,513	7,514	1
Direct revenue financing of capital	597	727	130
Contributions from HRA earmarked reserves to general HRA reserves – before statutory adjustments	4,765	4,554	(211)
(Surplus) / deficit for the year	(2,072)	(2,521)	(449)

Income was slightly over-achieved overall. An underachievement of service charge income was recorded due to major refurbishment works and delays in selling shared ownership units. However, this was balanced by overachievements in rents for garages and commercial property and other contributions received.

There was a significant net overspend in repairs and maintenance, where there was a need to use sub-contractors to cover extensive staff training, upskilling and sickness. This was partially offset by technical delays to planned maintenance works. Investment in services as part of the Housing Transformation Programme was not completed in full during 2018/19 with some of the work being delivered in 2019/20.

Overall, the final outturn position in the Statement of Accounts (following statutory and other adjustments) was a contribution to HRA reserves of £2,600,000 against a budgeted contribution to reserves of £2,072,000. HRA reserves stood at £11,620,000 at 31 March 2019.

Earmarked Reserves

There was an overall increase in General Fund earmarked reserves of £220,000 in 2018/19. This reflected a number of factors including contributions (net of expenditure) of £592,000 to support the Greater Cambridge Partnership, expenditure (net of contributions) of £1,859,000 on the Office Accommodation Strategy and contributions of £782,000 to the A14 Mitigation Fund earmarked reserves.

There was an overall increase in HRA earmarked reserves of £4,556,000. A contribution of £4,472,000 was made to a fund for possible future redevelopment or debt redemption.

Capital Spending and Receipts

In 2018/19 the Council spent £54,023,000 on property, plant and equipment. Of this, £1,211,000 was on major repairs and improvements to council dwellings, £4,983,000 on new dwellings completions, £30,212,000 on other land and buildings, £2,725,000 on vehicles,

Narrative Report

plant and equipment, £11,000 on infrastructure and £14,881,000 on assets under construction. Of the assets under construction spend, £12,529,000 was on new housing developments. £11,191,000 of new council dwellings were completed in year and therefore transferred from assets under construction at the end of the year. These included extra care facilities in Ditchburn Place and new dwellings at Tuscan Court and Hawkins Road. The spend on other land and buildings included £27,000,000 on land at Cromwell Road, which was sold to Cambridge Investment Partnership for private and affordable house building.

In addition to the above, the Council also added 2 further units to its portfolio of investment properties at a cost of £1,232,000.

Capital receipts continued to be generated through the sale of land, council houses, shared ownership dwellings and other property. Disposal proceeds for the year were £34,906,000 (including £27,000,000 for the Cromwell Road land as above), of which £7,874,000 was in relation to the disposal of housing properties. £1,134,000 of housing receipts were paid to central government.

The Council's future commitments under capital contracts are detailed further in note 18 to the accounts.

Assets

Just as in the private sector, changes in the values of Council-owned property are reflected in the accounts each year. As a result of asset revaluations and the capital expenditure discussed above (and net of asset disposals), the value of property, plant and equipment decreased by £13,680,000 to £781,963,000 and the value of investment property decreased by £4,499,000 to £170,782,000 as at 31 March 2019. Although these movements appear significant, it should be noted that revaluation gains and losses are not realised until asset disposals take place.

Liabilities

The Council did not need to undertake any new external borrowing during the year. The external debt of £213.6 million shown in the Balance Sheet at the end of the financial year relates to borrowing undertaken in 2011/12 to meet a one-off debt settlement payment to central government in relation to new self-financing arrangements for the Housing Revenue Account.

The Council's share of the assets and liabilities of the Cambridgeshire Pension Fund show an estimated net liability of £138.0 million at 31 March 2019. This liability has no impact on the level of the Council's usable reserves.

The net pension liability has increased this year by £24.5 million. This net figure reflects a number of factors used by the actuary to estimate the Council's scheme liabilities. Further information on this change and relating to the assets, liabilities, income and expenditure of the Council's pension scheme is presented in note 35.

Cash Flows

The balance of cash and cash equivalents at 31 March 2019 was £7,661,000. This excludes the Council's investments in fixed term deposits and other longer term investments which are detailed in note 22. Further information on cash flows for the year can be found in the Cash Flow Statement and accompanying notes (notes 36-39).

Narrative Report

Council Staff

The number of staff employed by the Council decreased during the year from 698 full-time equivalents at 31 March 2018 to 683 at 31 March 2019.

Trade Union Facility Time

Details of trade union facility time can be found at www.cambridge.gov.uk/open-data.

Group Performance

The Statement of Accounts include the Group Financial Statements which include the performance of the Council's wholly owned subsidiary, Cambridge City Housing Company and that of the Cambridge Investment Partnership LLP, a joint venture. During the year the Council took control of Cambridge Live and Cambridge Live Trading Limited, which have been consolidated as subsidiaries from 1 October 2018.

Looking Ahead to 2019/20

Following on from the implementation of a number of shared service arrangements, with both South Cambridgeshire and Huntingdonshire District Councils, no further shared services are being developed at this time. The Council is working to ensure that these new delivery arrangements are working efficiently and effectively and are subject to appropriate governance arrangements.

The Council continues to explore sites for redevelopment and the provision of new affordable homes with Cambridge Investment Partnership LLP. It is also considering opportunities afforded by the removal of the HRA borrowing cap, which would allow it to fund new affordable homes from borrowing.

The Council is well placed to deal with the challenges of reduced central government funding, including the withdrawal of the Revenue Support Grant and changes to New Homes Bonus, but there will continue to be financial pressures. There remains uncertainty around the proposed move to 75% business rates retention and the outcomes of the Fair Funding Review. The Council will continue to work to understand the implications and the risks that these changes to local government funding will bring in the future.

Further Information

Further information about the accounts is available from:

Head of Finance
Cambridge City Council
PO Box 700
Cambridge
CB1 0JH

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- ◆ make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance;
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- ◆ approve the Statement of Accounts.

The Head of Finance's Responsibilities

The Head of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code').

In preparing this Statement of Accounts, the Head of Finance has:

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

The Head of Finance has also:

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

Opinion

I certify that the Statement of Accounts present a true and fair view of the financial position of Cambridge City Council at 31 March 2019 and of its income and expenditure for the year then ended.

Caroline Ryba, Head of Finance

XX June 2020

I confirm that these accounts were approved by the Civic Affairs Committee at its meeting held on 4 June 2020.

Cllr Mike Sargeant, Chair of Civic Affairs Committee

XX June 2020

Introduction and purpose

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that it also provides value for money. It has to effectively manage its risks and put in place proper arrangements for the governance of its affairs.

Definition of Corporate Governance

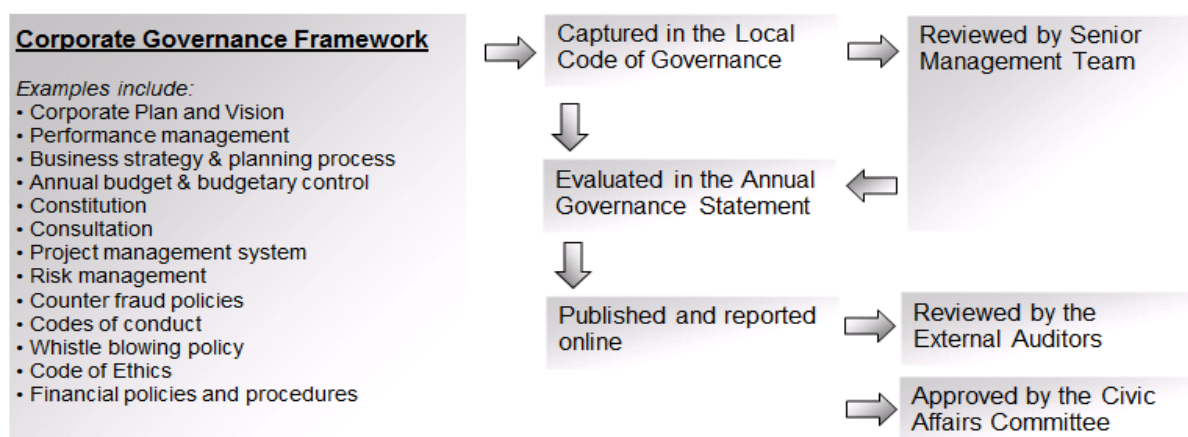
Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

Good governance in the public sector means: "*achieving the intended outcomes while acting in the public interest at all times*".

The Governance Framework

Our governance framework comprises the culture, values, systems, and processes by which the Council is directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes.

The Council has a robust process for reviewing and updating the governance Framework



The Council has aims and objectives which are published on [our website](https://www.cambridge.gov.uk/vision-statement)¹. The Council has a clear vision to "*lead a united city, in which a dynamic economy and prosperity are combined with social justice and equality*". The vision has three main aims, captured in the annual statement:

- ◆ to make Cambridge fair for all;
- ◆ to make it a great place to live, learn and work; and
- ◆ caring for the planet.

¹ <https://www.cambridge.gov.uk/vision-statement>

Annual Governance Statement

The Council produces a [Corporate Plan](#)², which sets strategic objectives under seven themes:

- ◆ Delivering sustainable prosperity for Cambridge and fair shares for all
- ◆ Tackling the city's housing crisis and delivering our planning objectives
- ◆ Making Cambridge safer and more inclusive
- ◆ Investing in improving transport and tackling congestion
- ◆ Protecting our city's unique quality of life
- ◆ Tackling climate change, and making Cambridge cleaner and greener
- ◆ Protecting essential services and transforming council delivery

The Council prepares an Annual Report illustrating progress against the plan each year, and this is published on the [website](#)³.

The governance framework has been in place at the Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

Local Code of Governance

We are responsible for ensuring that there is a sound system of governance which incorporates the system of internal control.

This Governance Framework is recorded in our [Local Code of Governance](#)⁴, which is underpinned by the 7 principles of good governance as set out in the CIPFA / SOLACE publication 'Delivering Good Governance in Local Government Framework 2016'. The principles are:

- A. behaving with integrity and in accordance with our core values
- B. being open and ensuring effective engagement takes place
- C. working together to achieve our intended outcomes
- D. setting goals for economic, social, and environmental benefits and reaching them
- E. growing our capacity – including our leadership and the people who work with us
- F. managing risks and performance through robust internal control and strong financial management
- G. implementing good practice in transparency, reporting and audit – delivering effective accountability

² <https://www.cambridge.gov.uk/corporate-plan>

³ <https://www.cambridge.gov.uk/corporate-plan>

⁴ <https://www.cambridge.gov.uk/code-of-corporate-governance>

Annual Governance Statement

Role and responsibilities

All of the Council is responsible for developing and complying with its Local Code of Governance. There are a variety of governance structures, and some of the key roles include:

Governance structures	Roles and responsibilities
Council	Council agrees the budget and policy framework, such as the Corporate Plan and Medium Term Financial Strategy. Further details are published on our website ⁵ .
The Executive	<p>The Executive comprises the Leader of the Council and six executive councillors. The executive councillors make decisions relating to the major service areas.</p> <p>These councillors can make decisions individually, usually at a meeting of a scrutiny committee relevant to their executive area. They also meet collectively to determine the Council's budget and Medium Term Financial Strategy. Further details are published on our website⁶.</p>
Scrutiny and overview committees	<p>To balance the Executive's powers, scrutiny committees are responsible for advising and reviewing decisions. They hold the Executive to account to make sure the best decisions are taken for the Council and local residents. Further details are published on our website:</p> <ul style="list-style-type: none"> ♦ Environment and Community Scrutiny Committee⁷ ♦ Housing Scrutiny Committee⁸ ♦ Planning and Transport Scrutiny Committee⁹ ♦ Strategy and Resources Scrutiny Committee¹⁰
Strategic Leadership Team	The management structure includes a Strategic Leadership Team of a Chief Executive, Strategic Directors, the Head of Corporate Strategy and the Head of Finance. It is supported by a Senior Management Team. Both teams consider policy formulation and future planning. Further details are published on our website ¹¹ .

⁵ <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=116>

⁶ <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=175>

⁷ <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=476>

⁸ <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=414>

⁹ <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=475>

¹⁰ <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=159>

¹¹ <https://www.cambridge.gov.uk/senior-council-officers>

Annual Governance Statement

Governance structures	Roles and responsibilities
Civic Affairs Committee	<p>The Civic Affairs Committee also plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done. It provides an assurance role to the Council and is responsible for corporate governance issues including:</p> <ul style="list-style-type: none">♦ electoral issues;♦ audit and regulatory financial matters;♦ civic and democratic process management issues; and♦ miscellaneous regulatory responsibilities <p>It works closely with both Internal Audit and senior management to continually improve the governance, risk and control environment. Meetings details and minutes are published on the website¹².</p>

Purpose of the Annual Governance Statement

The Council conducts a review of its system of internal control, prepares and publishes an Annual Governance Statement in each financial year.

This enables us to demonstrate whether, and to what extent, the Council complied with its Local Code of Governance.

The Local Code of Governance is updated regularly. This process records our good practice, and also helps us to plan further action which can improve our governance arrangements.

Statutory compliance

Producing the Annual Governance Statement helps the Council meet the requirements of Regulation 6(1)b of the Accounts and Audit (England) Regulations 2015. It is reviewed by the Civic Affairs Committee and approved in advance of the Statement of Accounts.

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. That duty has grown in importance with the reduction in resources being made available for local authorities as part of the government's ongoing austerity programme.

The Council's financial management arrangements are consistent with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Other review and assurance mechanisms

Management have helped to review the Local Code of Governance, and also inform the Annual Governance Statement. In addition, assurance can be provided from other sources, as detailed below:

Head of Internal Audit Opinion

¹² <https://democracy.cambridge.gov.uk/mgCommitteeDetails.aspx?ID=179>

Annual Governance Statement

The Head of Internal Audit provides an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. This has been considered in the development of the Annual Governance Statement.

The Annual Report was presented to the Civic Affairs Committee in July 2019. This report outlined the key findings of the audit work undertaken during 2018/19, including any areas of significant weakness in the internal control environment.

From the audit reviews undertaken, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed up by Internal Audit and is reported to Civic Affairs Committee.

It is the opinion of the Head of Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2018/19, and this remains at a similar level to the previous year.

External Audit

Ernst & Young (now EY) are the appointed external auditor.

Investors in People

Following a visit from an assessor in October and November 2018, the Council has once again been successful in meeting the Investors in People (IiP) standard. The IiP standard is a national measure of good practice for employers in terms of the training and development opportunities provided for staff.

Progress from the last Annual Governance Statement

Annual Governance Statement

The Council prepared an [Annual Governance Statement for 2017/18](#)¹³ which was approved by the Civic Affairs Committee. An update on the previous action plan is included below:

Action	Update and status
Project Governance	The Council has completed regular monitoring and reporting of major projects throughout the year. A project management audit and health check helped to inform a programme to help improve our project governance approach during 2018/19. Consequently a revised governance approach to project management was implemented. In addition, the Council has committed to implementing a new computerised Project Management System which will help improve management and monitoring.
GDPR readiness	<p>Following preparation for the General Data Protection Regulations, the Council implemented procedural changes to reflect the new legislation</p> <p>The Council also recognises that this is an evolutionary process, and has developed a continuous treatment plan in response to emerging good practice from both the General Data Protection Regulations and the Data Protection Act 2018. This is monitored through an Information Security Group, and chaired by a Data Protection Officer and Senior Risk Information Officer.</p>
Capacity to deliver services from loss of key personnel	<p>The Council recognises the ongoing difficulty recruiting in some areas and, as services undergo change, may be more at risk of losing key personnel.</p> <p>To help manage the risk the Council has undertaken a number of activities. The Organisational Development Strategy was published in March 2018. Subsequently the Recruitment and Retention policies were reviewed during the year. In addition, the Council approved revisions to the Council's pay scale, considered the Pay Policy Statement and considered the annual Equality in Employment – End of Year Workforce report.</p>
Impact of external change	The Council has actively consulted with stakeholders, and developed new policies and procedures where required to help manage the potential risks arising from external sources and changes in legislation. The Council is still potentially impacted by the Fair Funding Review and Brexit, and these are included in the current action plan.

¹³ <https://www.cambridge.gov.uk/media/5059/statement-of-accounts-2017-18.pdf>

Annual Governance Statement

Action	Update and status
Implement actions from the Peer Challenge	The Council participated in a Local Government Association peer challenge. This enabled us to reflect on our delivery and forward thinking, the things we do well, and our opportunities to improve. The Strategic Leadership Team has been delivering the action plan during the year.

Review of effectiveness

The Council has a number of policies and procedures which are recorded in its Local Code of Governance. These are mapped to the 7 principles of good governance.

The effectiveness of the key elements of the governance framework is reviewed throughout the year. The review is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and from comments received from external auditors and other review agencies and inspectorates.

Ongoing good practice is recorded in the [Local Code of Governance](#)¹⁴ and the review concludes that the Council has complied with its code. Additional examples of good practice from the last twelve months, and governance issues, considered when completing the review are recorded below:

Principle	Review of effectiveness
A Behave: integrity, ethical values, respect rule of law	<ul style="list-style-type: none">♦ The Local Code of Governance was reviewed and updated to reflect the latest professional standards and guidance.♦ The Council approved the revised Comprehensive Equalities and Diversity Policy and approved the Single Equality Scheme 2018-2021. The Comprehensive Equalities and Diversity Policy set out the Council's commitment to promoting equality and diversity, including through its role as an employer and a provider of services to the public. The Single Equality Scheme set out how the organisation would challenge discrimination and promote equal opportunities in all aspects of its work over the next 3 years.

¹⁴ <https://www.cambridge.gov.uk/code-of-corporate-governance>

Annual Governance Statement

Principle	Review of effectiveness
B Openness & stakeholder engagement	<ul style="list-style-type: none"> ◆ A Digital Transformation Strategy was approved for the Council. The strategy set out a vision and ambition for the Council to use new technologies to improve customer services, improve productivity, achieve efficiencies, and open up possibilities for involving and engaging residents in a new way. ◆ In August the Council launched a new refreshed website, and this was supported by an online customer portal: https://my.cambridge.gov.uk/. ◆ Council adopted the Cambridge Local Plan 2018, and the Cambridge Policies Map 2018. The Local Plan sets out policies and proposals to guide future development and sets the framework for determining planning applications. Local Plans are shaped by early, proportionate and effective engagement with a wide variety of stakeholders. The Cambridge Local Plan was submitted for Examination on 28 March 2014 alongside the South Cambridgeshire Local Plan. Lead and Assistant Inspectors were appointed to carry out the Examination of both local plans in parallel, given the interrelationships and the joint nature of much of the evidence. Independent inspectors had concluded that the plan was sound, and could be adopted as part of the Development Plan. ◆ Following a periodic review, and a 12-week consultation, the Council approved the Statement of Gambling Principles. Cambridge City Council, as the Licensing Authority, is required to discharge its responsibilities under the Gambling Act 2005 with a view to promoting the three licensing objectives, namely; preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime; ensuring that gambling is conducted in a fair and open way; and protecting children and other vulnerable persons from being harmed or exploited by gambling. ◆ The Council undertook various consultations and engagements with stakeholders, including: <ul style="list-style-type: none"> ○ Residents were asked to give their ideas for ways to improve the city centre as part of the work for the 'Making Space For People' project. ○ A consultation on the Council's Air Quality Action Plan was launched on national Clean Air Day. ○ Initial plans for redeveloping the Cambridge Northern Fringe area were published ahead of a public consultation.

Annual Governance Statement

Principle	Review of effectiveness
C Defining outcomes – economic, social, environmental	<ul style="list-style-type: none"> ◆ The Council has a Corporate Plan, which defines outcomes and sets out strategic level objectives. It is reviewed periodically and a new Corporate Plan 2019-2022 was set during the year. This introduced five new strategic objectives: <ul style="list-style-type: none"> ○ Helping people in Cambridge who have the greatest need ○ Planning for growth and ensuring our new communities are successful ○ Protecting our environment and tackling climate change ○ Delivering quality services within financial constraints ○ Developing effective partnerships and an innovative and dynamic organisation ◆ Performance, achievements, and further actions linked to the Corporate Plan are included in the Corporate Plan Annual Report. The 2018/19 annual report was presented to the Strategy and Resources Scrutiny Committee in July. ◆ The Council received updates on significant development, such as the current status of the Cambridge Northern Fringe East, proposals for the site and next step actions. ◆ The Council produced a revised and updated Anti-Poverty Strategy for the period from April 2017 to March 2020. The Council's Anti-Poverty Strategy aims to: improve the standard of living and daily lives of those residents in Cambridge who are currently experiencing poverty; and to help alleviate issues that can lead households on low incomes to experience financial pressures. ◆ The Council approved a single "Waste Collection Service Policies and Procedures" document setting out the service that Greater Cambridge Shared Waste Service would deliver for the residents of both Cambridge City Council and South Cambridgeshire District Council. ◆ The Council signed up to the Oxford Charter for Cleaner Air. The purpose of the Charter is to maintain pressure on central government to take steps to reduce illegal levels of air pollution and to recognise the crucial role local authorities play in this area by providing them with adequate funding, powers and new legislation to be able to fulfil their role and deliver local air quality action plans and other actions.

Annual Governance Statement

Principle	Review of effectiveness
D Determine interventions to achieve outcomes	<ul style="list-style-type: none"> ◆ The 2018/19 Corporate Plan Annual Report highlights examples of actions which were completed to achieve our outcomes. ◆ The Council adopted the Sustainable Food Policy Statement, acknowledging the innovative work that is taking place across Cambridge to help the city become a leader in sustainable food practice. ◆ The Civic Affairs Committee reviewed the annual report of the complaints, comments and compliments and subsequently considered an update report for the waste services during the period of April - December 2018. ◆ The Civic Affairs Committee received the annual report on transparency, including Data Protection, Freedom of Information and Environmental Information Regulations. In addition, they noted the Council was managing the changes to information legislation under GDPR & Data Protection Act 2018 in May 2019. ◆ The Housing Scrutiny Committee considered the report on Rough Sleeping, and endorsed the work already being carried out by the Homelessness team and our partners in delivering services to rough sleepers.
E Develop capacity and capability of entity	<ul style="list-style-type: none"> ◆ Members were appointed to panels, with examples including Equalities, Joint Staff Employment Forum; and to outside bodies including: Greater Cambridge Partnership Executive Board, Local Government Information Unit, East of England Local Government Association, LGA General Assembly, Horizons Board, and the Cambridge Investment Partnership. This proactively helps the Council to work effectively with our partners. ◆ A number of initiatives were completed to develop the capacity of the organisation: Recruitment policies and guidance were updated during the year; council staff transferred to the new Greater Cambridge Shared Planning Service; the new Real Living Wage rate for 2018-19 was announced during Living Wage Week; and the Council maintained its Investors in People accreditation. ◆ The Council received updates on the work of the Cambridgeshire and Peterborough Business Board (former Greater Cambridge Greater Peterborough Local Enterprise Partnership), Greater Cambridge Partnership and other growth-related partnerships. This is provided as a part of the Council's commitment, given in its "Principles of Partnership Working", to set out annual reports summarising the work of the key partnerships it is involved with.

Annual Governance Statement

Principle	Review of effectiveness
F Manage risk & performance, internal control, finance	<ul style="list-style-type: none"> ◆ The Council continued to implement the new Financial Management System, working on the Budgeting and Forecasting modules, to develop resilience and introduce smarter ways of working. Training and coaching was delivered to management and budget holders. ◆ The Council presented a Corporate Plan Annual Report which shows what was achieved under the seven corporate priorities. ◆ A Quality Assurance and Improvement Program, of compliance to the Public Sector Internal Audit Standards and the Local Government Application Note, was completed as good practice. An external assessment provided assurance that the service “generally conforms” with both standards, and this was reported to the Civic Affairs Committee. ◆ Scrutiny committees received business plans for the shared services, and annual performance reports. This communicated that increased collaborative working between partners is assisting in delivering the benefits set out in the original business plans.
G Transparency, reporting, audit, accountability	<ul style="list-style-type: none"> ◆ The Council received an unqualified opinion on the Statement of Accounts for 2017/18. There was a delay to the approval of the 2018/19 Statement of Accounts. Both the Council and the externally appointed auditors have worked together to conclude these as promptly as possible, and progress updates have been communicated to the Civic Affairs Committee. ◆ Council approved amendments to the Constitution which set out changes to the scrutiny committees and a review of the decision making process. It was agreed to create an Environment and Community Scrutiny Committee which will scrutinise the decisions of three executive councillors (Communities; Environmental Services & City Centre; Streets & Open Spaces) and create a Planning and Transport Scrutiny Committee which will scrutinise the decisions of one executive councillor (Planning Policy and Transport). This will help to balance workloads and reflect the changing service, delivery and partnership landscape.

Action plan

The arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The review process has helped us to identify some opportunities to improve the governance arrangements over the next twelve months. Some of these may feature in previous statements where the work is ongoing. They address both significant governance issues that have arisen during 2018/19, and also forward looking matters identified for 2019/20. These actions are captured in existing corporate plans and strategies.

Subject	Actions	Responsible Officers
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Annual Governance Statement

Subject	Actions	Responsible Officers
Brexit Risk Management	<p>There are a number of potential risks associated with Brexit, and the Council has been proactively managing these. Potential considerations include legislative risk, where functions are defined by EU standards and regulations, and supply chain risk which may impact the availability of resources. The Council has also been working with the Cambridgeshire Resilience Forum, to help manage the impact to communities across Cambridgeshire.</p> <p>There continues to be a reasonable amount of uncertainty, and the Council will continue to identify and manage the relevant risks over the next 12 months.</p> <p>To help provide assurance that the Council is taking all reasonable steps, resource has been included in the Internal Audit Plan to independently review the management of risks.</p>	Chief Executive working with the Strategic Leadership Team and the Cambridgeshire Resilience Forum
Business Transformation	<p>The Council is committed to delivering Business Transformation, and a revised governance framework for project management was implemented in 2018/19. This has helped to improve the accountability, risk management, performance and scrutiny, which is important as the Council aims to deliver significant projects.</p> <p>The Council has also committed to implementing a new Enterprise Portfolio Management System. This is a computer application which can potentially improve the management and monitoring of project delivery through smarter working.</p> <p>The Council has appointed to a new Head of Transformation post, which will help to provide capacity and support the Council deliver Business Transformation.</p> <p>These planned changes should help enable projects to be delivered efficiently and economically.</p>	Chief Executive working with the Strategic Leadership Team and the Cambridgeshire Resilience Forum

Annual Governance Statement

Subject	Actions	Responsible Officers
Cultural Events	<p>The charity 'Cambridge Live' was established in 2014 to take advantage of operating efficiencies, cost savings and income generating opportunities, and provide a more innovative and flexible environment in which cultural activity in Cambridge could thrive for the benefit of local people.</p> <p>The Council decided to bring 'Cambridge Live' back in-house in December 2018. The decision was made in the best interests of the beneficiaries of these services and to ensure a successful and financially sustainable future for all cultural activity covered by the contract.</p> <p>Bringing services back in-house has potential risks and opportunities, and the Council has been actively managing these. Detailed financial modelling work was undertaken, to ensure a smooth transfer for services, staff and customers. The immediate priority was to stabilise the organisation and manage the transition well. The Council is now drafting terms of reference to commission an external review of the service, to be agreed with the Environment and Community Scrutiny Committee. This will help the Council to benefit from any lessons learnt, and can be used when considering other alternative delivery models and future projects.</p>	Strategic Director, working with the Head of Community Services, Customer & Community Services
Business Continuity	<p>The Council has a positive track record of responding to and managing unplanned events. A number of unplanned Information Technology disruptions occurred during the current year and consequently business continuity plans were used to maintain services for our customers.</p> <p>It is important that the Council continues to be prepared for unknown events, and has robust business continuity arrangements. Our capability should continuously be reviewed as we increasingly leverage use of technology for smarter working.</p> <p>As good practice we will review the effectiveness of the Business Continuity arrangements and communicate any opportunities for improvement throughout the organisation.</p>	Chief Executive working with the Strategic Leadership Team

Annual Governance Statement

Subject	Actions	Responsible Officers
Resources and funding	<p>There are risks which could adversely impact our finance and resources, which are caused by unplanned events from external sources and changes in legislation. Examples include Business Rates Retention, delayed confirmation of the Fair Funding Review and the uncertainty of Brexit.</p> <p>The Council manages its financial risks, undertakes financial modelling, and reports long term budgets through the Medium Term Financial Strategy. This considers known external factors, including the overall economic climate, and external funding levels which can reasonably be expected; as well as the existing commitments of the Council.</p> <p>There is potential for additional financial pressures, which could be challenging to manage over the longer term, should uncertain risks materialise and if available funding is less than budgeted. Consequently this could impact our capacity to maintain service delivery.</p> <p>The Council will continue to prepare for these risks, and will respond to any further pressures by updating our financial modelling, consulting with stakeholders, and developing new policies and procedures.</p>	Strategic Director, working with the Strategic Leadership Team

Conclusion

The Council has in place strong governance arrangements which we are confident protect its interests and provide necessary assurances to our citizens and stakeholders.

We are satisfied that the planned actions will improve our governance arrangements, identified from our review of effectiveness. We will monitor their implementation and operation throughout the year and report their progress as part of our next annual review.

Independent Auditor's Report to the Members of Cambridge City Council (DRAFT – SUBJECT TO CHANGE)

Opinion

We have audited the financial statements of Cambridge City Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ◆ Authority and Group Comprehensive Income and Expenditure Statement
- ◆ Authority and Group Movement in Reserves Statement
- ◆ Authority and Group Balance Sheet
- ◆ Authority and Group Cash Flow Statement
- ◆ Authority related notes 1 to 43
- ◆ Group related note 1 to 12
- ◆ Housing Revenue Account Income and Expenditure Account
- ◆ Statement of Movement on the Housing Revenue Account Balance
- ◆ Housing Revenue Account notes 1 to 10
- ◆ Collection Fund and the related notes 1 to 7
- ◆ Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- ◆ give a true and fair view of the financial position of Cambridge City Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- ◆ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages i to xxvi, other than the financial statements and our auditor's report thereon. The Head of Finance and Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Cambridge City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception:

We report to you if:

- ◆ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- ◆ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ◆ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

Independent Auditor's Report

- ◆ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ◆ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ◆ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Head of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page xii, the Head of Finance and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Finance and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Cambridge 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Cambridge City Council put in place

Independent Auditor's Report

proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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, Cambridge City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Cambridge City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
XX June 2020

FINANCIAL STATEMENTS

Main Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(surplus) or deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The 'net (increase)/decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves.

Financial year 2018/19

(£000s)	General Fund balance	Earmarked General Fund reserves	Housing Revenue Account balance	Earmarked HRA reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total usable reserves	Unusable reserves	Total Council reserves
Balance at 1 April 2018	(13,381)	(24,828)	(9,020)	(11,125)	(40,487)	(8,154)	(5,415)	(112,410)	(638,203)	(750,613)
Movement in reserves during 2018/19										
(Surplus) / deficit on the provision of services	7,542	0	(12,091)	0	0	0	0	(4,549)	0	(4,549)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	22,471	22,471
Total comprehensive income and expenditure	7,542	0	(12,091)	0	0	0	0	(4,549)	22,471	17,922
Adjustments between accounting basis and funding basis under regulations (note 5)	(10,158)	0	4,935	0	(14,561)	(3,070)	(5,075)	(27,929)	27,929	0
Net (increase) / decrease before transfers to earmarked reserves	(2,616)	0	(7,156)	0	(14,561)	(3,070)	(5,075)	(32,478)	50,400	17,922
Transfers to / from earmarked reserves (note 6)	220	(220)	4,556	(4,556)	0	0	0	0	0	0
(Increase) / decrease in year	(2,396)	(220)	(2,600)	(4,556)	(14,561)	(3,070)	(5,075)	(32,478)	50,400	17,922
Balance at 31 March 2019	(15,777)	(25,048)	(11,620)	(15,681)	(55,048)	(11,224)	(10,490)	(144,888)	(587,803)	(732,691)

Main Financial Statements

Financial year 2017/18

(£000s)	General Fund balance	Earmarked General Fund reserves	Housing Revenue Account balance	Earmarked HRA reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total usable reserves	Unusable reserves	Total Council reserves
Balance at 1 April 2017	(15,412)	(23,377)	(10,179)	(4,241)	(32,293)	(5,549)	(4,231)	(95,282)	(600,560)	(695,842)
Movement in reserves during 2017/18										
(Surplus) / deficit on the provision of services	2,026	0	(19,852)	0	0	0	0	(17,826)	0	(17,826)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	(36,945)	(36,945)
Total comprehensive income and expenditure	2,026	0	(19,852)	0	0	0	0	(17,826)	(36,945)	(54,771)
Adjustments between accounting basis and funding basis under regulations (note 5)	(1,446)	0	14,127	0	(8,194)	(2,605)	(1,184)	698	(698)	0
Net (increase) / decrease before transfers to earmarked reserves	580	0	(5,725)	0	(8,194)	(2,605)	(1,184)	(17,128)	(37,643)	(54,771)
Transfers to / from earmarked reserves (note 6)	1,451	(1,451)	6,884	(6,884)	0	0	0	0	0	0
(Increase) / decrease in year	2,031	(1,451)	1,159	(6,884)	(8,194)	(2,605)	(1,184)	(17,128)	(37,643)	(54,771)
Balance at 31 March 2018	(13,381)	(24,828)	(9,020)	(11,125)	(40,487)	(8,154)	(5,415)	(112,410)	(638,203)	(750,613)

Main Financial Statements

Comprehensive Income and Expenditure Statement

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practices, rather than the amounts to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

(£000s)	Notes	2018/19			2017/18		
		Gross expenditure	Gross income	Net expenditure	Gross expenditure	Gross income	Net expenditure
Communities		9,844	(934)	8,910	12,230	(795)	11,435
Streets and Open Spaces		10,964	(3,093)	7,871	10,286	(2,937)	7,349
Environmental Services and City Centre		8,030	(3,535)	4,495	7,723	(2,680)	5,043
Planning, Policy and Transport		10,108	(11,932)	(1,824)	12,554	(12,845)	(291)
General Fund Housing		6,509	(2,098)	4,411	6,428	(1,668)	4,760
Housing Revenue Account		40,651	(41,575)	(924)	19,671	(41,437)	(21,766)
Finance and Resources	4	40,686	(37,804)	2,882	42,493	(39,736)	2,757
Strategy and Transformation		7,394	(94)	7,300	6,085	(856)	5,229
Cost of Services		134,186	(101,065)	33,121	117,470	(102,954)	14,516
Other operating expenditure	7	1,134	(2,312)	(1,178)	3,119	(4,543)	(1,424)
Financing and investment income and expenditure	4/8	13,873	(6,708)	7,165	13,831	(16,000)	(2,169)
Taxation and non-specific grant income	4/9	0	(43,657)	(43,657)	0	(28,749)	(28,749)
(Surplus) / deficit on the provision of services	1	149,193	(153,742)	(4,549)	134,420	(152,246)	(17,826)
<i>Items that will not be reclassified to the (surplus) / deficit on the provision of services</i>							
(Surplus) / deficit on revaluation of non-current assets and impairment losses charged to revaluation reserve	4/32			3,160			(30,819)
Remeasurements of the net defined benefit liability	4/35			19,311			(5,454)
				22,471			(36,273)
<i>Items that may be reclassified to the (surplus) / deficit on the provision of services</i>							
(Surplus) / deficit on revaluation of available for sale financial assets				0			(672)
Other comprehensive (income) / expenditure				22,471			(36,945)
Total comprehensive (income) / expenditure				17,922			(54,771)

Main Financial Statements

Balance Sheet

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

(£000s)	Notes	31 March 2019	31 March 2018
Property, plant and equipment	14	781,963	795,643
Heritage assets		669	669
Investment property	19	170,782	175,281
Intangible assets		336	318
Long term investments	22	57,062	32,775
Long term debtors	23	3,745	11,512
Long term assets		1,014,557	1,016,198
Short term investments	22	79,317	73,176
Assets held for sale	24	0	67
Inventories		133	151
Short term debtors	25	20,574	17,832
Cash and cash equivalents	26	7,661	8,248
Current assets		107,685	99,474
Short term borrowing	33	(82)	(82)
Short term creditors	27	(29,137)	(22,873)
Receipts in advance	28	(4,185)	(4,272)
Provisions	29	(4,445)	(4,467)
Current liabilities		(37,849)	(31,694)
Long term borrowing	33	(213,572)	(213,572)
Other long term liabilities	35	(138,035)	(113,585)
Capital grants receipts in advance	30	0	(6,208)
Receipts in advance		(95)	0
Long term liabilities		(351,702)	(333,365)
Net assets		732,691	750,613
Usable reserves	31	(144,888)	(112,410)
Unusable reserves	32	(587,803)	(638,203)
Total reserves		(732,691)	(750,613)

Caroline Ryba, Head of Finance

XX June 2020

Main Financial Statements

Cash Flow Statement

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

(£000s)	Notes	2018/19	2017/18
Net surplus or (deficit) on the provision of services		4,549	17,826
Adjustment to surplus or deficit on the provision of service for non-cash movements	36	76,759	32,338
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	36	(56,588)	(33,660)
Net cash flows from operating activities		24,720	16,504
Net cash flows from investing activities	37	(28,654)	(25,705)
Net cash flows from financing activities	38	3,347	2,434
Net increase / (decrease) in cash and cash equivalents		(587)	(6,767)
Cash and cash equivalents at the beginning of the year	26	8,248	15,015
Cash and cash equivalents at the end of the year	26	7,661	8,248

Notes to the Main Financial Statements

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Notes to the Main Financial Statements

1 Expenditure and Funding Analysis

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

(£000s)	2018/19					2017/18				
	Net amount chargeable to the General Fund and HRA Balances	Adjustments for capital purposes	Net change for pensions adjustments	Other differences	Net expenditure in the Comprehensive Income and Expenditure Statement	Net amount chargeable to the General Fund and HRA Balances	Adjustments for capital purposes	Net change for pensions adjustments	Other differences	Net expenditure in the Comprehensive Income and Expenditure Statement
Communities	5,698	2,757	455	0	8,910	5,652	5,372	411	0	11,435
Streets and Open Spaces	5,538	1,273	1,060	0	7,871	5,464	1,061	824	0	7,349
Environmental Services and City Centre	3,852	614	29	0	4,495	4,286	355	402	0	5,043
Planning, Policy and Transport	(3,380)	1,105	451	0	(1,824)	(2,342)	1,325	726	0	(291)
General Fund Housing	3,148	882	381	0	4,411	3,409	887	414	50	4,760
Housing Revenue Account	(13,992)	12,576	492	0	(924)	(16,708)	(5,436)	378	0	(21,766)
Finance and Resources	1,278	1,208	396	0	2,882	1,110	1,241	406	0	2,757
Strategy and Transformation	6,767	1,634	(1,101)	0	7,300	6,194	595	(1,561)	1	5,229
Net Cost of Services	8,909	22,049	2,163	0	33,121	7,065	5,400	2,000	51	14,516
Other income and expenditure	(18,681)	(20,851)	2,976	(1,114)	(37,670)	(12,210)	(22,069)	3,007	(1,070)	(32,342)
(Surplus) / deficit for the year	(9,772)	1,198	5,139	(1,114)	(4,549)	(5,145)	(16,669)	5,007	(1,019)	(17,826)
Plus opening General Fund and HRA Balance	(58,354)					(53,209)				
Closing General Fund and HRA Balance at 31 March 2019*	(68,126)					(58,354)				

* For a split of this balance between the General Fund and HRA balances see the Movement in Reserves Statement.

Notes to the Main Financial Statements

Income and expenditure are analysed subjectively as follows:

(£000s)	2018/19	2017/18
Employee benefit expenses	36,331	36,700
Other service expenses	69,493	68,973
Depreciation, amortisation and impairment	30,096	15,704
Interest payments and investment income expenses	12,139	12,082
Payments to Housing Capital Receipts Pool	1,134	961
Total expenditure	149,193	134,420
Fees, charges and other service income	(63,293)	(64,049)
Interest and investment income	(4,782)	(14,111)
Income from council tax	(8,234)	(7,830)
Income from non-domestic rates	(5,370)	(4,655)
(Gain) or loss on the disposal of non-current assets	(2,312)	(4,543)
Government grants, contributions and donations	(69,751)	(57,058)
Total income	(153,742)	(152,246)
Surplus on the provision of services	(4,549)	(17,826)

Fees, charges and other service income is analysed by segment as follows:

(£000s)	2018/19	2017/18
Communities	(675)	(480)
Streets and Open Spaces	(2,630)	(2,887)
Environmental Services and City Centre	(3,260)	(2,681)
Planning, Policy and Transport	(11,956)	(12,677)
General Fund Housing	(1,188)	(837)
Housing Revenue Account	(41,046)	(41,408)
Finance and Resources	(505)	(743)
Strategy and Transformation	(107)	(447)
Financing and investment income	(1,926)	(1,889)
Fees, charges and other service income	(63,293)	(64,049)

In addition to this external income, interest and investment income above includes rental income from the Council's investment property portfolio of £10,444,000 (£9,941,000 in 2017/18).

2 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out on pages 82 to 99, the Council 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:

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

3 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenditure during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The net pension liability at 31 March 2019 is estimated to be £138.0 million (£113.6 million at 31 March 2018) and the estimated effects on the liability of changes in individual assumptions are disclosed in note 35.

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the Council did not sustain its current spending on repairs and maintenance the useful lives currently assigned to assets may be reduced.

If the useful life of assets is reduced, depreciation increases and the carrying value of the assets fall; it is estimated that the annual depreciation charge for assets would increase by approximately £1,378,000 for every year that useful lives had to be reduced.

Business Rates

Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses, both in the current financial year and earlier years, in proportion to their local share of business rates income. The Council's General Fund share of business rates income is 40%.

A provision has therefore been recognised for the best estimate of the amount that will be repayable in respect of years up to 31 March 2019 following successful rating valuation appeals. The Council's share of this provision is £4.0 million (£4.1 million at 31 March 2018) as disclosed in note 29. The provision has been calculated using an estimate of the likely remaining average reduction in rateable values over the life of the 2017 Valuation Office Agency (VOA) ratings list, plus an estimate of the amounts which will be required to settle appeals still outstanding on the 2010 ratings list. The estimates are based upon historical experience, and the Council has employed relevant experts to assist with this process. However, it remains possible that appeals may be settled at amounts which differ from these estimates.

Fair Value Measurements

When the fair value of assets and liabilities cannot be measured based on quoted prices in active markets (level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.

Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value.

The most significant assets that the Council has measured at fair value in the balance sheet where level 1 inputs are not available are investment properties. Significant changes in any of the unobservable inputs used in these valuations would result in significantly higher or lower fair value measurement.

Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities can be found in notes 15, 20 and 33.

4 Comprehensive Income and Expenditure Statement – Material Items of Income and Expenditure

The following material items of income and expenditure are included in the relevant lines of the Comprehensive Income and Expenditure Statement.

Housing benefit subsidy grants received from government totalling £36.1 million (£37.8 million in 2017/18), together with associated expenditure on housing benefits of £36.6 million (£38.4 million in 2017/18), are included within Finance and Resources income and expenditure.

Financing and investment income includes losses on the value of central shopping centres held within investment properties of £10.9 million (£3.1 million loss in 2017/18). Other investment properties had a net gain of £3.2 million on revaluation (£5.8 million gain in 2017/18).

Financing and investment expenditure includes interest payable on Public Works Loan Board (PWLB) borrowings of £7.5 million (£7.5 million in 2017/18).

The Council's share of non-domestic rates income totalling £41.2 million (£39.5 million in 2017/18) and the tariff of £35.8 million (£34.8 million in 2017/18) payable to central government under the rates retention scheme have been included in taxation and non-specific grant income.

There is a total charge for remeasurements of the Council's net defined benefit pension liability of £19.3 million (total net credit in 2017/18 of £5.4 million). This net figure reflects a number of aspects as detailed in note 35.

5 Movement in Reserves Statement – Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

General Fund Balance

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 of the authority are to be met, except to the extent that statutory rules provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund Housing Revenue Account (HRA) services.

Housing Revenue Account (HRA) Balance

The HRA 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 or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council 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 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.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital expenditure for which there are no outstanding grant conditions 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.

Notes to the Main Financial Statements

Financial year 2018/19

(£000s)	Usable reserves					Unusable reserves
	General Fund balance	Housing Revenue Account balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	(6,187)	0	0	(10,666)	0	16,853
Net revaluation (losses)/gains on property, plant and equipment	(754)	(12,377)	0	0	0	13,131
Movements in the market value of investment properties	(7,856)	155	0	0	0	7,701
Amortisation of intangible assets	(107)	0	0	(5)	0	112
Revenue expenditure funded from capital under statute and de minimis capital expenditure	(2,430)	0	0	0	0	2,430
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(28,036)	(4,620)	0	0	0	32,656
Minimum Revenue Provision	455	0	0	0	0	(455)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Private sector housing loan repayments – original loan less than £10,000	(10)	0	0	0	0	10
Capital expenditure charged against General Fund and HRA balances	4,587	727	0	0	0	(5,314)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	7,761	13,921	0	0	(21,682)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	16,607	(16,607)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	27,032	7,874	(34,906)	0	0	0
Transfer of capital receipts to administrative costs of disposal of non-current assets	0	(199)	199	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	27,136	0	0	(27,136)
Contribution from the Capital Receipts Reserve to finance the payments to the government capital receipts pool	(1,134)	0	1,134	0	0	0
Transfer to Capital Receipts Reserve on receipt of loan payment	0	0	(15)	0	0	15
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	(8,109)	0	0	8,109

Notes to the Main Financial Statements

(£000s)	Usable reserves					Unusable reserves
	General Fund balance	Housing Revenue Account balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
Adjustments primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	7,601	0	(7,601)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	12	0	0	0	0	(12)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits (debited) or credited to the Comprehensive Income and Expenditure Statement	(10,268)	(2,061)	0	0	0	12,329
Employer's pension contributions and direct payments to pensioners payable in the year	5,621	1,569	0	0	0	(7,190)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	1,322	0	0	0	0	(1,322)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1	0	0	0	0	(1)
Adjustments primarily involving the Housing Revenue Account:						
Amounts transferred from the Housing Revenue Account to the General fund under statutory regulation	54	(54)	0	0	0	0
Adjustments primarily involving the Available for Sale Reserve:						
Transfer of Available for Sale reserve balance back to the General Fund upon IFRS 9 implementation	(221)	0	0	0	0	221
Total adjustments	(10,158)	4,935	(14,561)	(3,070)	(5,075)	27,929

Notes to the Main Financial Statements

Financial year 2017/18

(£000s)	Usable reserves					Unusable reserves
	General Fund balance	Housing Revenue Account balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non-current assets	(6,557)	(304)	0	(9,716)	0	16,577
Net revaluation (losses)/gains on property, plant and equipment	(2,633)	5,741	0	0	0	(3,108)
Net revaluation (losses)/gains on assets held for sale	(2,067)	(91)	0	0	0	2,158
Movements in the market value of investment properties	2,523	151	0	0	0	(2,674)
Amortisation of intangible assets	(72)	0	0	0	0	72
Revenue expenditure funded from capital under statute and de minimis capital expenditure	(1,583)	0	0	0	0	1,583
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(12,346)	(9,244)	0	0	0	21,590
Minimum Revenue Provision	294	0	0	0	0	(294)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Private sector housing loan repayments – original loan less than £10,000	(14)	0	0	0	0	14
Capital expenditure charged against General Fund and HRA balances	5,868	4,519	0	0	0	(10,387)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	6,088	1,270	0	0	(7,358)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	6,174	(6,174)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,355	12,653	(17,008)	0	0	0
Other capital receipts	0	26	(26)	0	0	0
Transfer of capital receipts to administrative costs of disposal of non-current assets	0	(228)	228	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	7,662	0	0	(7,662)
Contribution from the Capital Receipts Reserve to finance the payments to the government capital receipts pool	(961)	0	961	0	0	0
Transfer to Capital Receipts Reserve on receipt of loan payment	0	0	(11)	0	0	11

Notes to the Main Financial Statements

(£000s)	Usable reserves					Unusable reserves
	General Fund balance	Housing Revenue Account balance	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sales proceeds credited to the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal	9,267	0	0	0	0	(9,267)
Adjustments primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	7,111	0	(7,111)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(22)	0	0	0	0	22
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(9,892)	(1,764)	0	0	0	11,656
Employer's pension contributions and direct payments to pensioners payable in the year	5,263	1,386	0	0	0	(6,649)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	1,055	0	0	0	0	(1,055)
Adjustments primarily involving the Housing Revenue Account:						
Amounts transferred from the Housing Revenue Account to the General fund under statutory regulation	(12)	12	0	0	0	0
Total adjustments	(1,446)	14,127	(8,194)	(2,605)	(1,184)	(698)

Notes to the Main Financial Statements

6 Movement in Reserves Statement – Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans together with the amounts of earmarked reserves used to meet General Fund and HRA expenditure in 2018/19.

(£000s)	Balance at 1 April 2017	Transfer In	Transfer Out	Balance at 31 March 2018	Transfer In	Transfer Out	Balance at 31 March 2019
General Fund:							
Asset repair and renewal reserves	(3,615)	(1,473)	2,125	(2,963)	(1,550)	2,895	(1,618)
Insurance Fund	(1,073)	(54)	0	(1,127)	(34)	0	(1,161)
Technology Investment Fund	(126)	0	0	(126)	(1)	0	(127)
Development Plan Reserve	(144)	(442)	272	(314)	(415)	(210)	(939)
Revenue contributions to capital	(3)	0	0	(3)	0	0	(3)
Climate Change Fund	(137)	(250)	43	(344)	(251)	227	(368)
Business Rates Retention	(743)	0	743	0	0	0	0
Fixed Term Priority Projects	(151)	0	0	(151)	0	151	0
Sharing Prosperity	(576)	(300)	255	(621)	(200)	561	(260)
Invest for Income Fund	(7,500)	(500)	0	(8,000)	0	0	(8,000)
Greater Cambridge Partnership Fund	(4,557)	(2,385)	1,908	(5,034)	(2,238)	1,646	(5,626)
Office accommodation strategy	(2,582)	(1,534)	1,357	(2,759)	0	1,859	(900)
Contribution to A14 Fund	0	(718)	0	(718)	(782)	0	(1,500)
Other	(2,170)	(913)	415	(2,668)	(3,319)	1,441	(4,546)
Total	(23,377)	(8,569)	7,118	(24,828)	(8,790)	8,570	(25,048)
Housing Revenue Account:							
Asset Repair and Renewal Reserve	(2,252)	(287)	119	(2,420)	(286)	210	(2,496)
Earmarked for debt redemption / reinvestment	(1,902)	(6,770)	0	(8,672)	(4,472)	0	(13,144)
Other	(87)	(6)	60	(33)	(8)	0	(41)
Total	(4,241)	(7,063)	179	(11,125)	(4,766)	210	(15,681)

7 Comprehensive Income and Expenditure Statement – Other Operating Expenditure

(£000s)	2018/19		2017/18	
	Income	Expenditure	Income	Expenditure
Payments to the government housing capital receipts pool	0	1,134	0	961
(Gains) / losses on the disposal of non-current assets	(2,312)	0	(4,516)	0
Other income	0	0	(27)	0
	(2,312)	1,134	(4,543)	3,119

Notes to the Main Financial Statements

8 Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure

(£000s)	2018/19		2017/18	
	Income	Expenditure	Income	Expenditure
Interest payable and similar charges	0	7,494	0	7,494
Pensions interest expense	0	2,976	0	2,912
(Gains) and losses on trading accounts	(1,926)	1,734	(1,888)	1,645
Interest receivable and similar income	(1,854)	0	(1,496)	0
Income and expenditure in relation to investment properties and changes in their fair value	(2,743)	1,669	(12,616)	1,780
(Gains) and losses on financial instruments held at fair value through profit and loss	(185)	0	0	0
	(6,708)	13,873	(16,000)	13,831

9 Comprehensive Income and Expenditure Statement – Taxation and Non-Specific Grant Income

(£000s)	2018/19	2017/18
Council tax income	(8,234)	(7,831)
Net council share of business rates income	(5,370)	(4,655)
Non-ringfenced government grants	(8,371)	(8,904)
Capital grants and contributions	(21,682)	(7,359)
	(43,657)	(28,749)

The business rates income retained by the Council under the business rates retention scheme of £5,370,000 (2017/18, £4,655,000) comprises the Council's share of income of £41,213,000 (2017/18, £39,453,000) less a tariff payment due to central government of £35,843,000 (2017/18, £34,798,000).

10 Members' Allowances

The total of allowances and expenses paid to members during the financial year was £338,000 (£310,000 in 2017/18). Details of allowance payments to individual members are published annually on the Council's website at <https://www.cambridge.gov.uk/councillors-duties-conduct-and-allowances>.

11 Related Party Transactions

The Council is required to disclose material transactions with related parties. Related parties are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Notes to the Main Financial Statements

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many transactions that the Council has with other parties (for example housing benefits). Details of government grants received are set out in note 30.

Other Public Bodies

The leader of the Council also serves as a member of the Cambridgeshire and Peterborough Combined Authority. The following transactions have occurred with the Combined Authority during the year:

(£000s)	2018/19	2017/18
Income recognised in year	(13,567)	(594)
Debtor balance at 31 March	2,686	596

Members and Officers

The members and senior officers of the Council have direct control over the Council's financial and operating policies. Council members and senior officers are required to make declarations of interest concerning third parties, both in the form of an annual statement and by disclosing interests at Council meetings.

For 2018/19, several members declared they had interests with local voluntary bodies and other organisations. In the majority of cases, transactions between the Council and these organisations were not material to either party, and the member or officer was not in a position to control or direct them. Details of these interests are recorded in the Council's Register of Interests which is open to public inspection, and published on the Council's website at <https://www.cambridge.gov.uk/councillors-duties-conduct-and-allowances>.

The following transactions and balances are deemed to be material to either party:

Related Party	Member / Officer	Income from Related Party (£000s)	Expenditure with Related Party (£000s)	Debtor balance at 31 March 2019 (£000s)	Creditor balance at 31 March 2019 (£000s)
Cambridge BID Ltd	Cllr Rosy Moore – Director of Cambridge BID Ltd	131	154	17	0
Wintercomfort for the Homeless	Cllr Rod Cantrill – Trustee of Wintercomfort for the Homeless	4	112	0	23
Arbury Community Association	Cllr Mike Todd-Jones – Trustee of Arbury Community Association	2	52	0	0
Cambridge Sustainable Food CIC	Cllr Katie Thornburrow – Director of Cambridge Sustainable Food CIC	1	28	0	0

Notes to the Main Financial Statements

In addition to the above, the Council collects levy payments from local businesses on behalf of Cambridge BID Ltd. During the year, the Council collected levy payments (net of refunds) totalling £972,000 (2017/18: £583,000), and paid £879,000 over to Cambridge BID (2017/18: £664,000). At 31 March 2019, the outstanding creditor balance due to Cambridge BID in respect of these levies was £114,000 (£21,000 at 31 March 2018).

Cambridge Live

The Council transferred the running of the Cambridge Folk Festival, Corn Exchange and other aspects of the arts and recreation service to a new arts trust charity, Cambridge Live, a company limited by guarantee, on 1 April 2015.

Council officers worked with the trust in 2018 as financial difficulties were identified. A report was presented to council in July 2018 and a provision of £500,000 was agreed to support operations. However, it became evident that the trust would not be able to overcome these difficulties and an executive decision was taken in December 2018 to terminate the contract and bring all operations back to the council in 2019.

The Council made a loan to the company for start-up costs of £125,000 which was 100% provided for in 2017/18. No interest is due on the repayment. The council paid £340,000 to the company partly for services in 2018/19 and partly by way of a grant for city events (£450,000 in 2017/18). At the year-end, short term creditors with Cambridge Live and its trading subsidiary were nil (£10,000 at 31 March 2018).

The Council has also recharged the company for its share of costs including utilities and has also paid for some services, but on the same basis as other customers of Cambridge Live. Income from Cambridge Live in 2018/19 was £223,000. At the year-end, short term debtors were £14,000 (£2,000 at 31 March 2018).

The role of the Council changed during the year; it has exercised significant influence over Cambridge Live and took direct control of operations from 1 October 2018. The results of Cambridge Live since that time have been consolidated into the Group Financial Statements.

Visit Cambridge and Beyond

The Council transferred the provision of tourism services to Visit Cambridge and Beyond (VCB), a company limited by guarantee, on 1 February 2016. There are 13 directors, of which one is appointed by the City Council. The Council is therefore not considered to have significant influence over the company. As disclosed in note 23, start-up costs of £90,000 were paid by the Council on behalf of the company and a long term loan established. The budget report for 2019/20 approved in February 2019 included a change so that this loan is no longer due and a 100% provision has been included in these accounts accordingly.

The Council has paid grant and other subsidies of £85,000 to VCB in 2018/19 (£48,000 in 2017/18), and has recharged VCB for its share of costs, including utilities and rent for offices at the Guildhall which is determined on a commercial basis. Income from VCB in 2018/19 totalled £68,000. At 31 March 2019 short term debtors were £13,000 (£13,000 in 2017/18) and short term creditors were £12,000 (£0 in 2017/18).

Cambridge Investment Partnership LLP / CIP operating companies

The Council has a 50% stake in a limited liability partnership with Hill Investment Partnerships Limited. The partnership is primarily engaged in house building and

Notes to the Main Financial Statements

redeveloping land in the Cambridge area. This includes delivering new affordable and social dwellings for council housing financed from the Housing Revenue Account.

The structure of the partnership has been amended during the year to consist of 3 separate companies.

Cambridge Investment Partnership LLP, incorporated 30 November 2018, will provide management services to CIP operating companies as needed. This is a new company and replaces the organisation reported in the 2017/18 accounts. The financial statements for the year ended 31 March 2019 were a nil return.

Operating companies are being established for individual sites as they commence and details of the first two are given below.

CIP (Mill Road Development) LLP, incorporated on 22 December 2016. This was formerly the Cambridge Investment Partnership LLP reported in the 2017/18 accounts. This company reported a loss of £500,000 in the year ended 31 March 2019 (£413,000 loss in 2017/18).

CIP (Cromwell Road) LLP was incorporated on 10 January 2019. The financial statements for the year ended 31 March 2019 had no transactions going through the Statement of Comprehensive Income. The Council had an outstanding long term investment balance of £27,000,000 with the LLP at 31 March 2019, representing a loan note in consideration of development land transferred to the LLP in March 2019.

The Council recognised income of £199,000 from CIP (Mill Road Development) during 2018/19 in respect of management recharges (£232,000 in 2017/18).

The Council disposed of the former Mill Road depot site to CIP (Mill Road Development) in December 2017. The deferred sales proceeds due from CIP are reflected in a loan note (currently expected to be repaid in 2021) as disclosed in note 23. Notional interest on the loan is required to be reflected in interest income – this was £184,000 for 2018/19 (£45,000 in 2017/18).

CIP (Mill Road Development) is currently managing the main site and various design, build and sale contracts on behalf of the Council's social housing capital programme. The cost of work carried out by the partnership in 2018/19 was £8,571,000 (£707,000 in 2017/18) with £4,561,000 (nil in 2017/18) of costs incurred on Mill Road and £4,010,000 (£707,000 in 2017/18) for other sites including a 56 dwelling development in Anstey Way.

These other contracts will be transferred to Cambridge Investment Partnership LLP to ensure individual contract performance can be reported in a more transparent way.

In group accounting terms, these companies form a joint venture and have been consolidated accordingly into the Group Financial Statements.

Cambridge City Housing Company Limited

The Council owns 100% of the share capital of Cambridge City Housing Company Limited (CCHC) which began trading in May 2016. The company provides homes for intermediate market rent in Cambridge.

As detailed in note 22 the Council made a loan to CCHC of £7,500,000 in 2016/17. Interest of £152,000 (£152,000 in 2017/18) on the loan is included in financing and investment income.

Notes to the Main Financial Statements

The Council recognised income from management fees, repairs and service charges totalling £50,000 in 2018/19 (£34,000 in 2017/18). Total debtors at 31 March 2019 were £16,000 (£15,000 at 31 March 2018).

The company made a profit of £189,000 for 2018/19 (£351,000 in 2017/18). Revaluation gains of £149,000 (£292,000 in 2017/18) are included in these results.

The company has been consolidated into the Group Financial Statements.

Storey's Field Community Trust

Storey's Field Community Trust is a company limited by guarantee established by the University of Cambridge and Cambridge City Council to jointly manage and operate the new community centre in North West Cambridge. The University and the Council each appoint two Trustees.

The community centre opened towards the end of 2017/18 and discussions on leasing the building are in progress.

The Council incurred and recharged staff management costs of £131,000 to the Trust in relation to 2018/19 (£68,000 in 2017/18). There is a debtor balance of £39,000 at 31 March 2019 (£21,000 at 31 March 2018).

In group accounting terms, Storey's Field Community Trust is a joint venture, but the Council has not included the Trust's results in the Group Financial Statements on the grounds of materiality. The Trust has a year-end of 31 July, and in the year to 31 July 2019 recognised a net deficit of £191,000 (£215,000 in the year ended 31 July 2018). As at 31 July 2019, the Trust had net assets of £829,000 (£785,000 as at 31 July 2018).

Shared services with other local authorities

The Council shares a number of services with Huntingdonshire District Council and South Cambridgeshire District Council. These include ICT, Building Control, and Legal, which commenced on 1 October 2015 under the banner of 3C Shared Services. In addition, the Council shares a waste service with South Cambridgeshire District Council and commenced a shared planning service with that council on 1 April 2018. There is a lead authority for each service and the Council accounts for shared service transactions in its accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

No other material transactions have been identified for disclosure which are not already included elsewhere in this Statement of Accounts.

Notes to the Main Financial Statements

12 Employee Remuneration

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

	2018/19	2017/18
£50,000 to £54,999	9	5
£55,000 to £59,999	4	2
£60,000 to £64,999	0	1
£65,000 to £69,999	4	3
£70,000 to £74,999	8	7
£85,000 to £89,999	0	1
£90,000 to £94,999	2	0
£120,000 to £124,999	0	1
£125,000 to £129,999	1	0
Total	28	20

The remuneration of senior officers, who are included in the above table, is disclosed in more detail, including employer's pension contributions, below.

Financial year 2018/19

(£) Position / Name	Note	Salary	Honorarium	Redundancy	Pension Contribution	Total
Chief Executive (A Jackson)	1	127,464	0	0	22,608	150,072
Strategic Director (S Hemingway)		90,642	0	0	15,772	106,414
Strategic Director (F Bryant)		90,642	0	0	15,772	106,414
Head of Corporate Strategy (A Limb)		74,571	0	0	12,975	87,546
Head of Finance (Section 151 Officer) (C Ryba)	2	74,571	0	0	12,975	87,546

Notes:

1. The Chief Executive received election payments of £2,790 in addition to the above.
2. The Head of Finance is shared with South Cambridgeshire District Council (SCDC), with a charge of £38,670 in 2018/19.
3. The Council shares a Director of Economic Development and Planning employed by SCDC. The Council's share of costs for 2018/19 remained unchanged at £67,756.

Notes to the Main Financial Statements

Financial year 2017/18

(£000s) Position / Name	Note	Salary	Honorarium	Redundancy	Pension Contribution	Total
Chief Executive (A Jackson)	1	124,965	0	0	21,744	146,709
Strategic Director (S Hemingway)		85,488	0	0	14,875	100,363
Strategic Director (F Bryant)	2	62,827	0	0	10,932	73,759
Head of Corporate Strategy (A Limb)		73,109	0	0	12,721	85,830
Head of Finance (Section 151 Officer) (C Ryba)	3	73,109	0	0	12,721	85,830
Strategic Advisor (L Bisset)	4	17,673	0	0	3,075	20,748

Notes:

1. The Chief Executive received election payments of £8,733 in addition to the above.
2. The Strategic Director commenced employment with the Council on 17 July 2017.
3. The Head of Finance is shared with South Cambridgeshire District Council (SCDC), with a charge of £37,542 for 2017/18.
4. The post of Strategic Advisor (2 days per week) left the Council on 6 September 2017.
5. The Council shares a Director of Economic Development and Planning employed by SCDC. The Council's share of costs for 2017/18 was £67,756.

The Council is required to recognise the costs of redundancy in the accounts in line with accounting standards. The number of exit packages recognised in the accounts, analysed between compulsory redundancies and other departures, and the total cost per band are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£000)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
£0 - £20,000	2	6	0	0	2	6	14	36
£20,001 - £40,000	3	1	0	0	3	1	107	39
Total	5	7	0	0	5	7	121	75

The cost of exit packages includes the capital costs of early retirements (which are not relevant in every case) due to be paid to the Local Government Pension Scheme by the Council.

Prior year bandings and the total cost of exit packages have been restated where there were differences between the estimated cost of departure as used in the note in last year's accounts and the actual cost.

Notes to the Main Financial Statements

13 External Audit Costs

(£000s)	2018/19	2017/18 (Restated)
Fees payable to Ernst and Young LLP with regard to external audit services carried out by the appointed auditor for the year	40	52
Additional fees payable to Ernst and Young LLP with regard to external audit services carried out by the appointed auditor for the previous year	38	5
Fees payable to Ernst and Young LLP for the certification of grant claims and returns for the year	21	19
	99	76

14 Property, Plant and Equipment

Financial year 2018/19

(£000s)	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment
Cost or valuation								
At 1 April 2018	628,303	144,647	22,654	5,156	1,344	0	15,430	817,534
Additions	6,194	30,212	2,725	11	0	0	14,881	54,023
Revaluation increases / (decreases) recognised in the revaluation reserve	(15,885)	(157)	0	0	0	0	0	(16,042)
Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	(13,164)	33	0	0	0	0	0	(13,131)
De-recognition – disposals	(3,098)	0	(688)	0	0	0	0	(3,786)
De-recognition – other	(1,543)	(451)	0	0	0	0	(167)	(2,161)
Assets reclassified (to) / from investment properties	0	(2,400)	0	0	0	0	0	(2,400)
Assets reclassified (to) / from assets held for sale	0	(27,000)	0	0	0	0	0	(27,000)
Assets reclassified (to) / from other categories of property, plant and equipment	11,778	3,276	1,332	631	(11)	0	(17,006)	0
At 31 March 2019	612,585	148,160	26,023	5,798	1,333	0	13,138	807,037
Accumulated depreciation and impairment								
At 1 April 2018	0	(6,797)	(13,697)	(810)	0	0	(587)	(21,891)
Depreciation charge	(10,434)	(4,522)	(1,762)	(135)	0	0	0	(16,853)
Depreciation written out to the revaluation reserve	10,933	1,949	0	0	0	0	0	12,882
De-recognition – disposals	52	0	688	0	0	0	0	740
De-recognition – other	36	12	0	0	0	0	0	48
Assets reclassified to / (from) other categories of property, plant and equipment	(587)	0	0	0	0	0	587	0
At 31 March 2019	0	(9,358)	(14,771)	(945)	0	0	0	(25,074)
Net book value								
At 31 March 2019	612,585	138,802	11,252	4,853	1,333	0	13,138	781,963
At 31 March 2018	628,303	137,850	8,957	4,346	1,344	0	14,843	795,643

Notes to the Main Financial Statements

Financial year 2017/18

(£000s)	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment
Cost or valuation								
At 1 April 2017	579,588	141,374	20,742	4,523	1,195	9,261	30,554	787,237
Opening adjustment	0	192	0	0	0	0	0	192
Additions	6,403	1,189	2,193	262	18	0	17,831	27,896
Revaluation increases / (decreases) recognised in the revaluation reserve	19,184	3,110	0	0	0	0	(2,045)	20,249
Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	6,605	(3,495)	0	0	0	0	0	3,110
De-recognition – disposals	(4,643)	0	0	0	0	0	0	(4,643)
De-recognition – other	(177)	(1,165)	6	0	0	0	(4,098)	(5,434)
Assets reclassified (to) / from investment properties	0	(463)	0	0	0	(1,225)	0	(1,688)
Assets reclassified (to) / from assets held for sale	(68)	(3,259)	(481)	0	0	0	(5,383)	(9,191)
Assets reclassified (to) / from intangibles	0	0	0	0	0	0	(192)	(192)
Assets reclassified (to) / from other categories of property, plant and equipment	21,411	7,164	196	371	131	(8,036)	(21,237)	0
Other movements	0	0	(2)	0	0	0	0	(2)
At 31 March 2018	628,303	144,647	22,654	5,156	1,344	0	15,430	817,534
Accumulated depreciation and impairment								
At 1 April 2017	0	(3,009)	(12,519)	(675)	0	0	0	(16,203)
Opening adjustment	0	(192)	0	0	0	0	0	(192)
Depreciation charge	(9,395)	(4,471)	(1,649)	(135)	0	(85)	0	(15,735)
Depreciation written out to the revaluation reserve	9,290	1,521	0	0	0	0	116	10,927
De-recognition – disposals	73	0	0	0	0	0	0	73
De-recognition – other	0	31	0	0	0	0	0	31
Impairments recognised in the surplus / deficit on the provision of services	0	(540)	0	0	0	0	(304)	(844)
Impairments recognised in the revaluation reserve	0	(162)	0	0	0	0	(283)	(445)
Assets reclassified to / (from) Investment Properties	0	25	0	0	0	0	0	25
Assets reclassified to / (from) assets held for sale	1	0	471	0	0	0	0	472
Assets reclassified to / (from) other categories of property, plant and equipment	31	0	0	0	0	85	(116)	0
At 31 March 2018	0	(6,797)	(13,697)	(810)	0	0	(587)	(21,891)
Net book value								
At 31 March 2018	628,303	137,850	8,957	4,346	1,344	0	14,843	795,643
At 31 March 2017	579,588	138,365	8,223	3,848	1,195	9,261	30,554	771,034

15 Property – Revaluations

The Council carries out a rolling programme that ensures that property, plant and equipment to be revalued are done so at least every five years.

Current year revaluations have been performed in accordance with the RICS Valuation – Professional Standards Global January 2017 including the International Valuation Standards and the RICS Valuation – Professional Standards UK (January 2014, as amended) and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The valuations were conducted by external valuers. The RICS registered valuers were:

G Harbord MA MRICS IRRV (Hons) (Wilks Head and Eve)
M Aldis BSc (Hons) MRICS IRRV (Hons) (Wilks Head and Eve)
P Smith BSc (Hons) MRICS IRRV (Hons) (Wilks Head and Eve)
Amanda Briggs BA (Hons) MRICS (Bidwells LLP)
Anna Groom MA MRICS (Bidwells LLP)
Bella Darby MRICS (Bidwells LLP)
Stuart Paskins BSc MRICS (Bidwells LLP)

Investment property is valued on a fair value basis and operational property is valued at current value derived on the basis of existing use value except for specialised operational assets which are assessed on the basis of depreciated replacement cost. The opinion of value was primarily derived using comparable recent market transactions on arm's length terms. Further detail on the basis for valuation is set out in the Statement of Accounting Policies on page 90.

Council dwellings are revalued by Wilks Head and Eve as at 31 March each year. The basis of valuation is current value, measured at existing use value for social housing (EUV-SH). Valuations are undertaken with reference to 'Stock Valuation for Resource Accounting Guidance 2016' published by the Ministry of Housing, Communities and Local Government (MHCLG). Valuations are also carried out in accordance with the RICS Valuation – Professional Standards ('Red Book'), except where they are varied to reflect the current policy requirements of MHCLG.

Valuations are undertaken using the beacon method. Under this method, the Council divides its housing stock into a number of 'archetypes'. Properties within each archetype have similar characteristics (e.g. location, property type, number of bedrooms), and as such are deemed to have the same current value. Within each archetype, one representative property (or 'beacon') is selected for valuation. Beacon properties are inspected by the valuers on a rolling 5-yearly cycle, with a desktop revaluation undertaken on all non-inspected beacons in each intervening year.

The valuation of other land and buildings is undertaken by Bidwells LLP. The following statement should be noted with regard to these valuations:

In reaching the final valuation figures Bidwells has departed from the RICS Valuation – Professional Standards in that they have not been instructed to inspect the properties or read all the leases. For all the properties they undertook external inspections only and have relied on information provided by Cambridge City Council; the accuracy of the valuation depends on the accuracy of the information provided.

In accordance with the Valuation Standards, Bidwells confirms that it last valued the properties in 2018 and has acted as valuers for Cambridge City Council since March 1994. They also confirm that in their last financial year the fees received from Cambridge City

Notes to the Main Financial Statements

Council represented less than 5% of their turnover and they do not expect any material increase in these fees in 2019. Bidwells has a policy of rotating personnel undertaking this valuation so that no single member of staff values the portfolio for more than seven consecutive years. This rotation is undertaken in accordance with Bidwells Management System under ISO 9001:2000.

The Council has chosen to depart from the Professional Standards on the grounds of achieving best value for money in relation to property valuation work.

The following table shows the current carrying value of property, plant and equipment assets by the date of the most recent valuation:

(£000s)	Council Dwellings	Other Land and Buildings	Total
Valued at fair value as at:			
31 March 2019	612,585	92,346	704,931
31 March 2018	0	1,116	1,116
31 March 2017	0	2,290	2,290
31 March 2016	0	39,092	39,092
31 March 2015	0	3,958	3,958
Total valuation	612,585	138,802	751,387

Details on investment property valuation can be found in note 20.

Vehicles, plant and equipment, as short life operational assets, are held at historical cost less depreciation as a proxy for fair value.

16 Property, Plant and Equipment – Depreciation

The majority of the Council's property, plant and equipment are council dwellings. Flats are assessed as having a remaining life of 43 years and houses 44 years.

The useful lives of other assets are generally estimated as:

- ◆ Infrastructure Assets – 10 to 40 years
- ◆ Other buildings (main structure) – 5 to 90 years. Material components may be depreciated over a lesser term
- ◆ Vehicles, plant and equipment – 3 to 25 years

17 Capital Expenditure and Capital Financing

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

Notes to the Main Financial Statements

(£000s)	2018/19	2017/18
Opening Capital Financing Requirement	240,594	225,018
Capital expenditure		
Property, plant and equipment	54,023	27,896
Investment properties	1,232	17,717
Intangible assets	130	0
Capital expenditure charged to the Comprehensive Income and Expenditure Statement		
Revenue Expenditure Funded from Capital and de-minimis capital expenditure	2,430	1,583
Loans advanced		
Cambridge Investment Partnership	31,850	0
Local investment bond	2,200	0
Private sector housing improvement loans	40	9
Sources of finance		
Capital receipts	(27,136)	(7,662)
Government grants and other contributions	(16,607)	(6,175)
Minimum Revenue Provision	(455)	(294)
Revenue and reserves	(12,915)	(17,498)
Closing Capital Financing Requirement	275,386	240,594

18 Capital Commitments

(£000s)	31 March 2019	31 March 2018
Property, Plant and Equipment		
Vehicle Asset Replacement Programme	149	173
HRA new build properties	22,564	3,123
Housing Capital Programme	1,807	284
Silver Street public toilet refurbishment	540	0
Financial Management System	0	50
Car parking control equipment at multi-storey car parks	0	561
Grand Arcade and Queen Anne Terrace car parks sprinkler system	0	272
Electric vehicle charge points	0	180
Grant for refurbishment of Memorial Hall and Church Hall in Cherry Hinton	0	150
Office Accommodation Strategy (OAS) projects	0	1,809
Footbridge across Hobson's Brook at Accordia Development	50	0
Revenue Expenditure Funded from Capital Under Statute		
Development land at Clay Farm	378	560
Community Development Grants Programme	153	265
Cambridge City 20 mph Zones Project	0	80
	25,641	7,507

Notes to the Main Financial Statements

19 Investment Properties

The following items of income and expense have been accounted for in the Comprehensive Income and Expenditure Statement.

(£000s)	2018/19	2017/18
Rental income from investment property	(10,444)	(9,941)
Direct operating expenses arising from investment property	460	523
Net gain	(9,984)	(9,418)

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 receipt of income and the proceeds of disposal.

The following summarises the movement in the fair value of investment properties (measured at Level 3 in the Fair Value Hierarchy) over the year.

(£000s)	2018/19	2017/18
Balance at start of the year	175,281	153,706
<i>Additions:</i>		
Subsequent expenditure	2	82
Acquisitions	1,230	17,636
Unrealised gains/(losses) recognised in the financing and investment income line of the surplus / deficit on the provision of services from fair value adjustments	(7,701)	2,674
Disposals	(430)	(480)
<i>Transfers:</i>		
(To) / from property, plant and equipment	2,400	1,663
Balance at the end of the year	170,782	175,281
Acquisitions included above measured at historic cost	0	(11)
Fair value at year-end	170,782	175,270

20 Fair Value Measurement of Investment Properties

Investment properties are held at fair value, with the exception of investment properties under construction where it is too soon to measure fair value reliably. These assets are held at historic cost.

Investment properties are classified as level 3 within the value hierarchy as defined within IFRS 13. Level 3 inputs used in valuing the properties are those which are unobservable and observable inputs where significant adjustments have been applied to determine specific property valuations, as opposed to level 1 (inputs from quoted prices) and level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

The portfolio is valued in line with the accounting policy detailed on page 90.

The valuation is undertaken by Bidwells LLP, on a fair value basis in line with IFRS 13 and in accordance with the methodologies and bases for estimation set out in the Royal Institution

Notes to the Main Financial Statements

of Chartered Surveyors (RICS) Valuation – Professional Standards. Further details of Bidwells' approach to the valuations can be found in note 15.

The Council provides data to the valuers, including current lease and tenant data. The valuers use this and other inputs, including market transactions for similar properties, to produce valuations. These valuations and the assumptions they have made have been discussed with senior Council finance and property officers.

The following table shows an analysis of the fair values of investment property recognised in the balance sheet.

Property class	Fair value at 31 March 2019 (£'000)	Predominant valuation technique	Key unobservable inputs	Range
Central Cambridge shopping centres	27,090	Investment	NIY Yield	5.00% - 5.25%
Other retail	37,042	Investment	Market Rent (psf) Market Rent (psf ZA) EY Yield	£11 - £41 £18 - £250 5.30% - 14.90%
Offices	13,095	Investment	Market Rent (psf) EY Yield	£14 - £28 6.00% - 9.00%
Industrial	22,570	Investment	Market Rent (psf) EY Yield	£5.50 - £17 5.25% - 9.00%
Land	39,654	Investment / Comparable	Market Rent (per acre) NIY Yield EY Yield £/acre	£200 - £55,750 2.99% - 6.67% 4.60% - 10.00% £3,000 - £1,200,000
Other	31,331	Investment	Yield	3.50% - 14.00%
Total	170,782			

The predominant valuation techniques are:

- ◆ Investment Method – this involves estimating the rental value of each lettable part of the property, making an assessment of void periods and associated costs and then capitalising at an appropriate yield. Hope value is included where there is future reversionary potential such as conversion to residential use.
- ◆ Comparable Method – the opinion of value was primarily derived using comparable recent market transactions on an arm's length basis with appropriate adjustments.

Sensitivity Analysis

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy on investment property are:

- ◆ Market rent – this is estimated for each lettable unit by comparison with recent lettings from within the property itself or nearby making appropriate adjustments for size, specification, location and incentives.
- ◆ Voids – an estimate of the likely period required to re-let vacant property and the likelihood of lease renewal.
- ◆ Yield – opinion on the appropriate capitalisation rate to be applied by reference to transactions for comparable properties.

Notes to the Main Financial Statements

Significant increases/(decreases) in the rental value would result in a higher/(lower) fair value measurement.

Significant increases/(decreases) in the long term vacancy rate or yield would result in a lower/(higher) fair value measurement.

The current use of investment properties is highest and best use, with the exception of property in the Cambridge Northern Fringe East development area which is let out on a short term basis (with the Council able to exercise break clauses) pending redevelopment.

21 Leases

Council as Lessee

Finance Leases

The carrying value of investment properties held under finance leases at 31 March 2019 was nil (value as at 31 March 2018 was £2,485,000) as the previous finance lease has been surrendered and freehold retained without any secondary subsequent leases.

The Council leases in three car parks under long term peppercorn leases. The carrying value of these car parks included in property, plant and equipment was £36,235,000 as at 31 March 2019 (£37,400,000 at 31 March 2018).

Operating Leases

The Council leases in a number of operational properties and some equipment under operating leases.

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

(£000s)	31 March 2019	31 March 2018
Not later than one year	50	75
Later than one year and not later than five years	50	100
	100	175

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

(£000s)	2018/19	2017/18
Minimum lease payments	75	254

Council as Lessor

Operating Leases

The Council leases out commercial properties across the City under operating leases. The portfolio includes shops, industrial units and shopping centres.

Notes to the Main Financial Statements

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

(£000s)	31 March 2019	31 March 2018
Not later than one year	6,113	5,832
Later than one year and not later than five years	18,798	18,529
Later than five years	105,151	105,553
	130,062	129,914

The minimum lease payments receivable do not include contingent rents such as those based on turnover. In 2018/2019, £2,300,000 of contingent rents were receivable by the Council (2017/18: £2,265,000).

22 Short Term and Long Term Investments

(£000s)	2018/19		2017/18	
	Long term	Short term	Long term	Short term
Investments in Icelandic banks and their UK subsidiaries	0	0	0	41
Loans to subsidiaries	7,500	0	7,500	0
Loans to joint ventures	31,850	0	0	0
Other investments	17,712	79,317	25,275	73,135
	57,062	79,317	32,775	73,176

23 Long Term Debtors

Long term debtors which fall due after a period of at least one year:

(£000s)	31 March 2019	31 March 2018
Mortgages	1	1
Lease premiums	181	188
Private sector housing improvement loans	821	794
Sale of land at Kings Hedges	30	30
Deferred property sale proceeds	2,705	2,705
Visit Cambridge and Beyond	0	90
Loan to Cambridge Investment Partnership LLP - deferred sale proceeds	0	4,667
Pension deficit contribution prepayment	0	3,030
Mortgage Repossessions Loans	7	7
	3,745	11,512

Notes to the Main Financial Statements

24 Assets Held for Sale

(£000s)	Current	
	2018/19	2017/18
Balance at 1 April	67	4,643
Assets newly classified as held for sale: Property, plant and equipment	27,000	8,718
Assets sold	(27,067)	(11,137)
Impairment losses	0	(2,157)
Balance at 31 March	0	67

25 Short Term Debtors

(£000s)	31 March 2019	31 March 2018
Central government bodies	2,559	3,542
Other local authorities	6,434	5,048
Deferred capital receipts	1,158	4,645
Council tax payers (City share)	197	268
National non-domestic rate payers (City share)	356	771
Housing tenants and leaseholders	434	591
Trade and other	9,436	2,967
	20,574	17,832

26 Cash and Cash Equivalents

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

(£000s)	31 March 2019	31 March 2018
Cash held by the Council	10	9
Bank current accounts	(526)	(690)
Bank deposit accounts	2,177	7,429
Overnight Money Market Funds	6,000	1,500
	7,661	8,248

27 Short Term Creditors

(£000s)	31 March 2019	31 March 2018
Central government bodies	(16,106)	(8,824)
Other local authorities	(7,138)	(6,268)
Other entities and individuals	(5,893)	(7,781)
	(29,137)	(22,873)

28 Receipts in Advance

(£000s)	31 March 2019	31 March 2018
Cambridge City Council share of council tax receipts in advance	(360)	(312)
Cambridge City Council share of non-domestic rates receipts in advance	(858)	(994)
Capital grants receipts in advance	(616)	0
Housing tenants and leaseholders	(657)	(702)
Other	(1,694)	(2,264)
	(4,185)	(4,272)

29 Provisions

Insurance Provision

The insurance provision has been set aside to meet the estimated cost to the Council of outstanding insurance claims. However, the actual cost (if any) of individual claims and the timing of payments are uncertain and may be dependent upon the results of negotiation and/or legal action.

Under current insurance arrangements, the Council takes responsibility for meeting the first £10,000 of any liability claim up to a total combined loss in any insurance year of £200,000. For motor claims the Council takes responsibility for meeting the first £10,000 of any claim. For property losses, the Council is responsible for meeting up to £150,000 of claims in respect of General Fund property from the provision and up to £250,000 for HRA property from the HRA. The Council's external insurers meet claims or losses in excess of these amounts.

Business Rates Appeals Provision

Since the introduction of the Business Rates Retention Scheme from 1 April 2013, local authorities are liable for successful appeals against business rates charged to businesses, both in respect of the current financial year and earlier years, in proportion to their local share of business rates income. The Council's share of business rates income is 40%.

A provision has therefore been recognised for the best estimate of the amount that will be repayable in respect of years up to 31 March 2019 following successful rating valuation appeals. This estimate has been calculated using the Valuation Office Agency (VOA) ratings list of appeals and historical data on successful appeals to date. The timing of the settlement of these appeals is uncertain as they are outside of the Council's control.

(£000s)	Insurance Provision	Business Rates Appeals Provision	Other Provisions	Total
Balance at 1 April 2018	(354)	(4,104)	(9)	(4,467)
Additional provisions made in 2018/19	(178)	(102)	0	(280)
Amounts used in 2018/19	82	157	0	239
Unused amounts reversed in 2018/19	63	0	0	63
Balance as at 31 March 2019	(387)	(4,049)	(9)	(4,445)

Notes to the Main Financial Statements

30 Grant Income

The Council credited the following significant grants and contributions to the Comprehensive Income and Expenditure Statement in 2018/19:

(£000s)	2018/19	2017/18
Credited to taxation and non-specific grant income		
Revenue Support Grant	(571)	(1,104)
New Homes Bonus	(5,596)	(5,972)
New burdens and transitional grants	(76)	(99)
Syrian Resettlement Grant	(534)	(442)
Small Business Rate Relief Grant	(1,002)	(873)
Other business rate relief grants	(466)	(301)
Welfare reform grants	(109)	(112)
Local Authority EU Exit Grant	(17)	0
Capital grants and contributions	(21,682)	(7,359)
	(30,053)	(16,262)
Credited to services		
Discretionary Housing Payments	(224)	(244)
Rent Allowance and Rent Rebates Administration Subsidy	(346)	(369)
Rent Allowance Subsidy	(18,768)	(19,967)
Rent Rebates Subsidy	(16,963)	(17,459)
Non HRA Rent Rebates Subsidy	(386)	(413)
Other housing benefit grants	(126)	(89)
Flexible Homelessness Support	(477)	(283)
Preventing Homelessness	(317)	(191)
Other grants	(346)	0
	(37,953)	(39,015)

From time to time, the Council receives developer contributions that cannot yet be recognised as income as they have conditions attached to them that may require the monies to be returned to the developer. The balances at the year-end were as follows:

(£000s)	31 March 2019	31 March 2018
Capital Grants Receipts in Advance		
Due within 12 months	(616)	0
Due in more than 12 months	0	(6,208)
Total	(616)	(6,208)

31 Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

32 Unusable Reserves

(£000s)	31 March 2019	31 March 2018
Deferred Capital Receipts Reserve	(3,893)	(12,002)
Revaluation Reserve	(163,875)	(171,845)
Capital Adjustment Account	(556,990)	(567,975)
Financial Instruments Adjustment Account	75	87
Pensions Reserve	138,035	113,585
Collection Fund Adjustment Account	(1,609)	(287)
Available for Sale Reserve	0	(221)
Accumulated Absences Account	454	455
Total unusable reserves	(587,803)	(638,203)

Deferred Capital Receipts Reserve

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

(£000s)	2018/19	2017/18
Balance at 1 April	(12,002)	(2,735)
Deferred sale proceeds on disposal of non-current assets	0	(9,267)
Transfer to the Capital Receipts Reserve upon receipt of cash	8,109	0
Balance at 31 March	(3,893)	(12,002)

Revaluation Reserve

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

- ◆ revalued downwards or impaired and the gains are lost;
- ◆ used in the provision of services and the gains are consumed through depreciation; 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 Main Financial Statements

(£000s)	2018/19	2017/18
Balance at 1 April	(171,845)	(148,645)
Net (gains) / losses on revaluations during the year	3,160	(30,981)
Impairment charged to the revaluation reserve	0	162
Amounts written off to the Capital Adjustment Account		
Difference between fair value depreciation and historical cost depreciation	3,925	3,315
Accumulated gains on assets sold or scrapped	885	4,304
Balance at 31 March	(163,875)	(171,845)

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, amortisation and impairment losses are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the Capital Adjustment Account, apart from those involving the Revaluation Reserve.

Notes to the Main Financial Statements

(£000s)	2018/19	2017/18
Balance at 1 April	(567,975)	(564,950)
Charges for depreciation and impairment of non-current assets	16,858	15,733
Amortisation of intangible assets	107	72
Revaluation losses/(gains) on property, plant and equipment	13,131	(3,108)
Revaluation losses on assets held for sale	0	2,158
Impairments on property, plant and equipment	0	844
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	7,701	(2,674)
Revenue Expenditure Funded from Capital Under Statute and de minimis capital spend	2,430	1,583
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	32,656	21,590
Repayment of private sector housing loans	25	25
Adjusting amounts written out of the Revaluation Reserve	(4,810)	(7,619)
Use of the Capital Receipts Reserve to finance new capital expenditure	(27,136)	(7,662)
Use of the Major Repairs Reserve to finance new capital expenditure	(7,601)	(7,111)
Application of grants and contributions to capital financing	(16,607)	(6,175)
Minimum revenue provision	(455)	(294)
Capital expenditure charged against the General Fund and Housing Revenue Account balances	(5,314)	(10,387)
Balance at 31 March	(556,990)	(567,975)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which is it directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Further details on pension transactions are shown in note 35.

(£000s)	2018/19	2017/18
Balance at 1 April	113,585	114,032
Remeasurements of the net defined benefit liability	19,311	(5,454)
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	12,329	11,656
Employer's pension contributions and direct payments to pensioners payable in the year	(7,190)	(6,649)
Balance at 31 March	138,035	113,585

Notes to the Main Financial Statements

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

(£000s)	2018/19	2017/18
Balance at 1 April	(287)	768
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(7)	(23)
Amount by which non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different to the non-domestic rates income calculated for the year in accordance with statutory requirements	(1,315)	(1,032)
Balance at 31 March	(1,609)	(287)

33 Financial Instruments

Categories of Financial Instrument

The following categories of financial instrument are carried in the balance sheet:

(£000s)	31 March 2019		31 March 2018	
	Long term	Short term	Long term	Short term
Financial Assets				
Investments				
Fair value through profit and loss	15,462	9,993	15,225	9,994
Amortised cost	41,600	69,324	17,550	63,182
Debtors				
Fair value through profit and loss	3,526	0	8,166	0
Amortised cost	38	14,165	316	10,128
Cash and cash equivalents				
Amortised cost	0	7,661	0	8,248
Total	60,626	101,143	41,257	91,552
Financial Liabilities (amortised cost)				
Borrowing	(213,572)	(82)	(213,572)	(82)
Creditors	0	(11,402)	(6,208)	(13,291)
Total	(213,572)	(11,484)	(219,780)	(13,373)

Notes to the Main Financial Statements

The council has adopted new classifications for financial assets with effect from 1 April 2018, in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The table below shows how the closing balances for 2017/18 translate into the new asset classifications.

Previous Classification (£000s)	Carrying amount brought forward at 1 April 2018	New Classification at 1 April 2018	
		Amortised Cost	Fair Value through Profit and Loss
Investments			
Loans and receivables	80,682	80,682	0
Available for sale	25,219	0	25,219
Unquoted equity investment at cost	50	50	0
Debtors			
Loans and receivables	11,238	10,444	794
Available for sale	7,372	0	7,372
Total	124,561	91,176	33,385

Private Sector Housing Improvement Loans

The Council makes means-tested loans of up to £20,000 to individuals, secured on the value of their property, in order to fund major improvements. These loans are normally repayable on sale of the property. These loans are interest free and are therefore deemed to be soft loans which are included in the balance sheet at fair value through profit and loss. The notional interest rate used for these loans is based on the Council's prevailing cost of borrowing for a maturity loan of 5 years duration. No allowance is made for the risk that the loans might not be repaid as they are secured.

(£000s)	2018/19	2017/18
Balance sheet carrying value as at 1 April	794	832
Nominal value of new loans recognised in the year	40	9
Interest – increase in discounted amount	19	13
Loans repaid	(25)	(25)
Fair value adjustment	(7)	(35)
Balance sheet carrying value as at 31 March	821	794
Loan payments outstanding (nominal value) at 31 March	895	880

Notes to the Main Financial Statements

Income, Expense, Gains and Losses

The following items of income, expense, gain or loss are reflected in the Comprehensive Income and Expenditure Statement in respect of financial instruments:

(£000s)	2018/19		2017/18	
	Surplus or deficit on the provision of services	Other comprehensive income and expenditure	Surplus or deficit on the provision of services	Other comprehensive income and expenditure
Net (gains) / losses				
Financial assets classified as:				
Fair value through profit and loss	(185)	0		
Amortised cost	381	0		
Loans and receivables			576	0
Available for sale			0	(672)
Interest income				
Financial assets classified as:				
Fair value through profit and loss	(744)	0		
Amortised cost	(1,110)	0		
Loans and receivables			(695)	0
Available for sale			(801)	0
Interest expense				
Financial liabilities classified as:				
Amortised cost	7,494	0	7,494	0
Net (surplus) / deficit for the year	5,836	0	6,574	(672)

Financial assets measured at fair value in the balance sheet

The following financial assets are measured at fair value on a recurring basis:

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2019 (£000s)	31 March 2018 (£000s)
Units in CCLA Property Fund	Level 1	Unadjusted quoted prices in active markets for identical units	15,462	15,225
Enhanced Cash Funds	Level 1	Unadjusted quoted prices in active markets for identical units	9,993	9,994
Proceeds on disposal of assets	Level 2	Present value of sale proceeds	0	4,667
Contingent proceeds on disposal of assets	Level 3	Present value of likely estimated sale proceeds discounted at appropriate rate where material	2,705	2,705
Private sector housing loans	Level 3	Present value of likely future cash flows discounted at appropriate rate where material	821	794
			28,981	33,385

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The Council has disposed of a number of assets where the consideration cannot be known with certainty at the current balance sheet date as the final amount is contingent on a number of other events. Where possible the Council has estimated the fair value of these proceeds on a likely average basis. In the case of disposal of land in North East Cambridge the potential proceeds are so uncertain both in timing and amount and no value has currently been recognised in the accounts.

Equity shares are required to be valued at fair value if material.

The Council has a shareholding in Cambridge City Housing Company (representing 100% of the company's capital). The shares are carried at cost of £1 and have not been valued as fair value cannot be measured reliably. The Council has no current intention to dispose of the shareholding.

The Council owns 50% of the equity of Cambridge Investment Partnership LLP. This equity is carried at cost and has not been valued as fair value cannot be measured reliably. The Council has no intention to dispose of its interest.

Fair value of financial assets and liabilities that are not measured at fair value (but for which fair value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value (assessed as level 2 in the fair value hierarchy) can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- ◆ An estimated interest rate of 3% at 31 March 2019 (1.77% at 31 March 2018) has been used to estimate the fair value of the group loans to Cambridge City Housing Company and Cambridge Investment Partnership.
- ◆ An average interest rate at 31 March 2019 of 2.09% (Range 2.37% to 2.57% in 2017/18) has been used to estimate the fair value of long term loans from the Public Works Loans Board (PWLb).
- ◆ No early repayment is recognised.
- ◆ Where an instrument will mature in the next 12 months, the carrying amount is generally assumed to approximate to fair value.
- ◆ The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- ◆ The fair value of capital contributions received in advance is taken to be the amount received.

The fair values are assessed as follows:

(£000s)	31 March 2019		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Current liabilities	(11,402)	(11,402)	(13,291)	(13,291)
Long term liabilities	0	0	(6,208)	(6,208)
Short term borrowing	(82)	(82)	(82)	(82)
Long term borrowing	(213,572)	(264,697)	(213,572)	(258,268)

Notes to the Main Financial Statements

(£000s)	31 March 2019		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at amortised cost				
Current debtors	14,165	14,165	10,128	10,128
Long term debtors	38	38	316	316
Current investments	69,324	69,324	63,182	63,172
Long term investments	41,600	41,600	17,550	17,553
Cash and cash equivalents	7,661	7,661	8,248	8,248

The fair value of the long term PWLB loans measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for a market transaction undertaken at the balance sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing rates.

The fair value of the loans from the PWLB have been assessed using the new loans rate. IFRS 13 and the Code require that in the absence of a quoted price for a liability, fair value should be measured from the perspective of a market participant. For PWLB loans, measurement is therefore required from the perspective of the PWLB, assessing the price that they would be able to secure if they were to sell the loans in an orderly market transaction. However, it is sometimes not possible to find observable active markets. The Council's treasury advisors have therefore advised using the PWLB new loan rate as a suitable proxy for a transfer value. This reflects the reality that the Council has a continuing ability to borrow at PWLB rates.

However, if the Council were to seek to take advantage of the lower prevailing market rates by repaying current PWLB loans, the PWLB would charge a premium and the Council would have to pay an early redemption rate. The exit price for PWLB loans as at 31 March 2019 was estimated at £317,064,000 (31 March 2018: £310,679,000).

34 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 Council.
- ◆ Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- ◆ Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

How the Council manages those risks

The Council maintains principles for overall risk management, as well as approved policies covering specific areas, such as Treasury Management. The principles behind how the Council intends to manage overall credit, liquidity and market risk in its investments are contained within the Annual Treasury Management and Investment Strategy report, submitted to full Council before the start of each financial year. This strategy can be

Notes to the Main Financial Statements

amended, but only by full Council. During 2018/19 the Council made amendments to its investment strategy with changes in counterparty limits. A new facility was also approved with a £5 million limit on secured bonds with local businesses subject to due diligence and annual reviews.

Credit risk

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

The Council seeks through the operation of its Treasury Management and Investment Strategy to minimise its exposure to risks in relation to investments.

The table below summarises the treasury management limits in place as at 31 March 2019.

Counterparty	Limit
Government Debt Management Account Deposit Facility (DMADF)	Unlimited
UK Government Gilts, Treasury Bills and supranational bonds	£15m
Barclays Bank plc	£35m
Single named institution (nationalised banks, local authorities, Nationwide Building Society and UK domiciled banks excluding Santander)	£20m
UK banking group limit	£30m
Long term deposits (group limits):	
♦ Local authorities (up to 5 years)	£35m in total
♦ CCLA Local Authorities Property Fund (minimum 5 years)	£15m
Certificates of Deposit with UK banks (included within single counterparties limit)	£15m per counterparty
Certificates of Deposit with UK building societies and named foreign banks (included within single counterparties limit)	£2m per counterparty
Enhanced Money Market Funds (not below AAf)	£5m per fund
Money Market Funds (AAAf)	£15m per fund
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/V1)	£10m per fund
UK subsidiary of foreign bank (Santander UK)	£5m
Named foreign banks (Svenska Handelsbanken)	£5m
Building society (dependent on asset base and investment type)	£2m to £20m
Secured local bond in local businesses	£5m in total

The Council uses the 'creditworthiness service' provided by Link Asset Services. This service has been progressively enhanced and uses a sophisticated modelling approach using credit ratings from the following rating agencies – Fitch, Moody's and Standard and Poor's. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- ♦ Credit watches and credit outlooks from credit rating agencies
- ♦ Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which

Notes to the Main Financial Statements

the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the appropriate duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service gives an appropriate level of security for its investments.

In light of the above investment strategy, the Council considers that it has taken all reasonable steps to reduce to a minimum any exposure to credit risks in relation to its investments at 31 March 2019 and that any residual risk cannot be quantified.

The following shows the original principal sums of external investments at 31 March analysed by the nature of financial institution and remaining period to maturity:

(£000s)	Maturity Band					Total
	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years	
31 March 2019						
United Kingdom						
Banks	12,000	15,000	9,000	0	0	36,000
Building societies	0	0	0	0	0	0
Local authorities	8,000	5,000	20,000	0	0	33,000
Other institutions	0	0	0	0	2,200	2,200
Total	20,000	20,000	29,000	0	2,200	71,200

(£000s)	Maturity Band				Total
	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	
31 March 2018					
United Kingdom					
Banks	26,000	7,000	0	0	33,000
Building societies	2,000	0	0	0	2,000
Local authorities	8,000	10,000	10,000	10,000	38,000
Total	36,000	17,000	10,000	10,000	73,000

In addition to the above, the Council has investments in financial assets held at fair value through profit and loss, as detailed in note 33, which do not have a defined maturity date.

The following analysis summarises the Council's assessment of its potential maximum exposure to credit risk (impairment allowance) in relation to debtors:

(£000s)	31 March 2019		31 March 2018	
	Gross debt	Impairment allowance	Gross debt	Impairment allowance
Long term debtors	3,779	215	8,607	125
Current and former tenants	1,688	1,406	1,662	1,393
Other debtors	14,528	645	10,382	523
	19,995	2,266	20,651	2,041

Notes to the Main Financial Statements

Long term debtors include private sector housing improvement loans and council house mortgages. These debts are secured on properties.

The movement in the short term debtors' impairment allowance during the year can be summarised as follows:

(£000s)	31 March 2019	31 March 2018
Balance at 1 April	1,916	1,673
Increase in allowance for impairment	381	416
Balances written off during the year	(246)	(173)
Balance at 31 March	2,051	1,916

At 31 March 2019, of the total debtor and deferred debtor balances of £20.0 million (£20.7 million at 31 March 2018), the past due amount was £2.7 million (£2.4 million at 31 March 2018) and can be analysed by age as follows:

(£000s)	31 March 2019	31 March 2018
Customer Debts		
Less than three months	726	540
Three to six months	202	176
Six months to one year	226	295
More than one year	1,520	1,434
Balance at 31 March	2,674	2,445

Debts are not generally specifically impaired, so the short term debtors impairment allowance is based on estimated expected loss and past recoverability and can be analysed as follows:

(£000s)	31 March 2019	31 March 2018
Impairment allowance by age of debt		
Less than three months	299	200
Three to six months	114	93
Six months to one year	144	192
More than one year	1,494	1,431
Balance at 31 March	2,051	1,916

Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the Public Works Loan Board (PWLb). There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

On 28 March 2012 the Council took out a number of fixed rate maturity loans with the PWLB to meet the cost of the HRA self-financing settlement due to central government. These loans had terms of between 26 and 45 years. The HRA business plan confirms the affordability of interest payments and the repayment of these loans on maturity and that the Council may be able to consider earlier redemption if advantageous. However, this will not be considered in the short term, due to current market conditions.

Notes to the Main Financial Statements

The maturity analysis of the loans is as follows:

(£000s)	31 March 2019	31 March 2018 Restated
Between 15 and 20 years	21,357	10,679
Between 20 and 25 years	53,393	53,393
Between 25 and 30 years	53,393	53,393
Between 30 and 35 years	53,393	53,393
Between 35 and 40 years	32,036	42,714
	213,572	213,572

Accrued interest due on the PWLB loans to 31 March 2019 was £82,000 (£82,000 in 2017/18).

Market risk

Interest rate risk

The Council is exposed to minimal risk in terms of its exposure to movements in interest rates. This is because the majority of its investments are at fixed rates. These investments are also of less than one year in duration and so changes to fair value will be minimal. The Council does, however, utilise bank deposit accounts and on-call money market funds for very short term cash deposits and the interest rate on these accounts is variable.

In general terms, a rise in interest rates would have the following effects:

- ◆ Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- ◆ Investments at fixed rates – the fair value of the assets will fall
- ◆ Loans at fixed rates – the fair value of liabilities will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services. The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget during the year. During 2018/19, if interest rates on variable rate deposits had been one percentage point higher, with all other variables held constant, the financial effect would have been an additional income of £263,000 (£264,000 in 2017/18).

Price risk

The Council does not generally invest in equity shares in individual companies. However, it has investments in Cambridge City Housing Company and Cambridge Investment Partnership which are held at cost as detailed in note 33.

The Council has £15 million invested in the Local Authorities' Property Fund. This investment is classified as 'fair value through profit and loss', meaning that all movements in price will impact on gains and losses recognised in the surplus or deficit on the provision of services.

A gain of £237,000 in respect of the Local Authorities' Property Fund has been recognised in the surplus or deficit on the provision of services in 2018/2019 (2017/18: £690,000 gain). This reflects general movements in the value of the fund over 2018/2019. A further movement in the bid price of 5% (positive or negative) would have resulted in a £773,000 gain or loss being recognised in 2018/2019 (2017/18: £761,000).

The Council intends to hold the above investments over the long term.

The Council also holds a number of Enhanced Cash Funds, shown in current investments, which are 'fair value through profit and loss' assets and a loss of £4,000 has been recognised in 2018/19 in respect of these assets (2017/18: £18,000 loss).

Foreign exchange risk

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

35 Defined Benefit Pension Schemes

Participation in pension schemes

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

The Council participates in the Local Government Pension Scheme, administered locally by Cambridgeshire County Council. This is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme in 2018/19 was the responsibility of the Cambridgeshire Pension Fund Committee and Investment Sub-Committee. Policy is determined in accordance with the pension fund regulations.

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

Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the reported cost of services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the employer contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The table below shows the transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year.

Notes to the Main Financial Statements

(£000s)	Local Government Pension Scheme	
	2018/19	2017/18
Comprehensive Income and Expenditure Statement		
Cost of services:		
Current service cost	8,474	8,827
Past service cost (including curtailments)	707	(83)
Effect of business combinations	172	0
Financing and investment income and expenditure:		
Net interest cost	2,976	2,912
Total post-employment benefit charged to the surplus or deficit on the provision of services	12,329	11,656
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(8,560)	839
Changes in financial assumptions	27,912	(6,365)
Other experience changes	(41)	72
Total post-employment benefit charged to other comprehensive income and expenditure	19,311	(5,454)
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	31,640	6,202
Movement in Reserves Statement		
Charges made to the surplus or deficit on the provision of services	12,329	11,656
Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the Code	(5,139)	(5,007)
Actual charges to the General Fund and Housing Revenue Account – Employers' contributions payable to the scheme	7,190	6,649

Pensions Assets and Liabilities Recognised in the Balance Sheet

(£000s)	2018/19	2017/18
Present value of the defined benefit obligation	(367,285)	(327,231)
Fair value of plan assets	229,250	213,646
Net liability arising from defined benefit obligation	(138,035)	(113,585)

The net liability shows the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £138.0 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

Assets and liabilities in relation to post-employment benefits

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

(£000s)	2018/19	2017/18
Opening balance at 1 April	(327,231)	(322,670)
Current service cost	(8,474)	(8,827)
Past service cost	(707)	83
Effect of business combinations	(1,743)	0
Interest cost	(8,913)	(8,414)
Contributions by scheme participants	(1,511)	(1,525)
Benefits paid	8,888	7,548
Estimated unfunded benefits paid	277	281
Remeasurements – changes in financial assumptions	(27,912)	6,365
Remeasurements – other experience	41	(72)
Closing balance at 31 March	(367,285)	(327,231)

Changes in financial assumptions reflect the change in the discount rate used by the actuary to estimate the Council's liability.

Reconciliation of fair value of the scheme (plan) assets:

(£000s)	2018/19	2017/18
Opening balance at 1 April	213,646	208,638
Effects of business combination	1,571	0
Interest income on plan assets	5,937	5,502
Contributions by scheme participants	1,511	1,525
Employer contributions	6,913	6,368
Contributions in respect of unfunded benefits	277	281
Benefits paid	(8,888)	(7,548)
Unfunded benefits paid	(277)	(281)
Remeasurements – return on assets excluding amount in net interest expense	8,560	(839)
Closing balance at 31 March	229,250	213,646

Local Government Pension Scheme asset breakdown

(£000s)	Fair value of scheme assets			
	2018/19		2017/18	
	Quoted prices in active markets	Quoted prices not in active markets	Quoted prices in active markets	Quoted prices not in active markets
Cash and cash equivalents	2,839	0	6,878	0
Equity instruments:				
Consumer	6,926	0	5,933	0
Manufacturing	4,126	0	3,836	0
Energy & utilities	4,814	0	4,598	0
Financial institutions	8,618	0	9,207	0
Health and care	1,387	0	2,266	0
Information technology	1,220	0	1,009	0
Debt securities	0	5,687	0	5,386
Private equity	0	17,357	0	19,817
Investment funds and unit trusts:				
Equities	0	128,424	0	118,318
Bonds	0	21,304	0	21,472
Infrastructure	0	9,542	0	0
Other	0	17,006	0	14,926
Closing balance at 31 March	29,930	199,320	33,727	179,919

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme liabilities have been assessed for the County Council Fund by Hymans Robertson, an independent firm of actuaries, based on the latest full valuation of the scheme as at 31 March 2019.

Notes to the Main Financial Statements

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2018/19	2017/18
Mortality Assumptions:		
<i>Longevity at 65 for current pensioners</i>		
Men	22.4	22.4
Women	24.4	24.4
<i>Longevity at 65 for future pensioners</i>		
Men	24.0	24.0
Women	26.3	26.3
Rate of increase in salaries	2.80%	2.70%
Rate of increase in pensions	2.50%	2.40%
Rate for discounting scheme liabilities	2.40%	2.70%
Take up of option to convert annual pension into retirement lump sum (in respect of pre April 2008 service)	25.00%	25.00%
Take up of option to convert annual pension into retirement lump sum (in respect of post April 2008 service)	63.00%	63.00%

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

Change in assumption at 31 March 2019	Approximate % increase to employer liability	Approximate monetary amount (£000s)
0.5% decrease in the real discount rate	10%	38,459
0.5% increase in the salary increase rate	1%	5,278
0.5% increase in the pensions increase rate	9%	32,558

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve an appropriate funding level over the period until 31 March 2022.

The Council paid a deficit repair contribution of £8,444,000 during 2017/18 to cover the 3 years until 31 March 2020. £3,030,000 was recognised in 2018/19 (£2,501,000 in 2017/18) with the remaining £2,913,000 being expected to be released in 2019/20.

Notes to the Main Financial Statements

The weighted average duration of the defined benefit obligation for scheme members is:

	Weighted average duration (years)
Active members	23.4
Deferred members	23.1
Pensioner members	11.2
Weighted average total	18.4

The weighted average duration is the weighted average time until the payment of expected future discounted cash flows, determined based on membership and the financial and demographic assumptions as at the most recent actuarial valuation. These durations are as they stood at the previous formal valuation as at 31 March 2019.

36 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

(£000s)	2018/19	2017/18
Interest received	811	780
Interest paid	(7,494)	(7,494)
Dividends received	664	702

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

(£000s)	2018/19	2017/18
Depreciation	16,853	15,733
Impairment and downward valuation	20,832	(106)
Amortisation	112	72
Increase in impairment for bad debts	489	125
Increase in creditors	2,979	1,406
Increase in debtors	(1,909)	(9,098)
Decrease in inventories	18	34
Movement in pension liability	5,139	5,007
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	32,656	21,590
Other non-cash items charged to the net surplus or deficit on the provision of services	(410)	(2,425)
	76,759	32,338

Notes to the Main Financial Statements

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

(£000s)	2018/19	2017/18
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(34,906)	(26,301)
Any other items for which the cash effects are investing or financing cash flows	(21,682)	(7,359)
	(56,588)	(33,660)

37 Cash Flow Statement – Investing Activities

The cash flows for investing activities are as follows:

(£000s)	2018/19	2017/18
Purchase of property, plant and equipment, investment property and intangible assets	(56,055)	(45,178)
Purchase of short term and long term investments	(93,200)	(79,500)
Other payments for investing activities	(40)	(9)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11,393	17,034
Proceeds from short term and long term investments	95,000	77,500
Other receipts from investing activities	14,248	4,448
	(28,654)	(25,705)

38 Cash Flow Statement – Financing Activities

(£000s)	2018/19	2017/18
Other receipts from financing activities	3,347	2,434
Net cash flows from financing activities	3,347	2,434

Other receipts from financing activities reflect movements in the cash collected for non-domestic rates and council tax collected by the Council as an agent for others.

39 Reconciliation of Liabilities Arising from Financing Activities

(£000s)	1 April 2018	Financing cash flows	31 March 2019
Long term borrowings	(213,572)	0	(213,572)
Short term borrowings	(82)	0	(82)
Short term creditors: non-domestic rates and council tax collected as an agent for others	(7,250)	(3,347)	(10,597)
Total liabilities from financing activities	(220,904)	(3,347)	(224,251)

40 Impact of the Adoption of New Accounting Standards on the Financial Statements – Effective for the 2018/19 Financial Year

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2019/20 Code. The standards adopted by the 2019/20 Code include:

- ◆ Amendments to IAS 40 Investment Property: transfers of investment property
- ◆ Annual Improvements to IFRS Standards 2014-2016 Cycle
- ◆ IFRIC 22 Foreign Currency Transactions and Advance Consideration
- ◆ IFRIC 23 Uncertainty over Income Tax Treatments
- ◆ Amendments to IFRS 9 Financial Instruments: prepayment features with negative compensation

These standards are adopted with effect from 1 April 2019, but are not anticipated to have a material impact on the Statement of Accounts.

41 Date the Statement of Accounts was Authorised for Issue

The audited accounts were authorised for issue by the Council's Section 151 officer on XX June 2020. This is the date up to which events after the reporting period have been considered.

42 Events After the Reporting Period

As noted above the unaudited accounts were authorised for issue on XX June 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

All Cambridge Live services and operations transferred to the Council on 1 April 2019, and transactions relating to these operations will be included in the Council's Statement of Accounts from this date. Cambridge Live Ltd and Cambridge Live (Trading) Ltd are now dormant entities, and both companies will be closed following completion of the necessary administrative work.

COVID-19 DISCLOSURES REQUIRED HERE

COVID-19 DISCLOSURES REQUIRED HERE

Additional Financial Statements and Information

Housing Revenue Account Income and Expenditure Account

This statement sets out details of the income and expenditure in relation to the provision of Council dwellings.

(£000s)	Note	2018/19	2017/18
Income			
Dwelling rents	2	(36,984)	(36,716)
Non-dwelling rents		(757)	(782)
Charges for services and facilities		(3,304)	(3,274)
Contributions towards expenditure		(504)	(635)
Reimbursement of costs		(26)	(30)
Total		(41,575)	(41,437)
Expenditure			
Repairs and maintenance		9,769	8,104
Supervision and management		7,160	6,336
Rents, rates, taxes and other charges		207	280
Depreciation, impairment and reversal of revaluation losses on non-current assets		23,048	4,285
Increased provision for bad debts		173	312
Total		40,357	19,317
Net expenditure		(1,218)	(22,120)
HRA services share of Corporate and Democratic Core		294	354
Net expenditure on HRA services as included in the Comprehensive Income and Expenditure Statement		(924)	(21,766)
HRA share of other income and expenditure included in the Comprehensive Income and Expenditure Statement			
(Surplus) or deficit on sale of HRA non-current assets		(3,254)	(3,181)
Other income		0	(26)
Impairment losses on assets held for sale		0	91
Interest payable on PWLB loans		7,494	7,494
Interest and investment income		(1,486)	(1,194)
Capital grants and contributions receivable		(13,921)	(1,270)
(Surplus) / deficit for the year on HRA services		(12,091)	(19,852)

Statement of Movement on the Housing Revenue Account

(£000s)	Note	2018/19	2017/18
(Surplus) / deficit for the year on the HRA Income and Expenditure Account		(12,091)	(19,852)
Adjustments between accounting basis and funding basis under statute			
Gain on sale of non-current assets		3,055	3,181
Other capital receipts		0	26
Impairment of losses on assets held for sale		0	(91)
Net revaluation (losses)/gains and impairment losses on property, plant and equipment		(12,377)	5,437
Capital contributions unapplied credited to the Comprehensive Income and Expenditure Statement		13,921	1,270
Movement in investment property value		155	151
Net charges made for retirement benefits made in accordance with IAS19	10	(2,061)	(1,764)
Employers contributions payable to the Cambridgeshire Pension Fund	10	1,569	1,386
Sums to be debited or credited to the HRA that are not income or expenditure in accordance with GAAP		(54)	12
Capital expenditure funded by the Housing Revenue Account	7	727	4,519
Net (increase) / decrease before transfers to or from reserves		(7,156)	(5,725)
Transfers to reserves		4,556	6,884
Total movement on Housing Revenue Account for the year		(2,600)	1,159
Housing Revenue Account balance brought forward		(9,020)	(10,179)
Housing Revenue Account balance carried forward		(11,620)	(9,020)

Notes to the Housing Revenue Account

1 Introduction

The Local Government and Housing Act 1989 set the framework within which the HRA operates. The account is 'ring-fenced', meaning that authorities do not have discretion to fund any HRA deficits from the General Fund. Transfers from the General Fund can only be made at the direction of the Secretary of State.

2 Gross Rent

This represents income receivable in respect of all dwellings within the HRA, gross of rent rebates and net of rents not payable when properties are empty. As at 31 March 2019, 1.6% of properties were vacant (1.8% at 31 March 2018).

The average rent payable in 2018/19 was £109.41 per week based on 48 payable rent weeks (£100.99 per week on a 52 week basis). The average rent payable in 2017/18 was £109.42 per week based on 48 payable rent weeks (£101.00 per week on a 52 week basis).

3 Asset Values within the HRA

(£000s)	Asset Values		Depreciation	
	31 March 2019	31 March 2018	2018/19	2017/18
Dwellings	612,585	628,303	10,434	9,332
Other land and buildings	9,667	9,190	139	148
Infrastructure	2,381	2,449	68	63
Vehicles, plant and equipment	182	152	25	25
Investment properties	5,667	5,511	0	63
Intangible assets	134	9	5	5
Non-current assets held for sale	0	67	0	0
Surplus assets	0	0	0	86
Assets under construction	12,263	10,461	0	0
	642,879	656,142	10,671	9,722

The value of council dwellings at 1 April 2018, based on vacant possession, was £1,653 million (1 April 2017: £1,525 million). Vacant possession value is the estimate of the total sum that would be received if all the dwellings were sold on the open market. The balance sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market, and the balance sheet value is therefore lower than the vacant possession valuation. The difference between the two values shows the economic cost of providing housing at less than market value.

Net revaluation losses on property, plant and equipment of £13.0 million have been charged to the Comprehensive Income and Expenditure Statement in 2018/19 (net revaluation loss reversals credited of £5.7 million in 2017/18). Remaining valuation movements in the value of property, plant and equipment have been charged to the revaluation reserve.

4 Loan Interest Charges

The Council made an HRA self-financing settlement payment of £213.6 million on 28 March 2012. To meet this payment the Council took out a number of long term maturity loans with the Public Works Loan Board (PWLb).

Under HRA self-financing rules the Council has adopted a 'two-pool' approach so that HRA self-financing loans and the resultant interest are directly attributable to the HRA. This has led to external interest charges of £7,494,000 on this debt being charged to the HRA in 2018/19 (£7,494,000 in 2017/18).

5 Housing Stock

The Council was responsible for an average stock of 7,158 dwellings during the year. The stock as at 31 March 2019 was as follows:

	31 March 2019	31 March 2018
Houses & bungalows	3,533	3,541
Flats	3,041	3,051
Sheltered housing units	510	511
Shared ownership properties (whole property equivalent)	62	67
Total	7,146	7,170
The change in stock during the year can be summarised as follows:		
Stock at 1 April	7,170	7,096
Right to buy sales	(27)	(47)
Open market disposals	(2)	(1)
Net shared ownership changes	(5)	20
Acquisitions	2	23
New properties	9	108
Other changes	(1)	(1)
Demolitions	0	(28)
Stock as at 31 March	7,146	7,170

6 Rent Arrears

Rent arrears at 31 March 2019 were £1,688,000 (£1,652,000 at 31 March 2018) and as a proportion of gross rent income have increased from 4.14% in 2017/18 to 4.19% in 2018/19.

At 31 March 2019 a net provision for bad debt of £1,406,000 was held on the Balance Sheet (£1,393,000 at 31 March 2018).

7 Financing of Capital Expenditure

(£000s)	2018/19	2017/18
Capital expenditure		
Dwellings	6,194	6,403
Other land and buildings	11,451	0
Plant, vehicles and equipment	61	7
Infrastructure assets	0	194
Assets under construction	13,066	11,557
Intangible assets	130	0
Other adjustments	0	(7)
	30,902	18,154
Financed by:		
Capital receipts	8,654	4,798
Major repairs reserve	7,602	7,111
Revenue financing of capital	727	4,519
Capital contributions and grants	13,919	1,726
	30,902	18,154

8 Capital receipts within the HRA

(£000s)	2018/19	2017/18
Dwellings	7,851	12,680
Land	23	0
Total receipts	7,874	12,680
Payable to central government	(1,134)	(961)
Usable capital receipts	6,740	11,719

9 Major Repairs Reserve (MRR)

(£000s)	2018/19	2017/18
Balance at 1 April	(8,154)	(5,549)
Transfer to MRR during the year	(10,671)	(9,716)
HRA capital expenditure on housing charged to MRR	7,601	7,111
Balance at 31 March	(11,224)	(8,154)

10 Contributions from the Pensions Reserve

The Housing Revenue Account is charged with a share of current service costs in line with IAS 19. The difference between this cost and employer contributions payable is then appropriated from the pensions reserve so that the overall amount to be met from rents reflects employer contributions payable by the Council.

Additional Financial Statements and Information

Collection Fund Statement

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

(£000s)	Note	2018/19		2017/18	
		Council Tax	Non-domestic rates	Council Tax	Non-domestic rates
Council tax	2	(74,395)		(69,310)	0
Non-domestic rates income			(109,978)	0	(104,341)
Contributions towards previous year's estimated Collection Fund deficit					
Central government		0	(533)	0	(944)
Cambridge City Council		(16)	(426)	(32)	(755)
Cambridgeshire County Council		(101)	(96)	(207)	(170)
Cambridgeshire Police & Crime Commissioner		(16)	0	(32)	0
Cambridgeshire Fire Authority		(5)	(10)	(12)	(19)
Transitional protection receipts		0	(308)	0	(21)
Total income		(74,533)	(111,351)	(69,593)	(106,250)
Council tax expenditure					
Cambridge City Council	4	8,243	0	7,839	0
Cambridgeshire County Council	4	53,728	0	49,971	0
Cambridgeshire Police & Crime Commissioner	4	8,543	0	7,839	0
Cambridgeshire Fire Authority	4	2,956	0	2,804	0
Impairment of council tax debts	5	1,004	0	931	0
Non-domestic rates expenditure					
Cambridge City Council		0	42,810	0	40,874
Cambridgeshire County Council		0	9,632	0	9,196
Cambridgeshire Fire Authority		0	1,070	0	1,022
Non-domestic rates due to central government		0	53,512	0	51,092
Transitional protection payments		0	0	0	0
Impairment of non-domestic rates debts	6	0	941	0	192
Provision for non-domestic rates appeals	6	0	(137)	0	1,068
Allowable costs of non-domestic rates collection		0	234	0	226
Total expenditure		74,474	108,062	69,384	103,670
(Surplus) / deficit for the year		(59)	(3,289)	(209)	(2,580)
(Surplus) / deficit as at 1 April		19	(723)	228	1,857
(Surplus) / deficit as at 31 March	7	(40)	(4,012)	19	(723)

Notes to the Collection Fund Statement

1 General

This statement shows the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts for income relating to council tax and non-domestic rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of collection are accounted for in the General Fund.

2 Council Tax

Under the arrangements for council tax, each domestic property within the Council's area is assigned to one of eight 'valuation bands' (A to H) based on the estimated price it would have achieved if it had been sold at 1 April 1991. The council tax is set for Band D properties and the tax for other bands is calculated as a proportion of the Band D tax. The Band D council tax for the year ended 31 March 2019 was set at £1,709.06, made up as follows:

(£)	2018/19	2017/18
Cambridge City Council	191.75	186.75
Cambridgeshire County Council	1,249.83	1,190.43
Cambridgeshire Police & Crime Commissioner	198.72	186.75
Cambridgeshire Fire Authority	68.76	66.78
Total	1,709.06	1,630.71

The following table shows the calculation of the Council Tax Base for 2018/19 (used to determine the tax needed at Band D to finance spending).

Valuation Band	Total number of dwellings on the Valuation List	Total Equivalent Dwellings (after discounts, exemptions etc.)	Ratio to Band D	Band D Equivalents
A	4,142	2,920	6/9	1,947
B	10,195	8,358	7/9	6,501
C	19,410	16,993	8/9	15,105
D	9,849	8,521	9/9	8,521
E	5,650	4,853	11/9	5,931
F	3,619	3,162	13/9	4,567
G	3,121	2,611	15/9	4,352
H	482	297	18/9	594
Total	56,468	47,715		47,518
Tax Base adjustments				(4,529)
Tax base for Council Tax Setting				42,989

Adjustments to the Council Tax base are made for growth, losses in collection, student exemptions and empty and second homes to calculate the base for council tax setting purposes.

Additional Financial Statements and Information

The income of £74.4 million in 2018/19 was receivable from the following sources:

(£000s)	2018/19	2017/18
Billed to council tax payers	74,359	69,272
Transfers (to) / from General Fund	36	38
Total	74,395	69,310

3 National Non-Domestic Rates Income

The local rateable value as at 31 March 2019 was £299,159,267 (£294,561,174 at 31 March 2018) and the Uniform Business Rate in 2018/19 was set by the government at 49.3p (2017/18: 47.9p).

4 Council Tax Expenditure

(£000s)	2018/19			2017/18		
	Precepts and Demands	Distribution of previous year's surplus	Total	Precepts and Demands	Distribution of previous year's surplus	Total
Cambridge City Council	8,243	0	8,243	7,839	0	7,839
Cambridgeshire County Council	53,728	0	53,728	49,971	0	49,971
Cambridgeshire Police and Crime Commissioner	8,543	0	8,543	7,839	0	7,839
Cambridgeshire Fire Authority	2,956	0	2,956	2,803	0	2,803

5 Provision for Non-Payment - Council Tax

A contribution of £1,004,000 (£931,000 in 2017/18) was made to a provision for bad and doubtful debts in 2018/19. This contribution is net of £17,000 of debts which were written back (2017/18, £5,000).

6 Provision for Non-Payment and appeals - Non-Domestic Rates

A contribution of £941,000 (£192,000 in 2017/18) was made to a provision for bad and doubtful debts in 2018/19. This contribution is net of £4,000 of debts which were written back (2017/18: £6,000).

A provision is held for appeals relating to rateable value reductions in respect of 2018/19 and prior years. At 31 March 2019 this provision is £10,122,000 (£10,259,000 at 31 March 2018).

7 Collection Fund Surpluses and Deficits

The surplus of £40,000 at 31 March 2019 (£19,000 deficit at 31 March 2018), which related to council tax, will be redistributed in subsequent financial years to Cambridgeshire County Council, Cambridgeshire Police and Fire Authorities and the Council in proportion to their shares of the total council tax raised.

Additional Financial Statements and Information

The total council tax (surplus)/deficit is therefore shared as follows:

(£000s)	31 March 2019	31 March 2018
Council Tax:		
Cambridge City Council	(4)	2
Cambridgeshire County Council	(29)	14
Cambridgeshire Police & Crime Commissioner	(5)	2
Cambridgeshire Fire Authority	(2)	1
Total	(40)	19

The surplus of £4,012,000 at 31 March 2019 (surplus of £723,000 at 31 March 2018) in respect of non-domestic rates will be redistributed in subsequent financial years to Cambridgeshire County Council, Cambridgeshire Fire Authority, central government and the Council in proportion to their shares of business rates income.

The total non-domestic rates surplus is therefore shared as follows:

(£000s)	31 March 2019	31 March 2018
Non-domestic rates:		
Cambridge City Council	(1,605)	(289)
Cambridgeshire County Council	(361)	(65)
Cambridgeshire Fire Authority	(40)	(7)
Central government	(2,006)	(362)
Total	(4,012)	(723)

Group Financial Statements for the year ended 31 March 2019

Introduction

In order to provide a full picture of the Council's economic activities and financial position, Group Financial Statements are presented in addition to the Council's single entity financial statements and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 'Code'). They comprise:

- ◆ Group Movement in Reserves Statement
- ◆ Group Comprehensive Income and Expenditure Statement
- ◆ Group Balance Sheet
- ◆ Group Cash Flow Statement

These statements are set out on the following pages, together with accompanying disclosure notes. Disclosure notes have only been restated where they are materially different from those of the Council's single entity accounts.

In addition to the financial performance of the Council, the Group Financial Statements comprise:

- ◆ Cambridge City Housing Company Limited
- ◆ Cambridge Investment Partnership LLP
- ◆ Cambridge Live Group

Cambridge City Housing Company Limited (CCHC) was incorporated on 15 February 2016 and began trading in May 2016.

The objective of the company is to provide and manage housing that is affordable for those in housing need and any other property related activity in Cambridge and neighbouring districts that also generates a financial return for the Council.

As the company is wholly owned by Cambridge City Council, it has been consolidated as a subsidiary in the Group Financial Statements.

Cambridge Investment Partnership LLP (CIP) was incorporated on 22 December 2016. CIP is a joint venture between the Council (50%) and Hill Investment Partnerships formed with the objective of redeveloping sites in Cambridge for housing, including the provision of affordable housing.

The structure of the partnership has been amended during the year and, at 31 March 2019, included three separate companies.

Cambridge Investment Partnership LLP, incorporated 30 November 2018, will provide management services to CIP operating companies as needed. This is a new company and replaces the organisation reported in the 2017/18 accounts. The financial statements for the year ended 31 March 2019 were a nil return.

Operating companies are being established for individual sites as they commence and details of the first two are given below.

Group Financial Statements

CIP (Mill Road Development) LLP, incorporated on 22 December 2016. This was formerly the Cambridge Investment Partnership LLP reported in the 2017/18 accounts. This company reported a loss of £500,000 in the year ended 31 March 2019 (£413,000 loss in 2017/18).

CIP (Cromwell Road) LLP was incorporated on 10 January 2019. The financial statements for the year ended 31 March 2019 had no transactions going through the Statement of Comprehensive Income.

Cambridge Live was established as an arts trust charity to manage the running of live events in the city including Cambridge Folk Festival and a program of events in the Corn Exchange. The trust ran into difficulty in 2018 and has been managed by Council staff since 1 October 2018. The trust and an associated subsidiary trading company (Cambridge Live Trading Limited) are in the process of being wound up, and all activities reverted to the Council with effect from 1 April 2019. The results of the companies have been consolidated on a subsidiary basis from 1 October 2018, which is the date upon which the Council took direct control of its operations.

Accounting Policies

The results of these entities are adjusted where applicable to align their accounting policies with those of the Council. All entities have a financial year-end of 31 March, although it should be noted in the case of the Cambridge Live Group that only 6 months' of transactions have been consolidated into these Group Financial Statements, as explained above.

CCHC holds properties for rent which have been recognised as property, plant and equipment in the Group Financial Statements.

As a subsidiary, the accounts of CCHC have been consolidated with those of the Council on a line by line basis, and any balances and transactions between parties have been eliminated in full. CCHC income and expenditure, adjusted for transactions with the Council, is included on the relevant service lines in the Group Comprehensive Income and Expenditure Statement. Similarly, year-end balances are incorporated into the relevant lines on the Group Balance Sheet, after removing balances owed between the parties. The same approach has been applied for the Cambridge Live Group, as the Council has direct control of these entities.

In line with the requirements of the Code, the Council accounts for its interest in the CIP entities using the equity method. This requires an investor to bring the investment into the Group Balance Sheet at cost and then to adjust the carrying value by the change in the investor's share of net assets. The share of CIP's operating results is included in the Group Comprehensive Income and Expenditure Statement. Unrealised profits on transactions between the Council and the joint venture are eliminated to the extent that they do not reduce the carrying value of the investment below zero.

Group Financial Statements

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditures or reduce local taxation) and other reserves. The '(surplus) or deficit on the provision of services' line shows the true economic cost of providing services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

Financial year 2018/19

(£000s)	Council (after the removal of intra-group transactions)					Council share of subsidiaries' and joint ventures' usable reserves	Total Group usable reserves	Council unusable reserves	Council share of subsidiaries' and joint ventures' unusable reserves	Total Group unusable reserves	Total Group reserves
	General Fund balance (including Earmarked Reserves)	Housing Revenue Account balance (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied						
Balance as at 1 April 2018	(37,878)	(20,137)	(40,487)	(8,154)	(5,415)	85	(111,986)	(638,203)	(565)	(638,768)	(750,754)
Movement in reserves during 2017/18											
(Surplus) / deficit on the provision of services	8,099	(12,072)	0	0	0	225	(3,748)	0	0	0	(3,748)
Other comprehensive income and expenditure	0	0	0	0	0	565	565	22,471	(128)	22,343	22,908
Total comprehensive income and expenditure	8,099	(12,072)	0	0	0	790	(3,183)	22,471	(128)	22,343	19,160
Adjustments between accounting basis and funding basis under regulations	(10,158)	4,935	(14,561)	(3,070)	(5,075)	0	(27,929)	27,929	0	27,929	0
(Increase) / decrease in year	(2,059)	(7,137)	(14,561)	(3,070)	(5,075)	790	(31,112)	50,400	(128)	50,272	19,160
Balance as at 31 March 2019	(39,937)	(27,274)	(55,048)	(11,224)	(10,490)	875	(143,098)	(587,803)	(693)	(588,496)	(731,594)

Group Financial Statements

Financial year 2017/18

(£000s)	Council (after the removal of intra-group transactions)					Council share of subsidiaries' and joint ventures' usable reserves	Total Group usable reserves	Council unusable reserves	Council share of subsidiaries' and joint ventures' unusable reserves	Total Group unusable reserves	Total Group reserves
	General Fund balance (including Earmarked Reserves)	Housing Revenue Account balance (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied						
Balance as at 1 April 2017	(38,642)	(14,420)	(32,293)	(5,549)	(4,231)	67	(95,068)	(600,560)	0	(600,560)	(695,628)
Movement in reserves during 2017/18											
(Surplus) / deficit on the provision of services	2,210	(19,844)	0	0	0	18	(17,616)	0	0	0	(17,616)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	(36,945)	(565)	(37,510)	(37,510)
Total comprehensive income and expenditure	2,210	(19,844)	0	0	0	18	(17,616)	(36,945)	(565)	(37,510)	(55,126)
Adjustments between accounting basis and funding basis under regulations	(1,446)	14,127	(8,194)	(2,605)	(1,184)	0	698	(698)	0	(698)	0
(Increase) / decrease in year	764	(5,717)	(8,194)	(2,605)	(1,184)	18	(16,918)	(37,643)	(565)	(38,208)	(55,126)
Balance as at 31 March 2018	(37,878)	(20,137)	(40,487)	(8,154)	(5,415)	85	(111,986)	(638,203)	(565)	(638,768)	(750,754)

Group Financial Statements

Group Comprehensive Income and Expenditure Statement

This statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practices, rather than the amounts to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

(£000s)	2018/19			2017/18		
	Gross expenditure	Gross income	Net expenditure	Gross expenditure	Gross income	Net expenditure
Communities	12,541	(2,785)	9,756	12,230	(795)	11,435
Streets and Open Spaces	10,964	(3,081)	7,883	10,286	(2,937)	7,349
Environmental Services and City Centre	8,030	(3,528)	4,502	7,723	(2,680)	5,043
Planning, Policy and Transport	10,108	(11,932)	(1,824)	12,554	(12,845)	(291)
General Fund Housing	6,509	(2,080)	4,429	6,428	(1,643)	4,785
Housing Revenue Account	40,651	(41,556)	(905)	19,671	(41,429)	(21,758)
Finance and Resources	40,686	(37,804)	2,882	42,493	(39,736)	2,757
Strategy and Transformation	7,394	(83)	7,311	6,085	(856)	5,229
Other Group housing services	35	(295)	(260)	303	(285)	18
Cost of services	136,918	(103,144)	33,774	117,773	(103,206)	14,567
Other operating expenditure	1,134	(2,312)	(1,178)	3,119	(4,543)	(1,424)
Financing and investment income and expenditure	13,876	(6,563)	7,313	13,831	(15,841)	(2,010)
Taxation and non-specific grant income	0	(43,657)	(43,657)	0	(28,749)	(28,749)
(Surplus) / deficit on the provision of services	151,928	(155,676)	(3,748)	134,723	(152,339)	(17,616)
<i>Items that will not be reclassified to the (surplus) or deficit on the provision of services</i>						
(Surplus) / deficit on revaluation of non-current assets and impairment losses charged to revaluation reserve			3,032			(31,384)
Remeasurements of the net defined benefit liability			19,876			(5,454)
			22,908			(36,838)
<i>Items that may be reclassified to the (surplus) or deficit on the provision of services</i>						
(Surplus) or deficit on revaluation of available for sale financial assets			0			(672)
Other comprehensive (income) / expenditure			22,908			(37,510)
Total comprehensive (income) / expenditure			19,160			(55,126)

Group Financial Statements

Group Balance Sheet

The Group Balance Sheet shows the value at the stated date of the Group's assets and liabilities. The net assets are matched by reserves. Reserves are reported in two categories. The first category is usable reserves, i.e. those reserves that the Group 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 that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Group is not able to use to provide services. This category of reserves includes those reserves that hold unrealisable gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

(£000s)	Notes	2018/19	2017/18
Property, plant and equipment	6	789,832	803,240
Heritage assets		669	669
Investment property		170,782	175,281
Intangible assets		336	318
Long term investments	8	49,562	25,275
Long term debtors		3,745	11,521
Long term assets		1,014,926	1,016,304
Short term investments	8	79,894	73,176
Assets held for sale		0	67
Inventories		151	151
Short term debtors		20,774	17,820
Cash and cash equivalents		9,837	8,316
Current assets		110,656	99,530
Short term borrowing		(82)	(82)
Short term creditors		(29,633)	(22,894)
Receipts in advance	9	(7,266)	(4,272)
Provisions		(4,445)	(4,467)
Current liabilities		(41,426)	(31,715)
Long term borrowing		(213,572)	(213,572)
Other long term liabilities		(138,895)	(113,585)
Receipts in advance		(95)	0
Capital grants receipts in advance		0	(6,208)
Long term liabilities		(352,562)	(333,365)
Net assets		731,594	750,754
Usable reserves		(143,098)	(111,986)
Unusable reserves		(588,496)	(638,768)
Total R=reserves		(731,594)	(750,754)

Group Financial Statements

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group 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 Group are funded by way of taxation, grant income and by the recipients of services provided by the Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities show claims that will be made on future cash flows by providers of capital (i.e. borrowing) to the Group.

(£000s)	2018/19	2017/18
Net surplus or (deficit) on the provision of services	3,748	17,616
Adjustment to surplus or deficit on the provision of service for non-cash movements	78,304	32,482
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(56,588)	(33,660)
Net cash flows from operating activities	25,464	16,438
Net cash flows from investing activities	(27,290)	(25,705)
Net cash flows from financing activities	3,347	2,434
Net increase / (decrease) in cash and cash equivalents	1,521	(6,833)
Cash and cash equivalents at the beginning of the year	8,316	15,149
Cash and cash equivalents at the end of the year	9,837	8,316

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Notes to the Group Financial Statements

1 Group Expenditure and Funding Analysis

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

(£000s)	2018/19					2017/18 (Restated)				
	Net amount chargeable to the General Fund, HRA, and share of subsidiaries' usable reserves	Adjustments for capital purposes	Net change for pensions adjustments	Other differences	Net expenditure in the Comprehensive Income and Expenditure Statement	Net amount chargeable to the General Fund, HRA, and share of subsidiaries' usable reserves	Adjustments for capital purposes	Net change for pensions adjustments	Other differences	Net expenditure in the Comprehensive Income and Expenditure Statement
Communities	6,544	2,757	455	0	9,756	5,652	5,372	411	0	11,435
Streets and Open Spaces	5,550	1,273	1,060	0	7,883	5,464	1,061	824	0	7,349
Environmental Services and City Centre	3,859	614	29	0	4,502	4,286	355	402	0	5,043
Planning, Policy and Transport	(3,380)	1,105	451	0	(1,824)	(2,342)	1,325	726	0	(291)
General Fund Housing	3,166	882	381	0	4,429	3,434	887	414	50	4,785
Housing Revenue Account	(13,973)	12,576	492	0	(905)	(16,700)	(5,436)	378	0	(21,758)
Finance and Resources	1,278	1,208	396	0	2,882	1,110	1,241	406	0	2,757
Strategy and Transformation	6,778	1,634	(1,101)	0	7,311	6,194	595	(1,561)	1	5,229
Other Group housing services	(260)	0	0	0	(260)	18	0	0	0	18
Net cost of services	9,562	22,049	2,163	0	33,774	7,116	5,400	2,000	51	14,567
Other income and expenditure	(18,533)	(20,851)	2,976	(1,114)	(37,522)	(12,051)	(22,069)	3,007	(1,070)	(32,183)
(Surplus) / deficit for the year	(8,971)	1,198	5,139	(1,114)	(3,748)	(4,935)	(16,669)	5,007	(1,019)	(17,616)
Other comprehensive expenditure charged to subsidiary usable reserves	565					0				
Total movement in General Fund, HRA and share of subsidiary usable reserves	(8,406)					(4,935)				
Opening General Fund, HRA and share of subsidiary usable reserves at 1 April	(57,930)					(52,995)				
Closing General Fund, HRA and share of subsidiary usable reserves at 31 March	(66,336)					(57,930)				

Notes to the Group Financial Statements

Income and expenditure are analysed subjectively as follows:

(£000s)	2018/19	2017/18
Employee benefit expenses	37,164	36,700
Other service expenses	70,655	69,003
Depreciation, amortisation and impairment	30,833	15,977
Interest payments and investment income expenses	12,142	12,082
Payments to Housing Capital Receipts Pool	1,134	961
Total expenditure	151,928	134,723
Fees, charges and other service income	(65,339)	(64,294)
Interest and investment income	(4,637)	(13,959)
Income from council tax	(8,234)	(7,830)
Income from non-domestic rates	(5,370)	(4,655)
(Gain) or loss on the disposal of non-current assets	(2,312)	(4,543)
Government grants, contributions and donations	(69,784)	(57,058)
Total income	(155,676)	(152,339)
(Surplus) or deficit on the provision of services	(3,748)	(17,616)

2 Group Boundary

Cambridge City Housing Company Limited (CCHC) was incorporated on 15 February 2016 and commenced trading in May 2016. The Council purchased 100% of the share capital, £1, on incorporation. CCHC is a subsidiary for accounting purposes and has been consolidated into the Group Financial Statements.

CIP (Mill Road Development) LLP (formerly known as Cambridge Investment Partnership LLP as reported in the prior year Group Financial Statements) was incorporated on 22 December 2016. The Council contributed 50% of the equity, and the entity is a joint venture for accounting purposes.

During the year, a further two entities were set up under the CIP partnership arrangements, namely Cambridge Investment Partnership LLP (incorporated 30 November 2018) and CIP (Cromwell Road) LLP (incorporated 10 January 2019). The Council contributed 50% of the equity of each, and both will be treated as joint ventures for accounting purposes.

Cambridge Live is company limited by guarantee and was incorporated 12 May 2014. It has one wholly owned trading subsidiary, Cambridge Live Trading Limited (incorporated 13 May 2014). Both companies (together the 'Cambridge Live Group') have been treated as subsidiaries from 1 October 2018, which is the date that the Council took direct control of their operations, and have been consolidated accordingly into the Group Financial Statements.

3 Basis of Consolidation

The financial statements of CCHC and the Cambridge Live Group have been consolidated with those of the Council on a line by line basis which has eliminated balances, transactions, income and expenditure between the Council and the subsidiaries.

Notes to the Group Financial Statements

The Council's share of CIP (Mill Road Development) LLP's post acquisition results is a loss of £457,000 (31 March 2018: £206,000). In addition, the Council's share of the provision for unrealised profit on the disposal of the Mill Road site is £681,000 (31 March 2018: £681,000). As these amounts exceed the value of the Council's investment, the consolidated value of the LLP for group accounting purposes is currently nil (31 March 2018: nil).

4 Business Activity of the Subsidiary and Joint Venture

The objective of Cambridge City Housing Company is to provide and manage intermediate housing for rent for those in housing need and any other property related activity in Cambridge and neighbouring districts that also generates a financial return to the Council.

The objective of the Cambridge Investment Partnership entities is to bring forward sites for redevelopment and to provide housing, including affordable housing.

The objective of Cambridge Live is the advancement of art for the public benefit. It fulfils this objective through the delivering of an extensive events programme from a number of venues around Cambridge. Cambridge Live Trading Limited exists to support the work of Cambridge Live through the operation of commercial trading activities.

5 Accounting Policies

In preparing the Group Financial Statements the Council has aligned the accounting policies of all group entities with those of the Council. These are set out on pages 82 to 99.

Notes to the Group Financial Statements

6 Property Plant and Equipment

Financial year 2018/19

(£000s)	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment
Cost or valuation								
At 1 April 2018	628,303	152,244	22,654	5,156	1,344	0	15,430	825,131
Additions	6,194	30,363	2,977	11	0	0	14,881	54,426
Revaluation increases / (decreases) recognised in the revaluation reserve	(15,885)	(134)	0	0	0	0	0	(16,019)
Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	(13,164)	158	0	0	0	0	0	(13,006)
De-recognition – disposals	(3,098)	0	(688)	0	0	0	0	(3,786)
De-recognition – other	(1,543)	(451)	0	0	0	0	(167)	(2,161)
Assets reclassified (to) / from investment properties	0	(2,400)	0	0	0	0	0	(2,400)
Assets reclassified (to) / from assets held for sale	0	(27,000)	0	0	0	0	0	(27,000)
Assets reclassified (to) / from other categories of property, plant and equipment	11,778	3,276	1,332	631	(11)	0	(17,006)	0
At 31 March 2019	612,585	156,056	26,275	5,798	1,333	0	13,138	815,185
Accumulated depreciation and impairment								
At 1 April 2018	0	(6,797)	(13,697)	(810)	0	0	(587)	(21,891)
Depreciation charge	(10,434)	(4,648)	(1,783)	(135)	0	0	0	(17,000)
Depreciation written out to the revaluation reserve	10,933	2,054	0	0	0	0	0	12,987
Impairment recognised in the surplus / deficit on the provision of services	0	(92)	(145)	0	0	0	0	(237)
De-recognition – disposals	52	0	688	0	0	0	0	740
De-recognition – other	36	12	0	0	0	0	0	48
Assets reclassified to / (from) other categories of property, plant and equipment	(587)	0	0	0	0	0	587	0
At 31 March 2019	0	(9,471)	(14,937)	(945)	0	0	0	(25,353)
Net book value								
At 31 March 2019	612,585	146,585	11,338	4,853	1,333	0	13,138	789,832
At 31 March 2018	628,303	145,447	8,957	4,346	1,344	0	14,843	803,240

Notes to the Group Financial Statements

Financial year 2017/18

(£000s)	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment
Cost or valuation								
At 1 April 2017	579,588	148,679	20,742	4,523	1,195	9,261	30,554	794,542
Opening adjustment	0	192	0	0	0	0	0	192
Additions	6,403	1,189	2,193	262	18	0	17,831	27,896
Revaluation increases / (decreases) recognised in the revaluation reserve	19,184	3,560	0	0	0	0	(2,045)	20,699
Revaluation increases / (decreases) recognised in the surplus / deficit on the provision of services	6,605	(3,653)	0	0	0	0	0	2,952
De-recognition – disposals	(4,643)	0	0	0	0	0	0	(4,643)
De-recognition – other	(177)	(1,165)	6	0	0	0	(4,098)	(5,434)
Assets reclassified (to) / from investment properties	0	(463)	0	0	0	(1,225)	0	(1,688)
Assets reclassified (to) / from assets held for sale	(68)	(3,259)	(481)	0	0	0	(5,383)	(9,191)
Assets reclassified (to) / from intangibles	0	0	0	0	0	0	(192)	(192)
Assets reclassified (to) / from other categories of property, plant and equipment	21,411	7,164	196	371	131	(8,036)	(21,237)	0
Other movements	0	0	(2)	0	0	0	0	(2)
At 31 March 2018	628,303	152,244	22,654	5,156	1,344	0	15,430	825,131
Accumulated depreciation and impairment								
At 1 April 2017	0	(3,009)	(12,519)	(675)	0	0	0	(16,203)
Opening adjustment	0	(192)	0	0	0	0	0	(192)
Depreciation charge	(9,395)	(4,586)	(1,649)	(135)	0	(85)	0	(15,850)
Depreciation written out to the revaluation reserve	9,290	1,636	0	0	0	0	116	11,042
De-recognition – disposals	73	0	0	0	0	0	0	73
De-recognition – other	0	31	0	0	0	0	0	31
Impairment recognised in the surplus / deficit on the provision of services	0	(540)	0	0	0	0	(304)	(844)
Impairments recognised in the revaluation reserve	0	(162)	0	0	0	0	(283)	(445)
Assets reclassified to / (from) investment properties	0	25	0	0	0	0	0	25
Assets reclassified to / (from) assets held for sale	1	0	471	0	0	0	0	472
Assets reclassified to / (from) other categories of property, plant and equipment	31	0	0	0	0	85	(116)	0
At 31 March 2018	0	(6,797)	(13,697)	(810)	0	0	(587)	(21,891)
Net book value								
At 31 March 2018	628,303	145,447	8,957	4,346	1,344	0	14,843	803,240
At 31 March 2017	579,588	145,670	8,223	3,848	1,195	9,261	30,554	778,339

Notes to the Group Financial Statements

7 Property – Revaluations

Full details of the revaluation policy and approach adopted in respect of Council assets is set out in note 15 to the single entity accounts on page 27.

CCHC properties are subject to annual revaluation by external valuers as at 31 March each year. The RICS registered valuers were:

G Harbord MA MRICS IRRV (Hons) (Wilks Head and Eve)
M Aldis BSc (Hons) MRICS IRRV (Hons) (Wilks Head and Eve)
P Smith BSc (Hons) MRICS IRRV (Hons) (Wilks Head and Eve)

The basis of valuation is current value derived from existing use. Valuations are undertaken with reference to 'Stock Valuation for Resource Accounting Guidance 2016' published by the Ministry of Housing, Communities and Local Government (MHCLG). Valuations are also carried out in accordance with the RICS Valuation – Professional Standards ('Red Book'), except where they are varied to reflect the current policy requirements of MHCLG.

Valuations are undertaken using the beacon method. Under this method, the company divides its housing stock into a number of 'archetypes'. Properties within each archetype have similar characteristics (e.g. location, property type, number of bedrooms), and as such are deemed to have the same current value. Within each archetype, one representative property (or 'beacon') is selected for valuation. Beacon properties are inspected by the valuers on an annual basis.

The following table shows the current carrying value of property, plant and equipment assets by the date of the most recent valuation:

(£000s)	Council dwellings	Other land and buildings	Total
Valued at fair value as at:			
31 March 2019	612,585	100,129	712,714
31 March 2018	0	1,116	1,116
31 March 2017	0	2,290	2,290
31 March 2016	0	39,092	39,092
31 March 2015	0	3,958	3,958
Total Valuation	612,585	146,585	759,170

8 Short Term and Long Term Investments

(£000s)	2018/19		2017/18	
	Long term	Short term	Long term	Short term
Investments in Icelandic banks and their UK subsidiaries	0	0	0	41
Loans to joint ventures	31,850	0	0	0
Other investments	17,712	79,894	25,275	73,135
	49,562	79,894	25,275	73,176

Notes to the Group Financial Statements

9 Receipts in Advance

(£000s)	31 March 2019	31 March 2018
Cambridge City Council share of council tax receipts in advance	(360)	(312)
Cambridge City Council share of non-domestic rates receipts in advance	(858)	(994)
Capital grants receipts in advance	(616)	0
Housing tenants and leaseholders	(657)	(702)
Advance income from Cambridge Live events	(3,081)	0
Other	(1,694)	(2,264)
	(7,266)	(4,272)

Statement of Accounting Policies

1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council 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 2018/19 (the 'Code'), supported by International Financial Reporting Standards (IFRS).

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

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- ◆ Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- ◆ Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- ◆ Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- ◆ Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- ◆ 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.
- ◆ Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Where the Council is acting as an agent for another party (e.g. in the collection of non-domestic rates and council tax), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

Statement of Accounting Policies

3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in less than three months from the date of acquisition and that are convertible to known amounts of cash with an insignificant risk of change in value (no loss of interest). The Council therefore treats all fixed term deposits, which have no contractual provision for early redemption, and if they were redeemed early would suffer a penalty of at least a loss of interest, as investments.

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

4 Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting estimates are accounted for prospectively, i.e, in the current and future years affected by the change.

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

5 Charges to Revenue for Non-Current Assets

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

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

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

The provisions for depreciation charges to revenue for non-current assets in the HRA are different. The Major Repairs Reserve is credited and the HRA balance is debited with a sum equal to depreciation on all HRA non-current assets. This means that depreciation is a charge to the HRA, but that balances are held in the Major Repairs Reserve for future spend

Statement of Accounting Policies

on the housing stock. HRA revaluation and impairment losses are reversed in the same manner as for the General Fund.

6 Employee Benefits

Benefits Payable During Employment

Short term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, flexi-leave and time off in lieu for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the surplus or deficit on the provision of services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund balance by a credit to the Accumulated Absences Account in the Movement in Reserves Statement.

Termination Benefits

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

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

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Cambridgeshire County Council.

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (based on the yields of the constituents of the iBoxx £ Corporates AA index, gilts yields, and the Council's weighted average duration).

Statement of Accounting Policies

The assets of the Cambridgeshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- ◆ Quoted securities – current bid price
- ◆ Unquoted securities – professional estimate
- ◆ Unitised securities – current bid price
- ◆ Property – market value

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

- ◆ Service Cost comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement.
 - Net interest on the net defined benefit liability – i.e. the net interest expense for the Council. This is the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- ◆ Remeasurements comprising:
 - The return on plan assets excluding amounts included in net interest on the net defined benefit liability. This is charged to the Pensions Reserve as other comprehensive income and expenditure.
 - Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure.

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

7 Events After the Reporting Period

Events after the reporting period 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 provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- ◆ Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

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

8 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the account.

9 Fair value measurement

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

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

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that the participants act in their economic best interest.

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

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

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Statement of Accounting Policies

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

10 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

11 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristic. There are three main classes of financial asset measured at:

- ◆ amortised cost;
- ◆ fair value through profit or loss (FVPL); and
- ◆ fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Statement of Accounting Policies

Amortised Cost

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

However, the Council has also made a number of interest-free loans for private sector housing improvements, which are classified as 'soft loans'. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement annually based upon an effective rate of interest, which serves to increase the amortised cost of the loans in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value Through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

The fair value measurements of the financial assets are based on the following techniques:

- ◆ Instruments with quoted market prices – the market price
- ◆ Other instruments with fixed and determinable payments – discounted cash flow analysis

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The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains or losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

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

12 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 attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

13 Intangible Assets

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

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Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

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

14 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first-in first-out (FIFO) costing formula.

15 Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Investment properties are not depreciated, but assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, and as a minimum every five years. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement

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and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16 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 and the fair value of the property, plant or equipment at lease inception is above the Council's de-minimis levels of £2,000 for vehicles and £15,000 for other items. All other leases are classified as operating leases.

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- ◆ a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- ◆ a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

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lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- ◆ a charge for the acquisition of the interest in the property – applied to write down the lease liability (together with any premiums received); and
- ◆ finance income (credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

17 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

18 Property, Plant and Equipment

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

Recognition

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

A de-minimis level of £2,000 has been adopted for vehicles and £15,000 for all other items. Assets that cost less than these limits are classified as revenue, rather than capital expenditure.

Measurement

Assets are initially measured at cost, comprising:

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance and therefore will not increase the cash flows of the Council. In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

- ◆ Infrastructure, community assets and assets under construction – depreciated historical cost

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- ◆ Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- ◆ Operational land and buildings – current value, determined as the amount that would be paid for the asset in its existing use (EUV). Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.
- ◆ Surplus assets – the current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective.
- ◆ Vehicles, plant & equipment – as these assets have short lives or low values (or both), a depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation or impairment loss previously charged to a service.

Where decreases in value are identified, the revaluation loss 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 that balance (up to the amount of the accumulated gains)
- ◆ Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

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Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on assets held for sale.

The Council is undertaking a number of housing redevelopments where part of the cost of building social housing units is being 'paid' by the transfer of land on which the developer will build and sell market units. The Council assesses that it transfers the risks and rewards of ownership of this land at the point that the agreement with the developer becomes unconditional rather than at legal disposal (once the value of social housing build work equals the value of the land).

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale. Housing sold under the Right to Buy legislation is not reclassified as assets held for sale as its primary purpose remains as a dwelling until the point of disposal and it is only considered significantly more likely than probable that a disposal will actually occur very close to the disposal itself. The carrying value of housing sold under right to buy remains the same as if it had been transferred to assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Depreciation

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

Depreciation is calculated on the following bases:

- ◆ Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuers
- ◆ Vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- ◆ Infrastructure – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer

Depreciation is based on the value of assets as at 1 April, so no charge is made in the year of acquisition and a full charge is made in the year of disposal.

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.

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.

19 Heritage Assets

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

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

Civic Regalia and Art Collection

The collection of civic regalia includes ceremonial maces, chains of office and other civic items. These items are reported in the Balance Sheet at insurance valuation which is based on market values. Further information on the most significant items in the collection can be found on the Council's [website](#)¹⁵.

The art collection (both oil and watercolour) includes portraits of historic figures with links to the city (many of them previous mayors and MPs) and paintings of the city. These items are reported in the Balance Sheet at insurance valuation which is based on market values.

These items are deemed to have indeterminate lives and high residual values so the Council does not consider it appropriate to charge depreciation. Carrying amounts are reviewed where there is evidence of impairment, for example where there is physical deterioration, breakage or doubts as to authenticity. Any impairment is recognised and measured in

¹⁵ <https://www.cambridge.gov.uk/ceremonial-maces-1207-charter-and-the-citys-coat-of-arms>

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accordance with the Council's general policy on impairment of non-current assets. The Council does not normally make any purchases or disposals of these items.

Cellarer's Chequer

The Council owns Cellarer's Chequer on the site of Barnwell Priory. The Cellarer was the second most important position in a monastery after the Abbot, dealing with the sourcing of provisions and supplies for the community. The Chequer is constructed from Barnack Stone with a tiled roof. It is in Early English style and is thought to be mid-13th century, retaining a doorway, windows and fireplace from this period. Further details can be found on the Council's [website](#)¹⁶.

The Council considers that obtaining an accurate valuation for the Chequer would involve a disproportionate cost in comparison to the benefits to users of the accounts. This is because of the lack of comparable values. Consequently, this asset is not recognised on the Balance Sheet.

20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

Contingent Liabilities

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

¹⁶ <https://www.cambridge.gov.uk/cellarers-chequer>

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

21 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

22 Revenue Expenditure Funded from Capital under Statute

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

23 Value Added Tax (VAT)

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

24 Foreign Exchange Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into Sterling at the exchange rate on the date that the transaction was effective. Where amounts in foreign currency are outstanding at the year-end they are converted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

25 Group Financial Statements

Subsidiary entities are those over which the Council is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The income, expense, assets, liabilities, equity and reserves of subsidiaries are consolidated in full into the appropriate financial statement lines within the Group Financial Statements. Appropriate adjustments are made to align the accounting policies of subsidiaries with those of the Council.

Joint ventures are arrangements in which the Council has joint control with one or more other parties, and where it has the rights to the net assets of the arrangement.

Joint ventures are recognised in the Group Financial Statements using the equity method. The investment is initially recognised at cost. It is increased or decreased subsequently to reflect the Council's share of the entity's profit or loss or other gains and losses following acquisition. Once the value of the investment reaches zero it is not reduced further.

Unrealised profits on transactions with joint ventures are only eliminated against the investment to the extent that it reduces the carrying value of the investment in the Group Financial Statements to nil. The Council does not then recognise further profits in the joint venture until they exceed unrecognised unrealised profits.

Where the impact of entities on the Group Financial Statements is considered to be immaterial they are not consolidated.

Glossary of Financial Terms

Accounting Period

The period of time covered by the accounts, normally 12 months commencing on 1 April for local authorities.

Accruals

Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which payment has not been made/received at the balance sheet date.

Amortisation

A measure of the consumption of the value of intangible assets, based on the remaining economic life.

Capital Expenditure

Expenditure on new assets such as land and buildings, or on enhancements to existing assets which significantly prolong their useful life or increase their value.

Capital Receipt

Income from the sale of capital assets such as council houses, land or other buildings.

Cash Equivalents

Cash equivalents are investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Liabilities

Potential liabilities which are either dependent on a future event or cannot be reliably estimated.

Creditors

Amounts owed by the Council at 31 March for goods received or services rendered but not yet paid for.

Current Assets

Assets which can be expected to be consumed or realised during the next accounting period.

Current Liabilities

Amounts which will become due or could be called upon during the next accounting period.

Debtors

Amounts owed to the Council which are collectable or outstanding at 31 March.

Depreciation

A measure of the consumption of the value of non-current assets, based on the remaining economic life.

Effective Rate of Interest

The rate of interest that will discount the estimated cash flows over the life of a financial instrument to the amount in the balance sheet at initial measurement.

Equity Instrument

A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (e.g. an equity share in a company).

Fair Value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

Financial Asset

A right to future economic benefits controlled by the Council. Examples include bank deposits, investments, trade receivables and loans receivable.

Financial Liability

An obligation to transfer economic benefits controlled by the Council. Examples include borrowings, financial guarantees and amounts owed to trade creditors.

Financial Instrument

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

Government Grants

Payments by central government towards Council expenditure. They may be specific, for example Housing Benefit Subsidy, or general such as Revenue Support Grant.

Heritage Assets

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

Impairment

The term used where the estimated recoverable amount from an asset is less than the amortised cost at which the asset is being carried on the Balance Sheet.

Non-current Assets

Assets which can be expected to be of use or benefit the Council in providing its service for more than one accounting period.

Operating Lease

A lease under which the ownership of the asset remains with the lessor; for practical purposes it is equivalent to contract hiring.

Outturn

Refers to actual income and expenditure or balances as opposed to budgeted amounts.

Precepts

The amount which a local council which cannot levy a council tax directly on the public (for example a county council or police & fire authority) requires to be collected on its behalf.

Provisions

Monies set aside for liabilities which are likely to be incurred but where exact amounts or dates are uncertain.

Reserves

Amounts set aside in the accounts for the purpose of meeting particular future expenditure. A distinction is drawn between reserves and provisions which are set up to meet known liabilities.

Revenue Expenditure

Spending on day to day items including employees' pay, premises costs and supplies and services.

Revenue Expenditure Funded from Capital Under Statute

Expenditure which legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax.

Revenue Support Grant

Grant paid by central government to a local council towards the costs of its services.

The Code

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. This specifies the principals and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a local authority.

Abbreviations used in the accounts

CIPFA	Chartered Institute of Public Finance and Accountancy
GAAP	Generally Accepted Accounting Practice
HRA	Housing Revenue Account
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
LGPS	Local Government Pension Scheme
MRP	Minimum Revenue Provision
SOLACE	Society of Local Authority Chief Executives and Senior Managers

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Dear Civic Affairs Committee Members

20 May 2020

We are pleased to present our Audit Results Report, which outlines the status of the audit of Cambridge City Council's Statement of Accounts for 2018/19. As at the date of this report the audit is almost complete. We acknowledge that our own resourcing challenges have contributed to the protracted and stop start nature of the audit and we also highlight in this report the impact of the Council's own challenges in replacing its previously long standing principal accountant. We accept that our resourcing challenges meant that we were carrying out audit procedures after the Council's interim principal accountant had completed his contract. The combined impact is reflected in the high volume and value of adjustments to the published draft statement of accounts. The Council has since strengthened its finance team capability, which has enabled the preparation of a revised set of accounts and a documented understanding of the significant judgements made in key aspects of the Council's financial reporting.

We have worked in collaboration with the Council's finance team to progress the audit but have been required to input significantly more time and effort to complete audit procedures than we had envisaged. We acknowledge that some of this time has not been used as efficiently as we would do normally because of our resourcing issues. We have taken this into account when estimating the additional fee we propose for completing the audit outlined in Section 8. The time and fee has now also been impacted by Covid-19.

In completing the audit we are now considering the uncertainty that Covid-19 has put on local government funding. As a result, we have sought evidence from the Council of its assessment on its future financial resilience and the impact this may have on the 2018/19 accounts and disclosures. This work is currently in progress and may impact the auditor's report.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements. However, the draft at Section 3 may change in light of the financial resilience issues outlined above. A further consequence of Covid-19 is additional quality assurance that EY has introduced in the form of an internal consultation process for our proposed auditor's report. This aims to ensure that we provide the right assurance to the Council and its stakeholders.

We have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Although our approach does not require us to test internal controls we have identified some areas for improvement.

This report is intended solely for the use of the Civic Affairs Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Your faithfully,

Suresh Patel - Associate Partner, For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

Scope update

In the Audit Plan that we presented at the January 2019 Civic Affairs Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are carrying out our audit in accordance with this plan but have made a small change to materiality using the draft financial statements. Overall materiality is now £2.7 million (Audit Plan – £2.8 million), which results in updated performance materiality, at 75% of overall materiality, of £2.028 million. The updated threshold for reporting misstatements is £0.135 million.

Status of the audit

As at 20 May our audit remains in progress. The audit has taken considerably longer than expected due to a combination of two matters, one relating to the Council and the other relating to the audit team. The Council has been adversely impacted by the departure of the Council's Principal Accountant. As a result there have been deficiencies in some aspects of the quality of the draft statements, the quality of working papers and the ability of the Council to respond to the audit. We recognise that the audit team has also been impacted by the departure of the audit manager and lead senior. In addition, we have faced well publicised challenges in resourcing our local government external audits for 2018/19. The combination of these two factors has contributed to the protracted and stop start nature of the audit. In addition, the impact of Covid-19 has now created a late and unexpected delay in concluding the audit.

Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements. We include our current proposed wording at Section 3 but this is subject to change. However until work is complete, further amendments may arise.

We are yet to conclude the following areas:

Agreeing the adjustment to Council Dwellings valuation	Second audit review of the Council's and Group's cash flow statements	Audit review of revised group accounts and disclosures
Audit review of IFRS 9 audit procedures	Revisit additional disclosures as a result of Covid-19	Revisit financial resilience considerations in light of Covid-19

Once we have completed the above procedures we will:

- Request and review the final version of the financial statements to ensure all audit differences have been appropriately amended;
- Complete a subsequent events review;
- Request and review the management representation letter; and
- Completing our final review procedures.

We will issue a final Audit Results Report on completion.



Executive Summary

Status of the audit (continued)

Impact of Covid-19

A number of audit procedures were in progress when the government introduced lockdown measures in late mid-March. As a result, since then we have been working closely with the Finance team to undertake the remaining audit procedures by working remotely. The Finance team have worked hard and effectively to respond to our queries and support audit progress.

We have together learned some lessons on effective remote working that we will both take into the 2019/20 audit.

Specific to the financial statements, Covid-19 has had three main impacts:

1. Financial resilience and going concern

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed assessment to support its assertion and evaluate its financial resilience. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2018/19 statements, for example, we will need to see evidence of an assessment up to and including around May/June 2021. This will need information relevant to the 2021/22 financial year, its budget, etc. This assessment is currently being developed by the Section 151 officer. We will be scrutinising the Council's revised financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We will also discuss with management the need to make specific disclosures in the 2018/19 statements on going concern, financial resilience and in particular any material uncertainties.

2. Accounts and disclosures

Covid-19 will potentially impact on a number of accounting judgements and disclosures. Whilst for the 2018/19 statements, this is likely to impact disclosure only, we have requested management to consider items such as the fair value of assets and liabilities to support a revised post balance sheet event disclosure note.

3. Auditor's report consultation

Following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all auditor reports to ensure that we are providing the right assurance to the readers of accounts.



Executive Summary

Audit differences

We are continuing to work on audit differences and are working with Management to agree the final financial statements.

Uncorrected audit differences

There is one uncorrected audit difference arising from our audit in respect of the pensions liability.

We estimated that the national Guaranteed Minimum Pensions (GMP) ruling would increase the pension liability by £0.792 million and reduce the Council's unusable reserves by the same amount with no impact on the General Fund. In the absence of a formal actuarial estimate, and as this is not material, Management have determined it will not amend the statements.

Corrected Audit Differences

The corrected audit differences we wish to report to the Committee are detailed in Section 4 of the report. In summary, to date, we have agreed with management:

1. Three audit differences which increased the unearmarked General Fund by a net £0.382 million.
2. A total of sixteen differences which reduced the surplus on the provision of services by £2.332 million. Half reduced the surplus by £21.805 million with the other half increasing the surplus by £19.471 million. Many of these were complex in nature.
3. Included in 2 above is a £30 million adjustment following our challenge to the Council's valuation of its Dwellings. We identified a weakness in the valuation provided by the Council's expert as the valuation did not account for a dip in values in the final quarter of the year information which we now have access to.
4. The group accounts have had to be reproduced as incorrect methodology had been applied to the consolidation of the Council's Joint Ventures. This will have a material impact on the final group accounts numbers but we are not yet in a position to quantify the impact.
5. We report in Section 4 a total of 43 corrected disclosure related misstatements, many of which are material.

Until our work is complete, further amendments may arise. We will update the Civic Affairs Committee should any further adjustments arise from our remaining work.



Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our testing, subject to review, and have nothing to report
Other area of audit focus	Findings & conclusions
Valuation and impairment of Property, Plant and Equipment (PPE) and Investment Property (IP)	This work is substantially complete. Officers have agreed an adjustment to Council Dwellings which will reduce the value by approximately £30 million. The Council increased the value of PPE by £3.231 million when reconciling the accounts to the fixed asset register.
Pension liability	We agreed an increase of £4.902 million to the pension liability due to the changes for McCloud and investment valuations. The Council did not adjust for the estimated £0.792 million impact of GMP.
Capital transactions	We queried the treatment of a £27 million land acquisition and subsequent disposal to the Council's Joint Venture. Officers agreed to amend the presentation of the transaction and to appropriate £11 million from the General Fund Capital Financing Requirement (CFR) to the HRA CFR.
Group accounts	Work on this area was suspended to enable Management to address issues with the consolidation methodology and to reflect audit differences from the Council's accounts.
New accounting standards	The Council did not update its accounts for the impact of IFRS 9.
Change in key finance personnel	The departure of a key member of the finance team in the year had a significant negative impact on the quality of accounts produced, the quality of working papers provided for audit and the speed and quality of responses to audit queries. We recognise permanent additions to the Council's finance team have strengthened its financial reporting capabilities.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues; and
- ▶ You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

However we have identified key control deficiencies which if corrected would reduce the level of misstatements identified as part of the audit process. Please refer to Section 7 for details.

Value for money

We did not identify any significant risks around the Council's arrangements to achieve value for money in our Audit Plan. Our work in this regard is complete.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However the Council is below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore do not expect to have any issues to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02 Areas of Audit Focus





Areas of Audit Focus

Significant risk

Management Override: Misstatements due to fraud or error (*Fraud risk*)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For the Council, we have assessed that this risk could manifest in:

- ▶ Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- ▶ Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- ▶ Management bias in key accounting estimates and judgements.

What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures in relation to journal entries and other adjustments
- ▶ Assessed the nature of significantly unusual transactions
- ▶ Considered if management bias was present in key accounting estimates and judgments in the financial statements

What are our conclusions?

Our testing is complete. We did not identify any:

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ any other transactions during our audit which appear unusual or outside the Council's normal course of business.



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

(Fraud risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We have focused on the Council's judgement that an item is capital expenditure in nature.

What did we do?

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- ▶ Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our conclusions?

Our sample testing of additions to property, plant and equipment:

- ▶ Found they had been correctly classified as capital and included at the correct value.
- ▶ Did not identify any revenue items that were incorrectly classified as capital.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Areas of Audit Focus



Other Areas of Audit Focus - Valuation and impairment of Property, Plant and Equipment and Investment Property

Property, Plant and Equipment (PPE) and investment properties represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Council engaged external expert valuers who applied a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk these assets may be materially misstated.

We have:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per sq m);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for property, plant and equipment and annually for investment properties. We have considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

Conclusions

We wish to report the following:

- ▶ We engaged EY Real Estate (EYRE) valuation specialists to look at the Council's retail property valuations. Initially they were concerned that the Council's valuer had been provided with insufficient information to provide a valuation. We therefore requested further information be provided to the Council's valuer and that they reconsidered their valuation in light of the new information. Ultimately we have reached the conclusion that the original valuations were supportable but recommend the Council provides their valuer with this additional information as a matter of course in future.
- ▶ We challenged the valuer responsible for the valuation of Council Dwellings as they have provided limited information to support the basis of their valuations. We engaged EYRE to provide our own valuation expertise. This identified that the indexation applied by the Council's valuer did not cover the full year and has led to a £30 million adjustment to the accounts. We encourage the Council to review the appropriateness of indexation being applied by their experts where this forms a material part of the overall valuation.
- ▶ Management have identified and corrected a number of audit differences which affect the presentation and disclosure of valuations of PPE and Investment Property as a result of the audit but these generally relate to the accounting treatments rather than the underlying valuations themselves.

We will update the Committee should any further matters come to light from our remaining work in this area that we wish to report.



Areas of Audit Focus



Other Areas of Audit Focus - Capital Transactions

The Council are undertaking a number of large capital transactions, either themselves, or with a partner, some of which will span financial years. It is important for the Council to fully understand the arrangements in place and any accounting implications so that these can be appropriately recognised in the accounts.

Our approach focussed on:

- ▶ Understanding the substance of significant one off transactions;
- ▶ Reviewing and testing the accounting treatment proposed by management to ensure that it is in accordance with accounting standards and the Code and has been recognised at the correct value and in the correct financial year; and
- ▶ Considering the completeness and accuracy of any related disclosures (for example, joint arrangements).

Conclusions

Our work in this area is ongoing but to date has necessitated the additional involvement of our local government financial reporting specialist, EYRE valuation specialist and significant input from the audit manager to review, understand and assess the Council's working papers supporting the transaction.

We queried the treatment of a £27 million land acquisition and subsequent disposal to the Council's Joint Venture CIP (Cromwell Road) LLP in return for loan notes issued by the CIP. There was reference in the contracts to an underlying lease and Affordable Homes Agreement and it was not clear whether this had been accounted for appropriately. We were concerned whether:

- ▶ The original cost of the acquisition was appropriately split between the General Fund and HRA
- ▶ The HRA land had actually been disposed of, or as we finally determined that the commercial substance of the transaction for the HRA land was a short term lease to CIP
- ▶ The impact of the transaction was correctly applied to the respective HRA and General Fund Capital Financing Requirements; and
- ▶ The presentation and disclosures in relation to this transaction were made in accordance with the Code of Practice.

As noted in Section 4 of the report we identified inconsistencies with the financial statements in respect of the capital transaction with CIP and following extensive discussion and correspondence with EYRE valuation specialists, the local government financial reporting specialist, and the audit team, officers agreed to amend the presentation of the transaction and to appropriate £11 million from the General Fund Capital Financing Requirement (CFR) to the HRA CFR.



Areas of Audit Focus



Other Areas of Audit Focus - Pension Liability

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.

The information disclosed is based on the IAS19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We have:

- Liaised with the auditors of the Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assessed the work of the pension fund actuary (Hymans Robertson LLP) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.

Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also considered outturn information available at the time of the audit after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. Finally, we liaised with officers to understand the implications of the McCloud ruling and reviewed the changes made to the statements.

Findings and Conclusion

The Council re-engaged the actuary to estimate the impact of the McCloud ruling on the pension liability. We reviewed the Council's assessment of the impact and confirmed that the planned changes to the accounts were reasonable.

We also reviewed and agreed with the planned changes to reflect the difference between the year-end actual value of pension fund assets and the estimate used to inform the actuary's assessment of the IAS 19 liability.

The pension liability has increased by £4.902 million.

We concluded we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

We estimate the impact of the Guaranteed Minimum Pension (GMP) ruling would be to increase the pension liability by £0.792 million. In the absence of a formal actuarial estimate, and as this is not material, Management have determined it will not amend the statements. This is therefore shown as an uncorrected audit difference in Section 4.



Areas of Audit Focus



Other Areas of Audit Focus - Group accounts

There are a number of entities within the Council's group arrangements. In 2017/18 the Council consolidated its wholly owned subsidiary Cambridge City Housing Company Ltd (CCHC) and Cambridge Investment Partnership LLP (CIP) into its Group accounts. Storeys Field Charitable Trust, Cambridge Live and Visit Cambridge and Beyond were not consolidated. The transactions for these non-consolidated entities were disclosed within related party transactions. It is important that the Council continues to perform a detailed assessment to ensure that all potential associates and joint ventures are appropriately recognised in the accounts.

We have:

- ▶ Reviewed and understood the group boundary assessment completed by the council to ensure all related associates and joint ventures have been correctly accounted for; and

▶ Considered the completeness and accuracy of the entities included within the group structure.

Findings and conclusions

Our work is ongoing in this regard.

The draft group accounts were materially misstated as they incorrectly consolidated the Council's investment in CIP on a line by line basis. The Council's investment in CIP is a joint venture and therefore should be consolidated using the equity method. Under the equity method the Council only accounts for its share of the joint venture's net assets and profit/loss adjusting for unrealised gains or losses in the Council's accounts. As a result the group accounts needed to be revisited by Management and will be subject to a second review by the audit team.

2. We noted and agreed with the decision to consolidate Cambridge Live and Cambridge Live Trading with effect from 1 October 2018 on the basis that the Council effectively took control over the operations from that date.
3. The audited revaluation reserve carried forward as at 31 March 2018 differed from the balance brought forward in the group accounts by £0.565 million in note 11 to the group accounts.



Other Areas of Audit Focus - Change in key accounting personnel

During 2018/19 the Council had a change in key accounting personnel. We highlighted the change in our Audit Plan as a risk to the quality of accounts preparation, the quality of working papers provided for audit and the speed and quality of responses to audit queries.

As outlined in the status of the audit section of this report, there has been an adverse impact on accounts preparation, working papers and audit query resolution. We acknowledge that late changes in our audit team and our own resourcing deficiencies have exacerbated the problems. We also recognise that the Council's permanent additions to its finance team have strengthened its financial reporting capabilities and enabled the Council to prepare a revised set of accounts, supported by documented judgements and working papers.



Areas of Audit Focus



Other Areas of Audit Focus - New accounting standards

The Code required the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- IFRS 9 - Financial instruments
- IFRS 15 - Revenue from contracts
- IFRS 16 - Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 - Financial Instruments	Audit procedures completed with final review ongoing. However we have noted that despite the early communications on the requirements of the new standard, the draft financial statements did not make any of the necessary amendments required by IFRS 9 - in particular the reclassification of financial assets; the removal of the available for sale reserve; and additional disclosures.
IFRS 15 - Revenue from contracts	Our audit procedures for revenue from contracts have not identified any audit issues.
IFRS 16 - Leases	<p>IFRS 16 replaces IAS 17 Leases and its related interpretations. Its implementation has recently been deferred until 2021/22 financial statements due to the Covid-19. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.</p> <p>The Authority should continue to progress their work on IFRS 16 to ensure they are ready for its implementation.</p>

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
 - new definitions of assets, liabilities, income and expenses
 - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
 - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).



03 Audit Report



Audit Report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE CITY COUNCIL [SUBJECT TO CHANGE]

Opinion

We have audited the financial statements of Cambridge City Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Movement in Reserves Statement
- Authority and Group Balance Sheet
- Authority and Group Cash Flow Statement
- Authority related notes 1 to 43
- Group related note 1 to 12
- Housing Revenue Account Income and Expenditure Account
- Statement of Movement on the Housing Revenue Account Balance
- Housing Revenue Account notes 1 to 10
- Collection Fund and the related notes 1 to 7
- Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Cambridge City Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages i to xxiv, other than the financial statements and our auditor's report thereon. The Head of Finance and Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Cambridge City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Head of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page ix, the Head of Finance and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Finance and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Cambridge 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Cambridge City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



Audit Report

Our draft opinion on the financial statements

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, Cambridge City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Cambridge City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
XX XXXXXXXX 2020



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Below we list the significant audit differences identified to date that management agreed to correct. The number and nature reflect management’s decision to revisit the draft accounts and working papers, resulting in management identifying a number of changes. We will update the Committee if further significant audit differences are identified from the remainder of our work.

Audit differences impacting the General Fund:

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NDR Levy was overstated by £0.543 million in creditors. The NDR tariff in debtors was overstated by £0.474 million. Taxation and non-specific grant income and the Council’s General Fund increased by £0.068 million as a result of these two differences.

Mis-postings to and from Earmarked Reserves meant that the General Fund’s Earmarked Reserves were overstated and General Fund understated by £0.314 million. This also impacted various service areas in the net cost of services.

Audit differences not impacting the General Fund:

1. Officers agreed to amend the indexation applied to the value of Council Dwellings as Land Registry Data in the final quarter of the year indicated that prices had fallen year on year and it was agreed that this was not fully reflected in the valuation obtained by the Council. Council Dwelling valuations were reduced by £30 million as a consequence this impacted many areas of the accounts. We are yet to complete our review of this amendment.
2. Grant income received from the Combined Authority of £13.505 million was credited directly to reserves bypassing the CIES. As a result Taxation and non-specific grant income and transfers from the General Fund in the Movement in Reserves Statement were understated by this amount.
3. The Government were refused leave to appeal the McCloud and Sergeant Judgments on 27 June 2019. Consequently we requested Officers to seek a further actuarial valuation. The pension liability was increased and pension reserve reduced by £4.902 million due to both the impact of the judgment and variances between the value of pension assets at the year end compared with the Actuary’s estimate. This also affected the CIES, HRA, MiRS and related disclosures notes.
4. The £27 million acquisition of land at Cromwell Road was reclassified as an addition to property plant and equipment rather than an addition to assets held for sale. The acquisition costs written off to the CIES of £1.7 million were reclassified from other operating expenditure to service line expenditure. Following determination that the HRA land value on acquisition was effectively nil there was a need for an £11 million appropriation from the General Fund CFR to the HRA CFR. As a consequence a change in item 8 adjustments will have a trivial affect on the General Fund.

Audit Differences

Summary of adjusted differences (continued)

Audit differences not impacting the General Fund (continued):

5. Property plant and equipment, investment property, and intangible assets were understated by a net £3.165 million following the reworking of the fixed asset register. The revaluation reserve was increased by £7.264 million and the CIES and Capital Adjustment Account were charged £4.099 million. This adjustment was the result of a lot of work by management and represents a summary of 25 adjustments made. The gross value of these adjustments was £30.649 million and had a wide ranging impact on disclosures throughout the financial statements.
6. Management released £4.938 million of capital grants received in advance to the CIES and capital grants unapplied account as we agreed that the likelihood of repayment was low. Management have agreed to reassess individual schemes in 2019/20 to determine which ones contain a specific risk of repayment and adjust the balances accordingly.
7. Reserve adjustments were not made following capital receipts in relation to the K1 development. As a result the Deferred Capital Receipts Reserve was overstated and Usable Capital Receipts Reserve was understated by £1.287 million.
8. Service area income and expenditure in the CIES were both overstated by £0.826 million due to revaluation gains reversing earlier losses being incorrectly credited to income.
9. Service area income and expenditure in the CIES were both overstated by £0.83 million due to recharges between services being treated as income.
10. Long term investments included a trade balance of £0.437 million with a group entity which should have been recorded within short term debtors.
11. Long term investments were overstated by £0.39 million due to incorrect postings in respect of loans to CIP (Mill Road). The capital receipts reserve was overstated by £0.618 million and the deferred capital receipts reserve was understated by £0.229 million as a result.
12. The cash flow statement and related notes will be affected by the other audit differences identified. We are yet to review the revised cash flow statement.

Audit differences impacting only the group accounts:

1. The draft group accounts were materially misstated as they incorrectly consolidated the Council's investment in CIP on a line by line basis. The Council's investment in CIP is a joint venture and therefore should be consolidated using the equity method. Under the equity method the Council only accounts for its share of the joint venture's net assets and profit/loss adjusting for unrealised gains or losses in the Council's accounts. As a result the group accounts were materially misstated and subject to a second review by the audit team. The group accounts are not yet ready for review as the single entity accounts are not yet finalised.
2. The audited revaluation reserve carried forward as at 31 March 2018 differed from the balance brought forward in note 11 to the group accounts by £0.565 million.



Audit Differences

Summary of adjusted differences (continued)

Note	Description	Audit difference
Disclosure differences relating to the CIES		
1	Expenditure and funding analysis	a) Management agreed to reduce disclosures in the reconciliation from the CIES to the General Fund and Housing Revenue Account (HRA) to the minimum required by the Code. b) In the subjective analysis of income and expenditure. Minimum Revenue Provision (MRP) of £0.455 million was incorrectly classified as Employment Benefit expenses.
7	Other operating expenditure	a) Gains on disposals of non-current assets were reduced from £3.471 million to £2.312 million
12	Employee Remuneration	a) The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was not correctly disclosed. Two employees were incorrectly excluded from the £50,000 to £54,999 line. Another employee was incorrectly included in the table. b) The total cost of exit packages was understated by £2,000.
Disclosure differences relating to Capital Expenditure and Financing		
17	Capital Expenditure and Financing	a) The draft calculation of the closing capital financing requirement (CFR) understated the CFR by £42.2 million. b) Loans of £31.85 million to the Cambridge Investment Partnership (CIP) and a Local Investment Bond of £2.2 million were excluded from the draft CFR. c) The acquisition of £28.683 million of assets held for sale on behalf of CIP, were excluded from the draft CFR. d) De-minimis capital expenditure of £0.253 million was removed from the draft CFR calculation in the revised statements. e) The following differences were identified in the sources of finance: <ul style="list-style-type: none"> ▸ Government grants and other contributions applied were understated by £15.012 million. ▸ Revenue and reserves understated by £3.819 million ▸ Capital receipts understated by £1.240 million
21	Leases	a) The future minimum lease payments of operating leases where the Council is lessor were overstated by £0.968 million. The disclosure incorrectly included some leases not due to start until after 31 March 2019 and one lease with a duration of 10 years was calculated on the basis of a 20 year term.



Audit Differences

Summary of adjusted differences (continued)

Note	Description	Audit difference
Disclosure differences relating to Reserves and the Movement in Reserves Statement		
5	Movement in Reserves Statement - adjustments between accounting and funding basis	<ul style="list-style-type: none"> a) The reversal of unapplied capital grants and contributions credited to the CIES increased by £18.441 million. Related to this capital grants applied to finance capital increased by £13.506 million to £16.607 million. b) There was an inconsistency between draft note 5 and the draft CAA note of £2.087 million. Revaluation gains on PPE charged to the CIES were disclosed as £5.181 million in draft note 5. The draft Capital Adjustment Account (CAA) disclosed a gain of £3.094 million. The final agreed revaluation loss through the CIES was £1.8 million. c) The use of Capital Receipts to finance capital expenditure have been reduced by £9.845 million between the draft and final accounts. d) Reductions in the fair value of investment properties were understated by £2.46m largely due to confusion over what assets were included in previous valuations. e) The carrying values of non-current assets written off on disposal to the CIES were understated by £1.365 million in draft note 5 and the CAA note. f) The reversal of items relating to post employment benefits increased by £0.692 million following the McCloud case. g) Capital expenditure charged against the General Fund and Housing Revenue Account per draft note 5 was inconsistent with the CAA disclosures. Both note 5 and the CAA were amended. The disclosure in the CAA was increased by £0.335 million and the amount in note 5 increased by £0.251 million h) There was a difference of £0.39 million between the transfer from the deferred capital receipts to the capital receipts reserve disclosed in the deferred capital receipts reserve in note 32 and the equivalent figure disclosed in note 5. The amount transferred was reduced by £0.229 million in note 32 and £0.619 million in note 5. i) The revised accounts were updated to reflect the requirements of IFRS 9. As a result note 5 was amended to include a transfer from the available for sale reserve to the General Fund of £0.221 million. j) Revenue Expenditure Funded from Capital Under Statute (REFCUS) was overstated by £0.166 million in draft note 5. This error was repeated in the capital expenditure and financing note 17 and CAA disclosure in note 32.



Audit Differences

Summary of adjusted differences (continued)

Note	Description	Audit difference
Disclosure differences relating to Reserves and the Movement in Reserves Statement (continued)		
32	Capital Adjustment Account and Revaluation Reserve	a) The draft revaluation reserve disclosed balances eliminated in respect of disposed assets of £0.19 million. This was inconsistent with the CAA which had no equivalent disclosure. The revised statements disclose £0.9 million. b) Depreciation in excess of historic cost balances are transferred from the revaluation reserve to the CAA. This transfer was understated by £0.324 million in the draft statements. We are yet to confirm the revised transfer.
	Capital Adjustment Account	a) Depreciation and impairment charges disclosed in the CAA were overstated by £0.168 million. The disclosure in the CAA was inconsistent with the equivalent disclosure in note 5 (adjustments between accounting and funding basis). b) Additional impairments to property plant and equipment were incorrectly disclosed in the CAA of £0.439 million. This was inconsistent with the PPE note and note 5 and removed in the revised statements.
	Revaluation Reserve	The draft statements contained a £10.776 million inconsistency between the revaluation gains per the draft CIES to be recognised in the Revaluation Reserve (£17.947 million), and the gains disclosed in the Revaluation Reserve note (£7.171 million).
Disclosure differences relating to the Housing Revenue Account and Collection Fund		
HRA	HRA Income and Expenditure Statement	The gain on disposal of non-current assets was reduced from £3.786 million to £3.254 million as a result of the changes referred to above.
	Statement of Movement in the HRA Balance	
HRA Note 3	Asset Values within the HRA	a) The vacant possession valuation of Council Dwellings was understated by £131 million. b) Asset values disclosed in the note were reduced by £24.6 million as a result of the other audit differences identified.
Collection Fund Note 3	Non-Domestic Rates Income	The current year rateable value disclosed in the draft note of £295,451,617 was inconsistent with the Valuation Office Agency reported figure of £299,159,267



Audit Differences

Summary of adjusted differences (continued)

Note	Note title	Audit difference identified
Other disclosure differences		
3	Assumptions made about the future and other major sources of estimation uncertainty	a) The comparative pension liability disclosed in the draft note was understated by £2.8 million. b) Current year disclosures in respect of the pension liability and the impact of depreciation changes were amended as a result of other audit differences.
4	Material items of Income and expenditure	The revaluation losses quoted in respect of the Planning Policy and Transportation service area were removed as following adjustments the valuation movements were accounted for through the revaluation reserve.
14	Property, Plant and Equipment	Revaluation increases in relation to the Guildhall £0.249 million that should have been disclosed as revaluation reserve movements were incorrectly disclosed in the note as gains recognised in the surplus on the provision of services.
15	Property - Valuations	Material changes were made to the table disclosing the carrying values of Property, Plant and Equipment by most recent valuation dates as a result of other audit differences.
33	Contingent Liabilities	Note 33 included reference to a possible liability to NHS bodies in the event they won the case to be considered as a charity for the purposes of business rates. As the NHS Trusts lost the case any liability is now remote. Management agreed to remove the disclosure.
34 & 35	Financial Instruments	Our work in this regard remains subject to review but we note here that the disclosures throughout the draft financial statements did not take account of the impact of IFRS 9. This will lead to additional presentational audit differences. We will update the Committee verbally should there be anything particularly significant we wish to flag.
36	Defined Benefit Pension Schemes	a) Benefits paid were amended from the actuarial estimate of £7.6m to the actual benefits paid of £8.888 million. b) Disclosures were amended to reflect the impact of movements in pension fund asset values since the Actuary's estimate (£4.21 million) and the McCloud court case (£0.692 million).
Group	Expenditure and Funding Analysis	The group notes did not disclose Income and expenditure by nature



Audit Differences


Summary of adjusted differences (continued)

Note	Note title	Audit difference identified
Other disclosure differences		
Cash Flow	n/a	The draft statements omitted the new cash flow disclosure for changes in liabilities arising from financing activities.
32	Capital Adjustment Account	Comparative disclosures in the capital adjustment note did not separately identify the £4.303 million transfer of balances from the revaluation reserve in respect of disposed assets.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Civic Affairs Committee and provided within the Letter of Representation:

Uncorrected misstatements Council and Group 31 March 2019		Effect on the current period:	Balance Sheet (Decrease)/Increase			
			Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
		Comprehensive income and expenditure statement Debit/(Credit)				
		£'000	£'000	£'000	£'000	£'000
Estimated impact of Guaranteed Minimum Pension case		792		(792)		
Total uncorrected audit differences		792		(792)		

In the absence of a formal actuarial estimate, and as our estimate is not material, Management have determined not to amend the statements for this audit difference.

Uncorrected misstatements in the statement of cash flows

We have not identified any audit differences in respect of the cash flow which management do not expect to correct to date. We will verbally update the committee should any uncorrected audit differences in respect of the cash flow arise from our remaining audit work.

Uncorrected disclosure misstatements

We have not identified any audit differences in respect of required disclosures which management do not expect to correct to date. We will verbally update the committee should any uncorrected audit differences in respect of the required disclosures arise from our remaining audit work.



05

Value for Money Risks



Value for Money

Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

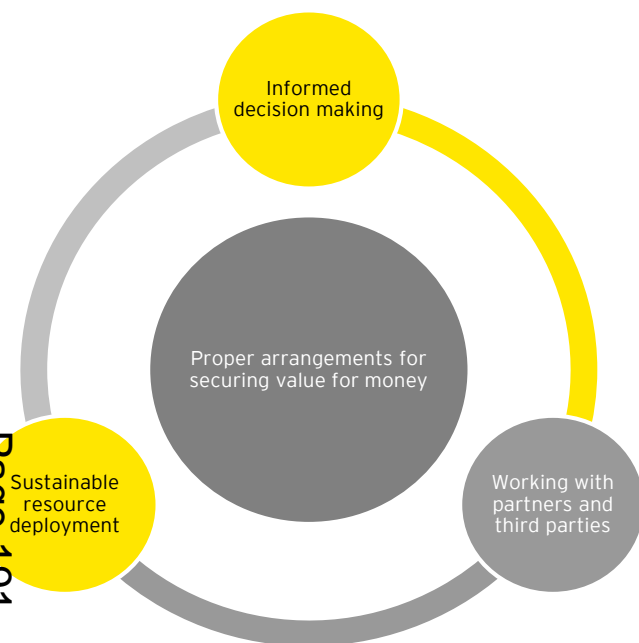
"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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Overall conclusion

We did not identify any significant risks around these arrangements in our Audit Plan.

Our work in this regard is complete. We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements. We will re-confirm this is the case when we have received the revised financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As the Authority falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We identified the following deficiencies in the design or operation of an internal control that resulted in material misstatements in your financial statements:

The fixed asset register was not kept up to date and did not reconcile to the general ledger. Officer's were unable to reconcile the position in a timely manner and reverted to the use of spreadsheets. Correcting the position led to several material amendments to the Comprehensive Income and Expenditure Account (CIES), Movement in Reserves Statement (MiRS), notes to the financial statements; the Housing Revenue Account and notes, and the equivalent Group Accounts and notes.

The financial model used by officers to produce the draft financial statements did not contain:

- adequate internal consistency checks. As a result material inconsistencies between the PPE note, CIES, MiRS, note 5 to the MiRS, the notes for the Revaluation Reserve; Capital Adjustment Account and Capital Expenditure and Financing were not readily identified as part of the close down process.
- adequate casting checks. As a result we identified material casting errors in the statements.
- The Council's review of the published draft financial statements presented for audit did not identify material inconsistencies within the statements; the absence of IFRS 9 compliance; nor material misstatements in the group accounts due to an incorrect change in consolidation methodology.



08

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Civic Affairs Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the next meeting of the Civic Affairs Committee.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. In our Audit Plan we indicated a range for the additional audit work we were aware of at that time. We have indicated the final additional fee where that work is complete.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements, though we are engaged to act as reporting accountant in respect of the Housing Benefit Subsidy claim, as set out below. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale fee	40,024	40,024	51,979
Audit of group accounts	10,500	7,500 - 10,500	8,150
Capital transactions	10,500	7,500 - 10,500	8,750
MS Implementation	-	-	19,978
Cash flow restatement	-	-	750
Scale fee variation for overruns	55,000 - 70,000	-	-
Total audit	116,024 - 131,024	55,024 - 61,024	89,607
Other non-audit services not covered above Housing Benefits Subsidy Claim	20,750	12,568	15,077
Pooling of Housing Capital Receipts Return	-	3,750 - 4,250	3,750
Total other non-audit services	20,750	16,568	18,827
Total fees	136,774 - 151,774	71,342 - 77,842	108,434

All fees exclude VAT. We will agree the additional fees with the Finance Manager before seeking approval from PSAA.

Note 1: We will confirm the final fee on completion of the audit.



09

Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded


Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Investment properties			
Short term debtors			
Short & long term borrowing			
Short & long term creditors			
Provisions			
Other long term liabilities			
Capital grants received in advance			
Reserves			

Appendix B

Required communications with the Civic Affairs Committee Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Civic Affairs Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - January 2019
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - May 2020

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	We are currently awaiting management's financial resilience assessment and consideration of any disclosures required in the accounts.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - May 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Civic Affairs Committee Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - May 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to the Committee's responsibility. 	Audit Results Report - May 2020

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures, Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - May 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan - January 2019 and Audit Results Report - May 2020

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Page 204	<ul style="list-style-type: none"> Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy Details of any contingent fee arrangements for non-audit services Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard The Committee should also be provided an opportunity to discuss matters affecting auditor independence 	
	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Civic Affairs Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - May 2020



Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - May 2020
Material inconsistencies or misstatements	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - May 2020
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - May 2020
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan - January 2019 and Audit Results Report - May 2020

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Appendix 3 – Audit Recommendations and Responses

Audit Results Report Page No.	Finding / Recommendation	Response
13	<p>We engaged EY Real Estate (EYRE) valuation specialists to look at the Council's retail property valuations. Initially they were concerned that the Council's valuer had been provided with insufficient information to provide a valuation. We therefore requested further information be provided to the Council's valuer and that they reconsidered their valuation in light of the new information. Ultimately we have reached the conclusion that the original valuations were supportable but recommend the Council provides their valuer with this additional information as a matter of course in future.</p>	<p>This finding relates specifically to the Council's investments in central Cambridge Shopping Centres. Whilst the information we originally provided to the valuers was consistent with previous years, we recognise that this is likely to be an area of increased audit focus going forwards, and that additional evidence is now required to support these property valuations.</p> <p>We have therefore already held constructive conversations with the Council's external valuers, and other interested third parties, to ensure that we can obtain the required data and provide this to valuers on a timely basis in future years.</p>

Audit Results Report Page No.	Finding / Recommendation	Response
13	<p>We challenged the valuer responsible for the valuation of Council Dwellings as they have provided limited information to support the basis of their valuations. We engaged EYRE to provide our own valuation expertise. This identified that the indexation applied by the Council's valuer did not cover the full year and has led to a £30 million adjustment to the accounts. We encourage the Council to review the appropriateness of indexation being applied by their experts where this forms a material part of the overall valuation.</p>	<p>This issue arose in part due to the fact that valuations must be completed very close to the year-end date, in order for the Council to meet the statutory requirement to publish accounts by 31 July. As a result, additional market data became available after the initial valuation had been carried out, which formed the basis of the auditor's challenge.</p> <p>Whilst the risk of this reoccurring in future years can not be completely eliminated, we have already held discussions with the Council's external valuer and agreed steps to mitigate this. This will include them carrying out an additional assessment of the likelihood of material valuation changes as a result of further data becoming available after the valuation date. They will also ensure that documentation to support their judgement in this respect is retained and made available to auditors.</p> <p>Further mitigating actions will include an additional review of the valuations by officers in the period prior to the audit commencing, to ensure that indexation has been applied consistently, and there have been no further material movements in the indices since the valuation date.</p>

Audit Results Report Page No.	Finding / Recommendation	Response
37	<p>The fixed asset register was not kept up to date and did not reconcile to the general ledger. Officers were unable to reconcile the position in a timely manner and reverted to the use of spreadsheets. Correcting the position led to several material amendments to the Comprehensive Income and Expenditure Account (CIES), Movement in Reserves Statement (MiRS), notes to the financial statements; the Housing Revenue Account and notes, and the equivalent Group Accounts and notes.</p>	<p>An exercise has now been completed to fully reconcile the electronic fixed asset register to the 2018/19 accounts, and this will provide a basis for ensuring that the register is kept up to date going forwards. In addition, we have recently received an update to the software which addresses some previous issues around revaluation movements and will reduce the level of manual adjustments required to the ledger.</p> <p>During 2020/21 we intend to provide systems training to two further key officers to increase the number of officers who are able to use the fixed asset register, thereby reducing the historic reliance on a very small number of individuals to complete this work. This will further improve our resilience in this area.</p>
37	<p>The financial model used by officers to produce the draft financial statements did not contain:</p> <ul style="list-style-type: none"> • adequate internal consistency checks. As a result material inconsistencies between the PPE note, CIES, MiRS, note 5 to the MiRS, the notes for the Revaluation Reserve; Capital Adjustment Account and Capital Expenditure and Financing were not readily identified as part of the closedown process. • adequate casting checks. As a result we identified material casting errors in the statements. 	<p>The model used was the same as in the previous year, however the high level of staff turnover within the Finance team, and in particular the loss of the Principal Accountant, meant that it was not implemented effectively and many issues were missed in the draft Statement of Accounts.</p> <p>We have now significantly improved our resourcing position through the appointment of a permanent Deputy Head of Finance and Senior Accountant (Technical & Financial Accounting). The accounts model has been reworked from scratch as part of the exercise to address the issues in the 2018/19 accounts, and we are confident that we now have a model which works and is well understood, which we can roll forward for future years.</p>

Audit Results Report Page No.	Finding / Recommendation	Response
37	The Council's review of the published draft financial statements presented for audit did not identify material inconsistencies within the statements; the absence of IFRS 9 compliance; nor material misstatements in the group accounts due to an incorrect change in consolidation methodology.	<p>This is again linked to the high staff turnover and loss of key officers at the beginning of the closedown process. For 2019/20, a new process has been put into place utilising Microsoft Teams to ensure that all working papers provided for audit will be subject to review by a second officer, and that this review will be evidenced for audit purposes. A revised process has also been put into place for the high level review of the Statement of Accounts, whereby a detailed review of all notes will be undertaken by the Deputy Head of Finance, with further review of selected notes and working papers being undertaken by the Head of Finance utilising a risk-based approach.</p> <p>We are therefore confident that the draft Statement of Accounts, and audit working papers, will be of a significantly higher quality for 2019/20.</p>

Enquiries to:
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Ernst & Young
Cambridge Business Park
CB4 0WZ

XX June 2020

Statement of Accounts 2018/19 – Letter of Representations

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Cambridge City Council (“the Group and Council”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Cambridge City Council as of 31 March 2019 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material

misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because they relate solely to changes to the pension fund liability for which we have not sought a formal actuarial estimate, and the impact on the financial statements is not material.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;

- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group and of the Council, and the following committees: Civic Affairs; Council; Housing Scrutiny; Strategy and Resources Scrutiny; and Executive, (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: **[list date]**.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These

transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

E. Subsequent Events

1. Other than described in Note 42 to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except for matters of routine, normal, recurring nature, none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully

Caroline Ryba
Head of Finance and Section 151 Officer

Cllr Mike Sargeant
Chair of Civic Affairs Committee

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Item

INTERNAL AUDIT PLAN

To:

Civic Affairs Committee [4th June 2020]

Report by:

Jonathan Tully, Head of Shared Internal Audit Service

Tel: 01223 - 458180 Email: jonathan.tully@cambridge.gov.uk

Wards affected:

All

1. Introduction / Executive Summary

- 1.1 This report introduces the draft Internal Audit Annual Plan and Strategy, for 2020 / 2021, for consideration by the Civic Affairs Committee.
- 1.2 Internal Audit Plans, and associated documents, have been created in line with best practice laid down in the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN).

2. Recommendations

- 2.1 Civic Affairs Committee is requested to consider the supporting information, in the appendices, to:
 - i) approve the draft Audit Plan and Strategy; and
 - ii) approve the supporting Charter and the Code of Ethics.

3. Background

Page: 2

- 3.1 The Accounts and Audit Regulations 2015 require that the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.”
- 3.2 The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”.
- 3.3 Appendix A is the risk-based Audit Plan. It has been based upon the Corporate Plan, risk registers, ongoing consultation with key officers, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.
- 3.4 The Audit Plan is the work programme for Internal Audit and provides the basis upon which the service will subsequently give an audit opinion on Cambridge City Council’s (CCC) system of internal control, risk management and corporate governance arrangements.
- 3.5 It is good practise to operate an agile audit plan that continuously adapts in response to the governance risk and control environment of the Council. Our Audit Plan is based around a long-term framework of reviews, which typically covers a three-year period. Audits are prioritised according to several risk-based determinants, and we have traditionally presented a 12-month plan to the Committee. Considering the current global COVID-19 disruption, it is unrealistic to plan for 12 months, given the rapid pace of change. Consequently, we are presenting a shorter 6-month plan, focussing on the key areas of assurance and we will bring back a further report to the Committee later in the year. This will also provide an opportunity to proactively communicate topical risks and assurance to the Committee.
- 3.6 It is realistic to recognise that COVID-19’s priorities will constrain some service areas from fully participating in audit activities and responding to requests. We will aim to provide timely and valued assurance with minimal disruption to teams during this period.
- 3.7 The Internal Audit team was an early adopter of Council Anywhere technology and has been developing our smarter working approach for

the past 12 months. Consequently, we are in a positive position to work flexibly and adapt to new ways of working. We have already started developing our self-service capability to access data and records, and applying data analytics to provide increased insights, feedback and assurance.

- 3.8 In response to the COVID-19 disruption we have already refocused our resources to other immediate unplanned areas that required assistance. This includes supporting the development of pragmatic and proportionate controls in response to rapidly developing policies and procedures. It is important that the Audit Plan continues to prioritise relevance, speed and flexibility in addressing risks as they develop. This will enable us to utilise our resources as effectively as possible to provide an effective audit opinion for the Council.
- 3.9 The Internal Audit Charter and the Code of Ethics are also appended for information. They are regularly reviewed as part of an ongoing Quality Assurance and Improvement Programme (QAIP) considering both the PSIAS and the LGAN. We have updated the “Objectives and Scope” to reflect that we support the Risk Management Framework at both Councils and are the Strategic Lead for Risk Management at CCC. No further changes were required this year. It is good practice to present these documents as they define internal audit's purpose, authority, responsibility and position within an organization, supporting the risk-based audit plan.

4. Implications

(a) Financial Implications

None.

(b) Staffing Implications

The audit plan reflects current available resources, and factors in current vacancies in the team, plus time for successful recruitment. Any further significant change in resource, or Council activities, will be reported under separate cover to Members and their impact.

(c) Equality and Poverty Implications

There are no implications.

(d) Environmental Implications

None.

(e) Procurement Implications

None.

(f) Community Safety Implications

None.

5. Consultation and communication considerations

Not applicable.

6. Background papers

Background papers used in the preparation of this report:

- Risk-Based Internal Auditing – Working Standards and Procedures
- Public Sector Internal Audit Standards
- CIPFA Local Government Application Note
- Cambridge City Council Risk Registers
- Corporate Plan

7. Appendices

- a) Internal Audit Plan and Strategy
- b) Internal Audit Charter
- c) Internal Audit Code of Ethics

8. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Jonathan Tully, Head of Shared Internal Audit Service, tel: 01223 - 458180, email: jonathan.tully@cambridge.gov.uk.

Appendix A – Internal Audit Plan 2020/21

1 Introduction

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 The Accounts and Audit Regulations 2015 require that the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.”
- 1.3 The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals”.
- 1.4 Internal Audit provides an independent, objective assurance and consulting service that adds value and improves the Council's control environment. It helps the Council deliver its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.5 The provision of assurance is the key role for Internal Audit. This role requires the Head of Shared Internal Audit to provide an annual Audit Opinion based on an objective assessment of the framework of governance, risk management and control. This opinion is provided to the Committee and also feeds into the Annual Governance Statement. The team also completes consulting services. These are advisory in nature, and are generally performed at the specific request of management with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

2 Strategy

- 2.1 A report to Strategy and Resources Committee (23 January 2017) set out the proposals for developing a shared service between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). Existing staff at SCDC transferred across to CCC. This strategy has been developed to deliver a co-ordinated audit plan for both Councils.
- 2.2 There are already a number of shared services, and this joint approach enables work to be undertaken which reflects the priorities for both Councils whilst getting the benefits of co-ordinated reviews which can be covered in partnership.

3 Internal Audit Plan

- 3.1 Our work will support the Council's corporate objectives, and the corporate governance framework.
- 3.2 The plan has considered the Corporate Plan, risk registers, consultation with key officers, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.
- 3.3 This identifies potential reviews, which are subsequently prioritised. Factors taken into account include materiality; corporate importance, vulnerability, risks and opportunities. The overall aim is to add value by providing assurance, reducing risk and improving controls.
- 3.4 There needs to be a flexible approach to planning, to ensure that our work meets the needs of the Council in the continually changing risk and control environment. The risk based planning approach enables the plan to be updated when new reviews are identified. The plan will be reviewed and monitored throughout the year, and any significant changes will be reported to the Strategic Leadership Team and the Civic Affairs Committee.
- 3.5 The internal audit work should address key risk areas and draw attention to significant concerns and what needs to be done. Ideally the plan will provide coverage across the whole organisation, and some reviews may be cross cutting and involve

multiple teams and partners. This enables the Head of Shared Internal Audit to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement.

4 Resources

- 4.1 Resource requirements are reviewed each year as part of the audit planning process. The current establishment for the audit team enables sufficient resource to deliver our risk-based plan. We currently have a vacancy which was being resourced by an Agency Worker. The plan assumes we are keeping this post vacant during the period of uncertainty, and we have the capability to utilise this budget later in the year if required.
- 4.2 Demand for potential reviews will exceed the number of available days. The risk-based planning approach identifies and matches audit work to the available audit resources, based on where the most value can be added.
- 4.3 The Internal Audit plan needs to be fluid and flexible enough to enable the Internal Audit service to be reactive as required to situations arising during the course of the period covered by the plan. A contingency reserve element has been built in, to assist in dealing with any such matters arising to hopefully at least minimise any major impact on the work plan itself.
- 4.4 Time allocations within the plan are based on previous year assessments, with any overall allocation for each key area. As each audit activity is fully scoped and agreed with the appropriate senior manager, each job will then be monitored to that time allocation.

5 Key Themes

- 5.1 As in previous years, Internal Audit will continue to support the governance, risk and control environment within the Council. There will continue to be liaison with key stakeholders, such as the external auditors so that resources are used effectively. Our key themes include:

Theme	Details
Core Assurance	We maintain a number of audits reviews which aim to provide assurance that corporate systems and processes are robust and protect the Council. These will typically involve work around key financial systems and management controls.
Corporate Plan Objectives	Our audit plan is risk based and coverage will be prioritised towards the corporate priorities and risks to the Council, to help ensure that desired outcomes are delivered efficiently. The plan is grouped to the key objectives of the Council.
Resilience and recovery	The plan will need to reflect the continuous changing risk and control environment from COVID-19 crisis which is driving rapid change across the Council. We will add value to the Council by providing real-time assurance on new and developing processes and controls.

- 5.2 For each audit review, a brief description of the scope for the work is provided together with the type of audit. Timing and detailed scopes for each audit will be agreed with the relevant Senior Manager prior to commencement of the fieldwork.

6 Follow-ups

- 6.1 To ensure that agreed actions are being implemented, follow-up work will be carried out. If a review resulted in significant recommendations, then a full audit may be planned to evaluate the effectiveness of the implementation.

7 Other activities

7.1 In addition to delivering the risk-based audit plan, resources are allocated to deliver other assurance based activities. Examples include:

- Advice and consultancy: (participating in working groups such as information governance, procurement and project management);
- Anti-fraud and corruption: (including response, proactive work and data analytics);
- Governance: (activities which help deliver the assurance framework including Annual Governance Statement, Risk Management).

8 Summary

8.1 The draft internal audit plan will add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

9 Internal Audit Plan

9.1 The table below provides an overview of audit work in the plan, and a comparison with the previous year.

Audit area	Days	Current year	Previous Year
Corporate Plan Objectives	279	43%	51%
Core Assurance	80	12%	15%
Governance, Risk and Control	67	10%	10%
Other resource provisions	230	35%	24%
Grand Total	656	100%	100%

This is the allocation of work for Cambridge City Council. A more detailed breakdown of planned audit work is given on the pages that follow.

Corporate Plan Objectives

9.2 Corporate Plan Objectives are reviews of systems and processes which have been risk appraised. Where possible they are aligned to the [Corporate Plan Objectives](#) to demonstrate how they support the Council. The reviews planned for the next six months are listed in the table below:

Audit	Assurance type	Scope and description
Helping people in Cambridge who have the greatest need		
Grant assurance - Disabled Facility Grant	Grant assurance	Certification of the annual grant payment from the Better Care Fund allocated to District Councils via the County Council. Review of a sample of payments made in respect of disabled facilities.
HRA - Electrical Safety Compliance - Follow-up	Follow-up	Follow-up review to ensure that actions have been implemented successfully.
HRA - Gas Safety Compliance - Follow-up	Follow-up	Follow-up review to ensure that actions have been implemented successfully.
Planning for growth and ensuring our new communities are successful		
Planning Fee Income	Risk based	Review of system for managing planning fee income. Ensuring that policies are in place for both discretionary and nationally set charging, and that income opportunities are maximised, debts collected and balances reconciled to main accounting systems.

Audit	Assurance type	Scope and description
Protecting our environment and tackling climate change		
Carbon management - Data Quality	Data quality	Council carbon emission data is collected to produce an annual Greenhouse Gas report. Data is quality assured by Internal Audit before being published.
Delivering quality services within financial constraints		
Procure to Pay	Compliance	Desktop review of the procurement system and new processes. A sample of transactions will be reviewed to ensure they are promptly and appropriately authorised.
Corporate Complaints and Feedback	Compliance	Review of the complaints process to provide assurance that it is effective in helping the Council to continuously improve its services
Insurance	Making resources count	Review of the insurance management system
Fleet management - Fuel cards	Compliance	This review considers processes and guidance for fuel cards, analytical review of expenditure and a compliance check to procedures.
Developing effective partnerships and an innovative and dynamic organisation		
Risk Management Strategy	Risk based	Review of the current Strategy & Framework for effectiveness, to best practice standards, to inform planned revision to the Strategy.

Audit	Assurance type	Scope and description
Information Governance - GDPR	Compliance	Follow-up review of the Councils implementation action plan for the General Data Protection Regulations, and identifying whether any further work needs to be completed. Compliance check on a selection of thematic areas.
Project - Digital Transformation	Benefits realisation	Resources allocated to review project outcomes of the Council Anywhere project, focussing on local delivery. The review will provide assurance by considering any potential data security risks from revised ways of working. We will also use this as an opportunity to champion and share good practice.

Core Assurance Work

- 9.3 We complete reviews of systems that are fundamental to the Council control environment. They will often include reviews of internal financial systems, providing assurance to the s.151 officer for their commentary included in the authority's Annual Statement of Accounts. The work can also help to provide assurance for the External Auditor. Systems are reviewed on a rolling cycle to ensure that all are covered.

Activity	Assurance Type	Scope and description
Payroll	Key Financial System	An annual key controls audit as part of cyclical review of core systems.
Statutory reporting	Project assurance	Resources allocated to provide assurance on process to prepare the draft statement of accounts, and AGS, recognising increase in external factors and legislative changes.
Benefits - parameter testing	Key Financial System	Resource allocated for System Parameter Testing.
VAT	Compliance	Key controls audit as part of cyclical review of core systems.
National Non-Domestic Rates	Risk based	Key controls audit as part of cyclical review of core systems. Includes: billing, collection, discounts and exemptions, write-off and refunds. Assurance may be taken from Grants assurance work which is being managed via the NNDR system.
Benefits and reductions	Key Financial System	Key controls audit as part of cyclical review of core systems. Includes administration of statutory and discretionary reductions and benefits.

Governance, Risk and Control

9.4 Each year the Council issues a statement on the effectiveness of its governance arrangements. Internal Audit completes work which supports the production of the Annual Governance Statement. This includes:

Activity	Audit scope and description
Annual Audit Opinion	This is the annual report, produced by the Internal Audit lead for their relevant audit committee, to provide an opinion on the state of governance and the internal control framework in place within the Council.
Internal Audit Effectiveness	A regular review of the Internal Audit service, to the Public Sector Internal Audit Standards and the Local Government Application Note, is completed. This is also known as a Quality Assurance and Improvement Program.
Annual Governance Statement	Internal Audit supports the development of the Annual Governance Statement, the associated Action Plan and review of the Local Code of Governance.
Prevention of Fraud and Corruption	Internal Audit supports development and awareness of fraud and error risks across the Council. A summary is reported annually to the Civic Affairs Committee on the status and levels of fraud, whistleblowing and corruption within the Council. A national survey is completed annually to help identify potential fraud risks. In addition, Internal Audit co-ordinates, the National Fraud Initiative, a proactive data matching exercise, and is a key contact for data analytical tools.
Risk Management	Internal Audit is the corporate lead and facilitates the Risk Management Strategy and Framework. An allocation of time is also made for administration of the corporate 4Risk system.

Other resource provisions

- 9.5 Throughout the year, audit activities will include reviews that have not been specified within the Audit Plan, including management requests as a result of changing risks; following up agreed audit actions and completion of audit works from previous plans. Examples include:

Activity	Audit scope and description
Carry forward activities	A number of reviews continue from the previous plan, due to other activities taking precedence e.g. investigations or corporate projects.
Follow up provision	A number of audits completed in previous years, where there have been concerns identified, are followed up to ensure that agreed recommendations have been implemented.
Business Grants	The team has committed resource to supporting the Business Grants Schemes being delivered by Councils for central Government. This includes reviews of controls and processes which are being developed in rapid time, controls assurance through data analytics and reconciliation of data, plus post assurance checking of transactions.
Contingency: requested work / advice / irregularities	<p>Internal Audit act as a focal point to assist officers across the Council in providing advice / support in relation to projects; contracts; procurement or general controls.</p> <p>No matter how robust services and processes are, there is always the potential for anomalies to occur. Internal Audit assists by providing pro-active counter fraud work; and reactive work for suspected irregularities and whistleblowing referrals.</p> <p>An element of time has been set aside to allow for these activities within the plan.</p>

Appendix B – Internal Audit Charter



Our vision:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

May 2020

Next Review: By February 2021

Version Control: 1.05

1 INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The Standards have been revised from 1 April 2017 to reflect the latest changes in the IPPF. In addition the PSIAS are supported by a Local Government Application Note (LGAN), published by the Chartered Institute of Public Finance and Accountancy to provide relevant sectoral requirements guidance.
- 1.3 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within the Council; its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the relevant audit committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

2 PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the

effectiveness of risk management, control and governance processes."

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

3 AUTHORISATION

- 3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2015¹, which state that

"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

- 3.2 There are additional requirements placed upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations, with Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer.
- 3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:
- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;

¹ http://www.legislation.gov.uk/uksi/2015/234/pdfs/ukxi_20150234_en.pdf

- Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
- Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.

3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

4 **ORGANISATION AND RELATIONSHIPS**

4.1 Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. The following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:

- Chief Audit Executive
- Board
- Senior Management
- External Audit
- Other Internal Audit Service Providers
- Other External Review and Inspection Bodies

Chief Audit Executive

4.2 The Chief Audit Executive is the Head of Shared Internal Audit Service (HoSIAS), part of a shared management arrangement between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). The HoSIAS reports to

the relevant S151, and has access to the Chief Executive should it be required.

Board

4.3 The 'Board' oversees the work of Internal Audit. It will be the relevant audit committee of the Council, known as Civic Affairs Committee (CCC) and the Audit and Corporate Governance Committee (SCDC), which has been established as part of its corporate governance arrangements. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against plans;
- Annual Audit Opinion; and
- Compliance with standards.

4.4 Internal Audit will work closely with the committee to facilitate and support its activities.

Senior Management

4.5 In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter are the Strategic Leadership Team and the Senior Management Team (CCC) and the Executive Management Team (SCDC).

External Audit

4.6 Internal Audit aims to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. Our audit plans and reports are shared with the appointed external auditor, Ernst and Young.

Other Internal Audit Service Providers

4.7 Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with each Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing regime.

Other External Review and Inspection Bodies

- 4.8 Internal Audit will co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

5 OBJECTIVES AND SCOPE

- 5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.
- 5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.
- 5.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.
- 5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:

- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
- The effectiveness of the Council's processes for performance management and accountability.
- The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
- The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
- The provisions developed to support achievement of the organisation's strategic objectives and goals.
- The systems formulated to secure an effective internal control environment.
- The completeness, reliability, integrity and timeliness of management and financial information.
- The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
- The systems designed to safeguard Council assets and employees.
- The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.

5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.

- 5.6 Managing the risk of fraud and corruption is the responsibility of management. However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators.
- 5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Committee of such situations.
- 5.8 Risk Management is the responsibility of Officers and Members. Internal Audit is a member of the Risk Management Group at both Councils; providing advice on the development of proportionate mitigation and actions. At CCC Internal Audit is also the Strategic Lead for Risk Management and facilitates the Risk Management Strategy and Framework. Management are still responsible for identifying, managing and mitigating risks within their services. This approach does is consistent with best practice set out by the IIA.

6 INDEPENDENCE

- 6.1 Internal Audit operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the HoSIAS direct access to and the freedom to report unedited, as deemed appropriate, to the Committee, the Chief Executive, Section 151 Officer and Senior Management.
- 6.2 Internal Audit has no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess

specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The HoSIAS will confirm to the Committee, at least annually, the organisational independence of the Internal Audit activity.

7 PROFESSIONAL STANDARDS

- 7.1 Internal Auditors operate in accordance with the PSIAS and LGAN. The Internal Auditors are also governed by the policies, procedures, rules and regulations established by the Council. These include, but are not limited to, Financial Regulations and Contract Standing Orders, the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements and all legislation affecting the Council's activities.
- 7.2 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by the Internal Auditors, are set out in the Audit Manual.

8 AUDIT RESOURCES

- 8.1 The HoSIAS will be professionally qualified (CCAB, CMIIA or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.
- 8.2 The HoSIAS will ensure that the Internal Audit Service has access to staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special

investigations being required, there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

9 **AUDIT PLANNING**

- 9.1 The HoSIAS will develop an annual audit strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. This will be submitted to the Senior Management for their approval prior to being taken forward to the Committee for final endorsement, in advance of the new financial year to which they relate.
- 9.2 Any difference between the plan and the resources available will be identified and reported to the Committee. It will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in Table 1.

TABLE 1: AUDIT ACTIVITIES

Core system assurance work	Departmental specific reviews
Governance, Risk and Control	Follow up activity
Corporate Plan Objectives	Internal advice on risks, controls and procedures
Cross Cutting audits	

- 9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work

rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this.

- 9.4 Annual audit plans will be discussed with Senior Management prior to their formal approval.

10 REPORTING

- 10.1 The process followed for completing each audit is set out in Table 2.

- 10.2 Upon completion of each audit assignment, an Internal Audit report will be prepared that:

- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
- Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales.

- 10.3 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for responses to Internal Audit recommendations lies with the Chief Executive, Directors, and / or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Committee.

TABLE 2: WORKING ARRANGEMENTS DURING AUDITS

Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced following completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond including acceptance of actions together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final. The report will be distributed in accordance with agreed protocols (see Table 4).

10.4 It is important that following production of each audit report, there is prompt dialogue between managers and Internal Audit so that findings can be discussed, actions identified to remedy any weaknesses and finally an agreed timescale to rectify them. Internal Audit will monitor implementation and report any gaps to senior management.

10.5 Internal Audit reports include actions which are agreed with management and prioritised, plus an overall assurance opinion. These are explained further on the next page.

Assurance ratings

Term	Description
Full Assurance	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Reasonable Assurance	Controls exist to enable the achievement of service objectives and good corporate governance, and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks.
Limited Assurance	Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure for the Authority.
No Assurance	Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.

Organisational impact

The overall impact may be reported to help provide some context to the level of residual risk. For example if no controls have been implemented in a system it would have no assurance, but this may be immaterial to the organisation. Equally a system may be operating effectively and have full assurance, but if a risk materialised it may have a major impact to the organisation.

Term	Description
Major	The risks associated with the system are significant. If the risk materialises it would have a major impact.
Moderate	The risks associated with the system are medium. If the risk materialises it would have a moderate impact.
Minor	The risks associated with the system are low. If the risks materialises it would have a minor impact.

Action ratings

As part of the review we have identified opportunities for improvement, which have been shared with Management. These are developed into actions to improve the effectiveness of the governance, risk management arrangements, and the internal control environment.

Management are responsible for implementing their actions and providing assurance when they are completed. Timescales for implementing actions should be proportionate and achievable to the available resources. To help prioritise the actions we have produced guidance below:

Priority	Description	Timescale for action	Monitoring
Critical	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority.	Within 6 months
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	To be implemented at the first opportunity.	Within 12 months
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical.	Within 24 months

The Council has a Risk Management system, which is used for tracking their progress. This will be updated upon distribution of this report and we will follow up the actions where appropriate. It is the responsibility of Risk Owners and Action Owners to regularly review and update the risk register with details of action taken to mitigate the risks.

10.6 Our assurance ratings will be subject to regular review to ensure that they remain relevant and robust for the service / organisation.

10.7 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:

- The scope including the time period covered;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;
- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

10.8 Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

10.9 All reports produced are set out in Table 4.

TABLE 4: PLANNING AND REPORTING FREQUENCY		
Report Produced	For	Reason
Audit Report	Chief Executive S.151 Officer Relevant Director / Head of Service	The end of each audit assignment as the main recipient and those charged with implementing the issues identified
Progress Reports (based around the committee cycle)	Relevant Audit Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising.
Annual Opinion and Performance Report	Relevant Audit Committee	End of year report in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established.

Annual Audit Plan	Relevant Audit Committee S.151 Officer	Details of the future plans to provide assurance across the Council in accordance with PSIAS.
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11 QUALITY ASSURANCE AND IMPROVEMENT

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the HoSIAS will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Committee.

Internal Assessments

11.2 Internal Assessments must include on-going monitoring of the performance of the internal audit activity and these are reported as part of the annual report.

11.3 The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-assessment of the effectiveness of Internal Audit, before the results are submitted to the Committee. Presenting this information enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the HoSIAS.

External Assessments

11.4 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.

11.5 The HoSIAS will discuss with the Committee and the Section 151 Officer the form of the external assessments; and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, each Council will be reviewed jointly which will reduce the level of duplication.

Appendix C – Internal Audit Code of Ethics

1 INTRODUCTION

- 1.1 The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of the Council's Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

2 PRINCIPLES

- 2.1 Internal auditors are expected to apply and uphold the following principles:

- Integrity The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- Confidentiality Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

INTEGRITY: Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Respect and contribute to the legitimate and ethical objectives of the organisation; and
- Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness

OBJECTIVITY: Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not review any activity for which they have previously had operational responsibility;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

CONFIDENTIALITY: Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate;
- Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and

- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

COMPETENCY: Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

3 MANAGING ARRANGEMENTS:

3.1 To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
- Quality control processes are in place to demonstrate integrity in all aspects of the work;
- All staff are obliged to declare any potential conflicts of interest, at least annually;
- Confidentiality breaches will not be tolerated; and
- All staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.