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NARRATIVE REPORT

Introduction

Welcome to Stockton On Tees Borough Council's Annual Statement of Accounts for 2016/17. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The purpose of this report is to provide a guide to the Council's accounts as well as setting out the Council's achievements.

The Core Financial Statements are:

Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

Comprehensive Income and Expenditure Statement (CIES)

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

Balance Sheet

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

Cash Flow Statement

The Cash Flow Statement shows the changes in the 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 local taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Notes to the Financial Statements

These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Performance Information

Though we continue to face huge ongoing financial and economic challenges, we remain very ambitious for Stockton-on-Tees and 2016/17 has seen us continue to deliver for our residents and businesses. The scale of the challenge is unprecedented – by 2019/20 we will receive £75million per year less in Government funding than we received in 2010/11. That's a reduction of 62% and leaves us facing more incredibly difficult decisions. We are committed to developing the Council and ensuring we deliver high quality, customer focused services that meet the changing needs of our communities. In 2016/17 we have continued to develop as an organisation and we have:

- Been shortlisted in two prestigious national awards as one of only six finalists in the "Local Authority of the Year" category of the Municipal Journal awards and for the Association of Public Service Excellence (APSE) overall Council of the Year Award for the seventh year running.
- Continued our programme of service reviews as we adapt to huge ongoing funding reductions. Received another extremely positive report from our Auditors, who said: "As we have seen in recent years, the Council is exploring different service models to preserve service delivery along with financial stability."
- Maintained our Customer Service Excellence accreditation for the sixth consecutive year, securing the highest possible "compliance +" rating.

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- Supported the successful bid that saw Stockton High Street crowned winner of the Great British High Street Awards' Rising Star category.
- Maintained our Silver Investor in People award and also achieved the Gold Better Health at Work award accreditation.
- Continued to implement improvements in direct response to the Imposes MORI residents' survey undertaken across the Borough in 2015.
- Launched the new "My Views" consultation portal, which provides an improved online platform to support consultations on service changes and proposals.

ECONOMIC REGENERATION AND TRANSPORT

Our vision is of a prosperous borough with high quality transport and infrastructure to support economic growth and job creation. During 2016/17 we have seen:

- The creation of the Tees Valley Combined Authority which has seen the area's five councils join forces and work with the business community to drive economic growth and job creation in the area.
- The agreement of clear economic growth ambitions with the launch of The Economic Strategy and 3 year Growth Plan.
- The progress of plans to bring a prestigious 128-bed Hampton by Hilton hotel to Stockton town centre.
- The final approval stage to restore the Grade II listed, art deco Globe Theatre, which will put a 2,500 capacity live music and comedy venue at the heart of Stockton High Street.
- Durham University's plans to create an International Foundation College on the Queen's Campus site in Thornaby.
- The launch of a Community Transport Bus Service to help people who don't have access to local bus services.
- Stockton's town centre businesses establish a Business Improvement District (BID) bringing retailers and other high street businesses together, to drive forward activities and events aimed at boosting trade, attracting visitors and encouraging enterprise.

ENVIRONMENT AND HOUSING

We aim to make the Borough a better place to live and a more attractive place to do business with clean streets, carefully tended parks and open spaces and affordable and desirable housing. In 2016/17 we saw:

- The production of a Draft Local Plan setting out a vision for the future development of the Borough in relation to housing, the economy, community facilities and infrastructure up to 2032.
- The 1960s Victoria Estate demolished to make way for brand new housing.
- Further progress in the £14million programme to install super-efficient, environmentally-friendly LED street lighting that will generate significant energy cost savings.
- The Council ranked as fifth best in the country for its efforts to tackle climate change emissions in the Local Authority Energy Index
- Another successful Big Community Switch (energy provider switching scheme), with more households registering than ever before.

COMMUNITY SAFETY

We want to make the Borough a place where levels of crime and fear of crime are low and people feel safe and secure. In 2016/17 we have:

- Worked in partnership to deliver a range of measures to reduce the risk of flooding across the Borough.
- Provided training to 700 taxi drivers and private hire firms so they can help protect vulnerable adults and safeguard children.

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- Maintained the Safer Stockton Partnership which brings together a wide-range of agencies to tackle crime and anti-social behaviour.
- Seen our Youth Offending Team win praise from the Youth Justice Board for its "excellent performance".

HEALTH AND WELLBEING

We want the Borough to be a place where people are supported to be healthy. During 2016/17 we have:

- Continued to support the successful Warm Homes Healthy People scheme which is in its sixth year and supports some of the Borough's most vulnerable residents during the winter months.
- Encouraged 8% of the smoking population to access the stop smoking service which is in the top 3 for performance in the region and regarded as an example of best practice nationally.
- Continued progress with our Healthy Heart Check programme with 19,603 people receiving a check since 2013.
- Reduced the rate of emergency hospital admissions for alcohol related harm per 100,000 population by 3.1%.

CHILDREN AND YOUNG PEOPLE

We want the Borough to be a great place to grow up, where children and young people are protected from harm and supported to be the best they can be in life. In 2016/17 we saw:

- The Council's Children's Services awarded an overall "good" rating by Ofsted inspectors, putting it among the top 25 per cent nationwide – we were also one of only three local authorities in the country to secure an "outstanding" rating for the experiences and progress of care leavers.
- All of our children's homes rated good or outstanding.
- Young people across Stockton-on-Tees celebrate as 62.4 per cent of students attained five A*-C grades including English and Maths.
- The establishment of a joint multi agency children's hub with Hartlepool providing advice and guidance on services and support for children, young people and families.

STRONGER COMMUNITIES

The strength and pride that exists in our communities is at the very heart of what makes Stockton-on-Tees such a remarkable place. We are creating an environment where communities are diverse, cohesive, caring and vibrant. During 2016/17 we have seen:

- The achievements of those in the Borough's voluntary, community and social enterprise sector recognised at the seventh annual Catalyst Achievement Awards.
- Your Community Bank, the Tees Credit Union co-operative and social business, move onto Stockton High Street.
- The launch of the Stockton-on-Tees Volunteers website, created by Catalyst in partnership with the Council.
- The Local Strategic Partnership continue to work through the four Locality Forums, bringing together public, private and voluntary sector partners to tackle poverty in the Borough.

ADULT SERVICES

We are working hard to make sure that people can get the right level and type of support at the right time to help, prevent, reduce or delay the need for ongoing support and maximise their independence. In the last year we have seen:

- The launch of the new Falls Prevention and Assessment Service, aimed at reducing falls among older people.
- The Council join forces with Thornaby-based Five Lamps to pilot an innovative home care scheme for people with social care needs in the Borough.

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- The new Multi-Disciplinary Service (MDS) win the 'Best Health and Wellbeing Initiative' at the
- Association of Public Service Excellence (APSE) awards – the service provides support and intervention for people aged over 65.

ARTS CULTURE AND LEISURE

We are a Borough where heritage, festivals, cultural activities and leisure facilities attract visitors and investment, and where sport and active leisure opportunities help people sustain healthier lifestyles. The last year has seen:

- Preston Hall Museum continue to celebrate local history – visits have been boosted by a strong summer holiday programme that attracted 50,000 visitors in six weeks, the highest level since the reopening in 2012.
- The 2016 Cycling Festival, incorporating the British Cycling National Road Race Championship, attracted tens of thousands of visitors and a massive international live television audience.
- SIRF16, including the community carnival, attracted around £1million in visitor spend with 92% describing it as "good" or "excellent" and 96% stating that it was a good use of Council resources.
- A new multi-million pound leisure centre, library and customer service point on land at All Saints Academy in Ingleby Barwick.

Financial Position As At 31 March 2017

Revenue

Our financial position at the end of the financial year by service directorate is shown in the following table:

| Service Departments | Approved Budget £000s | Actual £000s | Variance £000s |
|---|----------------------------------|-------------------------|---------------------------|
| Adults & Health | 71,985 | 70,522 | (1,463) |
| Childrens Services | 33,292 | 35,069 | 1,777 |
| Community Services | 17,949 | 18,583 | 634 |
| Corporate Management & Services | 11,836 | 11,911 | 75 |
| Culture, Leisure & Events | 8,097 | 8,218 | 121 |
| Economic Growth & Development | 13,967 | 14,013 | 46 |
| Finance & Business Services | 7,847 | 7,685 | (162) |
| HR, Legal & Comms | 3,462 | 3,314 | (148) |
| Net Expenditure on Services | 168,435 | 169,315 | 880 |
| Government Grants & Other Income | (59,222) | (59,296) | (74) |
| Council Tax & Business Rates Income | (109,213) | (108,873) | 340 |
| Movement on General Fund Balance | - | 1,146 | 1,146 |

Due to the change in management structure, and the necessary changes to the financial coding system to reflect this, it is not possible to provide prior year comparatives for 2015-16.

Narrative on the Revenue Financial Position and Variances

Children's Services:

Pressures on the budget for Looked After Children have continued due to the rising number and complexity of external residential placements. Overall, expenditure exceeded the budget and growth allocation. This was partly offset by an underspending on Adoption Services. This position would have been considerably worse without the places provided by the joint venture with Spark of Genius.

Adults & Health:

Additional client income, reduced costs of residential placements in Mental Health, savings on Housing Related Support and Public Health funding contributed to an overall underspending on the service.

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Community Services:

The overspending arose largely due to pressures on Community Transport, Community Safety, and Heating & Ventilation services; these pressures have been addressed in the 2017/18 budget and were subject to a report to Council and Cabinet in February 2017. Pressures from Waste Disposal continue to arise due to increases in tonnages and reduced recycling income.

Capital

The Council spent £27.2 million spent on major capital projects in the year. (last year £ £44.9 million). Details of our capital programme are contained in the following table.

| Capital Programme | | | | |
|-----------------------------------|----------------|----------------|-----------|----------|
| | 2016/17 | 2016/17 | 2015/16 | 2015/16 |
| Expenditure: | £m | % | £m | % |
| Stockton Town Centre Regeneration | 1.9 | 6.9% | 0.6 | 1.3% |
| Billingham and Yarm Town Centres | 0.1 | 0.4% | 0.4 | 0.9% |
| Transport and Highway schemes | 10.2 | 37.5% | 22.8 | 50.8% |
| Street Lighting | 2.9 | 10.7% | 5.1 | 11.4% |
| Housing Regeneration | 1.7 | 6.3% | 2.0 | 4.5% |
| Northshore Innovation Centre | - | 0.0% | 2.3 | 5.1% |
| Schools and Colleges | 6.1 | 22.4% | 7.8 | 17.4% |
| Vehicle Replacement | 0.7 | 2.6% | 0.8 | 1.8% |
| Other schemes | 3.6 | 13.2% | 3.1 | 6.9% |
| Total | 27.2 | 100.0% | 44.9 | 100.0% |
| Funded by: | | | | |
| Disposal of Surplus Assets | 2.9 | 10.6% | 2.6 | 5.8% |
| Revenue contributions | 3.2 | 11.8% | 9.7 | 21.6% |
| Prudential financing | 1.2 | 4.4% | - | - |
| Grants and contributions | 19.9 | 73.2% | 32.6 | 72.6% |
| Total | 27.2 | 100.0% | 44.9 | 100.0% |

Future Funding Changes & Risks

National Funding Changes announced by the Government

The Provisional Local Government Finance Settlement was announced on 15 December and the key issues which impact on the Council's financial position are outlined below

- DCLG announced their long awaited response to the consultation on the New Homes Bonus, together with 2017/18 allocations. Despite Stockton and many other councils raising concerns, the scheme will change and have a detrimental impact. We were already anticipating a reduction in payments of £1.9m by 2019/20, and this change will increase the reduction by £1.6m by 2020/21.
- Adult Social Care Support Grant – A grant of £849,000 will be received in respect of Adult Social Care for one year only in 2017/18
- Reductions in Settlement Funding Assessment of 34%, a £23m reduction by 2019/20
- Indicative allocations for additional income from the Better Care Fund of £4.9m by 2019/20 but an indicative reduction of £2m in New Homes Bonus
- Assumed Council Tax increase of £13m which is based on a 1.75% increase plus tax base growth.
- An assumption that the Council will implement the Social Care levy generating £6.7m by 2019/20.
- Effectively, Government funding reductions are balanced by assumed increases in Council Tax, which are extremely optimistic, and includes the new Social Care levy.

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Other Future Funding Changes and Risks

Recent Government announcements have highlighted a number of potential issues and risks that may impact on our future financial position; these include:

- A national revaluation of business rates will be implemented with effect from April 2017. The draft list for Stockton indicates an overall decrease of 0.4% in rateable values compared with the current list from 2010. It should be noted that the rateable value for one property, Virgin Media, has increased by 324% which has the effect of distorting the overall position. Within the business rates retention system the baseline and top up/tariff amounts have been amended to reflect the revaluation in 2017. The adjusted amounts are intended to make changes in rateable value revenue neutral for individual authorities; with changes to authorities' NNDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise business rates locally. As a result of the 2017 revaluation Stockton has moved from being a tariff authority to one in receipt of a top-up.
- School Funding: A national funding formula for schools was consulted upon during 2016/17 and will be introduced from 2018/19. We will need to assess the impact that this has on Stockton. There is also an expectation of more schools converting to Academy status with a diminishing role for councils.

Financial Performance Indicators

Performance Against Prudential Indicators

At Stockton-on-Tees Borough Council we are required to operate within the Prudential Code for Capital Finance in Local Authorities ("The Prudential Code") and the Treasury Management in the Public Services Code of Practice ("The Treasury Management Code"). The two codes allow greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators.

Our capital expenditure is a key driver of our treasury management activity and these indicators are relevant for the purposes of setting an integrated treasury management strategy, the objective being to ensure, within a clear framework, that our capital investment plans are affordable, prudent and sustainable, and the treasury management decisions are taken in accordance with good professional practice. The key performance indicators are:

Capital Financing Requirement

The Capital Financing Requirement represents the Council's underlying need to borrow for capital expenditure and in essence, represents the total historic capital expenditure that has not yet been paid for, from either revenue or capital resources. The term 'financing' does not refer to the payment of cash but the resources (capital grants, receipts and contributions or direct charges to revenue) that are applied to ensure that any underlying amount arising from capital expenditure is dealt with absolutely, whether at the point of spend, or over the longer term. The outturn capital financing requirement compared to the approved limit and actual external borrowing is detailed in the following table:

| Capital Financing Requirement | Approved Limit £000s | Outturn £000s |
|--|-------------------------------------|--------------------------|
| General Fund | 108,322 | 108,816 |
| General Fund - PFI & Finance Lease Liability | (7,130) | (7,209) |
| Capital Financing Requirement | 101,192 | 101,607 |
| Actual External Borrowing | | 47,681 |
| Under-Borrowed | | 53,926 |

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The outturn is lower than the approved limit for borrowing when compared to the actual external borrowing level. This indicates that the Council is maintaining its strategy to have an under-borrowed position which means that the Council's capital borrowing requirement has not been fully funded with loan debt, instead the Council has used cash from reserves and balances where available to support the capital programme. This is considered to be prudent in the current economic environment where available investment returns are relatively low and counterparty risk is relatively high.

External Debt, Operational Boundary and Authorised Limit

During the year, the Council's aggregate external debt was contained within both the operational boundary and the authorised limit. The authorised limit reflects a level of debt, which whilst not desired, could be affordable in the short term but may not be sustainable in the long term and encompasses temporary borrowing requirements. The operational boundary is an estimate of the most likely external debt requirement and represents the limit beyond which external debt is not normally expected to exceed. The aggregate external debt comprises the Council's actual external borrowing and other-long term liabilities in respect of PFI schemes and finance leases.

| External Debt, Operational Boundary and Authorised Limit | Outturn £000s | Borrowing Limit £000s |
|---|--------------------------|--------------------------------------|
| External Borrowing at 31 March 2017 | 47,681 | |
| PFI & Finance Lease Liability | 7,209 | |
| Aggregate External Debt | 54,890 | 54,890 |
| Authorised Limit | | 124,923 |
| Operational Boundary | | 109,242 |

Ratio of financing costs to net revenue stream

This indicator is an affordability measure of debt repayments and represents the proportion of the budget that is allocated to the net financing of capital expenditure. The outturn compared to the estimate is detailed below and confirms that the ongoing financing costs are within planned limits and remain affordable and sustainable on an ongoing basis in the context of the overall resources available to the Council to deliver services.

| Ratio of financing costs to net revenue stream | Ratio % | Outturn % |
|---|--------------------|----------------------|
| Net financing costs | 2.7% | 2.7% |

Uncommitted and Earmarked Balances

Our uncommitted balance is the balance on the Council's General Fund. In line with best practise we set a target level for the General Fund balance which allows us to manage financial risks and deal with unexpected expenditure. Our target is 3% of net revenue budget and Dedicated Schools Grant over the medium term which equates to about £7.9m.

| Uncommitted and Earmarked Balances | Uncommitted Balances £000s | Earmarked Balances £000s | Total Balances £000s |
|---|---|---|-------------------------------------|
| Balances b/fwd 1 April 2016 | 9,614 | 131,372 | 140,986 |
| Use of Balances 2016-17 | (1,146) | (52,660) | (53,806) |
| Balances c/fwd 31 March 2017 | 8,468 | 78,712 | 87,180 |

Uncommitted balances of £8.5m represent 3.2% of the General Fund Budget for 2016/17 and are above the 3% target level of balances.

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Earmarked Balances are amounts that have been set aside for specific purposes such as capital expenditure, insurance costs and planned future expenditure. Details of the Earmarked Balances are set out in note 7 to the accounts.

Borrowing and Lending Arrangements

In accordance with the approved Treasury Management Strategy for 2016-17, activity during the year maintained the Council's loans portfolio on a strong low-risk, long-term basis. Interest rates within financial markets have been monitored throughout the year to determine whether rates had risen or fallen more sharply than anticipated. There were no significant rate changes and therefore there was no new long-term external borrowing or debt rescheduling during the year. Opportunities for debt rescheduling are extremely limited because the majority of the loan portfolio consists mainly of market rather than PWLB debt and the prohibitive costs of early repayment premiums. Cash flow has been managed in a prudent manner during the year with on-going short-term investment of cash surpluses with approved counterparties as approved in the Treasury Management Strategy.

Retirement Benefits (IAS 19)

The Council is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions. Disclosure requirements include figures for the Net Pension Asset/Liability and the Pension Reserve in the Balance Sheet. There are also entries in the Comprehensive Income and Expenditure Statement and Movement In Reserves Statement to reflect movements in the Net Pension Asset/Liability from one year to the next. Entries are also required to reconcile back to actual pension contributions payable for council tax purposes.

AON Hewitt, an independent firm of actuaries, has calculated the Council's net liability position as £212.8m on the Local Government Pension Scheme as at 31st March 2017 (last year: £228.5m). The £15.7m reported decrease in the net liability position is principally due to the fact that the financial assumptions at 31 March 2017 are more favourable than they were at 31 March 2016.

Employer's contributions to the pension fund during 2016-17 were charged at 14.3% of total pensionable employee pay in line with actuarial advice following the formal fund valuation at 31 March 2013. Further information on retirement benefits is available in Note 30 of the Notes to the Core Financial Statements.

Further Information

Further information about our finances is available from the Council's website, www.stockton.gov.uk or from the Director of Finance & Business Services, Municipal Buildings, Stockton-on-Tees, TS18 1LD.

Movement in Reserves Statement for the year ended 31 March 2017

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 Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|-------------------------|-----------------------------|-----------------------------|--------------------------|----------------------|---------------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Balance at 31 March 2015 | 125,770 | 180 | 9,838 | 135,788 | 5,269 | 141,057 |
| <u>Movement in reserves during 2015/16</u> | | | | | | |
| Total Comprehensive Income and Expenditure | 2,911 | - | - | 2,911 | 13,650 | 16,561 |
| Adjustments between accounting basis & funding basis under regulations (Note 6) | 12,305 | 333 | 2,305 | 14,943 | (14,943) | - |
| Increase/Decrease in Year | 15,216 | 333 | 2,305 | 17,854 | (1,293) | 16,561 |
| Balance at 31 March 2016 carried forward | 140,986 | 513 | 12,143 | 153,642 | 3,976 | 157,618 |
| <u>Movement in reserves during 2016/17</u> | | | | | | |
| Total Comprehensive Income and Expenditure | (72,417) | - | - | (72,417) | 20,059 | (52,358) |
| Adjustments between accounting basis & funding basis under regulations (Note 6) | 18,611 | 16 | (1,841) | 16,786 | (16,786) | - |
| Increase/Decrease in Year | (53,806) | 16 | (1,841) | (55,631) | 3,273 | (52,358) |
| Balance at 31 March 2017 carried forward | 87,180 | 529 | 10,302 | 98,011 | 7,249 | 105,260 |
| General Fund analysed over: | | | | | | |
| Amounts earmarked (Note 7) | 78,712 | | | | | |
| Amounts uncommitted | 8,468 | | | | | |
| Total General Fund Balance at 31 March 2017 | 87,180 | | | | | |

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Balance Sheet as at 31 March 2017

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

| | Note | 31 March 2017 £000s | 31 March 2016 £000s |
|--|---------|------------------------|------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 307,238 | 331,054 |
| Investment property | | 6,361 | 5,888 |
| Intangible assets | | 119 | 147 |
| Heritage Assets | 12 | 9,625 | 7,466 |
| Long term investments | 28 | 377 | 377 |
| Long Term Debtors | 28 | 520 | 5,153 |
| Total non-current assets | | 324,240 | 350,085 |
| Current assets | | | |
| Short term investments | 28 | 20,036 | 28,092 |
| Inventories | | 340 | 349 |
| Debtors | 14 & 28 | 33,497 | 31,660 |
| Cash and Cash Equivalents | 15 | 42,104 | 74,563 |
| Assets held for sale | | 2,494 | 4,366 |
| Total current assets | | 98,471 | 139,030 |
| Current liabilities | | | |
| Cash and Cash Equivalents | 15 | (8,181) | (9,245) |
| Short Term Borrowing | 28 | (267) | (173) |
| Short Term Creditors | 16 & 28 | (37,096) | (30,793) |
| Provisions | 32 | (3,238) | (5,341) |
| Total current liabilities | | (48,782) | (45,552) |
| Long term liabilities | | | |
| Long Term Creditors | 28 | (191) | (215) |
| Long Term Borrowing | 28 | (47,877) | (48,147) |
| Other Long Term Liabilities | 17 & 28 | (220,002) | (236,458) |
| Grants Receipts in Advance | 27 | (599) | (1,125) |
| Total long term liabilities | | (268,669) | (285,945) |
| Net Assets: | | 105,260 | 157,618 |
| Reserves | | | |
| Usable reserves: | | | |
| General Fund Balance | | 8,468 | 9,614 |
| Earmarked General Fund Reserves | 7 | 78,712 | 131,372 |
| Capital Receipts Reserve | | 529 | 513 |
| Capital Grants Unapplied | | 10,302 | 12,143 |
| | | 98,011 | 153,642 |
| Unusable Reserves: | | | |
| Revaluation Reserve | 19 | 47,651 | 58,594 |
| Available for Sale Financial Instruments Reserve | | 377 | 377 |
| Capital Adjustment Account | 18 | 169,423 | 177,648 |
| Financial Instruments Adjustment Account | | (711) | (794) |
| Deferred Capital Receipts Reserve | | 154 | 160 |
| Pensions Reserve | | (212,793) | (228,540) |
| Collection Fund Adjustment Account | 20 | 4,816 | (2,032) |
| Accumulated Absences Account | | (1,668) | (1,437) |
| | | 7,249 | 3,976 |
| Total Reserves: | | 105,260 | 157,618 |

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Cash Flow Statement For The Year Ended 31 March 2017

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

| | Note | 2016/17 £000s | 2015/16 £000s |
|---|------|------------------|------------------|
| Net (surplus) or deficit on the provision of services | | 72,417 | (2,911) |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements: | | | |
| Depreciation, impairment and amortisation of non current assets | | (20,510) | (19,511) |
| Revaluation (gains)/losses | | (1,111) | 4,451 |
| Pension Fund adjustments | | (12,450) | (11,962) |
| Carrying amount of Non-Current Assets Sold | | (17,422) | (11,240) |
| Other non-cash movement | | 504 | 94 |
| Increase/(Decrease) in Inventories (Stock) | | (9) | (10) |
| Increase/(Decrease) in Revenue Debtors | | 1,698 | (5,253) |
| (Increase)/Decrease in Revenue Creditors | | (6,231) | 3,333 |
| (Increase)/Decrease in Provisions | | 2,103 | (2,339) |
| Increase/(Decrease) in Long Term Debtors | | (4,633) | 898 |
| | | (58,061) | (41,539) |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities: | | | |
| Capital Grants credited to surplus or deficit on the provision of services | | 17,585 | 34,862 |
| Proceeds from the disposal of non current assets | | 2,959 | 2,912 |
| | | 20,544 | 37,774 |
| Net cashflow from operating activities | | 34,900 | (6,676) |
| Investing activities | | | |
| Purchase of property, plant and equipment, investment property and intangible assets | | 23,930 | 22,990 |
| Purchase of short term and long term investments | | (7,989) | (25,994) |
| Proceeds from the sale of property, plant and equipment, investment property and intangibles | | (2,959) | (2,912) |
| Other receipts from investing activities | | (17,060) | (34,786) |
| Net cashflow from investing activities | | (4,078) | (40,702) |
| Financing activities | | | |
| Other receipts from financing activities | | (481) | (87) |
| Cash payments for liabilities relating to finance leases and PFI Contracts | | 708 | (563) |
| Repayments of short and long term borrowings | | 346 | 381 |
| Net cashflow from financing activities | | 573 | (269) |
| Net (increase) or decrease in cash and cash equivalents | | 31,395 | (47,647) |
| Cash and cash equivalents at the beginning of the reporting period | | (65,318) | (17,671) |
| Cash and cash equivalents at the end of the reporting period | 15 | (33,923) | (65,318) |
| The cashflow for operating activities includes the following items: | | | |
| Interest received | | (468) | (940) |
| Interest paid | | 2,412 | 2,460 |

Note 1: Changes in Presentation Format

Following the publication of the "Telling the Story" review of the presentation of local authority financial statements by CIPFA, the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis.

The new Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance. Therefore, local authorities are no longer required to report the cost of individual services in their Comprehensive Income and Expenditure Statement in accordance with the format which was previously specified in the Service Reporting Code of Practice.

The Comprehensive Income and Expenditure Statement now presents the cost of services analysed using the Council's management structure. The impact of this change has resulted in a reduction in the 2015/16 cost of services of £130,000 due to the reallocation of services which are now included within the gain or loss on trading services.

The Expenditure and Funding Analysis and its associated supporting notes are presented at Note 2 to the accounts.

Note 2: Expenditure & 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.

| 2015/16 | | | 2016/17 | | |
|--|--|---|--|--|---|
| Net Expenditure Chargeable to the General Fund | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | Net Expenditure Chargeable to the General Fund | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| £000s | £000s | £000s | £000s | £000s | £000s |
| 42,400 | (825) | 41,575 | 62,061 | (11,023) | 51,038 |
| 31,717 | 11,799 | 43,516 | 33,860 | 14,147 | 48,007 |
| 15,020 | 1,011 | 16,031 | 14,341 | 6,315 | 20,656 |
| 23,086 | (6,051) | 17,035 | 13,026 | (887) | 12,139 |
| 9,163 | 848 | 10,011 | 8,218 | 2,509 | 10,727 |
| 14,349 | (9,309) | 5,040 | 13,815 | 43,916 | 57,731 |
| 5,803 | 1,272 | 7,075 | 7,189 | (54) | 7,135 |
| 4,074 | (39) | 4,035 | 3,314 | 82 | 3,396 |
| 145,612 | (1,294) | 144,318 | 155,824 | 55,005 | 210,829 |
| (148,427) | 1198 | (147,229) | (154,678) | 16,266 | (138,412) |
| (2,815) | (96) | (2,911) | 1,146 | 71,271 | 72,417 |
| (6,799) | | | (9,614) | | |
| (2,815) | | | 1,146 | | |
| (9,614) | | | (8,468) | | |
| | | Opening General Fund Balance | | | |
| | | Less/Plus Surplus or (Deficit) | | | |
| | | Closing General Fund Balance at 31 March | | | |

Note 2: Expenditure & Funding Analysis

Notes to the Expenditure and Funding Analysis:

| Adjustments between Funding and Accounting Basis 2016/17 | | | | |
|--|---|--|--------------------------|--------------------------|
| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts | Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Other Differences | Total Adjustments |
| | £000s | £000s | £000s | £000s |
| Adults & Health | 235 | 529 | (11,786) | (11,022) |
| Childrens Services | 11,253 | 1,421 | 1,473 | 14,147 |
| Community Services | 121 | 216 | 5,978 | 6,315 |
| Corporate Management & Services | (4,365) | 602 | 2,875 | (888) |
| Culture, Leisure & Events | 2,598 | 214 | (303) | 2,509 |
| Economic Growth & Development | 6,360 | 300 | 37,256 | 43,916 |
| Finance & Business Services | 187 | 1,448 | (1,689) | (54) |
| HR, Legal & Comms | | 180 | (98) | 82 |
| Net Cost Of Services | 16,389 | 4,910 | 33,706 | 55,005 |
| Other Income and Expenditure from the Expenditure and Funding Analysis | (3,529) | 7,540 | 12,255 | 16,266 |
| Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services | 12,860 | 12,450 | 45,961 | 71,271 |

| Adjustments between Funding and Accounting Basis 2015/16 | | | | |
|--|---|--|--------------------------|--------------------------|
| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts | Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Other Differences | Total Adjustments |
| | £000s | £000s | £000s | £000s |
| Adults & Health | (401) | 593 | (1,017) | (825) |
| Childrens Services | 7,230 | 1,725 | 2,844 | 11,799 |
| Community Services | 901 | 257 | (147) | 1,011 |
| Corporate Management & Services | (3,997) | 644 | (2,698) | (6,051) |
| Culture, Leisure & Events | 92 | 227 | 529 | 848 |
| Economic Growth & Development | 2,114 | 389 | (11,812) | (9,309) |
| Finance & Business Services | 2,317 | 1,023 | (2,068) | 1,272 |
| HR, Legal & Comms | - | 148 | (187) | (39) |
| Net Cost Of Services | 8,256 | 5,006 | (14,556) | (1,294) |
| Other Income and Expenditure from the Expenditure and Funding Analysis | (11,386) | 6,956 | 5,628 | 1,198 |
| Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services | (3,130) | 11,962 | (8,928) | (96) |

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Note 2: Expenditure & Funding Analysis

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts. The other differences column also recognises adjustments between the General Fund and Earmarked Reserves.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 3: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The 2016/17 Code of Practice includes amendments to the following accounting

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

The Council does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 4: Critical Judgements in Applying Accounting Policies

In applying its accounting policies 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:

Lease Accounting - Judgement is required in the initial classification of leases as either operating leases or finance leases. The Council has a number of vehicles held on leases, some of these are for substantially all of the life of the asset, and the amounts paid are in excess of what would be paid if the asset were to be purchased. These vehicles have been treated in accordance with the Council's policies in respect of finance leases, and feature on the balance sheet. The Council's other leases have been assessed and are being treated as operating leases, with the costs charged in full to the net cost of services.

PFI Schemes - The Council is involved with a PFI contract to provide schools and a library in Ingleby Barwick. After an assessment under the requirements of IFRIC 12, it has been determined that these are effectively under the control of the Council. The accounting policies relating to PFI schemes have therefore been applied to this arrangement and the associated assets have been recognised on the Council's balance sheet with the exception of All Saints School which has attained academy status.

The Council has applied its judgement in the classification of investment properties. Investment properties are held to earn rentals or for capital appreciation or both. Some properties earn rentals but are held for regeneration purposes or wider socio-economic reasons. Where this is the case, these properties have been classed as Property, Plant and Equipment.

The Council has brought voluntary controlled schools on-balance sheet because they meet the requirements for recognition under IAS 16, the Council acts as the admissions authority and employs the school staff. Voluntary aided schools remain off-balance sheet as they do not meet the same tests as those for voluntary controlled schools.

Note 5: Assumptions Made About the Future and Other Major Sources of Estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: 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. Sensitivities are included in Note 30.
- Depreciation: assets are depreciated over their estimated useful lives and are based on assumptions about the level of repairs and maintenance that will be incurred and useful economic lives.
- Revaluations: valuations are carried out on a rolling programme of up to three years, meaning that there is a possibility of material changes in value between valuations. The risk is minimised by annual valuations of all significant assets and annual reviews of market conditions for all asset categories to ensure that the fair value of assets as at the 31 March are not materially misstated.
- Provisions: the Council makes prudent provision for likely future liabilities, such as insurance costs, unpaid debts and the impact of successful business rate appeals. Changes in assumptions are very unlikely to materially affect the Statement of Accounts, with the exception of those for business rate appeals. The Council has assessed the likely impact of the appeals however the provision may require significant adjustment in future years.
- Accruals of income and expenditure: 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. The Council operates a de minimis level for accruals of £10,000 for revenue items and £20,000 for on-going capital projects. The Council has assessed the impact of the de minimis levels and has found that there is no significant impact upon the Statement of Accounts.

Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

| 2016/17 | General Fund Balance £000s | Capital Receipts Reserve £000s | Capital Grants Unapplied £000s | Movement in Unusable Reserves £000s |
|--|---|---|---|--|
| Adjustments involving the Capital Adjustment Account (see note 18) | 13,970 | | | (13,970) |
| Adjustments involving the Capital Grants Unapplied Account | 1,841 | | (1,841) | - |
| Adjustments involving the Capital Receipts Reserve | (2,952) | 16 | | 2,936 |
| Adjustments involving the Deferred Capital Receipts Reserve | 3 | | | (3) |
| Adjustments involving the Financial Instruments Adjustment Account | (83) | | | 83 |
| Adjustments involving the Pensions Reserve | 12,450 | | | (12,450) |
| Adjustments involving the Collection Fund Adjustment Account (see note 20) | (6,848) | | | 6,848 |
| Adjustments involving the Accumulated Absences Adjustment Account | 230 | | | (230) |
| Total Adjustments | 18,611 | 16 | (1,841) | (16,786) |

| 2015/16 Comparative figures | General Fund Balance £000s | Capital Receipts Reserve £000s | Capital Grants Unapplied £000s | Movement in Unusable Reserves £000s |
|--|---|---|---|--|
| Adjustments involving the Capital Adjustment Account | 2,074 | | | (2,074) |
| Adjustments involving the Capital Grants Unapplied Account | (2,305) | | 2,305 | - |
| Adjustments involving the Capital Receipts Reserve | (2,906) | 333 | | 2,573 |
| Adjustments involving the Deferred Capital Receipts Reserve | 5 | | | (5) |
| Adjustments involving the Financial Instruments Adjustment Account | (83) | | | 83 |
| Adjustments involving the Pensions Reserve | 11,962 | | | (11,962) |
| Adjustments involving the Collection Fund Adjustment Account | 4,035 | | | (4,035) |
| Adjustments involving the Accumulated Absences Adjustment Account | (480) | | | 480 |
| Total Adjustments | 12,302 | 333 | 2,305 | (14,940) |

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Note 7: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17. The purpose of each earmarked reserve is set out in Appendix A.

| Earmarked Reserves | Balance at 31 March 2015 £000s | Transfers Out 2015/16 £000s | Transfers In 2015/16 £000s | Balance at 31 March 2016 £000s | Transfers Out 2016/17 £000s | Transfers In 2016/17 £000s | Balance at 31 March 2017 £000s |
|---|---|-----------------------------------|----------------------------------|---|--------------------------------------|----------------------------------|---|
| Capital Reserves | | | | | | | |
| Stockton Town Centre Regeneration | (3,547) | 812 | (639) | (3,374) | 1,632 | (301) | (2,043) |
| Approved Capital Schemes | (12,842) | 4,384 | (3,388) | (11,846) | 1,672 | (2,827) | (13,001) |
| Fleet Renewals Fund | (2,148) | 716 | (1,109) | (2,541) | 645 | (1,201) | (3,097) |
| Street Lighting Renewal | (9,449) | 4,876 | - | (4,573) | 2,713 | - | (1,860) |
| Infrastructure Reserve | (844) | 680 | - | (164) | - | - | (164) |
| Total Capital Reserves | (28,830) | 11,468 | (5,136) | (22,498) | 6,662 | (4,329) | (20,165) |
| Earmarked Revenue Reserves | | | | | | | |
| Balances held by schools under a scheme of delegation | (7,158) | 738 | (747) | (7,167) | 2,327 | (730) | (5,570) |
| Insurance Fund | (16,367) | 3,000 | (2,150) | (15,517) | 3,000 | (1,606) | (14,123) |
| Managed Surpluses | (4,660) | 572 | - | (4,088) | 2,773 | (234) | (1,549) |
| Commuted Lump Sums | (1,473) | 59 | (204) | (1,618) | - | (91) | (1,709) |
| Litigation Reserve | (2,962) | 136 | (68) | (2,894) | 1,446 | (13) | (1,461) |
| ICT Infrastructure | (2,088) | 348 | (705) | (2,445) | 733 | (392) | (2,104) |
| Government Grants Income In Advance | (7,225) | 7,042 | (835) | (1,018) | 842 | - | (176) |
| Transformation & Implementation Reserve | (8,894) | 800 | (830) | (8,924) | 4,127 | (3,401) | (8,198) |
| Tees Valley Unlimited | (9,823) | 6,588 | (31,886) | (35,121) | 35,121 | - | - |
| MTFP Transition Reserve | (7,491) | 1,355 | (4,288) | (10,424) | 7,380 | (788) | (3,832) |
| ARCC Probation Service | (2,000) | - | (217) | (2,217) | (1,000) | 2,782 | (435) |
| Dedicated Schools Grant | (2,129) | 2,129 | - | - | - | - | - |
| Other Revenue Reserves | (17,871) | 16,193 | (15,763) | (17,441) | 6,177 | (8,126) | (19,390) |
| Total Revenue Reserves | (90,141) | 38,960 | (57,693) | (108,874) | 62,926 | (12,599) | (58,547) |
| Total Earmarked Reserves | (118,971) | 50,428 | (62,829) | (131,372) | 69,588 | (16,928) | (78,712) |

Note 8: Tees Valley Unlimited

Stockton-on-Tees Borough Council acted as the accountable body for Tees Valley Unlimited (TVU). TVU was the private and public sector Local Enterprise Partnership striving to deliver jobs and economic growth across the Tees Valley. From April 2016, the functions of TVU transferred to the new established Tees Valley Combined Authority.

| | 2016/17 | 2015/16 |
|--------------------------------------|----------------|-----------------|
| | £000s | £000s |
| Income | - | (12,125) |
| Expenditure | - | 12,260 |
| (Surplus) / Deficit for the year | <u>-</u> | <u>135</u> |
| Non-Current Assets | | |
| Debtors | <u>-</u> | <u>5,263</u> |
| | - | 5,263 |
| Current Assets | | |
| Debtors | - | 408 |
| Cash and Cash Equivalents | <u>-</u> | <u>30,227</u> |
| | - | 30,635 |
| Current Liabilities | | |
| Creditors | - | (777) |
| Income in Advance | <u>-</u> | <u>-</u> |
| Total Assets less Liabilities | <u>-</u> | <u>35,121</u> |
| Reserves | | |
| Revenue Account Surpluses | - | (1,546) |
| Earmarked Reserves | <u>-</u> | <u>(33,575)</u> |
| | <u>-</u> | <u>(35,121)</u> |

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Note 9: Members' Allowances

Details of the amounts paid to each elected member of the Council are published annually. The total amount paid to members in respect of basic, special responsibility, travel & subsistence and carer's allowances was £693,057 (last year: £698,323). An analysis of the allowances paid is shown at Appendix B.

Note 10: Employee remuneration

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

| Remuneration Summary Salary Range | Number of Employees | | | |
|--------------------------------------|---------------------|----------------|----------------|----------------|
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| | <i>Council</i> | <i>Council</i> | <i>Schools</i> | <i>Schools</i> |
| £50,001 - £55,000 | 23 | 17 | 26 | 28 |
| £55,001 - £60,000 | 24 | 22 | 11 | 17 |
| £60,001 - £65,000 | 6 | 2 | 12 | 15 |
| £65,001 - £70,000 | 5 | 4 | 11 | 12 |
| £70,001 - £75,000 | 2 | 4 | 7 | 11 |
| £75,001 - £80,000 | - | 2 | 4 | 1 |
| £80,001 - £85,000 | 4 | 7 | - | 1 |
| £85,001 - £90,000 | 4 | 1 | - | - |
| £90,001 - £95,000 | 1 | 1 | - | - |
| £95,001 - £100,000 | 2 | 5 | - | - |
| £100,001 - £105,000 | 1 | 3 | 1 | 2 |
| £105,001 - £110,000 | - | - | - | - |
| £110,001 - £115,000 | 5 | - | - | - |
| £120,001 - £125,000 | 1 | - | - | - |
| £125,001 - £130,000 | 1 | 1 | - | - |
| £130,001 - £135,000 | - | 1 | - | - |
| £135,001 - £140,000 | - | 1 | - | - |

Remuneration of the Chief Executive and his senior staff has been excluded above. Details are shown in the following tables.

| Remuneration of Senior Employees 2016/17 | | | | | | |
|--|---|-------------------------|-----------------------|---|----------------------------|---|
| Post holder information | Salary (Including fees & Allowances) £ | Expense Allowances £ | Benefits in kind £ | Total Remuneration excluding pension contributions 2016/17 £ | Pension contributions £ | Total Remuneration including pension contributions 2016/17 £ |
| Chief Executive - Neil Schneider | 166,843 | 86 | 5,168 | 172,097 | 23,859 | 195,956 |
| Deputy Chief Executive | 134,862 | 170 | - | 135,032 | 19,285 | 154,317 |
| Director of Children's Services ¹ | 97,356 | 716 | - | 98,072 | 13,922 | 111,994 |
| Director of Children's Services ² | 28,406 | - | - | 28,406 | 4,062 | 32,468 |
| Director of Adults & Health ³ | 47,703 | 483 | - | 48,186 | 6,770 | 54,956 |
| Director of Adults & Health ⁴ | 40,400 | - | - | 40,400 | 5,777 | 46,177 |
| Monitoring Officer | 97,100 | - | - | 97,100 | 13,885 | 110,985 |
| | 612,670 | 1,455 | 5,168 | 619,293 | 87,560 | 706,853 |

Note 10: Employee remuneration

| Remuneration of Senior Employees 2015/16 | | | | | | |
|---|---|---------------------------|-------------------------|---|------------------------------|---|
| Post holder information | Salary (Including fees & Allowances) | Expense Allowances | Benefits in kind | Total Remuneration excluding pension contributions 2015/16 | Pension contributions | Total Remuneration including pension contributions 2015/16 |
| | £ | £ | £ | £ | £ | £ |
| <i>Chief Executive - Neil Schneider</i> | 165,191 | 75 | 4,098 | 169,364 | 23,622 | 192,986 |
| <i>Deputy Chief Executive</i> | 133,524 | 352 | - | 133,876 | 19,094 | 152,970 |
| <i>Director of Children's Services</i> | 128,523 | 956 | - | 129,479 | 18,379 | 147,858 |
| <i>Corporate Director, Development & Neighbourhood Services</i> | 96,392 | 152 | - | 96,544 | 13,784 | 110,328 |
| <i>Director of Adults & Health</i> | 107,367 | 622 | - | 107,989 | 15,296 | 123,285 |
| <i>Monitoring Officer</i> | 96,139 | - | - | 96,139 | 13,748 | 109,887 |
| | 727,136 | 2,157 | 4,098 | 733,391 | 103,923 | 837,314 |

Notes:

- 1 Up to 31 December 2016
- 2 From 1 January 2017
- 3 Up to 31 August 2016
- 4 From 22 November 2016

Note 11: Non Current Assets - Property, Plant & Equipment

| Movements in 2016/17 | Other Land & Buildings | Vehicles, Plant & Equipment | Infrastructure Assets | Community Assets | Surplus Assets | PP&E Under Construction | Total |
|--|-----------------------------------|--|------------------------------|-------------------------|-----------------------|------------------------------------|------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Cost or Valuation | | | | | | | |
| At 1 April 2016 | 174,618 | 15,239 | 257,451 | 437 | 19,351 | - | 467,096 |
| Additions | 7,422 | 1,075 | 13,257 | | 353 | 1,066 | 23,173 |
| Accumulated depreciation & impairment written off to GCA | (17,955) | | | | (60) | | (18,015) |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (9,955) | | | | 673 | | (9,282) |
| Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on provision of services | (3,616) | | | | 63 | | (3,553) |
| Derecognition - disposals | (16,037) | (965) | | | (56) | | (17,058) |
| Reclassified to/from held for sale/surplus | | | | | 1,550 | | 1,550 |
| Other reclassifications | (203) | | 11 | | 192 | | - |
| At 31 March 2017 | 134,274 | 15,349 | 270,719 | 437 | 22,066 | 1,066 | 443,911 |
| Accumulated Depreciation and Impairment | | | | | | | |
| At 1 April 2016 | (30,286) | (7,356) | (84,714) | (362) | (13,324) | - | (136,042) |
| Depreciation Charge | (10,405) | (1,564) | (7,681) | | (49) | | (19,699) |
| Accumulated depreciation written off to GCA | 16,684 | | | | 60 | | 16,744 |
| Accumulated impairment written off to GCA | 1,271 | | | | | | 1,271 |
| Impairment losses/reversals recognised in the Revaluation Reserve | | | | | | | - |
| Impairment losses/reversals recognised in the (Surplus)/Deficit on provision of services | (879) | (271) | (47) | | (365) | | (1,562) |
| Derecognition - disposals | 1,742 | 873 | | | 2 | (2) | 2,615 |
| Other reclassifications | 13 | | (11) | | (2) | | - |
| At 31 March 2017 | (21,860) | (8,318) | (92,442) | (362) | (13,678) | (2) | (136,673) |
| Net Book Value | | | | | | | |
| At 31 March 2017 | 112,414 | 7,031 | 178,277 | 75 | 8,388 | 1,064 | 307,238 |
| At 31 March 2016 | 144,332 | 7,883 | 172,737 | 75 | 6,027 | - | 331,054 |

Note 11: Non Current Assets - Property, Plant & Equipment

| Movements in 2015/16 (Prior Year Comparitors) | Other Land & Buildings | Vehicles, Plant & Equipment | Infrastructure Assets | Community Assets | Surplus Assets | PP&E Under Construction | Total |
|--|-----------------------------------|--|------------------------------|-------------------------|-----------------------|------------------------------------|------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Cost or Valuation | | | | | | | |
| At 31 March 2015 | 172,761 | 14,831 | 241,411 | 437 | 15,243 | 3,697 | 448,380 |
| Additions | 6,678 | 2,462 | 16,040 | | 866 | 2,300 | 28,346 |
| Accumulated depreciation & impairment written off to GCA | (1,382) | | | | (211) | | (1,593) |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 1,364 | | | | 3,667 | | 5,031 |
| Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on provision of services | 1,483 | | | | (3,123) | | (1,640) |
| Derecognition - disposals | (8,321) | (2,054) | | | (50) | | (10,425) |
| Reclassified to/from held for sale/surplus | (4,000) | | | | 2,997 | | (1,003) |
| Other reclassifications | 6,035 | | | | (38) | (5,997) | - |
| At 31 March 2016 | 174,618 | 15,239 | 257,451 | 437 | 19,351 | - | 467,096 |
| Accumulated Depreciation and Impairment | | | | | | | |
| At 31 March 2015 | (21,352) | (7,143) | (77,328) | (362) | (12,613) | - | (118,798) |
| Depreciation Charge | (7,949) | (1,581) | (7,360) | | (56) | | (16,946) |
| Accumulated depreciation written off to GCA | 825 | | | | 211 | | 1,036 |
| Accumulated impairment written off to GCA | 557 | | | | | | 557 |
| Impairment losses/reversals recognised in the (Surplus)/Deficit on provision of services | (48) | | | | | | (48) |
| Impairment losses/reversals recognised in the (Surplus)/Deficit on provision of services | (2,400) | (318) | (26) | | (866) | | (3,610) |
| Derecognition - disposals | 81 | 1,686 | | | | | 1,767 |
| Other reclassifications | | | | | | | - |
| At 31 March 2016 | (30,286) | (7,356) | (84,714) | (362) | (13,324) | - | (136,042) |
| Net Book Value | | | | | | | |
| At 31 March 2016 | 144,332 | 7,883 | 172,737 | 75 | 6,027 | - | 331,054 |
| At 31 March 2015 | 151,409 | 7,688 | 164,083 | 75 | 2,630 | 3,697 | 329,582 |

Depreciation

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

Other Land and Buildings - 30 to 90 years

Vehicles, Plant, Furniture & Equipment - 5 to 15 years

Infrastructure - 10 to 40 years

Componentisation - 3 to 40 years

Note 11: Non Current Assets - Property, Plant & Equipment

Capital Commitments

At 31 March 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £15.1m of which the major schemes are as follows:

Street Lighting - £2.9m

School Place extensions - £4.2m

The total value of contracts in place at the balance sheet date was £7.1m

Revaluations

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every three years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

| Operational Assets | Other Land & Buildings £000s | Vehicles, Plant & Equipment £000s | Surplus Assets £000s | Total £000s |
|---------------------------------------|---|--|---------------------------------|------------------------|
| Valued at historical cost | 47,389 | 15,349 | 13,678 | 76,416 |
| Valued at current value as at: | | | | |
| Current Year | 45,196 | | 4,399 | 49,595 |
| 2015/2016 | 11,832 | | 4,000 | 15,832 |
| 2014/2015 | 20,339 | | | 20,339 |
| | | | | - |
| Total | 124,756 | 15,349 | 22,077 | 162,182 |

Note 12: Non Current Assets - Heritage Assets

| 2016/17 | Artworks | Ceramics Glass Silverware & Decorative Art | Weapons & Militaria | Transport | Archaeo- logical | Civic Regalia | Total |
|--------------------------|-----------------|---|------------------------------------|------------------|-----------------------------|--------------------------|--------------|
| Cost or Valuation | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| At 1 April 2016 | 3,865 | 634 | 1,625 | 198 | 1,000 | 144 | 7,466 |
| Additions | 54 | - | - | - | - | - | 54 |
| Revaluations | 2,105 | - | - | - | - | - | 2,105 |
| At 31 March 2017 | 6,024 | 634 | 1,625 | 198 | 1,000 | 144 | 9,625 |

| 2015/16 | Artworks | Ceramics Glass Silverware & Decorative Art | Weapons & Militaria | Transport | Archaeo- logical | Civic Regalia | Total |
|--------------------------|-----------------|---|------------------------------------|------------------|-----------------------------|--------------------------|--------------|
| Cost or Valuation | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| At 31 March 2015 | 2,794 | 600 | 1,600 | 183 | 1,000 | 144 | 6,321 |
| Revaluations | 1,071 | 34 | 25 | 15 | - | - | 1,145 |
| At 31 March 2016 | 3,865 | 634 | 1,625 | 198 | 1,000 | 144 | 7,466 |

Note 13: Expenditure and Income Analysed By Nature

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

| | 2016/17 | 2015/16 |
|--|------------------|------------------|
| | £000s | £000s |
| Expenditure | | |
| Employee benefits expenses | 160,304 | 171,358 |
| Other services expenses | 286,048 | 260,132 |
| Support service recharges | 20,033 | 24,093 |
| Depreciation, amortisation and impairment | 22,703 | 20,749 |
| Interest payments | 32,901 | 31,735 |
| Precepts and levies | 699 | 649 |
| Payments to Housing Capital Receipts Pool | 3 | 5 |
| (Gain) or Loss on the disposal of assets | 10,896 | 6,568 |
| Total Expenditure | 533,587 | 515,289 |
| Income | | |
| Fees, charges and other service income | (53,647) | (54,805) |
| Interest and investment income | (22,154) | (21,851) |
| Income from council tax and business rates | (116,543) | (108,775) |
| Government grants and contributions | (268,826) | (332,769) |
| Total Income | (461,170) | (518,200) |
| (Surplus) or Deficit on the Provision of Services | 72,417 | (2,911) |

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Note 14: Debtors

| | 31 March 2017 | 31 March 2016 |
|--------------------------------|----------------------|---------------|
| | £000s | £000s |
| Central Government | 7,747 | 6,243 |
| Local Government | 3,576 | 4,193 |
| National Health Service | 602 | 936 |
| Local Taxation | 6,063 | 4,019 |
| Other entities and individuals | 15,509 | 16,269 |
| | 33,497 | 31,660 |

Other entities and individuals include:

| | 31 March 2017 | 31 March 2016 |
|------------------------------|----------------------|---------------|
| | £000s | £000s |
| Housing Benefit Overpayments | 3,388 | 2,687 |
| Sundry (Trade) Debtors | 7,846 | 8,942 |
| Payments In Advance | 4,244 | 4,600 |
| Car Loans to Employees | 31 | 40 |
| | 15,509 | 16,269 |

Note 15: Cash and Cash Equivalents

| | 31 March 2017 | 31 March 2016 |
|-------------------|----------------------|---------------|
| | £000s | £000s |
| Bank and Imprests | 82 | 90 |
| Cash Equivalents | 42,022 | 74,472 |
| Bank Overdraft | (8,181) | (9,244) |
| | 33,923 | 65,318 |

Note 16: Short Term Creditors

| | 31 March 2017 | 31 March 2016 |
|--------------------------------|----------------------|---------------|
| | £000s | £000s |
| Central Government | (10,703) | (8,440) |
| Local Government | (3,093) | (5,878) |
| National Health Service | (434) | (1,115) |
| Local Taxation | (1,952) | (1,719) |
| Other entities and individuals | (20,914) | (13,641) |
| | (37,096) | (30,793) |

Other entities and individuals include:

| | 31 March 2017 | 31 March 2016 |
|--------------------------|----------------------|---------------|
| | £000s | £000s |
| Sundry (Trade) Creditors | (1,737) | (1,483) |
| Capital accruals | (1,005) | (1,194) |
| Revenue accruals | (14,920) | (8,611) |
| Employee Benefits | (1,668) | (1,437) |
| Income in advance | (1,584) | (916) |
| | (20,914) | (13,641) |

Note 17: Other Long Term Liabilities

| | 31 March 2017 | 31 March 2016 |
|-------------------------|----------------------|---------------|
| | £000s | £000s |
| Finance lease liability | (1,099) | (1,328) |
| PFI liability | (6,110) | (6,590) |
| Net pensions liability | (212,793) | (228,540) |
| | (220,002) | (236,458) |

Note 18: Capital Adjustment Account

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

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

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

| | 2016/17 | 2015/16 |
|---|-------------------------|-------------------------|
| | £000s | £000s |
| Balance at 1 April | (177,648) | (173,785) |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| • Charges for depreciation and impairment of non-current assets | 20,202 | 18,009 |
| • Revaluation losses on property, plant and equipment | 3,552 | 1,639 |
| • Revaluation losses on AHFS & Investment Properties | (516) | (301) |
| • Amortisation of intangible assets | 80 | 520 |
| • Revenue expenditure funded from capital under statute | 4,018 | 17,795 |
| • Amounts of non-current assets written off on disposal or sale | <u>12,150</u> | <u>8,743</u> |
| | 39,486 | 46,405 |
| Capital financing applied in the year: | | |
| • Use of the Capital Receipts Reserve to finance new capital expenditure | (2,937) | (2,573) |
| • Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (9,884) | (6,949) |
| • Application of grants to capital financing from the Capital Grants Unapplied Account | (10,068) | (25,609) |
| • Statutory provision for the financing of capital investment charged against the General Fund balance | (5,191) | (5,411) |
| • Capital expenditure charged against the General Fund balance | <u>(3,181)</u> | <u>(9,726)</u> |
| | (31,261) | (50,268) |
| Other adjustments | - | - |
| Balance at 31 March | <u>(169,423)</u> | <u>(177,648)</u> |

Note 19: 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.

| | 2016/17 | 2015/16 |
|--|-----------------|----------|
| | £000s | £000s |
| Balance at 1 April | | (55,831) |
| Upward revaluation of assets | (6,263) | (6,953) |
| Downward revaluation of assets and impairment losses not charged to the (surplus)/deficit on the provision of services | 13,441 | 826 |
| Surplus or deficit on revaluation of non-current assets not posted to the (surplus)/deficit on the provision of services | | (6,127) |
| Difference between fair value depreciation and historical cost depreciation | 1,110 | 2,634 |
| Accumulated gains on assets sold or scrapped | 2,655 | 730 |
| Amount written off to the Capital Adjustment Account | | 3,364 |
| Balance at 31 March | (47,651) | (58,594) |

Note 20: Collection Fund Adjustment Account

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

| | 2016/17 | 2015/16 |
|--|----------------|---------|
| | £000s | £000s |
| Balance at 1 April | 2,032 | (2,003) |
| 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 | 85 | 1,930 |
| Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements | (6,933) | 2,105 |
| Balance at 31 March | (4,816) | 2,032 |

Note 21: Related Party Transactions

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

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 8 on reporting for resources allocation decisions.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 9. During 2016/17, no services were commissioned from a company, NWA Market and Social Research Ltd, in which two members have a controlling interest (last year: £11,175). Contracts were entered into in full compliance with the Council's standing orders.

Entities Controlled or Significantly Influenced by the Council

A number of elected members and senior officers sit on the management committees or boards of local organisations. During 2016/17 the Council had transactions that totalled £4.56million (last year: £2.9million) to bodies that included Tees Valley Arts, Elm Tree Community Association, Catalyst Stockton-on-Tees, Stockton Shopmobility, Spark of Genius North East, Stockton & District Advice and Information Service, Stockton Arts Centre (Arc), Teesside & District Society for the Blind, and the Corner House Youth Project. The transactions consisted of grants and payments for services provided to and by the Council.

Tees Valley Unlimited

Stockton-on-Tees Borough Council acted as the accountable body for Tees Valley Unlimited (TVU). TVU is the private and public sector Local Enterprise Partnership striving to deliver jobs and economic growth across the Tees Valley.

Tees Valley Unlimited is now part of the Tees Valley Combined Authority which came into being on 1st April 2016. Additional information can be found on the Tees Valley Combined Authority website: <https://teesvalley-ca.gov.uk/>

Note 22: External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council’s external auditors:

| | 2016/17 £000s | 2015/16 £000s |
|---|--------------------------------|------------------|
| Fees payable to Mazars LLP with regard to external audit services | 127 | 127 |
| Fees payable to Mazars LLP for the certification of grant claims | 19 | 12 |
| Fees payable in respect of other services provided by Mazars LLP | 5 | 8 |
| | 151 | 147 |

Note 23: Dedicated Schools Grant

The Council’s expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2014. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

| | Central Expenditure £000s | Individual Schools Budget £000s | Total £000s |
|---|--|--|------------------------------|
| Final Dedicated Schools Grant for 2016/17 before academy recoupment | | | 142,799 |
| Academy figure recouped for 2016/17 | | | 56,735 |
| Total DSG after Academy recoupment for 2016/17 | | | 86,064 |
| Brought forward from 2015/16 | | | (226) |
| Carry-forward to 2016/17 agreed in advance | | | - |
| Agreed initial budgeted distribution in 2016/17 | 8,644 | 77,194 | 85,838 |
| In year adjustments | (148) | - | (148) |
| Final budgeted distribution for 2016/17 | 8,497 | 77,194 | 85,691 |
| Less Actual central expenditure | 8,418 | | |
| Less Actual ISB deployed to schools | | 77,194 | |
| Plus Local authority contribution for 2016/17 | - | - | - |
| Carry-forward to 2017/18 | 79 | - | 79 |

Note 24: Private Finance Initiative and Similar Contracts

The Council entered into an agreement with Robertson Group to build a secondary school, primary school, nursery unit and a community library at Ingleby Barwick under the Private Finance Initiative. Ingleby Barwick Community Campus opened in September 2003 and payments to the contractor started from that date for a period of 25 years. The contractor took on the obligation to construct the buildings and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate them. The secondary school has attained academy status and is not therefore included within assets held under the scheme.

Payments

The Council makes a contractual payment which is increased each year by an agreed inflation formula and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2017 (excluding any estimation of inflation and availability/performance deductions) are as follows:

| Future Payments | Payment for Services | Reimbursement of Capital Expenditure | Interest | Total |
|--------------------------------|-----------------------------|---|-----------------|---------------|
| | £000s | £000s | £000s | £000s |
| Payment due: | | | | |
| In 2017/18 | 568 | 324 | 515 | 1,407 |
| Within two to five years | 2,180 | 1,653 | 1,796 | 5,629 |
| Within six to ten years | 2,748 | 2,966 | 1,323 | 7,037 |
| Within eleven to fifteen years | 696 | 1,167 | 131 | 1,994 |
| | 6,192 | 6,110 | 3,765 | 16,067 |

Note 25: Leases

Operating leases: Council as lessor

The Council acts as a lessor and has granted a number of long-term leases to commercial operations for land and property, accounting for them as operating leases.

| Future minimum lease payments receivable | 2016/17 £000s | 2015/16 £000s |
|---|--------------------------|------------------|
| Not later than one year | 372 | 383 |
| Later than one year & not later than five years | 1,232 | 1,273 |
| Later than five years | 26,040 | 26,841 |
| | 27,644 | 28,497 |

Note 26: Capital Expenditure and Financing

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

| | 31 March 2017 | 31 March 2016 |
|---|----------------------|---------------|
| | £000s | £000s |
| Opening Capital Financing Requirement | 112,728 | 116,701 |
| Capital investment | | |
| Property, plant and equipment | 23,228 | 28,347 |
| Intangible assets | 101 | 153 |
| Revenue expenditure funded from capital under statute | 4,018 | 17,794 |
| Sources of Finance | | |
| Capital receipts | (2,936) | (2,573) |
| Government grants and other contributions | (19,952) | (32,557) |
| <i>Sums set aside from revenue:</i> | | |
| Direct revenue contributions | (3,180) | (9,726) |
| Minimum Revenue Provision (MRP) | (5,191) | (5,411) |
| Closing Capital Financing Requirement | 108,816 | 112,728 |
| Explanation of movements in year | | |
| Reduction in underlying need to borrow | (4,019) | (5,410) |
| Assets acquired under finance leases | 107 | 1,437 |
| Increase/(decrease) in Capital Financing Requirement | (3,912) | (3,973) |

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Note 27: Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17. This excludes Designated Schools Grant which is detailed in Note 23.

| | 2016/17 £000s | 2015/16 £000s |
|---|--------------------------------|------------------|
| Credited to Taxation and Non Specific Grant Income | | |
| RSG | 21,960 | 30,146 |
| New Homes Bonus | 4,743 | 3,987 |
| NNDR s31 Grant | 1,690 | 1,572 |
| DCSF Capital Grants | 7,220 | 6,390 |
| Local Transport Plan | 3,857 | 3,866 |
| DFT LGF | - | 1,870 |
| HCA - Northshore | - | 581 |
| ERDF - Northshore | - | 460 |
| DFG | - | 327 |
| Other Capital Contributions | 2,490 | 4,330 |
| Total | 41,960 | 53,529 |
| Credited to Services | | |
| Public Health | 14,639 | 13,574 |
| Housing Benefit and Council Tax Benefit Administration | 1,563 | 1,231 |
| SFA/ESA | 3,061 | 4,739 |
| Rent Rebates | 132 | 164 |
| Rent Allowance Subsidy | 69,202 | 75,356 |
| Education Services Grant | 1,689 | 2,063 |
| Regional Growth Fund | - | 3,803 |
| Pupil Premium | 8,128 | 9,011 |
| Adoption Reform Grant | 444 | 18 |
| Department of Health Grants | 264 | 119 |
| Care Act Funding | - | 1,007 |
| Disabled Facilities Grant | 1,250 | 712 |
| Independent Living Fund | 552 | 436 |
| Local Sustainable Transport Fund | 161 | 1,481 |
| TVU LGF | - | 15,212 |
| TVU SSI | - | 4,050 |
| Other Grants | 8,085 | 5,709 |
| Total | 109,170 | 138,685 |

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

Capital and Revenue Grants Receipts in Advance

| | 31 March 2017 £000s | 31 March 2016 £000s |
|--|--------------------------------------|------------------------|
| Devolved Formula Capital | 351 | 477 |
| Environment Agency Flood Defence | - | 400 |
| Offenders' Learning and Skills Service | 82 | 82 |
| Foundation Learning | 166 | 166 |
| Total | 599 | 1,125 |

Note 28: Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

| | Long Term | | Current | |
|--|----------------------|---------------|----------------------|---------------|
| | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| | £000s | £000s | £000s | £000s |
| Loans and receivables | 520 | 5,153 | 62,058 | 102,565 |
| Available-for-sale financial assets | 377 | 377 | - | - |
| Financial assets carried at contract amounts | - | - | 17,374 | 18,261 |
| Total financial assets | 897 | 5,530 | 79,432 | 120,826 |
| Financial liabilities at amortised cost | (47,877) | (48,147) | (267) | (173) |
| Financial liabilities carried at contract amount | (191) | (215) | (39,188) | (33,143) |
| PFI and finance lease liabilities | (7,209) | (7,918) | - | - |
| Total financial liabilities | (55,277) | (56,280) | (39,455) | (33,316) |

Fair Values of Financial Assets and Financial 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 and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB payable, borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, we have assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans on Balance Sheet date (which could be viewed as a proxy for transfer value);
- For non-PWLB loans payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Mark to Model Valuation for Financial Instruments

As at 31st March the Council held £80.3m financial assets and £94.7m financial liabilities for which Level 2 valuations will apply. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. The financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose Ltd. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

Note 28: Financial Instruments

The fair values calculated are as follows:

| Financial liabilities | 31 March 2017 | | 31 March 2016 | |
|------------------------------------|----------------------|------------------|----------------------|------------------|
| | Carrying | Fair | Carrying | Fair |
| | Amount | Value | Amount | Value |
| | £000s | £000s | £000s | £000s |
| PWLB debt | (4,697) | (7,137) | (4,872) | (6,405) |
| Non-PWLB debt | (43,447) | (79,238) | (43,448) | (62,416) |
| Short term creditors | (31,050) | (31,050) | (23,898) | (23,898) |
| Bank Overdraft | (8,138) | (8,138) | (9,245) | (9,245) |
| Finance lease liability | (1,099) | (1,099) | (1,328) | (1,328) |
| PFI liability | (6,110) | (9,545) | (6,590) | (10,310) |
| Long term creditors | (191) | (191) | (215) | (215) |
| Total financial liabilities | (94,732) | (136,398) | (89,596) | (113,817) |

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates for similar loans in the market at the balance sheet date.

| Loans and receivables | 31 March 2017 | | 31 March 2016 | |
|-------------------------------------|----------------------|---------------|----------------------|----------------|
| | Carrying | Fair | Carrying | Fair |
| | Amount | Value | Amount | Value |
| | £000s | £000s | £000s | £000s |
| Money Market Loans < 1 year | 20,036 | 20,036 | 28,093 | 28,093 |
| Other Loans >1 year | 520 | 520 | 5,153 | 5,153 |
| Cash on Deposit | 42,022 | 42,022 | 74,472 | 74,472 |
| Customers | 17,374 | 17,374 | - | - |
| Available for Sale financial assets | 377 | 377 | 377 | 377 |
| Total loans and receivables | 80,329 | 80,329 | 108,095 | 108,095 |

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Nature and Extent of Risks Arising from Financial Instruments

Key risks

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

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

Overall procedures for managing risks

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:

Note 28: Financial Instruments

- The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year and quarterly updates are provided to the Audit Committee.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £12,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

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

| | Amount at 31 March 2017 | Historical experience of default | Adjustment for market conditions at 31 March 2017 | Estimated maximum exposure to default at 31 March 2017 | Estimated maximum exposure to default at 31 March 2016 |
|------------------------|----------------------------|--|--|--|--|
| | £000s | % | % | £000s | £000s |
| A rated counterparties | 20,000 | 0.06% | 0.06% | 12 | 22 |
| Debtors | 18,894 | 8.21% | 8.21% | 1,551 | 1,544 |
| | | | | 1,563 | 1,566 |

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non performance by any of its counterparties in relation to deposits.

The debtors' balance represents the amount due to the Council from customers (excluding council tax and business rates arrears and overpayments of housing benefits). A bad debt provision of £1.551m (excluding council tax, business rates and overpayments of housing benefits) is held on the Balance Sheet to provide against the risk of default on the debt outstanding.

Liquidity Risk

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

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

As at 31 March 2017, all of the Council's deposits were due to mature within 364 days.

Note 28: Financial Instruments

Refinancing and Maturity risk

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

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

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

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

| | Approved minimum limits | Approved maximum limits | 31 March 2017 | | 31 March 2016 | |
|----------------------|-------------------------------|-------------------------------|-----------------|--------|-----------------|--------|
| | | | £000s | % | £000s | % |
| Less than one year | 0% | 15% | (267) | 0.6% | (173) | 0.4% |
| Between 1 & 2 years | 0% | 15% | (156) | 0.9% | (267) | 0.9% |
| Between 2 & 5 years | 0% | 55% | (2,096) | 5.3% | (2,236) | 5.6% |
| Between 5 & 10 years | 0% | 75% | (4,086) | 13.9% | (4,059) | 14.1% |
| More than 10 years | 0% | 100% | (41,076) | 100.0% | (41,119) | 100.0% |
| | | | (47,681) | | (47,854) | |

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

Market Risk

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

- borrowings at variable rates – the interest expense charged to the (Surplus) or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

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

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

Note 28: Financial Instruments

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | 2016/17 | 2015/16 |
|--|-----------------|----------|
| | £000s | £000s |
| Increase in interest payable on variable rate borrowings | 370 | 140 |
| Increase in interest receivable on variable rate investments | (346) | - |
| | <hr/> | <hr/> |
| Impact on (Surplus) or Deficit on the Provision of Services | 24 | 140 |
| | <hr/> | <hr/> |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | (13,985) | (10,286) |
| | <hr/> | <hr/> |

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

Price Risk: The Council, excluding the pension fund, does not invest in equity shares or marketable bonds.

Foreign Exchange Risk: The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

Note 29: Pensions Schemes Accounted for as Defined Contribution Schemes

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

Former NHS staff who transferred to the Council as part of the transfer of Public Health responsibilities are members of the NHS Pension Scheme that is administered by NHS Pensions on behalf of the Department of Health (DoH). The scheme provides employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

Both schemes are technically a defined benefit scheme. However, the schemes are unfunded and notional funds are used as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the schemes with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, they are therefore accounted for on the same basis as defined contribution schemes.

Contributions to the schemes by the Council and contribution rate as a percentage of total pay are shown in the table below:

| Scheme | Contributions 2016/17 | | Contributions 2015/16 | |
|--------------------------|--------------------------|-------|--------------------------|-------|
| | £000s | % | £000s | % |
| Teachers' Pension Scheme | 4,920 | 16.48 | 5,639 | 16.48 |
| NHS Pension Scheme | 33 | 14.30 | 39 | 14.30 |
| | 4,953 | | 5,678 | |

There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 30.

Note 30: 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 that 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 Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits

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

Note 30: Defined Benefit Pension Schemes

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|--|-----------|--|----------|
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| | £000s | £000s | £000s | £000s |
| Comprehensive Income and Expenditure Statement | | | | |
| Cost of Services: | | | | |
| • Current service cost | 17,749 | 18,082 | - | - |
| • Past service cost | 833 | 454 | - | - |
| Financing and Investment Income and Expenditure | | | | |
| Net interest cost | 6,585 | 5,988 | 955 | 968 |
| Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services | 25,167 | 24,524 | 955 | 968 |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | | | |
| • Return on plan assets (excluding the amount included in the net interest expense) | (90,292) | 34,519 | - | - |
| • Actuarial gains and losses arising on changes in financial assumptions | 181,472 | (33,430) | 2,619 | (593) |
| • Actuarial gains and losses arising due to changes in demographic assumptions | (18,977) | | (749) | |
| • Actuarial gains and losses due to liability experience | (101,848) | (7,482) | (422) | (534) |
| • Actuarial gains and losses due to acquisitions | - | - | - | - |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | (29,645) | (6,393) | 1,448 | (1,127) |
| Movement in Reserves Statement | | | | |
| Reversal of net charges made to the (Surplus) or Deficit for the | | | | |
| • Provision of Services for post employment benefits in accordance with the Code | (25,167) | (24,524) | (955) | (968) |
| Actual amount charged against the General Fund Balance for pensions in the year: | | | | |
| • Employers' contributions payable to scheme | 11,679 | 11,482 | | |
| • Retirement benefits payable to pensioners | | | 1,993 | 2,048 |
| Pension Assets and Liabilities Recognised in the Balance Sheet | | | | |
| The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows: | | | | |
| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| | £000s | £000s | £000s | £000s |
| Present value of defined benefit obligation | (930,711) | (844,131) | (29,483) | (29,073) |
| Fair value of plan assets | 747,401 | 644,664 | - | - |
| Net liability recognised in the Balance Sheet | (183,310) | (199,467) | (29,483) | (29,073) |

Note 30: Defined Benefit Pension Schemes

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|--|---------------------------------|------------------|-------------------------------------|------------------|
| | 2016/17 £000s | 2015/16 £000s | 2016/17 £000s | 2015/16 £000s |
| Opening fair value of scheme assets | 644,664 | 667,338 | - | - |
| Interest income | 21,767 | 21,211 | - | - |
| Remeasurement gains and (losses) | 90,292 | (34,519) | 1,993 | 2,048 |
| Contributions from the employer | 11,679 | 11,482 | - | - |
| Contributions from employees into the scheme | 4,876 | 4,953 | - | - |
| Benefits paid | (25,877) | (25,801) | (1,993) | (2,048) |
| Closing balance at 31 March | 747,401 | 644,664 | - | - |

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|--|---------------------------------|------------------|-------------------------------------|------------------|
| | 2016/17 £000s | 2015/16 £000s | 2016/17 £000s | 2015/16 £000s |
| Opening balance at 1 April | (844,131) | (860,156) | (29,073) | (31,280) |
| Current service cost | (17,749) | (18,082) | - | - |
| Interest cost | (28,352) | (27,199) | (955) | (968) |
| Contributions by scheme participants | (4,876) | (4,953) | - | - |
| Actuarial gains and losses - financial assumptions | (181,472) | 33,430 | (2,619) | 593 |
| Actuarial gains and losses - demographic assumptions | 18,977 | - | 749 | - |
| Actuarial gains and losses - liability experience | 101,848 | 7,482 | 422 | 534 |
| Benefits paid | 25,877 | 25,801 | 1,993 | 2,048 |
| Past service cost | (833) | (454) | - | - |
| Closing balance at 31 March | (930,711) | (844,131) | (29,483) | (29,073) |

Local Government Pension Scheme assets comprised:

| | Fair value of scheme assets | | | |
|-----------------------------|-----------------------------|--------------|---------|-------|
| | 2016/17 | | 2015/16 | |
| | £000s | % | £000s | % |
| Equity investments (Quoted) | 597,921 | 80.0 | 547,320 | 84.9 |
| Property (Quoted) | 51,571 | 6.9 | 45,126 | 7.0 |
| Government Bonds | 1,495 | 0.2 | 9,025 | 1.4 |
| Corporate Bonds | 1,495 | 0.2 | 10,315 | 1.6 |
| Cash | 83,709 | 11.2 | 32,878 | 5.1 |
| Other Investments | 11,211 | 1.5 | - | - |
| | 747,401 | 100.0 | 644,664 | 100.0 |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

Note 30: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

| | 2016/17 | 2015/16 |
|---|----------------|---------|
| Mortality assumptions: | | |
| <i>Longevity at 65 for current pensioners:</i> | | |
| Men | 22.8 | 23.1 |
| Women | 24.9 | 25.6 |
| <i>Longevity at 45 for future pensioners:</i> | | |
| Men | 25.0 | 25.3 |
| Women | 27.2 | 28.0 |
| Other assumptions: | | |
| <i>Rate of inflation (RPI)</i> | 3.1% | 2.9% |
| <i>Rate of inflation (CPI)</i> | 2.0% | 1.8% |
| <i>Rate of increase in salaries</i> | 3.0% | 3.3% |
| <i>Rate of increase in pensions</i> | 2.0% | 1.8% |
| <i>Rate for discounting scheme liabilities</i> | 2.5% | 3.4% |
| <i>Take-up of option to convert annual pension into retirement lump sum</i> | 80.0% | 80.0% |

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

Impact on the Defined Benefit Obligation in the Scheme

| | Change in Assumption | | |
|---|-----------------------------|--------------|-------------------|
| | +0.1% p.a. | Base | -0.1% p.a. |
| | £000s | £000s | £000s |
| Rate of increase in salaries | 934,084 | 930,711 | 927,370 |
| Rate of increase in pensions in payment | 944,016 | 930,711 | 917,612 |
| Rate for discounting scheme liabilities | 914,299 | 930,711 | 947,418 |
| | -1 year | Base | +1 year |
| | £000s | £000s | £000s |
| Post retirement mortality assumption | 958,781 | 930,711 | 902,832 |

Impact on the Authority'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 a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates to pay £13.981m contributions to the scheme in 2017/2018.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years. (Last year 18.9 years).

Note 31: Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17, incurring liabilities of £3.117m (£2.21m in 2015/16). The amounts have been payable to officers from across the Council reflecting the end of specific grant funding and the rationalisation of services as part of the Council's programme of service reviews.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies 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 | |
|--|-----------------------------------|-----------|-----------------------------------|------------|--|------------|--|------------------|
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 £000s | 2015/16 £000s |
| £1 to £20,000 | 11 | 14 | 108 | 100 | 119 | 114 | 873 | 846 |
| £20,001 to £40,000 | 3 | 5 | 27 | 10 | 30 | 15 | 844 | 433 |
| £40,001 to £60,000 | 2 | 2 | 8 | 5 | 10 | 7 | 465 | 333 |
| £60,001 to £80,000 | 1 | 2 | 2 | 2 | 3 | 4 | 204 | 269 |
| £80,001 to £100,000 | - | 1 | 3 | - | 3 | 1 | 264 | 92 |
| £100,001 to £150,000 | 1 | - | - | 2 | 1 | 2 | 107 | 239 |
| £150,001 to £200,000 | - | - | 2 | - | 2 | 2 | 360 | - |
| Total | 18 | 24 | 150 | 119 | 168 | 143 | 3,117 | 2,212 |

Note 32: Provisions

The Council has established a provision for lost income that arises due to successful rating appeals by business rates payers. The Council's share of the provision at the balance sheet date stood at £3.238 m (last year £5.341m).

Note 33: Contingent Liabilities

Achieving Real Change in Communities (ARCC)

ARCC is the new probation service for the Tees Valley that has been established in association with a number of partners. The Council has agreed to guarantee the performance of ARCC under the Services Agreement pursuant to a Guarantee with the Secretary of State for Justice.

Business Rate Appeals

The Council has made a provision for the loss of Business Rates that result from appeals made by ratepayers, however it is likely that actual appeals will be made that have not currently been provided and that addition liabilities will arise in the future.

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Note 34: Better Care Fund

The Council has entered into a pooled budget arrangement with NHS Hartlepool And Stockton Clinical Commissioning Group (CCG), the Better Care Fund, for the commissioning of health and social care services for the residents of the Borough of Stockton-on-Tees. The services will be provided by the Council or the NHS depending upon the mix required by clients. The Council and the CCG have an agreement in place for funding these services that will run from April 2016 with the partners contributing funds to the pooled budget.

The pooled budget is hosted by the Council on behalf of the two partners to the agreement.

| | 2016/17 | | 2015/16 |
|--|----------------|--------------|----------------|
| | £000s | £000s | £000s |
| Funding provided to the pooled budget: | | | |
| Stockton-on-Tees Borough Council | 1,447 | | 1,383 |
| NHS Hartlepool And Stockton Clinical Commissioning Group | <u>13,088</u> | | <u>12,882</u> |
| | | 14,535 | 14,265 |
| Expenditure met from the pooled budget: | | | |
| Stockton-on-Tees Borough Council | (9,908) | | (11,421) |
| NHS Hartlepool And Stockton Clinical Commissioning Group | <u>(4,627)</u> | | <u>(2,844)</u> |
| | | (14,535) | (14,265) |
| Net surplus arising on the pooled budget during the year | | <u>-</u> | <u>-</u> |
| Council share of the net surplus arising on the fund | | <u>-</u> | <u>-</u> |

Note 35: Post Balance Sheet Events

The Council has no post balance sheet events to report.

Note 36: Statement of Accounting Policies

General Principles

The Statement of Accounts summarise the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. 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 2016/17, supported by International Financial Reporting Standards (IFRS).

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

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:

- Income 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.
- Income 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 services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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 no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

Charges to Revenue for Non Current Assets

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

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

Note 36: Statement of Accounting Policies

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

Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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 Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions on behalf of the Department of Health (DoH).
- The Local Government Pensions Scheme, administered by Middlesbrough Council.

Note 36: Statement of Accounting Policies

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pensions scheme in the year. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pensions scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the Teesside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.
- The assets of the Teesside 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 pensions 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 as part of Non Distributed Costs
- *net interest on the net defined benefit liability*: i.e. net interest expense for the Council - 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 the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- *actuarial gains and losses*: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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 negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Note 36: Statement of Accounting Policies

Discretionary Benefits

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

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are 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 Financial Statements are 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 financial statements.

Financial Instruments

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 are initially measured at fair value and are carried at their amortised cost. Where the Council holds variable rate borrowing or has undertaken restructuring exercises, fair value calculations have been undertaken to assess the potential impact of interest charges on the revenue account. These calculations have identified that moving to fair value accounting would not have a significant impact on the revenue account or Balance Sheet. As a result, adjustments have not been made to the accounts. For most of the borrowings that the Council has, 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.

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

Financial Assets

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

The Council has not given any loans to, or guarantees against loans provided by financial institutions, to external or voluntary organisations. However, the Council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the Council, such as legal charges held by the Council against properties, with sums due reimbursed from the proceeds of the sale. These are similar to loans at less than market rates and are referred to as soft loans. In such circumstances and where the financial impact of the soft loan was significant, in terms of lost interest, adjustments would be made to the relevant service revenue account and Balance Sheet.

The impact on the Council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements. This position will be reviewed annually as part of the accounts closure process.

Note 36: Statement of Accounting Policies

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

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

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

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

Available-for-Sale Assets

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

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

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 council 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.

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

Note 36: Statement of Accounting Policies

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

Government Grants and Contributions

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

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

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

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

Heritage Assets

The Council's heritage assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. 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: where the cost of an asset cannot be identified with certainty, the value has been assessed by a suitably experienced officer. In certain cases, high value heritage assets that are on long term loan to the Council have been treated as though owned by the Council and included within the reported values.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment of heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. The Council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Intangible Assets

Expenditure on nonmonetary 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.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is determined on the basis of the initial invoice price, except for stock held by Neighbourhood Services, which is valued on the basis of last invoice price.

Note 36: Statement of Accounting Policies

Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Leases

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

Where a lease covers 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 periods 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 (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement 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 benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Note 36: Statement of Accounting Policies

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 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 (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor (together with any premiums received), and
- a 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 is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital receipts Reserve in the Movement in Reserves Statement. 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.

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 therefore 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.

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the costing principles adopted by the Council which are based on those set out in of the CIPFA Service Reporting Code of Practice. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

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 and cost more than £10,000 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.

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

Note 36: Statement of Accounting Policies

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

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

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

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

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

Where decreases in value are identified, they are accounted for by:

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

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

Impairment

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

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

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

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

Depreciation

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

Note 36: Statement of Accounting Policies

Depreciation is calculated on the following bases:

- buildings – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure – straight line allocation over a period of 10 to 40 years.

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 have been identified and will be depreciated separately if the change in depreciation cost is considered to be significant. Where the change in depreciation cost is not considered to be significant then the component will not be depreciated separately. To be considered for componentisation, the item of property, plant and equipment must have a carrying value in excess of £1 million and the component part must have a cost in excess of £250,000.

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.

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 losses previously recognised in the (Surplus) or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. 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 (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the General Fund Balance in the Movement in Reserves Statement. Mortgage receipts are treated as capital receipts irrespective of their value.

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.

Private Finance Initiative (PFI) and Similar Contracts

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

- The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.
- Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement

Note 36: Statement of Accounting Policies

finance cost – an interest charge of 8.4% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease)

lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, plant and equipment when the relevant works are eventually carried out.

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 are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Contingent Liabilities & Contingent Assets

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. 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 liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute

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

VAT

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 36: Statement of Accounting Policies

Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not in Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

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:

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

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting 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 appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. this takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- 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.

Stockton-on-Tees Borough Council - Annual Financial Statements 2016/17

Collection Fund Statement for the year ended 31 March 2017

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

| | 2016/17 | | | 2015/16 | | |
|---|------------------------|---------------------------|------------------|------------------------|---------------------------|------------------|
| | Council Tax £000 | Business Rates £000 | Total £000 | Council Tax £000 | Business Rates £000 | Total £000 |
| Income | | | | | | |
| Income from Council Tax payers | (91,928) | | (91,928) | (87,611) | | (87,611) |
| Income from business ratepayers | | (84,870) | (84,870) | | (84,425) | (84,425) |
| Total Income | (91,928) | (84,870) | (176,798) | (87,611) | (84,425) | (172,036) |
| Expenditure | | | | | | |
| Precepts, demands and shares: | | | | | | |
| Central Government | | 41,416 | 41,416 | | 41,850 | 41,850 |
| Stockton-on-Tees Borough Council | 74,921 | 40,634 | 115,555 | 70,501 | 40,777 | 111,278 |
| Police & Crime Commissioner for Cleveland | 11,234 | | 11,234 | 10,771 | | 10,771 |
| Cleveland Fire Authority | 3,829 | 826 | 4,655 | 3,674 | 827 | 4,501 |
| | 89,984 | 82,876 | 172,860 | 84,946 | 83,454 | 168,400 |
| Apportionment of Previous Year Estimated Surplus/Deficit | | | | | | |
| Central Government | | (4,407) | (4,407) | | 52 | 52 |
| Stockton-on-Tees Borough Council | 1,826 | (4,319) | (2,493) | 3,735 | 51 | 3,786 |
| Police & Crime Commissioner for Cleveland | 279 | | 279 | 570 | | 570 |
| Cleveland Fire Authority | 95 | (88) | 7 | 195 | 1 | 196 |
| | 2,200 | (8,814) | (6,614) | 4,500 | 104 | 4,604 |
| Charges to Collection Fund | | | | | | |
| Write off of uncollectable amounts | 565 | 1,050 | 1,615 | (14) | 171 | 157 |
| Change in Bad Debt Provision | (716) | (339) | (1,055) | 505 | (22) | 483 |
| Change in Provision for Appeals | | (4,292) | (4,292) | | 4,775 | 4,775 |
| Cost of Collection | | 240 | 240 | | 239 | 239 |
| | (151) | (3,341) | (3,492) | 491 | 5,163 | 5,654 |
| Surplus / Deficit (-) arising during the year | 105 | (14,149) | (14,044) | 2,326 | 4,296 | 6,622 |
| Balance at 1st April | (2,256) | 7,967 | 5,711 | (4,582) | 3,671 | (911) |
| Balance at 31st March | (2,151) | (6,182) | (8,333) | (2,256) | 7,967 | 5,711 |

Stockton-on-Tees Borough Council - Annual Financial Statements 2016/17

Note 1: Council Tax Base

| Property Category and Council Tax Banding | 2016/17 | | 2015/16 | |
|---|------------------------|-----------------------|------------------------|-----------------------|
| | Number in Category No. | Band D Equivalent No. | Number in Category No. | Band D Equivalent No. |
| A - up to £40,000 | 34,968 | 13,460.10 | 35,026 | 13,288.50 |
| B - £40,001 to £52,000 | 16,188 | 9,787.40 | 16,018 | 9,674.80 |
| C - £52,001 to £68,000 | 15,426 | 11,712.80 | 15,257 | 11,545.60 |
| D - £68,001 to £88,000 | 9,332 | 8,328.60 | 9,274 | 8,261.60 |
| E - £88,001 to £120,000 | 5,309 | 6,053.60 | 5,238 | 5,975.30 |
| F - £120,001 to £160,000 | 2,170 | 2,959.80 | 2,125 | 2,907.90 |
| G - £160,001 to £320,000 | 1,277 | 2,023.20 | 1,271 | 2,014.90 |
| H - over £320,000 | 121 | 169.90 | 119 | 168.00 |
| Gross Tax Base | | 54,495.40 | | 53,836.60 |
| Non Collection | 2.0% | (1,089.90) | 3.0% | (1,615.10) |
| Council Tax Base | | 53,405.50 | | 52,221.50 |

Note 2: National Non Domestic (Business) Rates Gross Rateable Value

| | 2016/17 £ | 2015/16 £ |
|-----------------------|--------------|--------------|
| Value at the year end | 200,120,607 | 198,087,024 |

Note 3: National Non Domestic (Business) Rates Multiplier

| | 2016/17 pence | 2015/16 pence |
|-------------------------|------------------|------------------|
| Multiplier for the year | 49.7p | 49.3p |

Responsibilities for the Annual Financial Statements

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 Deputy Chief Executive;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Deputy Chief Executive's Responsibilities

The Deputy Chief Executive is responsible for the preparation of the Council's Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Deputy Chief Executive has:

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

The Deputy Chief Executive has also:

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

Certification of the accounts by the Deputy Chief Executive

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2017.

J Danks CPFA
Deputy Chief Executive

Date: 30 June 2017

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

Earmarked Reserves

Stockton Town Centre Regeneration

This incorporates the balance of funds being used by the Council to contribute to the Stockton Town Centre Regeneration project.

Approved Capital Schemes

To be used to assist the funding of capital expenditure in future years.

Street Lighting Renewal

A reserve formed to fund the three year programme to replace all of the Council's street lighting.

Fleet Renewals Fund

A reserve formed to cover the replacement of the Council's vehicle fleet.

Infrastructure Reserve

A reserve retained to support investments which generate ongoing revenue income streams.

Balances held by schools under a scheme of delegation

Balances retained by individual schools from their delegated budget.

Insurance Fund

The fund covers the insurance policy 'excess' on liability and property claims. The 'excess' on liability covers any public, employers, officials and professional indemnity and libel and slander liability claims. A property 'excess' covers claims relating to schools.

Managed Surpluses

Budget savings that are earmarked specifically for their use and form an important part of the service planning process.

Commuted Lump Sums

These lump sums have been received to help cover the maintenance costs of bridges, play areas and open spaces, for which the Council has become responsible.

Litigation Reserve

Reserve to cover the costs of potential legal action that the Council may face.

ICT Infrastructure

Reserve to develop workflow technologies and flexible working arrangements, as detailed within the Council's ICT Strategy

Government Grants Income In Advance

Reserve holding grants received by the Council whose conditions may require repayment if the grant conditions are not met. This is an IFRS requirement.

Transformation & Implementation Reserve

Reserve to support the Council as it responds to current and future budget pressures. It will fund items such as redundancy costs and the transformation agenda.

Dedicated Schools Grant

This reserve contains unutilised Dedicated Schools Grant, which can be carried forward to future years. Additional information can be found in Note 23 of the Notes to the Core Financial Statements.

Tees Valley Unlimited

The funds set aside by Tees Valley Unlimited, the Local Enterprise Partnership, for use in future years.

ARCC Probation Service

Funds set aside to support the newly formed Tees Valley-wide Probation Service partnership.

MTFP Transition Reserve

A reserve created to assist in dealing with budget pressures that will arise of the life of the Medium Term Financial Plan.

Earmarked Reserves

Other Revenue Reserves are individual reserves of generally less than £2m and include:

Public Health Reserve

Funds to support the Council's responsibilities regarding Public Health functions which were formerly a part of the National Health Service.

Winter Maintenance

This reserve has been created to offset the costs over future years of the change in the climate. This includes extra grass cutting, changes to the statutory requirements for winter maintenance of roads and extra watering of plants and trees, etc.

Prudential Financing

This reserve has been formed from service contributions to cover the costs and repayment of prudential borrowing.

Youth Offending

The reserve will be utilised to fund the Youth Offending Service, including the cost of inspection and other essential services, such as Regional Training Consortium and Developing Initiatives for Supporting Communities (DISC).

Health & Social Care Integration Reserve

Funds retained for future use from the initiatives related to the Better Care Fund and other health and social care projects.

Xentrall

Stockton Borough Council's share of any surplus generated from the Xentrall partnership with Darlington Borough Council.

Tees Achieve Surplus

Tees Achieve offers apprenticeships, E2E training programmes and adult education courses across the borough. A specific reserve has been created to ringfence funding for future developments and restructuring as funding for these projects is not guaranteed to remain at the same levels.

Miscellaneous

This reserve contains other smaller amounts which will be utilised in future years.

Time to Buy Initiative

A scheme to assist first time buyers of houses.

Members' Allowances

| Member | Basic Allowance £ | Special Responsibility Allowance £ | Travel £ | Subsistence £ | Carer's Allowance £ | Total 2016/17 £ | Total 2015/16 £ |
|---------------|----------------------|---------------------------------------|-------------|------------------|------------------------|--------------------|--------------------|
| JL Apedaile | | | | | | - | 1,050.00 |
| H Atkinson | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| S Bailey | 9,300.00 | 3,125.04 | 0.00 | 23.83 | 1,400.00 | 13,848.87 | 10,923.95 |
| P Baker | 9,300.00 | 86.81 | | | | 9,386.81 | 14,473.58 |
| C Barlow | 9,300.00 | 3,125.04 | | | | 12,425.04 | 10,836.84 |
| J Beall | 9,300.00 | 13,749.96 | 403.15 | | | 23,453.11 | 23,496.41 |
| D Brown | 9,300.00 | 6,249.96 | 31.00 | | | 15,580.96 | 13,510.09 |
| M Chatburn | | | | | | - | 1,050.00 |
| J M Cherrett | 9,300.00 | | | | | 9,300.00 | 10,468.74 |
| C Clark | 9,300.00 | | | | | 9,300.00 | 9,300.00 |
| M Clark | 1,756.67 | | | | | 1,756.67 | 9,300.00 |
| C Clough | 9,300.00 | | 134.75 | | | 9,434.75 | 8,499.10 |
| D Coleman | | | | | | - | 2,411.61 |
| R Cook | 9,300.00 | 24,999.96 | 218.14 | | | 34,518.10 | 34,628.00 |
| N Cooke | 9,300.00 | 11,250.00 | | | | 20,550.00 | 17,633.31 |
| G Corr | 9,300.00 | 2,604.20 | | | | 11,904.20 | 12,462.54 |
| E Cunningham | 9,300.00 | | | | | 9,300.00 | 9,300.00 |
| IJ Dalgarno | 9,300.00 | | | | | 9,300.00 | 9,660.21 |
| P Dennis | 9,300.00 | | | | | 9,300.00 | 9,066.69 |
| K Dixon | 9,300.00 | | | 102.84 | | 9,402.84 | 11,313.75 |
| KC Faulks | 9,300.00 | | 162.18 | | | 9,462.18 | 10,558.42 |
| J Gardner | 9,300.00 | | | | | 9,300.00 | 9,300.00 |
| R Gibson | | | | | | - | 1,806.45 |
| L Grainge | 9,300.00 | 2,369.74 | | | | 11,669.74 | 8,250.00 |
| L Hall | 9,300.00 | | | | | 9,300.00 | 8,317.73 |
| E Hampton | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| DC Harrington | 9,300.00 | 6,249.96 | | | | 15,549.96 | 16,411.08 |
| D Hewitt | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| B Houchen | 9,300.00 | 5,000.04 | | | | 14,300.04 | 14,296.71 |
| S Houghton | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| B Inman | 9,300.00 | | | | | 9,300.00 | 9,300.00 |
| M Javed | 9,300.00 | 6,249.96 | | | | 15,549.96 | 14,473.58 |
| E Johnson | 9,300.00 | 3,125.04 | | | | 12,425.04 | 12,425.04 |
| E Kennedy | | | | | | - | 1,050.00 |
| J Kirby | | | | | | - | 1,050.00 |
| P Kirton | 9,300.00 | 6,249.96 | | | | 15,549.96 | 15,549.96 |
| T Laing | | | | | | - | 1,050.00 |
| C Large | | | | | | - | 1,428.23 |
| C Leckonby | | | | | | - | 1,050.00 |
| A Lewis | | | | | | - | 1,066.70 |
| K Lupton | | | | | | - | 1,806.45 |
| R McCall | | | | | | - | 1,050.00 |
| A McCoy | 9,300.00 | 11,250.00 | 323.26 | | | 20,873.26 | 20,789.53 |
| A Mitchell | 9,300.00 | | | | | 9,300.00 | 1,550.00 |
| M Moore | 9,300.00 | | | | | 9,300.00 | 9,300.00 |
| K Nelson | 9,300.00 | 3,125.04 | | | | 12,425.04 | 12,425.04 |
| S Nelson | 9,300.00 | 11,250.00 | 193.66 | | | 20,743.66 | 21,047.99 |

Members' Allowances

| Member | Basic Allowance £ | Special Responsibility Allowance £ | Travel £ | Subsistence £ | Carer's Allowance £ | Total 2016/17 £ | Total 2015/16 £ |
|----------------|----------------------|---------------------------------------|-----------------|------------------|------------------------|--------------------|--------------------|
| E O'Donnell | 9,300.00 | 6,249.96 | | | | 15,549.96 | 15,655.79 |
| S Parry | 9,300.00 | 3,125.04 | | | | 12,425.04 | 10,836.84 |
| R Patterson | 9,300.00 | | 188.37 | 313.99 | | 9,802.36 | 9,969.29 |
| M Perry | 9,300.00 | | | | | 9,300.00 | 10,468.74 |
| L Povey | 9,300.00 | | | | | 9,300.00 | 8,314.90 |
| R Proud | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| S Richardson | 5,399.17 | | | | | 5,399.17 | - |
| M Rigg | | | | | | - | 1,251.76 |
| D Rose | | | | | | - | 12,762.50 |
| P Rowling | 9,300.00 | 3,081.63 | | | | 12,381.63 | 8,250.00 |
| A Sherris | | | | | | - | 1,050.00 |
| M Smith | 9,300.00 | 11,250.00 | | | | 20,550.00 | 20,550.00 |
| N Stephenson | 9,300.00 | 6,249.96 | 32.00 | | | 15,581.96 | 15,095.18 |
| M Stoker | 9,300.00 | | | | | 9,300.00 | 10,468.74 |
| T Stott | 9,300.00 | 3,125.04 | | | | 12,425.04 | 12,425.04 |
| L Tunney | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| M Vickers | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| SF Walmsley | | | | | | - | 1,302.11 |
| Mrs S Walmsley | 9,300.00 | 3,125.04 | 160.27 | | | 12,585.31 | 12,098.15 |
| SA Watson | 9,300.00 | | | | | 9,300.00 | 8,410.64 |
| J Whitehill | 9,300.00 | | | | | 9,300.00 | 8,250.00 |
| D Wilburn | 9,300.00 | 6,163.16 | | | | 15,463.16 | 12,425.04 |
| N Wilburn | 9,300.00 | 11,250.00 | | | | 20,550.00 | 19,150.70 |
| Mrs M Womphrey | | | | | | - | 1,050.00 |
| M Womphrey | | | | | | - | 1,050.00 |
| W Woodhead | 9,300.00 | | 83.14 | | | 9,383.14 | 9,450.27 |
| B Woodhouse | 9,300.00 | 6,249.96 | | | | 15,549.96 | 15,549.96 |
| Totals | 509,355.84 | 179,930.50 | 1,929.92 | 440.66 | 1,400.00 | 693,056.92 | 682,667.59 |

Glossary of Terms

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge

A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Community Assets

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Corporate and Democratic Core

The Corporate and Democratic Core comprises all activities which councils engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method

This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Glossary of Terms

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Heritage Assets

Heritage assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. They include items such as works of art, museum collections and civic regalia.

Infrastructure Assets

Non current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Inventories

Comprise the value of items held in the following categories:

- a) goods or other assets purchased for resale;
- b) consumable stores;
- c) raw materials and components purchased for incorporation into products for sale;
- d) products and services in intermediate stages of completion;
- e) long term contract balances; and
- f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Glossary of Terms

Investment Properties

Interest in land and/or buildings:

- a) in respect of which construction work and development have been completed; and
- b) which is held for its investment potential, any rental income being negotiated at arm's length.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Non Current Assets

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

Non Operational Assets

Non current assets held by a council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease

A lease other than a finance lease.

Operational Assets

Non current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Private Finance Initiative (PFI)

An agreement with the private sector to design, build and operate facilities specified by an authority in return for an annual payment.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Glossary of Terms

Prior Year Adjustments

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence

The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves

Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Useful Life

The period over which the Council will derive benefits from the use of a non current asset.