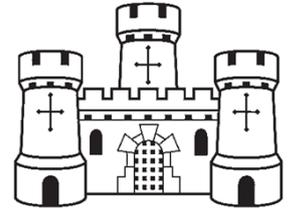


# Public Document Pack

**Date of meeting** Monday, 30th July, 2018  
**Time** 7.00 pm  
**Venue** Room FF01 or SF01 Castle House, Barracks Road, Newcastle, Staffs. ST5 1BL  
**Contact** Geoff Durham



**NEWCASTLE  
UNDER LYME**  
**BOROUGH COUNCIL**

Castle House  
Barracks Road  
Newcastle-under-Lyme  
Staffordshire  
ST5 1BL

## Audit and Standards Committee

### SUPPLEMENTARY AGENDA

#### PART 1 – OPEN AGENDA

4A STATEMENT OF ACCOUNTS 2017/18 AND EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT (Pages 3 - 124)

**Members:** Councillors Dymond (Vice-Chair), Pickup, P Waring (Chair), Burgess, Stubbs, Burnett and Panter

**PLEASE NOTE:** The Council Chamber and Committee Room 1 are fitted with a loop system. In addition, there is a volume button on the base of the microphones. A portable loop system is available for all other rooms. Should you require this service, please contact Member Services during the afternoon prior to the meeting.

**Members of the Council:** If you identify any personal training/development requirements from any of the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Democratic Services Officer at the close of the meeting.

**Meeting Quorums :-** 16+= 5 Members; 10-15=4 Members; 5-9=3 Members; 5 or less = 2 Members.

**FIELD\_TITLE**

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

**NOTE:** THERE ARE NO FIRE DRILLS PLANNED FOR THIS EVENING SO IF THE FIRE ALARM DOES SOUND, PLEASE LEAVE THE BUILDING IMMEDIATELY THROUGH THE FIRE EXIT DOORS.

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Classification: NULBC **UNCLASSIFIED**

## **ITEM FOR AUDIT AND RISK COMMITTEE 30/07/18**

### **Statement of Accounts 2017/18 and External Auditor's Audit Findings Report**

**Submitted by:** Head of Finance

**Portfolio** Finance and Efficiency

**Ward(s) affected** All indirectly

#### **Purpose of the Report**

To approve the statement of accounts, receive the external auditor's Audit Findings Report for 2017/18 and to agree the Letter of Representation to the Auditor.

#### **Recommendations**

- a) That the Statement of Accounts 2017/18 be approved and signed by the person presiding at the meeting.
- b) That the Audit Findings Report for 2017/18 be received.
- c) That the Letter of Representation be approved for signature by the Council's Section 151 Officer.

#### **Reasons**

It is a statutory requirement, contained in the Accounts and Audit Regulations 2015, that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end and that this is approved by a Committee no later than 31 July in the year following that to which the Statement relates.

The external auditor is required, according to the International Standard on Auditing (UK & Ireland) 260 (ISA 260), to report to you on matters affecting governance via an Audit Findings Report.

The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts.

### **1. Background**

- 1.1 The Committee received a report on 25 June in relation to the draft Statement of Accounts and the Outturn position for 2017/18. The report explained that the 2017/18 Statement of Accounts does not have to be formally approved by a Council Committee until 31 July 2018. However, it was felt that members needed an earlier update on the position for 2017/18, which was the reason for this earlier report. The report set out information in relation to the outturn position and the main features of the Statement of Accounts, such as the balance sheet position, reserves levels and income and expenditure for the year. A copy of Sections 3 to 7 of this report, which outline the main features of the 2017/18 accounts is attached at Appendix 1.
- 1.2 The Committee requested clarification of the nature of the impairment charge included in the accounts in respect of Castle House. This covers expenditure which does not add anything to the value of any asset recorded in the asset register and hence the balance sheet. With regards to Castle House this includes items such as improvements to Queens Gardens,

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works at the Knutton Lane Depot and Kidsgrove Public Offices to accommodate services not moving to Castle House and services and staff time relating to the project. Unlike minimum revenue provision charges which are an actual charge to the revenue account affecting the "bottom line" position, impairment charges are made to comply with accounting requirements to show the full cost of services but are reversed out of the revenue account at corporate level so as not to affect the bottom line charge to taxpayers.

- 1.3 The Committee now needs to formally receive the Statement of Accounts for 2017/18 for scrutiny and approval. Accordingly a copy of the Statement is appended at Appendix 2 for your consideration.
- 1.4 The external auditor is required, according to the International Standard on Auditing 260 (UK & Ireland) (ISA 260), to report to you on matters affecting governance via an Audit Findings Report.
- 1.5 The purpose of the report is primarily to allow the auditor to bring to the attention of the Committee any material mis-statements in the accounts for 2017/18, which your officers have declined to amend and any significant material mis-statements in the accounts submitted for audit which have been amended, together with any material weaknesses in internal control or areas of uncertainty. The report also contains the auditor's opinion on the Council's arrangements for achieving Value for Money.

## **2. Statement of Accounts 2017/18**

- 2.1 The Statement of Accounts now submitted to you has been audited by the Council's external auditor, Grant Thornton. As set out in the auditor's Audit Findings Report there are a number of technical amendments required to be made to the draft statement of accounts which was submitted for audit. In addition there were some presentational amendments and minor amendments below the materiality level which have been agreed with the auditor and which have been made to the Statement of Accounts. None of these amendments affects the bottom line, therefore, the amount of the positive variance on the General Fund Revenue Account (£4,868) reported to you in June is unchanged. There have been no alterations to entries in the underlying accounts.
- 2.2 The amount of the positive variance on the General Fund Revenue Account (£4,868) reported to you in June is unchanged.
- 2.3 The Council's Annual Governance Statement, which you approved in principle at your June meeting, is incorporated in the Statement of Accounts as in previous years
- 2.4 The Audit Certificate to be included in the Statement will be provided after this meeting, following receipt by the auditors of the agreed and signed Letter of Representation, subject to their final satisfaction with the accounts.

## **3. Audit Findings Report**

- 3.1 The external auditor's Audit Findings Report is attached at Appendix 3. The external auditor will present the report and attend the meeting, together with officers, to answer any questions raised by the Committee.
- 3.2 As stated earlier, the agreed amendments to the Statement of Accounts referred to in the Audit Findings Report do not change the amount of the positive variance (budget compared to outturn), i.e. the bottom line, in relation to the General Fund Revenue Account from that previously reported to members in June.

**4. Letter of Representation**

- 4.1 The Letter of Representation is a formal letter from the Council to the External Auditor stating various matters which the auditor needs to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts. It has to be approved by your Committee and then signed by the Council's Section 151 Officer, i.e. the Executive Director - Resources and Support Services.
- 4.2 The proposed Letter of Representation is set out at Appendix 4.

**5. Appendices**

- Appendix 1: Extract from Report to Audit and Risk Committee 25 June 2018  
Appendix 2: Statement of Accounts 2017/18  
Appendix 3: Audit Findings Report Year Ended 31 March 2018  
Appendix 4: Letter of Representation

**6. Background Papers**

Report to Audit and Risk Committee 25 June 2018 "Draft Statement of Accounts 2017/18"; Audit Findings Report Year Ended 31 March 2018 produced by the External Auditor; Letter of Representation 2017/18.

**3. The General Fund Outturn**

3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £4,868 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, the majority being ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

| <b>Type of Income</b>                                | <b>Budget</b> | <b>Outturn</b> | <b>Variance</b> |
|------------------------------------------------------|---------------|----------------|-----------------|
|                                                      | £000s         | £000s          | £000s           |
| Newcastle Open Market Stall Fees                     | 200           | 134            | 66              |
| Car Parking Income                                   | 1,127         | 985            | 142             |
| Jubilee 2 Income                                     | 1,448         | 1,370          | 78              |
| Council Tax Court Costs                              | 670           | 473            | 197             |
| Waste Service - Recycling Credits and Material Sales | 2,025         | 1,627          | 398             |
| <b>Total</b>                                         | <b>5,470</b>  | <b>4,589</b>   | <b>881</b>      |

There was also additional expenditure on a number of headings, which is outlined in the following table:

| <b>Item</b>                       | <b>Additional expenditure</b> |
|-----------------------------------|-------------------------------|
|                                   | £000s                         |
| Elections                         | 163                           |
| Kidsgrove Sports Centre Net Costs | 39                            |
| <b>Total</b>                      | <b>202</b>                    |

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

| <b>Item</b>                                           | <b>Saving or additional income</b> |
|-------------------------------------------------------|------------------------------------|
|                                                       | £000s                              |
| <b>Additional Income:</b>                             |                                    |
| Land Charges Search Fees                              | 21                                 |
| Planning Applications Fees                            | 122                                |
| Bereavement services - Cemeteries                     | 26                                 |
| Bereavement Services - Crematorium                    | 104                                |
| <b>Procurement Savings</b>                            |                                    |
| ICT - Computer Hardware/Software                      | 37                                 |
| Cemeteries - Supplies and services                    | 28                                 |
| <b>Good Housekeeping Efficiencies:</b>                |                                    |
| Community Chest and Third Sector Commissioning Grants | 42                                 |
| <b>Staffing Efficiencies:</b>                         |                                    |
| Overall employee costs savings                        | 335                                |

|                                                        |              |
|--------------------------------------------------------|--------------|
| <b>Corporate:</b>                                      |              |
| Additional government grants                           | 157          |
| Capital financing Costs not required (re Castle House) | 200          |
| <b>Other Variances</b>                                 | 16           |
| <b>Total</b>                                           | <b>1,088</b> |

3.2 An amount of £4,868 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Appendix I usable reserves, the balance on the Budget Support Fund now stands at £0.355m.

3.3 Some income streams continue to suffer adverse variances in the current financial year. The ongoing situation will be monitored and any significant shortfalls will be reported in the quarterly monitoring reports to Cabinet. The likely levels of income will also be considered during the compilation of the Medium Term Financial Strategy which is part of the budget setting process for 2019/20.

#### **4. The Collection Fund**

4.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax and Business Rates. The purpose of the account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies and other pre-determined payments that have been made for the Borough Council, the County Council, the Office of the Police and Crime Commissioner and the Fire Authority and to central government.

4.2 Overall the Fund experienced a deficit of £0.217m for the year, leaving a balance of an accumulated surplus of £0.016m at the year-end. Separating this out into its individual components, the respective positions were as follows:

|                                                      | <b>Council Tax</b> |              | <b>Business Rates</b> |                | <b>Total</b> |
|------------------------------------------------------|--------------------|--------------|-----------------------|----------------|--------------|
|                                                      | £m                 | £m           | £m                    | £m             | £m           |
| Balance Brought Forward – surplus/(deficit)          |                    | 0.364        |                       | (0.131)        | 0.233        |
| Contribution to previous years (surplus)/deficit (A) | (0.365)            |              | (0.024)               |                |              |
| Surplus/(deficit) relating to 2017/18 (B)            | 2.000              |              | (1.828)               |                |              |
| Overall surplus/(deficit) for year (A + B)           |                    | 1.635        |                       | (1.852)        | (0.217)      |
| <b>Balance Carried Forward – surplus/(deficit)</b>   |                    | <b>1.999</b> |                       | <b>(1.983)</b> | <b>0.016</b> |

Details of the Collection Fund transactions are shown in the Collection Fund Account at Appendix 1.

4.3 As can be seen the Council Tax element of the Fund as at 31 March 2018 shows a surplus of £1.999m, which compares to a surplus of £0.364m at 31 March 2017. This will be shared with the precepting authorities (Newcastle Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner, Fire Authority) and will be used in calculating how much Council Tax will be levied in 2019/20. The main reason for the increased surplus is a revision to the method of calculating the amount that is required to be provided for bad debts.

4.4 The Business Rates element of the Fund as at 31 March 2018 shows a deficit of £1.983m. The deficit must be made good in subsequent years by the four participants in the business rates retention scheme, the Borough Council (40%), Staffordshire County Council (9%), the Fire Authority (1%) and central government (50%). The amounts each body must

contribute are shown in brackets and are prescribed by regulations. The deficit arose due to a significant increase in the required provision for appeals (see paragraph 4.5).

- 4.5 A provision has been created in relation to business rates property value appeals to the Valuation Agency which it is considered likely to represent the amount which may have to be refunded in respect of payments already made by ratepayers. This is intended to provide for appeals already lodged and appeals which may arise in the future relating to bills which have been paid. Movements on the Provision in 2017/18 were as follows:

|                                         | £m           |
|-----------------------------------------|--------------|
| Balance Brought Forward at 1 April 2017 | 1.812        |
| Used in 2017/18                         | (1.140)      |
| Contribution to Provision               | 4.023        |
| <b>Balance at 31 March 2018</b>         | <b>4.695</b> |

The balance of £4.695m was assessed, using data supplied by a specialist firm, as being a prudent amount to set aside to meet future appeals. The arrangements for business rates retention mean that only 40% of the cost of contributions to the provision is borne by the Borough Council (because it affects the amount of rates retained), the rest falling to the other participants in the arrangements. The value included in the balance sheet is also 40%, i.e. £1.878m. The amount has increased during 2017/18 to reflect appeals that may be settled in years after the financial year 2018/19, in previous years only appeals that were likely to be settled during the following financial year had been provided for.

## 5. The Balance Sheet

- 5.1 The main features of the Balance Sheet, which is shown in full at Appendix 1, are as follows:

- There are Net Tangible Fixed Assets of £62.931m (£65.246m at 31 March 2017) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets. The reduction of £2.315m largely arises from revaluations in relation to car parks (-£0.689m) and the civic offices (-£1.544m).
- Investments (all short term at 31 March 2018 - i.e. with less than 1 year to run from that date) were £0.081m at 31 March 2018 compared to £3.460m at 31 March 2017. The amount invested at any one time reflects the prevailing cash flow situation but as reserves and capital receipts balances are reducing the sums available for investment correspondingly reduce. This situation is reflected in an increase in short term borrowing which was £0.070m at 31 March 2017 and £2.555m at 31 March 2018.
- There is an increase in Cash and Cash Equivalents of £0.554m.
- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £10.399m, an increase of £2.040m compared with 31 March 2017. The main reason for this is an increase in amounts owed by central government to the Council of £1.293m, this primarily relates to an increase in the amount owed to the Council by the Department for Work and Pensions of £0.485m in respect of Housing Benefits, the balance relating to NNDR transactions with the Department of Housing, Communities and Local Government.
- The amount the Council owes to its creditors is £7.705m. Creditors have increased by £1.236m compared to 31 March 2017. Within this, amounts owed to central government bodies have increased by £2.162m, largely due to the apportionment to the Department of Housing, Communities and Local Government of the increased amount in the NNDR

Appeals Provision, as referred to in paragraph 4.5. Amounts owed to other local authorities have decreased by £0.446m primarily due to sums owing to Staffordshire County Council in respect of the construction of Castle House included in the March 2017 balance. Amounts due to other entities have decreased by £0.455m largely due to a reduction in the sundry creditors balance at 31 March 2018.

- Provisions are £2.051m compared with £0.898m at 31 March 2017. This overall total comprises three provisions (31 March 2017 balance in brackets): NNDR Appeals £1.878m (£0.725m); Insurance Claims Provision £0.148m (£0.148m); Municipal Mutual Insurance (MMI) Provision £0.025m (£0.025m). See paragraph 4.5 for further details in relation to the NNDR Appeals provision.
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) decreased from £71.709m to £68.025m. Normally this decrease would be mirrored by a decrease in the Pensions Reserve balance of the same amount, the two accounts appearing in the balance sheet as equal and opposite amounts. However, this is not the case because of the prepayment of pension contributions in respect of 2018/19 and 2019/20 totalling £3.130m. These were paid in 2017/18 in return for a discount paid by the pension fund which significantly reduced the cost to the Borough Council and consequently the amounts to be charged in the 2018/19 and 2019/20 revenue account as pension contributions. In order to account for this transaction, the prepayment must be charged directly to the Pensions Liability, without any corresponding equal and opposite transaction in the Pensions Reserve. In 2018/19 the prepayment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve with a similar transaction in 2019/20. After these transactions have occurred, the two accounts will once more be mirror images of each other. Without the charge of £3.130m, the Pensions Liability would have shown a small decrease of £0.554m, reflecting other factors. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

## 6. Reserves

6.1 The Council has usable reserves totalling £7.339m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2018, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£2.162m)
- Capital Grants Unapplied (£1.158m)
- Budget Support Fund (£0.355m)
- Contingency Reserve Fund (£0.210m)
- ICT Development Fund (£0.067m)
- Equipment Replacement Fund (£0.552m)
- Business Rates Reserve (£1.353m)

The majority of these balances are committed to various projects and initiatives and are not available for other use.

- 6.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2018. The amount required to be held in this reserve is assessed each year when the revenue budget is compiled, by identifying and quantifying the risks applicable to the revenue budget and using this information as the basis to calculate a prudent sum to keep in reserve to meet those risks should they arise.
- 6.3 The Capital Receipts Reserve is almost entirely committed to financing the currently approved capital programme plus slippage from 2017/18, the year-end balance reflecting the small underspending in relation to the 2017/18 capital programme, as discussed at paragraph 7.2 and increased receipts from right to buy sales, and will almost all need to be spent in 2017/18. The majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware.
- 6.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.
- 6.5 The Budget Support Fund and Business Rates Reserve are discussed at paragraphs 3.2 above and 3.4, respectively.
- 6.6 The levels of reserves will be considered as part of the budget preparation process for 2019/20. Some may require “topping up”, either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund was exhausted in 2017/18.

## **7. Capital Expenditure**

- 7.1 Capital expenditure totalled £6.296m in 2017/18.
- 7.2 The capital programme approved by Full Council on 22 February 2017 provided for an amount of £3.047m to be spent in 2017/18. However, the budget report to Full Council on 21 February 2018 revised the estimated spend for 2017/18 to £5.938m. This was due to the addition of £2.891m slippage from 2016/17. Since then £0.451m additional Disabled Facilities Grant funding has been received which would support further expenditure of this amount. These changes result in a revised capital programme of £6.389m for 2017/18.
- 7.3 As can be seen, the actual outturn for the year was in line with the revised programme.
- 7.4 Projects in progress or committed will be completed or commenced in 2018/19. The remainder will be reviewed to confirm they are still required and considered in the context of available resources to finance the capital programme, particularly in view of the continuing uncertainty regarding the timing of receipts from land sales, upon which much of the financing of the capital programme is dependent, owing to the delay in commencing the assets disposal programme. The new projects included in the 2018/19 programme will also need to be reviewed for the same reason.
- 7.5 The expenditure of £6.296m was financed as shown below:

|                                                    | £m           |
|----------------------------------------------------|--------------|
| Capital Receipts                                   | 0.871        |
| BetterCare Funding (re Disabled Facilities Grants) | 1.452        |
| Contributions from Other Bodies                    | 0.215        |
| Section 106 payments                               | 0.110        |
| Reserves - ICT Development Fund                    | 0.071        |
| Internal Borrowing                                 | 3.577        |
| Total Financing                                    | <u>6.296</u> |

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# Statement of Accounts

2017/18



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# Guide to the Statement of Accounts

The Statement of Accounts contains a number of different elements which are shown in the following table, together with an explanation of the purpose of each item. Throughout the Statement, various unusual or technical terms are employed which may not be familiar to all readers. A Glossary of Terms (Appendix 4 - page 76) has therefore been provided which explains the meaning of such items.

| Page | Item                                                                        | Purpose                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6    | Narrative Report by the Executive Director (Resources and Support Services) | Provides a guide to the main features of the accounts and a commentary on the Council's financial position and the factors affecting its finances.                                                                                                                                                                                                                                                                                                                                                                     |
| 15   | Statement of Responsibilities                                               | Sets out the respective responsibilities of the Council and the Executive Director (Resources and Support Services) in relation to financial administration and accounting.                                                                                                                                                                                                                                                                                                                                            |
| 16   | Financial Statements                                                        | These are the Financial Statements which the Council must publish in its Statement of Accounts.                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 16   | Comprehensive Income and Expenditure Statement                              | Shows the accounting cost of providing services in accordance with generally accepted accounting practice. This is not the same as the amount to be funded from taxation in accordance with regulations, which is shown in the Movement in Reserves Statement.                                                                                                                                                                                                                                                         |
| 17   | Movement in Reserves Statement                                              | Shows movements in reserves split between usable and unusable reserves. It also reconciles the outturn on the Comprehensive Income and Expenditure Statement (CIES) to the General Fund Balance, by taking account of the adjustments necessary and made by transfers to or from reserves, either to remove accounting charges, such as for the depreciation of assets, which are not chargeable according to regulations or to meet the cost of items charged to the CIES which the Council has funded from reserves. |
| 18   | Balance Sheet                                                               | Sets out the Council's financial position on 31 March 2018. Provides details of the Council's balances, reserves and current assets employed in Council operations together with summarised information on the long term assets held and details of any current liabilities.                                                                                                                                                                                                                                           |
| 19   | Cash Flow Statement                                                         | Summarises the total cash movement of the Council's Transactions.                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 19   | Notes to the Financial Statements                                           | These provide additional information and have been grouped into three categories as set out below.                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 20   | Technical Issues                                                            | Outline technical issues such as the Council's accounting policies. Details are set out in Appendix 1.                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 21   | Expenditure and Funding Analysis                                            | Shows how expenditure is used and funded from resources in comparison with those resources consumed or earned in accordance with generally accepted accounting practices.                                                                                                                                                                                                                                                                                                                                              |
| 24   | Further Analysis of items included in the Financial Statements              | Provide a breakdown of figures included in the Financial Statements.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

|           |                                                                                    |                                                                                                                                                                                                                               |
|-----------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>41</b> | Additional Information supplementing the Financial Statements                      | To provide additional information.                                                                                                                                                                                            |
| <b>50</b> | Collection Fund and Notes                                                          | Reflecting the statutory requirement for the Council to maintain a separate account recording details of receipts of council tax and business rates and the associated payments to precepting authorities/central government. |
| <b>53</b> | Audit Certificate                                                                  | The external auditor's opinion on the accounts and of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.                                                                  |
| <b>54</b> | Appendix 1 Accounting Policies, Standards, Judgements, Assumptions and Adjustments | Information in relation to technical issues in order to provide a fuller understanding of the accounts and how they have been compiled.                                                                                       |
| <b>68</b> | Appendix 2 Supplementary Accounts                                                  | Information relating to the North Staffs Building Control Partnership and Trust Funds, whose transactions are not included in the Council's accounts.                                                                         |
| <b>69</b> | Appendix 3 Annual Governance Statement                                             | Provides an account of the processes, systems and records which demonstrate assurance for the effectiveness of the framework of governance of the Council's discharge of its responsibilities.                                |
| <b>76</b> | Appendix 4 Glossary of Terms                                                       | Explanation of technical or unusual terms used in the Statement of Accounts.                                                                                                                                                  |

# Narrative Report

## Commentary by the Executive Director (Resources and Support Services)

### a. Introduction

Welcome to Newcastle-under-Lyme Borough Council's Statement of Accounts for the financial year 2017/18. It sets out a summary of the money that the Council received and what it has been spent on and shows its financial position at 31 March 2018. This Narrative Report provides a context to the accounts by presenting a summary of the Council's financial activities and its prospects for future years.

### b. Regulations Governing the Production of the Statement of Accounts

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2015 and the requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom 2017/18" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under the provisions of Sections 25/26 of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015, the accounts were made available for inspection between 1 June and 12 July 2018, as notified on the Council's website and advertised in the local press.

The accounts were approved by the Audit and Standards Committee on 30 July 2018 in accordance with paragraph 9 (2) of the Accounts and Audit Regulations 2015. The signature of the Committee Chair (who presided over the meeting) is included at the conclusion of this report in line with these regulations as evidence of approval of the 2017/18 Statement of Accounts.

### c. General Accounting Policies

The accounting policies (page 54) adopted by the Council comply with the relevant recommended accounting practice. The Council's service costs have been analysed in the Comprehensive Income and Expenditure Statement (page 16) according to the Council's management reporting structure. Materiality considerations follow the policies set out in the CIPFA Code of Accounting Practice. In addition, the analysis of capital expenditure (page 41) follows CIPFA's recommendations showing non-current and intangible assets separately. These recommended practices are all designed to meet the requirements of International Financial Reporting Standards (IFRS).



There have been no changes in either accounting policies or in the Council's statutory functions during the year.

### d. Statement of Accounts

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of a local authority are both technical and complex, which does not always lead to a style which is easily understood. Accordingly a Guide to the Statement of Accounts (page 4) has been provided.

### e. Accountability/Financial Reporting

Local authorities are governed by a rigorous structure of controls to provide stakeholders with confidence that public money has been properly accounted for. As part of the process of accountability, the Council is required to produce a Statement of Accounts, in order to inform stakeholders that it has properly accounted for all the public money received and spent, and that the financial standing of the Council is secure.

The Statement of Accounts concentrates on clear and accurate reporting of the financial position of the Council in relation to a particular year. It does not, however, aim to fulfil the role of an annual report of a company.

## f. Newcastle under Lyme Borough Council



The Council is a second tier district council within the County of Staffordshire, with a population of around 128,500. It consists of the urban areas of Newcastle and Kidsgrove, with a town council, and an extensive rural area containing nine parishes, each with a parish council.

The Council has 44 members representing residents in 21 wards following elections in May 2018 (a reduction from the previous 60 members and 25 wards). Full Council, consisting of all members, is responsible for setting Council policy, whilst other decisions within the policy framework set by Full Council are determined by a Cabinet, currently consisting of 6 members.

Operational management is carried out under the direction of the Chief Executive and three Executive Directors (Resources and Support Services; Operational Services; Regeneration and Planning), who comprise the Executive Management Team (EMT).

The Council employed 531 people (438 full time equivalents), as at 31 March 2018.

The Council's purpose and objectives are set out in the Council Plan 2016-2018. Objectives are expressed as four priorities:

- Delivering high quality services
- A clean, safe and sustainable Borough
- A Borough of opportunity
- A healthy and active community

Further details can be found in the Council Plan which can be viewed on the Council's website (follow this link: [Council-Plan](#)).

Details of the services which the Council provides and their budgets are set out in budget books for each financial year which are available on the website (follow this link: [www.newcastle-staffs.gov.uk](http://www.newcastle-staffs.gov.uk)).

## g. Economic Downturn and Public Expenditure Reductions

The national economic climate continues to have an adverse effect upon the Council's finances. In particular it has impacted upon the income received from leisure centre fees, market stalls, rental from commercial properties and from car parks. While the situation continues to improve, for example in relation to planning fees income, close monitoring and evaluation of these areas is needed in order to assess the risk to the Council's finances.

Funding from central government to support the revenue budget was again reduced in 2017/18. Efficiency savings were agreed when the budget for 2017/18 was set in February 2017 by the Full Council in order to allow for this reduction.

## h. General Fund Revenue Budget Outturn

The outturn position in relation to the General Fund Revenue Budget was a positive variance of £5k, i.e. the net budget was £13.825m and the outturn was £13.820m. This amount has been transferred into the Budget Support Fund. The balance on the Fund, as at 31 March 2018 is £0.355m, as against its balance at 1 April 2017, which was £0.269m. In addition to the transfer into the Fund of £5k, a net transfer of some £81k was made to the fund, largely comprising payments in respect of 2017/18 commitments carried forward.

The difficult operational conditions arising from the factors outlined previously and those incurred during the establishment of the new Waste and Recycling service meant that 2017/18 would be another challenging year financially for the Council. Additional pressures arising during the year in relation to the review and reorganisation of the elections service and in respect of the move to the new administrative building, Castle House, had indicated a possible adverse variance for the year. However members and officers continued to operate within an environment of tight budget management to, wherever possible, mitigate any adverse impact, resulting in a modest surplus by year-end. The table below shows how the surplus arose:

|                                                                                               | £m         |
|-----------------------------------------------------------------------------------------------|------------|
| <b>Expenditure (Comprehensive Income &amp; Expenditure -p16)</b>                              | 62,958     |
| <b>Income (Comprehensive Income &amp; Expenditure -p16)</b>                                   | (43,102)   |
| <b>Net Service Expenditure</b>                                                                | 19,856     |
| <b>Non-Service Specific Income &amp; Expenditure</b>                                          |            |
| Interest Receivable                                                                           | (65)       |
| Investment Properties Net Expenditure                                                         | 468        |
| Council Tax Income                                                                            | (7,421)    |
| Non-Domestic Rates Net Income                                                                 | (4,504)    |
| Non-Ringfenced Government Grants                                                              | (2,905)    |
| Pensions Net Interest Cost                                                                    | 1,762      |
| Other Items                                                                                   | (712)      |
| Reversal of Pensions Net Interest Cost & Other Pensions                                       | (2,530)    |
| Transactions via Pensions Reserve                                                             |            |
| Reversal of Capital Charges included in Service Costs                                         | (4,330)    |
| Transactions with Other Unusable Reserves (Collection Fund Adjustment & Accumulated Absences) | 939        |
| Transactions with Earmarked Reserves                                                          | (563)      |
| <b>Outturn</b>                                                                                | <b>(5)</b> |

Cash flows during the year were generally positive until mid-March 2018. On the limited occasions during this period when the balance at bank was negative this did not exceed the agreed overdraft limit and it was only necessary to borrow externally to cover a negative balance on one occasion for a few days. From mid-March it was necessary to borrow because the underlying balance at bank had become negative owing to capital expenditure incurred in relation to Castle House. Further borrowing will be necessary in 2018/19 to fund the remaining Castle House capital expenditure. Borrowing costs have been budgeted for in 2017/18 and future years.

## i. Financial Summary 2017/18

The financial activities of the Council can be categorised as either Revenue or Capital. Revenue spending represents the cost of providing services delivered by the Council in its day to day business during the year. Capital spending relates to items which will provide benefit to the Borough over a number of years.

### Revenue Expenditure and Income

#### *Where does the money come from?*

Local authorities receive income from a variety of sources, from the Government in the form of grants, from households in the form of Council Tax (a property based charge payable by local residents dependent upon the Valuation Office's valuation band for their property), from consumers in respect of fees and charges and rents and from a share of business rates from occupiers of commercial premises within the Borough (based upon the rateable value set by the Valuation Office in respect of the properties concerned).



In accordance with the Business Rates Retention Scheme, the Council retains a share of the business rates collected after paying part over to the Government, Staffordshire County Council and the Staffordshire Fire and Rescue Authority.

Alongside business rates arrangements, the Council receives Revenue Support Grant (£1.060m in 2017/18) from the government, based on an assessment of the relative needs of local authorities, derived from factors such as population, deprivation levels, number of commuters and visitors to the area.

The gross income attributable to management reporting areas is shown in the Comprehensive Income and Expenditure Statement (page 16).

## How the money was spent

The Comprehensive Income and Expenditure Statement (page 16) shows Gross Expenditure for the year of £61.506m across the management reporting areas.

## Capital Expenditure

Capital expenditure includes expenditure such as the acquisition, construction, repair and maintenance of fixed assets. As capital spending contributes to the Council's aims and objectives over more than one year, the Council plans and budgets for expenditure by means of a rolling programme. This programme was last updated in February 2018.

There are a number of sources of funding which may be available to finance the Council's capital expenditure. In 2017/18 and previous years major sources of finance have been capital receipts (from sales of land, property and other assets) and contributions from external parties towards the cost of capital projects.

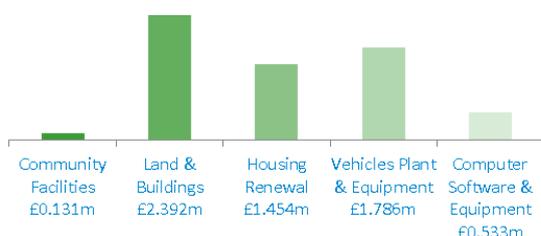
Some of the funds which the Council holds in reserves may be used to finance capital expenditure. These include the ICT Development Fund. The balances on the Council's reserves are shown in note 3.3.7 (page 35).

External Borrowing can also be used to finance capital expenditure. Although this has not recently been used by the Council it has been used in 2017/18 to fund some of the expenditure incurred in respect of its new shared administrative building, Castle House. The remainder of the Castle House expenditure in 2017/18 has been funded by using internal balances (internal borrowing), which is reflected in a change to its Capital Financing Requirement (note 4.1 page 41).

**2017/18 Sources of Capital Funding**  
**£6.296m**



**2017/18 Capital Investment**  
**£6.296m**



Whether borrowing is employed in the future (other than to fund any remaining contributions towards the costs of Castle House in 2018/19) will depend upon its cost relative to other means of capital financing and the availability of other sources of capital financing.

In 2017/18 the Council planned to spend £6.389m, including expenditure of £2.891m on projects brought forward from 2016/17 where under spending had occurred in that year. Owing to a shortage of available capital receipts, new expenditure was restricted to defined priority areas only. Actual spend was £6.296m, leaving the balance to be carried forward to 2018/19.

## j. Financial Prospects

### Revenue

The Council is committed to the delivery of high quality services. Integral to this is the need to effectively target financial resources in line with stated aims and objectives working against the background of an adverse economic situation.

The Council's Medium Term Financial Strategy (MTFS) - which forecasts future years' budgets taking into account national and local financial situations together with the Council's priorities - has identified shortfalls for each year from 2018/19 to 2022/23.

The forecast shortfall for 2018/19 was £1.696m. On 21 February 2018 the Council set a balanced budget. This was achieved by increasing council tax, efficiency savings and the identification of additional sources of income sufficient to meet the shortfall. The majority of these savings were identified through a review of the Council's services focussing on particular areas where it was felt that savings could be achieved.

The government's continuing desire to achieve reductions in public expenditure will impact upon the Council's finances. 2017/18 saw a significant reduction in central government support by way of the formula grant which is repeated in 2018/19 (a reduction of £0.359m (7.8%) from the 2017/18 level).

The Council has accepted and had confirmed a four year funding settlement, up to and including 2019/20. This includes further significant reductions in government funding.

The Council receives a New Homes Bonus grant from central government. The objective of the grant is to reflect and incentivise housing growth within the borough. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

2017/18 saw revised arrangements for payment of New Homes Bonus come into effect, whereby Bonus is only payable for 5 rather than 6 years, and payments are only made where new housing completions exceed a baseline currently set by the government at 0.4%. As predicted, this had an adverse impact in terms of contributing to the shortfall of £1.696m referred to above.

In view of the MTFs forecasts work continues in looking at how the Council's decreasing resources can be best used to meet the needs of the Borough's residents and businesses and to define the likely service and budgetary characteristics of the Borough Council. This includes:

- Predictive modelling of future tax base levels in relation to council tax, business rates and new homes bonus.
- Reducing the Burden - aiming to stop or reduce low value tasks which do not enhance outcomes or experiences of customers or prevent staff from focussing on more important work.
- Looking at alternative service delivery models, such as demand management, sharing costs with other organisations and self-service for customers.
- Maximising income from fees and charges and exploring new means of income generation.
- Procurement savings - commissioning and procuring services and supplies as cost-effectively as possible.
- Staffing efficiencies – a review of all vacant posts, restructures and flexible early retirements.
- Good housekeeping - reviewing all service expenditure.



## Capital

The capital programme approved on 21 February 2018 provides for total capital spending of £2.549m over two financial years.

£1.502m is included in the programme for new capital investment funded by the Council in 2018/19. This is historically a relatively low amount, due to the forecast shortage of capital receipts for financing of schemes, although it is an increase compared to 2017/18 when only £0.500m could prudently be afforded. A number of sites in the Council's ownership have been approved for sale and these are being actively marketed with a view to achieving disposal and consequent capital receipts, during 2018/19 and beyond.

There will be a continuing need for capital investment to maintain service continuity, particularly in replacement plant and equipment and to maintain operational buildings in a fit state. Should further land sales not be made or any of the projected land sales do not proceed or are delayed, it will be necessary to either curtail capital spending or to borrow to fund it, which will incur a revenue cost.

The Capital Programme Review Group reviews and monitors the overall Capital Strategy within the context of the Medium Term Financial Strategy; ensures that projects are delivered against priorities; monitors the programme monthly and ensures value for money is achieved i.e. outcomes are fit for purpose and investment is targeted to maximise the needs and outcomes for local people. It also reviews the Council's assets and the need for investment to keep them fit for use and compiles the draft capital investment programme for submission to Cabinet for approval.

## Strategic Risks

Major strategic risks affecting the Council which could impact on future service provision are currently as set out in the table below, which shows for each risk its potential impact and measures to mitigate the risk:

| Risk                                                                                                                              | Impact                                                                                                                                                              | Mitigation                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Failure to realise potential for land sales to provide funding for capital investment                                             | Insufficient resources to fund capital investment needed to maintain service provision or to achieve corporate objectives                                           | Asset Management Plan, Cabinet decisions to sell, planning approvals                                                                                                                               |
| Failure to recruit and retain staff with required experience and skills                                                           | Reduced amount and quality of service provision. Possible inability to provide service.                                                                             | Workforce development plan, business continuity planning                                                                                                                                           |
| Major incident                                                                                                                    | Unable to provide services during and for some time after the incident                                                                                              | Major incident and emergency response plans in place, incident response guide, business continuity planning, support from County civil contingencies unit, training, Director on call arrangements |
| Long term decline in external income including reduction in government funding and failure to provide funding for new initiatives | Pressure on revenue budget                                                                                                                                          | Included in calculation of prudent minimum balances                                                                                                                                                |
| Pay and price increases                                                                                                           | Pressure on revenue budget                                                                                                                                          | Included in calculation of prudent minimum balances                                                                                                                                                |
| ICT - system/software failure or malicious software incursion                                                                     | Unable to provide services during and for some time after the failure. Loss of data, corruption of data, ransom demands, unable to provide service after incursion. | Business continuity planning, back up servers                                                                                                                                                      |
| Failure to comply with legislation including data protection breaches                                                             | Legal action, compensation claims, fines, reputational damage                                                                                                       | Standing orders and financial regulation, training, internal audit, monitoring officer                                                                                                             |
| Overall budget realisation fails                                                                                                  | Reduction in reserves, unplanned cuts to services, impact on future budgets                                                                                         | Budget monitoring, adequate reserves levels                                                                                                                                                        |
| Business rates retention                                                                                                          | If overall funding reduces, there will be pressure on the revenue budget                                                                                            | Medium term financial strategy, modelling, business rates reserve                                                                                                                                  |
| Loss of utilities                                                                                                                 | Unable to provide services during the loss                                                                                                                          | Business continuity planning                                                                                                                                                                       |
| Failure of major contractor                                                                                                       | Unable to provide services, additional unbudgeted costs                                                                                                             | Market intelligence, credit checks, procurement rules and procedures                                                                                                                               |

## Reserves

The Council holds a number of reserves which have been established either to meet specific categories of expenditure or of a general nature. These reserves are listed in note 3.3.7 (page 35). Levels of reserves are reviewed to determine their adequacy to meet the Council's commitments and future plans. A review of their adequacy will be an important consideration when preparing the 2018/19 budget.

The un-earmarked portion of the General Fund Balance can be used to contribute to the revenue account. The required level is determined by a risk assessment of factors which might adversely impact upon the revenue budget on a worst case basis. These factors are set out in an appendix to the council tax setting report (follow this link: [Report](#)) considered by the Full Council on 21 February 2018, which is available on the Council's website. The current level, as at 31 March 2018 is £1.200m. The Budget Support Fund is also available for supporting future years' revenue budgets.

## Partnerships

The Council participates in a wide range of partnership arrangements. Some are formal partnerships regulated by an agreement between the partners and some are informal in nature, many of them designed to facilitate community cohesion or to ensure awareness of community needs or to enable more efficient working practices.

Examples of formal partnerships are a shared apprenticeship scheme in conjunction with Newcastle College and the administration of the Business Improvement District (BID) scheme for Newcastle town centre. Businesses within the BID area pay a supplementary business rate, collected by the Borough Council and used by the BID Board to promote the economic wellbeing and development of the town centre.

The Council works closely with other public sector organisations to obtain value for money in relation to supplies and services and to provide the public with easy access to all of the partners' services from its facilities. An example of this is the Locality Commissioning Partnership which co-ordinates contributions to third sector organisations. There are also reciprocal arrangements between neighbouring authorities for providing assistance, such as the secondment of staff, to provide continuity of service.

The regeneration of the Ryecroft area of Newcastle town centre is being carried out in partnership with Staffordshire County Council and the relocation of the Council's offices to Castle House where facilities will be shared with Staffordshire County Council, Staffordshire Police and Aspire Housing.

## k. Economy, Efficiency and Effectiveness in the Use of Resources

Local Authorities are obliged to achieve economy, efficiency and effectiveness in their use of resources. Arrangements are in place to ensure that value for money is obtained when Council resources are expended, that there is proper stewardship and governance in relation to these matters and the arrangements are kept under review to ensure they are adequate and effective.

Financial Regulations, Contract Procedural Rules, Standing Orders and the Council's Constitution set out the basic framework and internal controls by which Council business and administration must be conducted and are binding on all employees and members of the Council. Financial Regulations and the Contract Rules lay down procedures which must be followed when obtaining supplies and services for use by the Council to ensure that transparent and effective processes are in place.



The arrangements and their effectiveness are continually kept under review as part of the ongoing management of the Council's services, medium term financial planning, continuous budgetary control procedures and regular internal audit reviews and reports.

The Executive Management Team receive and review monthly budget monitoring reports and initiate action to deal with any significant variances revealed. Members are kept up to date regarding the budgetary position via quarterly performance monitoring reports to Cabinet, which also include non-financial performance indicators showing how services are delivering on their key targets. The quarterly reports are available on the Council's website (follow this link: [Report](#)). There is also a formal member led scrutiny process, with area focussed Scrutiny Committees enabling service delivery to be monitored.

Formal review takes place via the Annual Governance Statement considered and approved by Council members, which is published within the Statement of Accounts (page 69). This is informed by Executive Directors and senior managers to provide assurance that governance arrangements are established and identifying required improvements.

The Capital Strategy and Asset Management Strategy sets out the framework within which the capital programme is managed and resources made available to finance the programme. Approval to proceed with capital investment is only given provided the necessary resources are available to finance it. An important element providing assurance regarding resource availability is an approved realistic programme of asset disposals. Capital investment and resources are assessed and monitored by the Capital Programme Review Group. The group aims to ensure that the capital investment programme meets the Council's priorities, is affordable and that projects are carried out on time and within budget.

The Council has an ongoing programme of utilising new information technology to streamline service delivery, to redesign services to remove manual intervention wherever possible and to encourage customers to contact and transact with the Council online. Progress to date in these areas has enabled flexible, efficient and cost effective working and made it easier for customers to deal with the Council and further efficiencies and improvements in customer service are planned for the future, this is being driven by the Council's Digital Delivery Board. For 2017/18 the external auditor concluded that the Council's arrangements for securing economy, efficiency and effectiveness were proper and significant.

## **I. Assets and Liabilities Acquired**

No significant assets or liabilities have been acquired during 2017/18. Castle House will not be owned by the Council so will not be included in the balance sheet.

## **m. Pensions Scheme Liability**

The Liability relating to Defined Benefit Pension Schemes decreased from £71.709m at 31 March 2017 to £68.025m at 31 March 2018. These amounts are required to be included in the Borough Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. They relate to transactions of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities. Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

## **n. Specific Events in 2018/19 and Beyond**

The national local government employers' pay offer of a pay increase of 2.0% for both 2018/19 and 2019/20 will add around £0.160m to the Council's costs in both years.

Further changes may be made with regard to the payment of New Homes Bonus; specifically the government is considering whether to reduce payments where new developments take place only after successful appeals against an original decision to refuse permission (this could be implemented from 2019/20). This could adversely affect the Council, if such circumstances were to apply.

The government is currently carrying out consultation (the Fair Funding Review) concerning the resetting of the baselines relating to business rates, which will affect the amounts of business rates income the Council is able to retain, relative to other participants in the business rates retention arrangements. It is intended that the new baselines will apply from 2020/21.

Alongside this, the government is in the process of enacting legislation to permit local authorities to retain 75% of the business rates which are collected. This will enable the government to cease to pay revenue support grant and a number of other grants to authorities who will become dependent upon the income from business rates and council tax as the main source of their funding. This represents a fundamental change to the way authorities are funded.

Consultation and discussion of the precise ways in which this change can be effected are ongoing between local authority bodies and the government. Until this process is complete, it is difficult to predict the extent to which the Council's finances will be affected. The timescale for implementation of these changes has not yet been firmly established, although it is intended that they should be in place by 2020/21.



The financial effects of the above changes will be included in future Medium Term Financial Strategies and dealt with via the savings plans compiled and implemented in respect of the periods affected. As well as these changes affecting all local authorities, there are a number of other specific developments which affect the Council in 2018/19 and beyond.

The most significant of these is the move from the current administrative headquarters at the Civic Offices to the purpose built Castle House situated adjacent to the Queen's Gardens in the town centre. This building will accommodate Borough Council staff and services together with locally focussed ones of Staffordshire County Council, Staffordshire Police and Aspire Housing. The cost of construction of the new building and subsequent running costs is shared between the partners, according to the accommodation they will occupy. The construction of the new building is substantially complete and the move is scheduled to take place during summer 2018. The site of the present Civic Offices will become part of a redevelopment of the Ryecroft area to provide a mixture of retail and residential property.

Revenue budget savings will be made owing to moving to a more modern and efficient building which also facilitates more agile working practices to be introduced and provides improved facilities for customers. Once Castle House is operational, the customer facilities at the Guildhall will no longer be required and an alternative use is being sought for the building.

Following the closure of the former municipal golf course situated at Keele Road, the Council has embarked upon a master-planning exercise in order to determine the most appropriate long term strategic solution for this land and other sites in the western and southern fringes of urban Newcastle, working with other strategic landowners in the locality and taking into account the current local plan process. The results of the master-planning exercise are due to be received in the near future.

## **o. Audit of the Accounts**

The Borough Council's appointed auditors, Grant Thornton UK LLP, currently undertake the annual audit of the accounts. Their contact details are:

Phil Jones, Grant Thornton UK LLP

20 Colmore Circus, Birmingham, B4 6AT

## **p. Further Information**

Further information about the accounts is available from:

Kelvin Turner, Executive Director (Resources and Support Services)

Civic Offices, Merrial Street, Newcastle, Staffs ST5 2AG

## **q. Comments**

If you have any comments about the way that the information is presented in this Statement of Accounts, or about possible alternative ways of making the information available, we would be pleased to receive them, at the above address.

## **r. Approval of Statement of Accounts**

The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered by and approved by a Council Committee or the Full Council and for the Statement to be signed at the meeting by the person presiding. This statement has been approved by the Audit and Standards Committee and this is evidenced by the signature of that Committee's Chair, who presided at the meeting, which is shown below.

The Statement of Accounts was approved at a meeting of the Audit and Standards Committee on 30 July 2018

Signed: (Chair of the Audit and Standards Committee)

Dated:

# Statement of Responsibilities

## The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director (Resources and Support Services);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the Statement of Accounts.

## The Executive Director (Resources and Support Services) - Responsibilities

The Executive Director (Resources and Support Services) is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) is required to present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2018.

In preparing the statement of accounts the Executive Director (Resources and Support Services) has:

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

## The Executive Director (Resources and Support Services) Certificate

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Borough Council as at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Kelvin Turner

Dated:

Executive Director (Resources and Support Services)

# Financial Statements

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement (page 17) and the Expenditure and Funding Analysis (page 21).

| 2016/17                   |                      |                         |                                                                         | 2017/18                   |                      |                         |
|---------------------------|----------------------|-------------------------|-------------------------------------------------------------------------|---------------------------|----------------------|-------------------------|
| Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |                                                                         | Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |
| 3,791                     | 1,090                | 2,701                   | Chief Executive                                                         | 3,455                     | 968                  | 2,487                   |
| 35,123                    | 31,469               | 3,654                   | Resources & Support Services                                            | 35,483                    | 30,782               | 4,701                   |
| 9,656                     | 4,653                | 5,003                   | Regeneration & Development                                              | 10,685                    | 5,457                | 5,228                   |
| 12,720                    | 6,161                | 6,559                   | Operational Services                                                    | 12,572                    | 5,726                | 6,846                   |
| 870                       | 226                  | 644                     | Corporate                                                               | 763                       | 169                  | 594                     |
| <b>62,160</b>             | <b>43,599</b>        | <b>18,561</b>           | <b>Cost of Services</b>                                                 | <b>62,958</b>             | <b>43,102</b>        | <b>19,856</b>           |
| 395                       | 312                  | 83                      | Other Operating Expenditure (Note 3.2.1-p26)                            | 411                       | 981                  | (570)                   |
| 6,964                     | 9,204                | (2,240)                 | Financing & Investment Income/Expenditure (Note 3.2.2-p26)              | 6,447                     | 4,281                | 2,166                   |
| 9,951                     | 25,436               | (15,485)                | Taxation & Non-Specific Grant Income (Note 3.2.3-p27)                   | 9,279                     | 24,251               | (14,972)                |
|                           |                      | <b>919</b>              | <b>(Surplus)/Deficit on Service Provision</b>                           |                           |                      | <b>6,480</b>            |
|                           |                      | (144)                   | (Surplus)/Deficit on Revaluation of Assets                              |                           |                      | 1,083                   |
|                           |                      | 312                     | Remeasurement of the Defined Benefit Liability/Asset (Note 4.4-p42-p45) |                           |                      | (3,084)                 |
|                           |                      | <b>168</b>              | <b>Other Income &amp; Expenditure</b>                                   |                           |                      | <b>(2,001)</b>          |
|                           |                      | <b>1,087</b>            | <b>Total Income &amp; Expenditure</b>                                   |                           |                      | <b>4,479</b>            |

### Note

Resources and Support Services includes housing benefits expenditure and housing benefits grant income of circa £29m.

Resources and Support Services net expenditure for 2017/18 includes impairment of £0.844m relating to expenditure on Castle House.

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The movements in the year are broken down between gains and losses incurred in accordance with accounting practices and statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

|                                                                                       | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---------------------------------------------------------------------------------------|----------------------|--------------------------|--------------------------|-----------------------|-------------------|------------------------|
|                                                                                       | £000                 | £000                     | £000                     | £000                  | £000              | £000                   |
| <b>2017/18</b>                                                                        |                      |                          |                          |                       |                   |                        |
| <b>Balance at 31 March 2017 B/Fwd</b>                                                 | <b>(3,075)</b>       | <b>(1,611)</b>           | <b>(1,126)</b>           | <b>(5,812)</b>        | <b>7,056</b>      | <b>1,244</b>           |
| <b>Movement in Reserves 2017/18</b>                                                   |                      |                          |                          |                       |                   |                        |
| Total Comprehensive Income & Expenditure                                              | 6,480                | -                        | -                        | 6,480                 | (2,001)           | 4,479                  |
| Adjustments Between Accounting & Funding Basis ( <a href="#">Note 3.1.1-p24-p25</a> ) | (7,424)              | (551)                    | (32)                     | (8,007)               | 8,007             | -                      |
| <b>Increase/Decrease in Year</b>                                                      | <b>(944)</b>         | <b>(551)</b>             | <b>(32)</b>              | <b>(1,527)</b>        | <b>6,006</b>      | <b>4,479</b>           |
| <b>Balance at 31 March 2018 C/Fwd</b>                                                 | <b>(4,019)</b>       | <b>(2,162)</b>           | <b>(1,158)</b>           | <b>(7,339)</b>        | <b>13,062</b>     | <b>5,723</b>           |
| <b>2016/17</b>                                                                        |                      |                          |                          |                       |                   |                        |
| <b>Balance at 31 March 2016 B/Fwd</b>                                                 | <b>(3,507)</b>       | <b>(6,586)</b>           | <b>(889)</b>             | <b>(10,982)</b>       | <b>11,139</b>     | <b>157</b>             |
| <b>Movement in Reserves 2016/17</b>                                                   |                      |                          |                          |                       |                   |                        |
| Total Comprehensive Income & Expenditure                                              | 919                  | -                        | -                        | 919                   | 168               | 1,087                  |
| Adjustments Between Accounting & Funding Basis ( <a href="#">Note 3.1.1-p24-p25</a> ) | (487)                | 4,975                    | (237)                    | 4,251                 | (4,251)           | -                      |
| <b>Increase/Decrease in Year</b>                                                      | <b>432</b>           | <b>4,975</b>             | <b>(237)</b>             | <b>5,170</b>          | <b>(4,083)</b>    | <b>1,087</b>           |
| <b>Balance at 31 March 2017 C/Fwd</b>                                                 | <b>(3,075)</b>       | <b>(1,611)</b>           | <b>(1,126)</b>           | <b>(5,812)</b>        | <b>7,056</b>      | <b>1,244</b>           |

### Notes

- The General Fund Balance includes £2.819m of Earmarked Reserves (2016/17 £1.875m), therefore leaving a general balance of £1.200m;
- The increase in this balance is primarily due to a contribution into the Business Rates Reserve (£0.911m) to provide for the future repayment of the deficit balance on the Business Rates collection fund;

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. 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 is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, 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 and funding basis' (page 17).

| 31/03/2017<br>£000 |                                               | 31/03/2018<br>£000 |
|--------------------|-----------------------------------------------|--------------------|
| 43,899             | Property, Plant & Equipment (Note 3.3.1-p29)  | 42,837             |
| 1,025              | Surplus Assets (Note 3.3.1-p29)               | 830                |
| 18,893             | Investment Property (Note 3.3.2-p32)          | 17,835             |
| 1,429              | Heritage Assets (Note 3.3.3-p33)              | 1,429              |
| 81                 | Intangible Assets                             | 77                 |
| 545                | Long Term Debtors (Note 3.3.4-p33)            | 444                |
| <b>65,872</b>      | <b>Long Term Assets</b>                       | <b>63,452</b>      |
| 3,460              | Short Term Investments (Note 4.6.1-p46-p47)   | 81                 |
| 236                | Inventories                                   | 194                |
| 8,359              | Short Term Debtors (Note 3.3.4-p33)           | 8,570              |
| 376                | Cash/Cash Equivalents (Note 4.6.1-p46-p47)    | 930                |
| <b>12,431</b>      | <b>Current Assets</b>                         | <b>9,775</b>       |
| (6,469)            | Short Term Creditors (Note 3.3.5-p34)         | (5,876)            |
| (70)               | Short Term Borrowing (Note 4.6.1-p46-p47)     | (2,555)            |
| (725)              | Provisions (Note 3.3.6-p34)                   | (1,004)            |
| <b>(7,264)</b>     | <b>Current Liabilities</b>                    | <b>(9,435)</b>     |
| (173)              | Provisions (Note 3.3.6-p34)                   | (1,047)            |
| (71,709)           | Net Pensions Liability (Note 4.4-p42-p45)     | (68,025)           |
| (401)              | Capital Grants Receipts in Advance            | (443)              |
| <b>(72,283)</b>    | <b>Long Term Liabilities</b>                  | <b>(69,515)</b>    |
| <b>(1,244)</b>     | <b>Net Assets</b>                             | <b>(5,723)</b>     |
|                    | <b>Usable Reserves (Note 3.3.7-p35-p36)</b>   |                    |
| 1,200              | General Fund Balance                          | 1,200              |
| 1,875              | Other Usable Reserves                         | 2,819              |
| 1,611              | Capital Receipts Reserve                      | 2,162              |
| 1,126              | Capital Grants Unapplied Account              | 1,158              |
| <b>5,812</b>       | <b>Total Usable Reserves</b>                  | <b>7,339</b>       |
|                    | <b>Unusable Reserves (Note 3.3.8-p36-p39)</b> |                    |
| 14,855             | Revaluation Reserve                           | 13,772             |
| 49,632             | Capital Adjustment Account                    | 44,819             |
| 545                | Deferred Capital Receipts Reserve             | 443                |
| (71,709)           | Pensions Reserve                              | (71,155)           |
| (7)                | Collection Fund Adjustment Account            | (558)              |
| (372)              | Accumulated Absences Account                  | (383)              |
| <b>(7,056)</b>     | <b>Total Unusable Reserves</b>                | <b>(13,062)</b>    |
| <b>(1,244)</b>     | <b>Total Reserves</b>                         | <b>(5,723)</b>     |

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The 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 from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2016/17<br>£000 |                                                                        | 2017/18<br>£000 |
|-----------------|------------------------------------------------------------------------|-----------------|
| 919             | Net (Surplus)/Deficit on the Provision of Services<br>(per CIES - p16) | 6,480           |
|                 | <b>Adjustments (Note 3.4.1-p39)</b>                                    |                 |
| (760)           | For non-cash movements                                                 | (7,512)         |
| 831             | For items that are Investing/Financing Activities                      | 1,502           |
| <b>990</b>      | <b>Net Cash Flows from Operating Activities</b>                        | <b>470</b>      |
| 554             | Investing Activities (Note 3.4.3-p40)                                  | (1,893)         |
| (1,325)         | Financing Activities (Note 3.4.4-p40)                                  | (3,713)         |
| -               | Local Government Pension Scheme Deficit<br>Contribution                | 4,582           |
| <b>219</b>      | <b>Net Increase or Decrease in Cash &amp;<br/>Equivalents</b>          | <b>(554)</b>    |
| (595)           | Cash & Equivalents brought forward                                     | (376)           |
| <b>(376)</b>    | <b>Cash &amp; Equivalents carried forward</b>                          | <b>(930)</b>    |

# Notes to the Financial Statements

These Notes are set out in the following Sections:

1. Technical Issues
2. Expenditure and Funding Analysis
3. Further Analysis of Items Included in the Financial Statements
4. Additional Information Supplementing the Financial Statements

## 1. Technical Issues

### 1.1. Accounting Policies, Standards, Judgements, Assumptions and Adjustments

The Financial Statements and the financial records maintained by the Council must be prepared and maintained in accordance with accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice for Local Authorities 2017/18 supported by International Financial Reporting Standards (IFRS). Detailed information relating to Accounting Policies employed and other technical accounting issues are set out at Appendix 1 (page 54), as follows:

- Accounting Policies
- Accounting Standards that have been issued but have not yet been adopted
- Critical Judgements in applying accounting policies
- Assumptions made about the future and other major sources of estimation uncertainty
- Events after the balance sheet date

## 2. Expenditure and Funding Analysis

This analysis shows how expenditure is used and funded from resources (government grants, council tax and business rates) by the Council compared to resources consumed or earned in accordance with accounting practices. It also shows how expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under accounting practices is presented fully in the Comprehensive Income and Expenditure Statement.

| 2016/17                                                |                                                        |                                                             |                                                                         | 2017/18                                                |                                                        |                                                             |
|--------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------|
| Net Expenditure Chargeable to the General Fund<br>£000 | Adjustments between Funding & Accounting Basis<br>£000 | Net Expenditure - Comprehensive Inc & Exp Statement<br>£000 |                                                                         | Net Expenditure Chargeable to the General Fund<br>£000 | Adjustments between Funding & Accounting Basis<br>£000 | Net Expenditure - Comprehensive Inc & Exp Statement<br>£000 |
| 2,703                                                  | (2)                                                    | 2,701                                                       | Chief Executive                                                         | 2,371                                                  | 116                                                    | 2,487                                                       |
| 3,517                                                  | 137                                                    | 3,654                                                       | Resources & Support Services                                            | 3,432                                                  | 1,269                                                  | 4,701                                                       |
| 2,390                                                  | 2,613                                                  | 5,003                                                       | Regeneration & Development                                              | 2,055                                                  | 3,173                                                  | 5,228                                                       |
| 5,678                                                  | 881                                                    | 6,559                                                       | Operational Services                                                    | 5,511                                                  | 1,335                                                  | 6,846                                                       |
| 1,320                                                  | (676)                                                  | 644                                                         | Corporate                                                               | 931                                                    | (337)                                                  | 594                                                         |
| <b>15,608</b>                                          | <b>2,953</b>                                           | <b>18,561</b>                                               | <b>Net Cost of Services</b>                                             | <b>14,300</b>                                          | <b>5,556</b>                                           | <b>19,856</b>                                               |
| <b>(15,176)</b>                                        | <b>(2,466)</b>                                         | <b>(17,642)</b>                                             | <b>Other Income and Expenditure</b>                                     | <b>(15,244)</b>                                        | <b>1,868</b>                                           | <b>(13,376)</b>                                             |
| <b>432</b>                                             | <b>487</b>                                             | <b>919</b>                                                  | <b>Surplus or Deficit</b>                                               | <b>(944)</b>                                           | <b>7,424</b>                                           | <b>6,480</b>                                                |
| <b>3,507</b>                                           |                                                        |                                                             | <b>Opening General Fund/Other Useable Reserves Balance (MIRS - p17)</b> | <b>3,075</b>                                           |                                                        |                                                             |
| <b>(432)</b>                                           |                                                        |                                                             | <b>Less/Plus Surplus or Deficit on General Fund Balance in Year</b>     | <b>944</b>                                             |                                                        |                                                             |
| <b>3,075</b>                                           |                                                        |                                                             | <b>Closing General Fund/Other Useable Reserves Balance (MIRS - p17)</b> | <b>4,019</b>                                           |                                                        |                                                             |

- The General Fund Balance includes £2.819m of Earmarked Reserves (2016/17 £1.875m), therefore leaving a general balance of £1.200m.

### 2.1.1. Reconciliation to the Comprehensive Income and Expenditure Statement

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement Amounts                                                              | Adjustments for Capital Purposes (Note 1) | Net Change for the Pensions Adjustments (Note 2) | Other Differences (Note 3) | Total Adjustments |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------|----------------------------|-------------------|
|                                                                                                                                                                  | £000                                      | £000                                             | £000                       | £000              |
| Chief Executive                                                                                                                                                  | 29                                        | 84                                               | 3                          | 116               |
| Resources & Support Services                                                                                                                                     | 1,009                                     | 241                                              | 19                         | 1,269             |
| Regeneration & Development                                                                                                                                       | 2,946                                     | 236                                              | (9)                        | 3,173             |
| Operational Services                                                                                                                                             | 861                                       | 475                                              | (1)                        | 1,335             |
| Corporate                                                                                                                                                        | (71)                                      | (266)                                            | -                          | (337)             |
| <b>Net Cost of Services</b>                                                                                                                                      | <b>4,774</b>                              | <b>770</b>                                       | <b>12</b>                  | <b>5,556</b>      |
| <b>Other Income and Expenditure</b>                                                                                                                              | <b>(484)</b>                              | <b>1,762</b>                                     | <b>590</b>                 | <b>1,868</b>      |
| <b>Difference between General Fund surplus or deficit &amp; Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>4,290</b>                              | <b>2,532</b>                                     | <b>602</b>                 | <b>7,424</b>      |

| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement Amounts                                                              | Adjustments for Capital Purposes (Note 1) | Net Change for the Pensions Adjustments (Note 2) | Other Differences (Note 3) | Total Adjustments |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------|----------------------------|-------------------|
|                                                                                                                                                                  | £000                                      | £000                                             | £000                       | £000              |
| Chief Executive                                                                                                                                                  | 30                                        | (25)                                             | (7)                        | (2)               |
| Resources & Support Services                                                                                                                                     | 220                                       | (66)                                             | (17)                       | 137               |
| Regeneration & Development                                                                                                                                       | 2,663                                     | (62)                                             | 12                         | 2,613             |
| Operational Services                                                                                                                                             | 982                                       | (118)                                            | 17                         | 881               |
| Corporate                                                                                                                                                        | (381)                                     | (295)                                            | -                          | (676)             |
| <b>Net Cost of Services</b>                                                                                                                                      | <b>3,514</b>                              | <b>(566)</b>                                     | <b>5</b>                   | <b>2,953</b>      |
| <b>Other Income and Expenditure</b>                                                                                                                              | <b>(4,733)</b>                            | <b>2,336</b>                                     | <b>(69)</b>                | <b>(2,466)</b>    |
| <b>Difference between General Fund surplus or deficit &amp; Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>(1,219)</b>                            | <b>1,770</b>                                     | <b>(64)</b>                | <b>487</b>        |

## Notes

### 1. 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 i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable without conditions or for which conditions were satisfied.

## 2. Net Change for the Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS19 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 Comprehensive Income and Expenditure Statement.

## 3. Other Differences

This column shows other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable recognised under statute.

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 Business Rates that was projected to be received at the start of the year and the income recognised under 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.

### 2.1.2. Segmental Income and Expenditure

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires that where certain items of significant income and expenditure are included in the 'net expenditure chargeable to the general fund' as shown in the Expenditure and Funding Analysis, these must be disclosed in a separate note as shown below:

| 2016/17<br>£000 | Segment                                | 2017/18<br>£000 |
|-----------------|----------------------------------------|-----------------|
|                 | <b>Depreciation &amp; Amortisation</b> |                 |
| 30              | Chief Executive                        | 29              |
| 176             | Resources & Support Services           | 165             |
| 309             | Regeneration & Development             | 301             |
| 906             | Operational Services                   | 837             |
| <b>1,421</b>    | <b>Total</b>                           | <b>1,332</b>    |
|                 | <b>Impairment</b>                      |                 |
| -               | Chief Executive                        | -               |
| 45              | Resources & Support Services           | 844             |
| 60              | Regeneration & Development             | -               |
| 77              | Operational Services                   | 15              |
| <b>182</b>      | <b>Total</b>                           | <b>859</b>      |
|                 | <b>External Income</b>                 |                 |
| 840             | Chief Executive                        | 736             |
| 904             | Resources & Support Services           | 925             |
| 4,338           | Regeneration & Development             | 5,048           |
| 6,028           | Operational Services                   | 5,716           |
| 227             | Corporate                              | 169             |
| <b>12,337</b>   | <b>Total</b>                           | <b>12,594</b>   |

### 3. Further Analysis of Items Contained in the Financial Statements

#### 3.1. In Relation to the Movement in Reserves Statement

##### 3.1.1. Adjustments Between Accounting Basis and Funding Basis

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

| 2017/18                                                                                                                                                                                         | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------------|--------------------------|-------------------|
|                                                                                                                                                                                                 | £000                 | £000                     | £000                     | £000              |
| <b>Adjustments Primarily Involving - Capital Adjustment Account</b>                                                                                                                             |                      |                          |                          |                   |
| <b>Reversal of Items Debited or Credited to the Comprehensive Income &amp; Expenditure Statement</b>                                                                                            |                      |                          |                          |                   |
| Charges for Depreciation & Impairment of Non-Current Assets                                                                                                                                     | (890)                |                          |                          | 890               |
| Revaluation Losses on Property, Plant & Equipment                                                                                                                                               | (1,975)              |                          |                          | 1,975             |
| Movements in Fair Value of Investment Properties                                                                                                                                                | (508)                |                          |                          | 508               |
| Amortisation of Intangible Assets                                                                                                                                                               | (73)                 |                          |                          | 73                |
| Reversal of Revenue Expenditure Funded from Capital Under Statute (REFCUS) expenditure                                                                                                          | (3,705)              |                          |                          | 3,705             |
| Reversal of REFCUS income                                                                                                                                                                       | 1,666                |                          |                          | (1,666)           |
| Non-Current Assets Written-Off on Disposal or Sale as Part of the Gain/Loss on Disposal                                                                                                         | (380)                |                          |                          | 380               |
| Capital Element of Finance Leases Where Council is the Lessor                                                                                                                                   | (39)                 |                          |                          | 39                |
| <b>Insertion of Items Not Debited or Credited to the Comprehensive Income &amp; Expenditure Statement</b>                                                                                       |                      |                          |                          |                   |
| Statutory Provision for the Financing of Capital Investment                                                                                                                                     |                      |                          |                          |                   |
| Capital Expenditure charged in year to the General Fund                                                                                                                                         | 71                   |                          |                          | (71)              |
| <b>Adjustments Primarily Involving - Capital Grants Unapplied Account</b>                                                                                                                       |                      |                          |                          |                   |
| Capital Grants & Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement                                                                                           | 142                  |                          | (142)                    |                   |
| Application of Grants to Capital Financing Transferred to the Capital Adjustment Account                                                                                                        |                      |                          | 110                      | (110)             |
| <b>Adjustments Primarily Involving - Capital Receipts Reserve</b>                                                                                                                               |                      |                          |                          |                   |
| Transfer of Sales Proceeds from Revenue to the Capital Receipts Reserve                                                                                                                         | 1,360                | (1,360)                  |                          |                   |
| Use of the Capital Receipts Reserve to Finance Capital                                                                                                                                          |                      | 871                      |                          | (871)             |
| Transfer from Deferred Capital Receipts Reserve on Receipt of Cash                                                                                                                              |                      | (62)                     |                          | 62                |
| <b>Adjustments Primarily Involving - Pensions Reserve</b>                                                                                                                                       |                      |                          |                          |                   |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Comprehensive Income & Expenditure Statement                                                                       | (6,328)              |                          |                          | 6,328             |
| Employers pension contributions and direct payments to pensioners payable in the year                                                                                                           | 3,798                |                          |                          | (3,798)           |
| <b>Adjustments Primarily Involving - Collection Fund Adjustment Account</b>                                                                                                                     |                      |                          |                          |                   |
| Amount That Council Tax & Non-Domestic Rating Income Credited to the Comprehensive Income & Expenditure Statement Differs From Council Tax & Non-Domestic Rating Income Calculated for the Year | (551)                |                          |                          | 551               |
| <b>Adjustments Primarily Involving - Accumulated Absences Account</b>                                                                                                                           |                      |                          |                          |                   |
| Amount by Which Officer Remuneration Charged to the Comprehensive Income & Expenditure Statement on an Accruals Basis Differs from Remuneration Chargeable Calculated for the Year              | (12)                 |                          |                          | 12                |
| <b>Total Adjustments</b>                                                                                                                                                                        | <b>(7,424)</b>       | <b>(551)</b>             | <b>(32)</b>              | <b>8,007</b>      |

| 2016/17                                                                                                                                                                                         | General Fund Balance<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Unusable Reserves<br>£000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------|----------------------------------|---------------------------|
| <b>Adjustments Primarily Involving - Capital Adjustment Account</b>                                                                                                                             |                              |                                  |                                  |                           |
| <b>Reversal of Items Debited or Credited to the Comprehensive Income &amp; Expenditure Statement</b>                                                                                            |                              |                                  |                                  |                           |
| Charges for Depreciation & Impairment of Non-Current Assets                                                                                                                                     | (1,560)                      | -                                | -                                | 1,560                     |
| Revaluation Losses on Property, Plant & Equipment                                                                                                                                               | -                            | -                                | -                                | -                         |
| Movements in Fair Value of Investment Properties                                                                                                                                                | 4,133                        | -                                | -                                | (4,133)                   |
| Amortisation of Intangible Assets                                                                                                                                                               | (84)                         | -                                | -                                | 84                        |
| Reversal of Revenue Expenditure Funded from Capital Under Statute (REFCUS) expenditure                                                                                                          | (3,305)                      | -                                | -                                | 3,305                     |
| Reversal of REFCUS income                                                                                                                                                                       | 1,014                        | -                                | -                                | (1,014)                   |
| Non-Current Assets Written-Off on Disposal or Sale as Part of the Gain/Loss on Disposal                                                                                                         | (191)                        | -                                | -                                | 191                       |
| Capital Element of Finance Leases Where Council is the Lessor                                                                                                                                   | (34)                         | -                                | -                                | 34                        |
| <b>Insertion of Items Not Debited or Credited to the Comprehensive Income &amp; Expenditure Statement</b>                                                                                       |                              |                                  |                                  |                           |
| Statutory Provision for the Financing of Capital Investment                                                                                                                                     | -                            | -                                | -                                | -                         |
| Capital Expenditure charged in year to the General Fund                                                                                                                                         | 381                          | -                                | -                                | (381)                     |
| <b>Adjustments Primarily Involving - Capital Grants Unapplied Account</b>                                                                                                                       |                              |                                  |                                  |                           |
| Capital Grants & Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement                                                                                           | 329                          | -                                | (329)                            | -                         |
| Application of Grants to Capital Financing Transferred to the Capital Adjustment Account                                                                                                        | -                            | -                                | 92                               | (92)                      |
| <b>Adjustments Primarily Involving - Capital Receipts Reserve</b>                                                                                                                               |                              |                                  |                                  |                           |
| Transfer of Sales Proceeds from Revenue to the Capital Receipts Reserve                                                                                                                         | 519                          | (519)                            | -                                | -                         |
| Use of the Capital Receipts Reserve to Finance Capital                                                                                                                                          | -                            | 5,518                            | -                                | (5,518)                   |
| Transfer from Deferred Capital Receipts Reserve on Receipt of Cash                                                                                                                              | (17)                         | (24)                             | -                                | 41                        |
| <b>Adjustments Primarily Involving - Pensions Reserve</b>                                                                                                                                       |                              |                                  |                                  |                           |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Comprehensive Income & Expenditure Statement                                                                       | (5,045)                      | -                                | -                                | 5,045                     |
| Employers pension contributions and direct payments to pensioners payable in the year                                                                                                           | 3,276                        | -                                | -                                | (3,276)                   |
| <b>Adjustments Primarily Involving - Collection Fund Adjustment Account</b>                                                                                                                     |                              |                                  |                                  |                           |
| Amount That Council Tax & Non-Domestic Rating Income Credited to the Comprehensive Income & Expenditure Statement Differs From Council Tax & Non-Domestic Rating Income Calculated for the Year | 103                          | -                                | -                                | (103)                     |
| <b>Adjustments Primarily Involving - Accumulated Absences Account</b>                                                                                                                           |                              |                                  |                                  |                           |
| Amount by Which Officer Remuneration Charged to the Comprehensive Income & Expenditure Statement on an Accruals Basis Differs from Remuneration Chargeable Calculated for the Year              | (6)                          | -                                | -                                | 6                         |
| <b>Total Adjustments</b>                                                                                                                                                                        | <b>(487)</b>                 | <b>4,975</b>                     | <b>(237)</b>                     | <b>(4,251)</b>            |

### 3.1.2. Transfers to/from Earmarked Reserves

Amounts are set aside from the General Fund balances in earmarked reserves to provide financing for future plans. Amounts are posted back from earmarked reserves to meet General Fund revenue expenditure. The table below shows these transfers.

| 2016/17               |                      |                      |                                | 2017/18               |                      |                      |
|-----------------------|----------------------|----------------------|--------------------------------|-----------------------|----------------------|----------------------|
| Transfers Out<br>£000 | Transfers In<br>£000 | Net Movement<br>£000 |                                | Transfers Out<br>£000 | Transfers In<br>£000 | Net Movement<br>£000 |
| (107)                 | 212                  | 105                  | Equipment Replacement Fund     | (120)                 | 191                  | 71                   |
| (390)                 | 390                  | -                    | Renewals and Repairs Fund      | (272)                 | 270                  | (2)                  |
| (247)                 | 90                   | (157)                | ICT Development Fund           | -                     | 70                   | 70                   |
| (165)                 | 165                  | -                    | New Homes Bonus Reserve        | -                     | -                    | -                    |
| -                     | -                    | -                    | Deposit Guarantee Reserve      | (36)                  | -                    | (36)                 |
| (91)                  | -                    | (91)                 | Contingency Reserve Fund       | (72)                  | 147                  | 75                   |
| (80)                  | 8                    | (72)                 | Budget Support Fund            | (83)                  | 169                  | 86                   |
| -                     | 10                   | 10                   | Conservation and Heritage Fund | (10)                  | 10                   | -                    |
| -                     | 4                    | 4                    | Museum Purchases Fund          | (3)                   | -                    | (3)                  |
| (30)                  | 44                   | 14                   | Maintenance Contributions      | (42)                  | 42                   | -                    |
| (3)                   | -                    | (3)                  | Mayors Charities Reserve       | -                     | 5                    | 5                    |
| (1)                   | 35                   | 34                   | Revenue Investment Fund        | (105)                 | -                    | (105)                |
| -                     | -                    | -                    | Keele Masterplan Reserve       | (57)                  | -                    | (57)                 |
| (276)                 | -                    | (276)                | Business Rates Reserve         | -                     | 911                  | 911                  |
| <b>(1,390)</b>        | <b>958</b>           | <b>(432)</b>         | <b>Total</b>                   | <b>(800)</b>          | <b>1,815</b>         | <b>1,015</b>         |

Details of all transfers to/from reserves, both usable and unusable, are shown in notes 3.3.7 and 3.3.8 (pages 35-36 and 36-39) together with a note of the nature and purpose of each reserve. The transfers shown above for both the ICT Development Fund and the New Homes Bonus Reserve exclude capital transfers.

## 3.2. In Relation to the Comprehensive Income and Expenditure Statement

### 3.2.1. Other Operating Expenditure

| 2016/17<br>£000 |                                                  | 2017/18<br>£000 |
|-----------------|--------------------------------------------------|-----------------|
| 395             | Parish Precepts                                  | 411             |
| 191             | (Gains)/Losses on Disposal of Non-Current Assets | (142)           |
| (503)           | Capital Income not Arising from Asset Sales      | (839)           |
| <b>83</b>       | <b>Total</b>                                     | <b>(570)</b>    |

### 3.2.2. Financing and Investment Income and Expenditure

| 2016/17<br>£000 |                                               | 2017/18<br>£000 |
|-----------------|-----------------------------------------------|-----------------|
| 1               | Interest Payable & Similar Charges            | 1               |
| 2,336           | Interest on the Net Defined Benefit Liability | 1,762           |
| (115)           | Interest Receivable & Similar Income          | (65)            |
| (1,240)         | Investment Properties - Rental Income         | (1,144)         |
| (4,133)         | Investment Properties - Revaluations          | 675             |
| 911             | Investment Properties - Expenses              | 937             |
| <b>(2,240)</b>  | <b>Total</b>                                  | <b>2,166</b>    |

### 3.2.3. Taxation and Non Specific Grant Income

| 2016/17<br>£000 |                                  | 2017/18<br>£000 |
|-----------------|----------------------------------|-----------------|
| (6,886)         | Council Tax Income               | (7,421)         |
| 9,587           | Non Domestic Rates Expenditure   | 8,791           |
| (13,807)        | Non Domestic Rates Income        | (13,295)        |
| (4,050)         | Non-Ringfenced Government Grants | (2,905)         |
| (329)           | Capital Grants & Contributions   | (142)           |
| <b>(15,485)</b> | <b>Total</b>                     | <b>(14,972)</b> |

### 3.2.4. Expenditure and Income Analysed by Nature

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

| 2016/17<br>£000 |                                                        | 2017/18<br>£000 |
|-----------------|--------------------------------------------------------|-----------------|
|                 | <b>Expenditure</b>                                     |                 |
| 17,447          | Employees                                              | 18,718          |
| 2,552           | Premises                                               | 2,405           |
| 1,171           | Transport                                              | 827             |
| 6,786           | Supplies and Services                                  | 6,484           |
| 1,374           | Grants                                                 | 1,600           |
| 282             | Contributions                                          | 258             |
| 1,229           | Agency and Contracted Services                         | 816             |
| 30,102          | Housing Benefits Payments                              | 29,430          |
| (2,489)         | Capital Financing                                      | 3,447           |
| 1               | Capital Financing Costs                                | 1               |
| 10,346          | Sources of Finance Expenditure                         | 9,691           |
| 5,882           | Pensions Interest Cost less Return on Asset            | 4,873           |
| <b>74,683</b>   | <b>Total Expenditure</b>                               | <b>78,550</b>   |
|                 | <b>Income</b>                                          |                 |
| 503             | Capital Income not Arising from Asset Sales            | 839             |
| (191)           | Gains/(losses) on Disposal of Non Current Assets       | 142             |
| 20,477          | Sources of Finance Income                              | 20,134          |
| 35,213          | Government grants                                      | 33,772          |
| 140             | Transfer from Collection Fund                          | 138             |
| 1,402           | Other Grants and Contributions                         | 1,064           |
| 2,767           | Reimbursements                                         | 3,223           |
| 8,158           | Customer Receipts                                      | 8,010           |
| 1,070           | Rents                                                  | 1,044           |
| 115             | Interest and Investment Income                         | 65              |
| 510             | Summons Costs                                          | 500             |
| 3,546           | Pensions Return on Assets                              | 3,111           |
| 54              | Other Income                                           | 28              |
| <b>73,764</b>   | <b>Total Income</b>                                    | <b>72,070</b>   |
| <b>919</b>      | <b>Surplus or Deficit on the Provision of Services</b> | <b>6,480</b>    |

### 3.2.5. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims by the Council's external auditors (Grant Thornton):

| 2016/17<br>£000 |                                           | 2017/18<br>£000 |
|-----------------|-------------------------------------------|-----------------|
| 55              | External audit services carried out       | 55              |
| 6               | Certification of grant claims and returns | 6               |
| <b>61</b>       |                                           | <b>61</b>       |

### 3.2.6. Members' Allowances

In 2017/18 a total of £316,437 was paid to members (including the Mayor and Deputy Mayor) in respect of allowances (£319,048 in 2016/17). In addition expenses of £2,937 were paid to members (£2,540 in 2016/17).

### 3.2.7. Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18, incurring liabilities of £92,721 (£57,327 in 2016/17). The termination benefits consisted of £88,960 for loss of office and £3,761 in relation to long service awards.

### 3.2.8. Officers' Remuneration

Remuneration between £50,000 and £150,000 per annum (\*\*\*)calculated on a pro-rata basis for employees that work less than the usual number of hours per week) was paid to the Council's senior employees as follows:

| 2017/18 - Post Holder         | Salary<br>(£) | Benefits in Kind<br>(£) | Total exc. Employer Pension<br>(£) | Employer Pension<br>(£) | Total inc. Employer Pension<br>(£) |
|-------------------------------|---------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| Chief Executive*              | 107,494       | -                       | 107,494                            | 17,397                  | 124,892                            |
| <b>Executive Directors</b>    |               |                         |                                    |                         |                                    |
| Operational Services          | 88,080        | 1,375                   | 89,455                             | 14,945                  | 104,399                            |
| Resources & Support Services  | 87,458        | -                       | 87,458                             | 14,945                  | 102,402                            |
| Regeneration & Development    | 87,395        | 2,750                   | 90,145                             | 16,594                  | 106,739                            |
| <b>Heads of Service</b>       |               |                         |                                    |                         |                                    |
| Operations                    | 60,286        | 1,650                   | 61,936                             | 10,164                  | 72,100                             |
| Recycling and Fleet Services  | 51,155        | 688                     | 51,843                             | 8,695                   | 60,538                             |
| Planning                      | 57,303        | -                       | 57,303                             | 9,799                   | 67,102                             |
| Leisure and Cultural Services | 57,303        | -                       | 57,303                             | 9,799                   | 67,102                             |
| Communications                | 51,533        | 1,650                   | 53,183                             | 8,812                   | 61,995                             |
| Environmental Health          | 55,490        | -                       | 55,490                             | 9,446                   | 64,936                             |
| Audit & Elections             | 55,053        | 1,650                   | 56,703                             | 8,593                   | 65,296                             |
| Human Resources               | 50,253        | -                       | 50,253                             | 8,593                   | 58,846                             |
| Customer & ICT***             | 26,632        | 841                     | 27,473                             | 4,187                   | 31,660                             |
| Finance***                    | 19,499        | -                       | 19,499                             | -                       | 19,499                             |

| 2016/17 - Post Holder            | Salary<br>(£) | Benefits in Kind<br>(£) | Total exc. Employer Pension<br>(£) | Employer Pension<br>(£) | Total inc. Employer Pension<br>(£) |
|----------------------------------|---------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| Chief Executive**                | 114,489       | -                       | 114,489                            | 18,702                  | 133,191                            |
| <b>Executive Directors</b>       |               |                         |                                    |                         |                                    |
| Regeneration & Development       | 86,530        | 2,750                   | 89,280                             | 16,414                  | 105,694                            |
| Operational Services             | 86,530        | 1,375                   | 87,905                             | 14,797                  | 102,702                            |
| Resources & Support Services     | 86,530        | -                       | 86,530                             | 14,797                  | 101,327                            |
| <b>Heads of Service</b>          |               |                         |                                    |                         |                                    |
| Operations                       | 58,532        | 1,650                   | 60,182                             | 10,053                  | 70,235                             |
| Planning                         | 56,736        | -                       | 56,736                             | 9,702                   | 66,438                             |
| Leisure and Cultural Services    | 56,736        | -                       | 56,736                             | 9,702                   | 66,438                             |
| Recycling and Fleet Services     | 55,316        | 1,650                   | 56,966                             | 9,503                   | 66,469                             |
| Housing, Regeneration and Assets | 53,894        | 1,650                   | 55,544                             | 9,216                   | 64,760                             |
| Environmental Health             | 52,357        | -                       | 52,357                             | 8,965                   | 61,322                             |
| Communications                   | 51,023        | 1,650                   | 52,673                             | 8,725                   | 61,398                             |
| Finance***                       | 29,752        | 1,650                   | 31,402                             | 2,908                   | 34,310                             |

\* This includes salary of £101,740 plus Returning Officers fees for the Borough Council Elections.

\*\* This includes salary of £100,736 plus Returning Officers fees for the Borough Council Elections.

### 3.2.9. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure:

| 2016/17<br>£000 |                                                | 2017/18<br>£000 |
|-----------------|------------------------------------------------|-----------------|
|                 | <b>Credited to Taxation/Non Specific Grant</b> |                 |
| 329             | Planning Obligations Contributions             | 142             |
| 67              | Other Government Grants                        | 221             |
| 580             | Section 31/Business Rates Relief Grant         | 1,064           |
| 2,170           | New Homes Bonus Scheme                         | 1,630           |
| 1,814           | Revenue Support Grant                          | 1,060           |
| <b>4,960</b>    | <b>Total</b>                                   | <b>4,117</b>    |
|                 | <b>Credited to Services</b>                    |                 |
| 29,849          | Housing Benefits Subsidy/Grants                | 29,055          |
| 547             | Housing Benefit/Council Tax Benefit Admin      | 513             |
| 998             | Disabled Facilities Grant                      | 1,452           |
| 62              | Individual Electoral Registration Section 31   | 53              |
| 124             | Other Grants                                   | 175             |
| 75              | Contributions towards Community Safety         | 137             |
| <b>31,655</b>   | <b>Total</b>                                   | <b>31,385</b>   |

### 3.3. In Relation to the Balance Sheet

#### 3.3.1. Property Plant and Equipment

##### Movements on Balances

| 2017/18                                                                      | Land & Buildings<br>£000 | Infrastructure Assets<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Total<br>£000   |
|------------------------------------------------------------------------------|--------------------------|-------------------------------|------------------------------------------------|--------------------------|------------------------|-----------------|
| <b>Cost or Valuation</b>                                                     |                          |                               |                                                |                          |                        |                 |
| <b>At 1 April 2017</b>                                                       | <b>30,471</b>            | <b>1,338</b>                  | <b>17,262</b>                                  | <b>7,302</b>             | <b>1,025</b>           | <b>57,398</b>   |
| Additions                                                                    | 16                       | -                             | 2,272                                          | 108                      | -                      | 2,396           |
| Revaluation Increases/(Decreases) - Revaluation Reserve                      | (1,459)                  | -                             | -                                              | 376                      | -                      | (1,083)         |
| Revaluation Increases/(Decreases) - Surplus/Deficit on Provision of Services | (928)                    | -                             | (845)                                          | (7)                      | (195)                  | (1,975)         |
| Derecognition - Disposals                                                    | -                        | -                             | (869)                                          | -                        | -                      | (869)           |
| Transfers Between Asset Categories                                           | 186                      | -                             | -                                              | -                        | -                      | 186             |
| Other Movements in Cost or Valuation                                         | -                        | -                             | -                                              | -                        | -                      | -               |
| <b>At 31 March 2018</b>                                                      | <b>28,286</b>            | <b>1,338</b>                  | <b>17,820</b>                                  | <b>7,779</b>             | <b>830</b>             | <b>56,053</b>   |
| <b>Accumulated Depreciation &amp; Impairment</b>                             |                          |                               |                                                |                          |                        |                 |
| <b>At 1 April 2017</b>                                                       | <b>(2,827)</b>           | <b>(448)</b>                  | <b>(8,110)</b>                                 | <b>(1,089)</b>           | <b>-</b>               | <b>(12,474)</b> |
| Depreciation Charge                                                          | (595)                    | (26)                          | (551)                                          | (91)                     | -                      | (1,263)         |
| Derecognition - Disposals                                                    | -                        | -                             | 852                                            | -                        | -                      | 852             |
| Derecognition - Other                                                        | 499                      | -                             | -                                              | -                        | -                      | 499             |
| <b>At 31 March 2018</b>                                                      | <b>(2,923)</b>           | <b>(474)</b>                  | <b>(7,809)</b>                                 | <b>(1,180)</b>           | <b>-</b>               | <b>(12,386)</b> |
| <b>Net Book Value</b>                                                        |                          |                               |                                                |                          |                        |                 |
| As at 31 March 2017                                                          | 27,644                   | 890                           | 9,152                                          | 6,213                    | 1,025                  | 44,924          |
| As at 31 March 2018                                                          | 25,363                   | 864                           | 10,011                                         | 6,599                    | 830                    | 43,667          |

| 2016/17                                                                      | Land & Buildings | Infrastructure Assets | Vehicles, Plant, Furniture & Equipment | Community Assets | Surplus Assets | Total           |
|------------------------------------------------------------------------------|------------------|-----------------------|----------------------------------------|------------------|----------------|-----------------|
|                                                                              | £000             | £000                  | £000                                   | £000             | £000           | £000            |
| <b>Cost or Valuation</b>                                                     |                  |                       |                                        |                  |                |                 |
| <b>At 1 April 2016</b>                                                       | <b>30,585</b>    | <b>1,337</b>          | <b>13,574</b>                          | <b>7,210</b>     | <b>1,025</b>   | <b>53,731</b>   |
| Additions                                                                    | 219              | 1                     | 4,943                                  | 81               | -              | 5,244           |
| Revaluation Increases/(Decreases) - Revaluation Reserve                      | 140              | -                     | -                                      | -                | -              | 140             |
| Revaluation Increases/(Decreases) - Surplus/Deficit on Provision of Services | (219)            | -                     | (10)                                   | 15               | -              | (214)           |
| Derecognition - Disposals                                                    | (109)            | -                     | (1,245)                                | (66)             | -              | (1,420)         |
| Transfers Between Asset Categories                                           | (145)            | -                     | -                                      | 62               | -              | (83)            |
| Other Movements in Cost or Valuation                                         | -                | -                     | -                                      | -                | -              | -               |
| <b>At 31 March 2017</b>                                                      | <b>30,471</b>    | <b>1,338</b>          | <b>17,262</b>                          | <b>7,302</b>     | <b>1,025</b>   | <b>57,398</b>   |
| <b>Accumulated Depreciation &amp; Impairment</b>                             |                  |                       |                                        |                  |                |                 |
| <b>At 1 April 2016</b>                                                       | (2,237)          | (422)                 | (8,726)                                | (998)            | -              | (12,383)        |
| Depreciation Charge                                                          | (595)            | (26)                  | (633)                                  | (91)             | -              | (1,345)         |
| Derecognition - Disposals                                                    | 5                | -                     | 1,249                                  | -                | -              | 1,254           |
| <b>At 31 March 2017</b>                                                      | <b>(2,827)</b>   | <b>(448)</b>          | <b>(8,110)</b>                         | <b>(1,089)</b>   | <b>-</b>       | <b>(12,474)</b> |
| <b>Net Book Value</b>                                                        |                  |                       |                                        |                  |                |                 |
| As at 31 March 2016                                                          | 28,348           | 915                   | 4,848                                  | 6,212            | 1,025          | 41,348          |
| As at 31 March 2017                                                          | 27,644           | 890                   | 9,152                                  | 6,213            | 1,025          | 44,924          |

## Depreciation

Depreciation is applied on a straight line basis. No depreciation is applied to land. Where an asset includes land, the value of this element is excluded before applying depreciation. A 10% residual value is assumed in most cases, which is deducted from the depreciable amount before applying depreciation.

The following useful lives have been used:

- Land and Buildings - 60 years, unless the valuation basis is depreciated replacement cost, where individual lives apply to each asset;
- Vehicles, Plant, Furniture & Equipment - 5 years for most items, 15 years for wheeled bins;
- Infrastructure - no specific life. Depreciation is based on a historical composite calculation;
- Community Assets - 20 years.

## Capital Commitments

There are no capital commitments at 31 March 2018. Commitments at 31 March 2017 were £0.339m.

## Asset Classes

For the purposes of valuation assets are grouped into classes. Assets within a class are all valued at the same time. The table below shows the different classes with the total valuation of assets within each as at 31 March 2018 and for the prior period.

| 31/03/2017<br>£'000 |                                       | 31/03/2018<br>£'000 |
|---------------------|---------------------------------------|---------------------|
| 1,025               | Surplus Assets                        | 830                 |
|                     | <b>Land and Buildings</b>             |                     |
| 2,795               | Community Centres                     | 2,795               |
| 6,580               | Car Parks Charging                    | 5,891               |
| 1,523               | Car Parks Non-charging                | 1,518               |
| 1,500               | Depot                                 | 1,378               |
| 4,011               | Offices                               | 2,672               |
| 380                 | Guildhall                             | 380                 |
| 294                 | Bus Station                           | 221                 |
| 1,245               | Cemeteries                            | 1,264               |
| 498                 | Crematorium                           | 521                 |
| 8,936               | Leisure Centres                       | 8,936               |
| 1,487               | Parks and Sports Grounds              | 1,487               |
| 520                 | Museum                                | 520                 |
| 113                 | Public Toilets                        | 114                 |
| 157                 | Business Centre                       | 157                 |
| 432                 | Other Land and Buildings              | 432                 |
| 1,338               | Infrastructure Assets                 | 1,338               |
| 17,262              | Vehicles, Plant, Furniture, Equipment | 17,820              |
| 7,302               | Community Assets                      | 7,779               |
| <b>57,398</b>       | <b>Total</b>                          | <b>56,053</b>       |

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. All valuations are carried out internally. Valuations of land and buildings are carried out in accordance with the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, and equipment are based on historic cost. The significant assumptions applied in estimating the fair values are, whether a property asset is a specialised asset, which governs its valuation treatment, whether an asset is being used for operational purposes and whether there is any impairment applicable to the asset.

Valuations over the rolling period were as follows:

|                                | Land & Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Community Assets<br>£000 | Infrastructure Assets<br>£000 | Surplus Assets<br>£000 | Total<br>£000 |
|--------------------------------|--------------------------|------------------------------------------------|--------------------------|-------------------------------|------------------------|---------------|
| Carried at Historical Cost     | 9                        | 17,820                                         | 5,816                    | 1,338                         | -                      | 24,983        |
| Valued at Fair Value at:       | -                        | -                                              | -                        | -                             | -                      | -             |
| 31 March 2012                  | 8,935                    | -                                              | -                        | -                             | -                      | 8,935         |
| 31 March 2013                  | -                        | -                                              | -                        | -                             | -                      | -             |
| 31 March 2014                  | 6,289                    | -                                              | 946                      | -                             | 500                    | 7,735         |
| 31 March 2015                  | 1,246                    | -                                              | 17                       | -                             | -                      | 1,263         |
| 31 March 2016                  | 3,984                    | -                                              | 69                       | -                             | -                      | 4,053         |
| 31 March 2017                  | 140                      | -                                              | -                        | -                             | -                      | 140           |
| 31 March 2018                  | 7,683                    | -                                              | 931                      | -                             | 330                    | 8,944         |
| <b>Total Cost or Valuation</b> | <b>28,286</b>            | <b>17,820</b>                                  | <b>7,779</b>             | <b>1,338</b>                  | <b>830</b>             | <b>56,053</b> |

## Fair Value Measurement of Surplus Assets

Surplus Assets are measured at fair value. Level 3 of the Fair Value Hierarchy applies in estimating the fair values and the valuation technique employed is the investment basis, using the rental value and yield as unobservable inputs. Significant changes in any of these inputs will result in a lower or higher fair value. There have been no changes in any of the valuation techniques employed during the year.

### 3.3.2. Investment Properties

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

The following table summarises the movement in the fair value of level 3 investment properties over the year:

| 2016/17<br>£000 |                                                 | 2017/18<br>£000 |
|-----------------|-------------------------------------------------|-----------------|
| <b>14,527</b>   | <b>Balance at 1 April</b>                       | <b>18,893</b>   |
| 171             | Additions - Subsequent Expenditure              | 126             |
| (21)            | Disposals                                       | (363)           |
| 4,133           | Net Gains/(Losses) - Fair Value Adjustments     | (635)           |
| 83              | Transfers (To)/From Property, Plant & Equipment | (186)           |
| <b>18,893</b>   | <b>Balance at 31 March</b>                      | <b>17,835</b>   |

Gains or losses from changes in the fair value of investment property are recognised in the Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure line (page 16).

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

The fair value for development sites is based on the market approach using current market conditions, sales prices and other relevant information for similar assets in the area. Local market conditions are such that similar land is not extensively purchased and sold and the level of observable inputs are not significant leading to categorisation at Level 3 in the fair value hierarchy.

Other Investment Properties are valued using the investment approach, whereby actual or estimated rental income is capitalised to provide a capital value. The rental income is calculated by reference to actual or estimated values having regard to market evidence. The yield multiplier is based on comparable evidence. These properties are, therefore, categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements.

The following table shows quantitative information relating to fair value measurement of investment properties using significant unobservable inputs.

| Investment Property Type | 31/03/2018<br>£000 | Valuation technique used to measure fair value | Unobservable Inputs | Sensitivity |
|--------------------------|--------------------|------------------------------------------------|---------------------|-------------|
| Shops                    | 2,957              | Investment Method                              | Rental Values Yield | (a)         |
| Offices                  | 1,134              | Investment Method                              | Rental Values Yield | (a)         |
| Industrial Units         | 2,295              | Investment Method                              | Rental Values Yield | (a)         |
| Other                    | 2,532              | Investment Method                              | Rental Values Yield | (a)         |
| Development Sites        | 8,917              | Comparable Method                              | Capital Value       | (a)         |
|                          | <b>17,835</b>      |                                                |                     |             |

(a) Significant changes in rental value, yield or capital value will result in a varied fair value

There has been no change in the valuation techniques used during the year.

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

The fair value of Investment Property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the professional standards of the Royal Institution of Chartered Surveyors.

### 3.3.3. Heritage Assets

#### Reconciliation of the Carrying Value of Heritage Assets held by the Council

The Council's collection of museum artefacts is reported in the Balance Sheet (page 18) at an insurance valuation of £1.429m, which is based on market values as assessed by an external valuer in October 2006.

These valuations are updated by the museum curator in respect of significant items and changes. New items are added at cost, if purchased and at valuation, if donated, where they are significant. Other Heritage assets, i.e. outdoor structures, are not recognised on the Balance Sheet because there is no reliable cost or valuation information to enable them to be valued. There have been no movements in the valuation of Heritage Assets during 2017/18.

#### Museum Exhibits

The museum holds a collection of around 20,000 objects, falling into the following categories:

| Subject        | Description                                                                                                       | %   |
|----------------|-------------------------------------------------------------------------------------------------------------------|-----|
| Social History | Domestic and working life, childhood, civic regalia, industry, crafts in the Borough                              | 28% |
| Decorative Art | Ceramics, glass, costume and textiles, furniture, furnishings                                                     | 8%  |
| Militaria      | Costume, medals, weapons, ephemera                                                                                | 3%  |
| Fine Art       | Oils, watercolours, prints, drawings, sketches of local scenes, local artists                                     | 3%  |
| Archives       | Documents, ephemera, prints, negatives, lantern slides, cine film, video, audio tapes connected to the local area | 55% |
| Archaeology    | Local excavated finds, chance finds                                                                               | 2%  |
| Numismatics    | A collection of local coinage/tokens, bank notes, commemorative medals                                            | 1%  |

In addition, the civic regalia and mayoral robes are kept in a secure location to be used on ceremonial occasions.

#### Outdoor Structures

This category of heritage assets comprises of the Queen Victoria Statue and Sergeant Fred Kite Memorial, Queens Gardens; Fountains, Nelson Place; Castle Motte, Queen Elizabeth Park; Silverdale Cemetery Gazebo; Ice House, Chesterton Memorial Park; Mining Memorials at Bateswood and Silverdale; Lyme Valley Canal Basin.

### 3.3.4. Debtors

#### Long Term Debtors

| 31/03/2017<br>£000 |                                        | 31/03/2018<br>£000 |
|--------------------|----------------------------------------|--------------------|
| 178                | Finance Lease Balances Outstanding     | 140                |
| 1                  | Right to Buy Mortgages                 | 1                  |
| 366                | Kickstart Loans (re home improvements) | 303                |
| <b>545</b>         | <b>Total</b>                           | <b>444</b>         |

#### Short Term Debtors

| 31/03/2017<br>£000 |                              | 31/03/2018<br>£000 |
|--------------------|------------------------------|--------------------|
| 790                | Central Government Bodies    | 2,083              |
| 1,606              | Other Local Authorities      | 1,796              |
| 5,963              | Other Entities & Individuals | 4,691              |
| <b>8,359</b>       | <b>Total</b>                 | <b>8,570</b>       |

### 3.3.5. Creditors

| 31/03/2017<br>£000 |                                     | 31/03/2018<br>£000 |
|--------------------|-------------------------------------|--------------------|
| 1,955              | Central Government Bodies           | 4,117              |
| 1,573              | Other Local Authorities             | 1,127              |
| 25                 | Public Corporations & Trading Funds | -                  |
| 2,916              | Other Entities & Individuals        | 632                |
| <b>6,469</b>       | <b>Total</b>                        | <b>5,876</b>       |

### 3.3.6. Provisions

|                                 | Short<br>Term:<br>NNDR<br>Appeals<br>£000 | Long-Term                   |             | Long<br>Term<br>NNDR<br>Appeals<br>£000 | Total Long-<br>Term<br>£000 |
|---------------------------------|-------------------------------------------|-----------------------------|-------------|-----------------------------------------|-----------------------------|
|                                 |                                           | Insurance<br>Claims<br>£000 | MMI<br>£000 |                                         |                             |
|                                 |                                           |                             |             |                                         |                             |
| <b>Balance at 1 April 2016</b>  | 773                                       | 72                          | 79          | -                                       | 151                         |
| Additional Provisions Made      | 644                                       | 97                          | 14          | -                                       | 111                         |
| Amounts Used                    | (692)                                     | (21)                        | (68)        | -                                       | (89)                        |
| <b>Balance at 1 April 2017</b>  | <b>725</b>                                | <b>148</b>                  | <b>25</b>   | -                                       | <b>173</b>                  |
| Additional Provisions Made      | 735                                       | 33                          | -           | 874                                     | 907                         |
| Amounts Used                    | (456)                                     | (33)                        | -           | -                                       | (33)                        |
| <b>Balance at 31 March 2018</b> | <b>1,004</b>                              | <b>148</b>                  | <b>25</b>   | <b>874</b>                              | <b>1,047</b>                |

The NNDR Appeals provision provides for the Councils element of refunds payable following successful appeals in relation to the rateable value of business rates payer's properties. This has increased significantly during 2017/18 to reflect appeals that are likely in both 2018/19 and in years after 2018/19

The Insurance Claims Provision has been created to meet the costs of claims which are likely to be settled but where the actual settlement date is uncertain.

The MMI Provision has been created to provide for possible claw-back (levy) of sums paid out by the administrator of Municipal Mutual Insurance (MMI), in the event of MMI becoming insolvent.

### 3.3.7. Usable Reserves

Movements in the Council's usable reserves, showing both capital and revenue reserves, are set out below:

|                                  | 31/03/2016    | Transfers      | Transfers    | 31/03/2017   | Transfers      | Transfers    | 31/03/2018   |
|----------------------------------|---------------|----------------|--------------|--------------|----------------|--------------|--------------|
|                                  | £000          | Out            | In           | £000         | Out            | In           | £000         |
|                                  |               | £000           | £000         |              | £000           | £000         |              |
| <b>Capital:</b>                  |               |                |              |              |                |              |              |
| Capital Receipts Reserve         | 6,586         | (6,112)        | 1,137        | 1,611        | (2,791)        | 3,342        | 2,162        |
| Capital Grants Unapplied         | 889           | (443)          | 680          | 1,126        | (157)          | 189          | 1,158        |
| <b>Both Revenue and Capital:</b> |               |                |              |              |                |              |              |
| Equipment Replacement Fund       | 376           | (107)          | 212          | 481          | (120)          | 191          | 552          |
| Renewals and Repairs Fund        | 2             | (390)          | 390          | 2            | (272)          | 270          | -            |
| ICT Development Fund             | 225           | (247)          | 90           | 68           | (71)           | 70           | 67           |
| New Homes Bonus Reserve          | -             | (165)          | 165          | -            | -              | -            | -            |
| <b>Revenue:</b>                  |               |                |              |              |                |              |              |
| General Fund Balance             | 1,200         | -              | -            | 1,200        | -              | -            | 1,200        |
| Contingency Reserve Fund         | 226           | (91)           | -            | 135          | (72)           | 147          | 210          |
| Budget Support Fund              | 341           | (80)           | 8            | 269          | (83)           | 169          | 355          |
| Conservation and Heritage Fund   | 35            | -              | 10           | 45           | (10)           | 10           | 45           |
| Museum Purchases Fund            | 60            | -              | 4            | 64           | (3)            | -            | 61           |
| Maintenance Contributions        | 61            | (30)           | 44           | 75           | (42)           | 42           | 75           |
| Mayors Charities Reserve         | 11            | (3)            | -            | 8            | -              | 5            | 13           |
| Standards Fund                   | 6             | -              | -            | 6            | -              | -            | 6            |
| Deposit Guarantee Scheme Reserve | 36            | -              | -            | 36           | (36)           | -            | -            |
| Revenue Investment Fund          | 71            | (1)            | 35           | 105          | (105)          | -            | -            |
| Keele Master Plan Reserve        | 139           | -              | -            | 139          | (57)           | -            | 82           |
| Business Rates Reserve           | 718           | (276)          | -            | 442          | -              | 911          | 1,353        |
| <b>Total</b>                     | <b>10,982</b> | <b>(7,945)</b> | <b>2,775</b> | <b>5,812</b> | <b>(3,819)</b> | <b>5,346</b> | <b>7,339</b> |

Note 3.1.2 (page 26) shows the movements on Usable Reserves involving transactions with the General Fund Revenue Account. The nature and purpose of these reserves is as set out below:

- The Capital Receipts Reserve contains the balance of unapplied capital receipts arising from the disposal of fixed assets;
- The Capital Grants Unapplied Reserve contains the balance of unused grants and contributions available for use, i.e. they have no conditions or conditions have been met;
- The Equipment Replacement Fund is maintained to provide for the replacement of certain items of equipment, such as the crematorium cremators and gym equipment;
- The Renewals and Repairs Fund is used for the repair and maintenance of Council-owned buildings, structures and fixed plant. It is funded through a contribution from the General Fund revenue account, based on the estimated frequency and amount of future expenditure on repairs and maintenance;
- The ICT Development Fund is to be used to meet the costs of new IT requirements and the replacement of IT equipment;
- The New Homes Bonus Reserve was created to hold unused balances in relation to New Homes Bonus grant;
- The General Fund Balance exists to meet the cost of any unexpected occurrences affecting the General Fund revenue budget or any of the occurrences materialising which are identified in the risk assessment relating to that budget;
- The Contingency Reserve Fund is used to finance expenditure in respect of contingencies that may arise in the future, for example redundancy payments consequent upon service reviews;

- The Budget Support Fund was created by crediting to it surpluses arising on the General Fund Revenue Account. It is to be used to support the revenue budget and Invest to Save initiatives. It is also used to enable budget provision to be carried forward to future years by appropriating to it unspent balances where a commitment exists;
- The Conservation and Heritage Fund exists to provide grants to the owners of buildings of historical significance to enable them to be maintained properly;
- The Museum Purchases Fund was established by a small bequest which has been added to by contributions and proceeds from the sale of exhibits. It is used to purchase exhibits for the museum and to conserve and enhance the display of existing exhibits;
- Maintenance Contributions are received from developers of housing and other schemes and are to be used to fund the maintenance of open spaces taken over from those developers;
- The Mayors Charities Reserve represents the balance on the Mayors Charities activity;
- The Standards Fund is used to ensure that the Council meets its responsibilities under the Ethical and other standards frameworks;
- The Deposit Guarantee Reserve was created to hold the unspent balances relating to the Guarantee Scheme for landlord deposits in respect of homeless persons;
- The Revenue Investment Fund is used to fund projects in support of corporate priorities;
- The Keele Master Plan reserve was created to hold funds for expenditure incurred with the sale or development of land owned by various stakeholders including the land of the former Keele Golf Course site;
- The Business Rates Reserve was created as a consequence of the new rates retention arrangements. It will receive excess rates income above the budgeted amount. It may be used for any purpose but particularly to meet Business Rates Collection Fund deficits and future rate income shortfalls.

### 3.3.8. Unusable Reserves

Balances in relation to the Council's Unusable Reserves are shown below:

| 31/03/2017<br>£000 |                                    | 31/03/2018<br>£000 |
|--------------------|------------------------------------|--------------------|
|                    | <b>Capital:</b>                    |                    |
| 14,855             | Revaluation Reserve                | 13,772             |
| 49,632             | Capital Adjustment Account         | 44,819             |
| 545                | Deferred Capital Receipts Reserve  | 443                |
|                    | <b>Revenue:</b>                    |                    |
| (71,709)           | Pensions Reserve                   | (71,155)           |
| (7)                | Collection Fund Adjustment Account | (558)              |
| (372)              | Accumulated Absences Account       | (383)              |
| <b>(7,056)</b>     | <b>Total Unusable Reserves</b>     | <b>(13,062)</b>    |

The nature and purpose of these reserves and a summary of their transactions is as set out below.

## Revaluation Reserve

The revaluation reserve records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or assets are revalued downwards or disposed of. 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<br>£000 |                                                                                                                    | 2017/18<br>£000 |
|-----------------|--------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>14,711</b>   | <b>Balance at 1 April</b>                                                                                          | <b>14,855</b>   |
| 144             | Upward Revaluation of Assets not charged to the Surplus/Deficit on the Provision of Services                       | 808             |
| -               | Downward Revaluation of Assets & impairment losses not charged to the Surplus/Deficit on the Provision of Services | (1,891)         |
| <b>14,855</b>   | <b>Balance at 31 March</b>                                                                                         | <b>13,772</b>   |

## Capital Adjustment Account

The Capital Adjustment Account is used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. 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<br>£000 |                                                                                                                                       | 2017/18<br>£000 |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>43,634</b>   | <b>Balance at 1 April</b>                                                                                                             | <b>49,632</b>   |
|                 | <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b> |                 |
| (1,730)         | Charges for depreciation/impairment of non-current assets                                                                             | (2,248)         |
| (84)            | Amortisation of Intangible Assets                                                                                                     | (73)            |
| (3,305)         | Revenue Expenditure Funded from Capital Under Statute                                                                                 | (3,705)         |
| (191)           | Amounts of non-current Assets written off on disposal or sale as part of the gain/loss on disposal                                    | (380)           |
| <b>(5,310)</b>  | <b>Capital financing applied in the year:</b>                                                                                         | <b>(6,406)</b>  |
| 5,518           | Use of the Capital Receipts Reserve to finance new capital expenditure                                                                | 871             |
| 92              | Application of grants to capital financing from the Capital Grants Unapplied Account                                                  | 110             |
| 1,014           | Revenue Expenditure Funded from Capital Under Statute                                                                                 | 1,666           |
| 381             | Capital expenditure charged against the General Fund                                                                                  | 71              |
| <b>7,005</b>    |                                                                                                                                       | <b>2,718</b>    |
| 4,303           | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement        | (508)           |
| -               | Revaluation losses on Property, Plant and Equipment                                                                                   | (617)           |
| <b>49,632</b>   | <b>Balance at 31 March</b>                                                                                                            | <b>44,819</b>   |

## Deferred Capital Receipts Reserve

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

| 2016/17<br>£000 |                                                               | 2017/18<br>£000 |
|-----------------|---------------------------------------------------------------|-----------------|
| <b>620</b>      | <b>Balance at 1 April</b>                                     | <b>545</b>      |
| (41)            | Transfer to the Capital Receipts Reserve upon receipt of cash | (62)            |
| (34)            | Capital element of finance leases where Council is the lessor | (40)            |
| <b>545</b>      | <b>Balance at 31 March</b>                                    | <b>443</b>      |

## Pensions Reserve

The Pensions Reserve is used to reconcile payments made for the year to statutory pension schemes in accordance with the schemes requirements, and the net change in the authority's recognised liability under the Code's adoption of IAS19 – *Employee Benefits*. A transfer is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount required to be raised in taxation. For example, the debit balance on the Reserve shows that the authority has made commitments to fund pensions that the Government has permitted it to fund from contributions to be made in future years.

| 2016/17<br>£000 |                                                                                                                              | 2017/18<br>£000 |
|-----------------|------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>(69,628)</b> | <b>Balance at 1 April</b>                                                                                                    | <b>(71,709)</b> |
| (312)           | Remeasurements of the net defined benefit liability/(asset)                                                                  | 3,084           |
| (5,045)         | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services | (6,328)         |
| 3,276           | Employers pensions contributions and direct payments to pensioners payable in the year                                       | 3,798           |
| <b>(71,709)</b> | <b>Balance at 31 March</b>                                                                                                   | <b>(71,155)</b> |

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account is used to reconcile differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement to those amounts required to be charged by statute to the General Fund. For example, the debit balance on the Account shows that less tax has been collected on behalf of the authority and the precepting bodies (and central government in England for non-domestic rates income) than an authority is permitted to transfer out of the Collection Fund by 31 March.

| 2016/17<br>£000 |                                                                                                                                                                              | 2017/18<br>£000 |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>(110)</b>    | <b>Balance at 1 April</b>                                                                                                                                                    | <b>(7)</b>      |
| (136)           | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year               | 189             |
| 239             | Amount by which non domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from non domestic rates income calculated for the year | (740)           |
| <b>(7)</b>      | <b>Balance at 31 March</b>                                                                                                                                                   | <b>(558)</b>    |

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

| 2016/17<br>£000 |                                                                             | 2017/18<br>£000 |
|-----------------|-----------------------------------------------------------------------------|-----------------|
| <b>(366)</b>    | <b>Balance at 1 April</b>                                                   | <b>(372)</b>    |
| 366             | Settlement or cancellation of accrual made at the end of the preceding year | 372             |
| (372)           | Amounts accrued at the end of the current year                              | (383)           |
| <b>(372)</b>    | <b>Balance at 31 March</b>                                                  | <b>(383)</b>    |

### 3.4. In Relation to the Cash Flow Statement

#### 3.4.1. Cash Flow Statement – Analysis of Adjustments

##### Adjustments to Net Surplus/Deficit on the Provision of Services for Non Cash Movements

| 2016/17<br>£000 |                                                                                                                                             | 2017/18<br>£000 |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| (842)           | (Increase)/Decrease In Creditors                                                                                                            | 2,977           |
| (469)           | Increase/(Decrease) in Debtors                                                                                                              | (1,448)         |
| 30              | Increase/(Decrease) in Inventories                                                                                                          | (41)            |
| 26              | (Increase)/Decrease in Provisions                                                                                                           | (1,153)         |
| (1,730)         | Charges for Depreciation/Impairment of Non-Current Assets                                                                                   | (890)           |
| -               | Revaluation Losses on Property, Plant & Equipment                                                                                           | (1,975)         |
| 4,303           | Movements in fair value of Investment Properties                                                                                            | (508)           |
| (84)            | Amortisation of Intangible Assets                                                                                                           | (73)            |
| (34)            | Capital Element of Finance Leases Where Council is Lessor                                                                                   | (39)            |
| (1,769)         | Movement in Pension Liability                                                                                                               | (3,982)         |
| (191)           | Non-Current Assets Written Off on Disposal or Sale as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | (380)           |
| <b>(760)</b>    |                                                                                                                                             | <b>(7,512)</b>  |

##### Adjustments to Net Surplus/Deficit on the Provision of Services for Items that are Investing and Financing Activities

| £000       |                                                                                                                                   | £000         |
|------------|-----------------------------------------------------------------------------------------------------------------------------------|--------------|
| 329        | Capital Grants & Contributions Unapplied Credited to Comprehensive Income & Expenditure Statement                                 | 142          |
| 519        | Transfer of Cash Sales Proceeds Credited as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | 1,360        |
| (17)       | Transfer from Deferred Capital Receipts Reserve on Receipt of Cash                                                                | -            |
| <b>831</b> |                                                                                                                                   | <b>1,502</b> |

### 3.4.2. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2016/17<br>£000 |                   | 2017/18<br>£000 |
|-----------------|-------------------|-----------------|
| (135)           | Interest Received | (66)            |
| 1               | Interest Paid     | -               |

### 3.4.3. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

| 2016/17<br>£000 |                                                                                                  | 2017/18<br>£000 |
|-----------------|--------------------------------------------------------------------------------------------------|-----------------|
| 5,472           | Purchase of Property, Plant & Equipment,<br>Investment Property & Intangible Assets              | 2,673           |
| 50,183          | Purchase of Short & Long Term Investments                                                        | 36,021          |
| (460)           | Proceeds from Sale of Property, Plant &<br>Equipment, Investment Property & Intangible<br>Assets | (1,003)         |
| (54,250)        | Proceeds from Short & Long Term Investments                                                      | (39,400)        |
| (391)           | Other Receipts From Investing Activities                                                         | (184)           |
| <b>554</b>      | <b>Net Cash Flows from Investing Activities</b>                                                  | <b>(1,893)</b>  |

### 3.4.4. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

| 2016/17<br>£000 |                                                 | 2017/18<br>£000 |
|-----------------|-------------------------------------------------|-----------------|
| (11)            | Cash Receipts of Borrowing                      | (3,500)         |
| (662)           | Other Receipts from Financing Activities        | (1,634)         |
| -               | Repayments of Borrowing                         | 1,015           |
| (652)           | Other Payments for Financing Activities         | 406             |
| <b>(1,325)</b>  | <b>Net Cash Flows from Financing Activities</b> | <b>(3,713)</b>  |

## 4. Additional Information Supplementing the Core Financial Statements

### 4.1. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the 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 table below.

| 2016/17<br>£000 |                                                             | 2017/18<br>£000 |
|-----------------|-------------------------------------------------------------|-----------------|
| <b>(895)</b>    | <b>Opening Capital Financing Requirement</b>                | <b>828</b>      |
|                 | <b>Capital Investment</b>                                   |                 |
| 5,245           | Property, Plant & Equipment                                 | 2,396           |
| 171             | Investment Properties                                       | 126             |
| 8               | Intangible Assets                                           | 69              |
| 3,305           | REFCUS                                                      | 3,705           |
|                 | <b>Sources of Finance</b>                                   |                 |
| (5,518)         | Capital Receipts                                            | (871)           |
| (1,107)         | Government Grants & Other Contributions                     | (1,777)         |
| (381)           | Sums Set Aside From Revenue                                 | (71)            |
| <b>828</b>      | <b>Closing Capital Financing Requirement</b>                | <b>4,405</b>    |
|                 | <b>Explanation of Movements in Year</b>                     |                 |
| 1,723           | Capital expenditure financed from internal borrowing        | 3,577           |
| <b>1,723</b>    | <b>Increase/(Decrease) in Capital Financing Requirement</b> | <b>3,577</b>    |

### 4.2. Impairment Losses

During 2017/18 the Council has recognised the following impairment losses in relation to capital expenditure incurred on enhancing non-current assets that does not increase the value of the asset concerned. An amount equal to this is charged as an impairment loss to the service which uses the asset in the Comprehensive Income and Expenditure Statement.

The total amount of impairment losses for 2017/18 was £0.986m (2016/17 £0.386m). The whole of the impairment loss is reversed out via the Movement in Reserves Statement (page 17) in accordance with statutory provisions so that it is not a charge against council tax.

### 4.3. Related Parties

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

#### Central Government

The UK 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 funding in the form of grants and prescribes the terms of many of the transactions that the Council has (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note 3.2.9 (page 29).

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances and expenses paid is shown in note 3.2.6 (page 28).

## Officers

No payments have been made to any entities that have a relationship with Council officers during 2017/18. The Acting Chief Executive, who commenced their role during 2017/18, has been seconded from Staffordshire County Council.

## Sublyme

Sublyme is a company wholly owned by the Council, set up to provide printing services. No services were provided to the Council in 2017/18 whilst Sublyme received in kind support from the Council of £23,331, which, together with the previous year's support, is shown as an investment in the Council's balance sheet. As at 31 March 2018 the balance of the investment is £80,858 which is included in short term investments.

## 4.4. Defined Benefit Pension Schemes

### Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, 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 disclose the payments at the time that employees earn their future entitlement.

The Council participates in:

- The Local Government Pension Scheme (LGPS), administered locally by Staffordshire County Council - this has a career average revalue earnings (CARE) benefit design, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets;
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they fall due;
- The Staffordshire Pension Scheme is operated under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Pensions Committee of Staffordshire County Council. Policy is determined in accordance with the Pension Fund Regulations;
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts as described in the accounting policies note.

During 2017/18 an advance payment of pension contributions for 2018/19 and 2019/20, totalling £3.130m, was made. This was paid in 2017/18 in return for a discount from the pension fund, this significantly reduced the amounts to be charged to the general fund revenue account as pension contributions in 2018/19 and 2019/20.

In order to account for this transaction, the advance payment must be charged directly to the Pensions Liability, without any corresponding equal and opposite transaction in the Pensions Reserve. As a result of this the balance of the Pensions Liability is shown as being £3.130m different than the balance of the Pension Reserve.

In 2018/19 the advance payment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve with a similar transaction in 2019/20. After these transactions have occurred, the two accounts will once more be mirror images of each other.

### Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the

Movement in Reserves Statement (page 17). 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:

| 2016/17        |                              |                                                                                                   | 2017/18        |                              |
|----------------|------------------------------|---------------------------------------------------------------------------------------------------|----------------|------------------------------|
| LGPS<br>£000   | Unfunded<br>Benefits<br>£000 |                                                                                                   | LGPS<br>£000   | Unfunded<br>Benefits<br>£000 |
|                |                              | <b>Comprehensive Income &amp; Expenditure Statement</b>                                           |                |                              |
|                |                              | <b>Cost of Services:</b>                                                                          |                |                              |
| 2,991          | -                            | Current Service Cost                                                                              | 4,544          | -                            |
| 169            | -                            | Past Service Costs/(Gains)                                                                        | 22             | -                            |
| -              | (451)                        | Unfunded Benefit Contributions                                                                    | -              | (434)                        |
|                |                              | <b>Financing and Investment Income &amp; Expenditure</b>                                          |                |                              |
| -              | -                            | Net Interest Expense                                                                              | -              | -                            |
| 2,336          | -                            |                                                                                                   | 1,762          | -                            |
| <b>5,496</b>   | <b>(451)</b>                 | <b>Total Pension Benefit Charged to the Surplus/Deficit on Provision of Services</b>              | <b>6,328</b>   | <b>(434)</b>                 |
|                |                              | <b>Remeasurement of the Net Defined Benefit Liability Comprising:</b>                             |                |                              |
| (17,855)       | -                            | Return on Plan Assets                                                                             | 246            | -                            |
| (773)          | -                            | Changes in Demographic Assumptions                                                                | -              | -                            |
| 26,433         | -                            | Changes in Financial Assumptions                                                                  | (3,257)        | -                            |
| (7,493)        | -                            | Other Experience                                                                                  | (73)           | -                            |
| <b>312</b>     | <b>-</b>                     | <b>Total Pension Benefit Charged to Comprehensive Income &amp; Expenditure Statement</b>          | <b>(3,084)</b> | <b>-</b>                     |
|                |                              | <b>Movement in Reserves Statement</b>                                                             |                |                              |
| (5,496)        | 451                          | Reversal of Net Charges Made to the Surplus/Deficit on Provision of Services for Pension Benefits | (6,328)        | 434                          |
|                |                              | <b>Actual Amount Charged Against the General Fund Balance for Pensions</b>                        |                |                              |
| 3,727          | -                            | Employers' Contributions Payable to Scheme                                                        | 3,798          | -                            |
| -              | (451)                        | Retirement Benefits Payable to Pensioners                                                         | -              | (434)                        |
| <b>(1,769)</b> | <b>-</b>                     |                                                                                                   | <b>(2,530)</b> | <b>-</b>                     |

### Pensions Assets and Liabilities Recognised in the Balance Sheet

| 2016/17<br>£000 |                                                              | 2017/18<br>£000 |
|-----------------|--------------------------------------------------------------|-----------------|
| (195,644)       | Present Value of Defined Benefit Obligation                  | (196,030)       |
| 123,935         | Fair value of Plan Assets                                    | 128,005         |
| <b>(71,709)</b> | <b>Net Liability Arising From Defined Benefit Obligation</b> | <b>(68,025)</b> |

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

| 2016/17                    |                              |                                      | 2017/18                    |                              |
|----------------------------|------------------------------|--------------------------------------|----------------------------|------------------------------|
| Funded Liabilities<br>£000 | Unfunded Liabilities<br>£000 |                                      | Funded Liabilities<br>£000 | Unfunded Liabilities<br>£000 |
| 178,229                    | (3,628)                      | Opening Balance                      | 199,723                    | (4,079)                      |
| 2,991                      | -                            | Current Service Cost                 | 4,544                      | -                            |
| 5,882                      | -                            | Interest Cost                        | 4,873                      | -                            |
| 721                        | -                            | Contributions by Scheme Participants | 713                        | -                            |
| 18,167                     | -                            | Actuarial (Gains)/Losses             | (3,330)                    | -                            |
| (6,436)                    | (451)                        | Benefits Paid                        | (6,002)                    | (434)                        |
| 169                        | -                            | Past Service Costs/(Gains)           | 22                         | -                            |
| <b>199,723</b>             | <b>(4,079)</b>               | <b>Closing Balance</b>               | <b>200,543</b>             | <b>(4,513)</b>               |

## Local Government Pensions Scheme Assets comprised

| 2016/17<br>Fair Value of Scheme<br>Assets |                  |                                    | 2017/18<br>Fair Value of Scheme<br>Assets |                  |
|-------------------------------------------|------------------|------------------------------------|-------------------------------------------|------------------|
| Quoted<br>£000                            | Unquoted<br>£000 |                                    | Quoted<br>£000                            | Unquoted<br>£000 |
|                                           |                  | <b>Equities:</b>                   |                                           |                  |
| 8,313                                     | -                | - Consumer                         | 5,548                                     | -                |
| 7,167                                     | -                | - Manufacturing                    | 5,346                                     | -                |
| 3,072                                     | -                | - Energy & Utilities               | 1,568                                     | -                |
| 8,301                                     | -                | - Financial                        | 5,195                                     | -                |
| 6,896                                     | -                | - Health & Care                    | 3,789                                     | -                |
| 8,295                                     | -                | - Information Technology           | 3,626                                     | -                |
| 123                                       | -                | - Other                            | 139                                       | -                |
| 42,167                                    | -                |                                    | 25,211                                    | -                |
|                                           |                  | <b>Bonds</b>                       |                                           |                  |
| 9,204                                     | -                | - Corporate (Investment)           | 9,712                                     | -                |
| -                                         | -                | - Corporate (Non-Investment Grade) | -                                         | -                |
| 9,204                                     | -                |                                    | 9,712                                     | -                |
|                                           |                  | <b>Property</b>                    |                                           |                  |
| -                                         | 9,977            | UK                                 | -                                         | 9,902            |
| -                                         | 9,977            |                                    | -                                         | 9,902            |
|                                           |                  | <b>Investment funds</b>            |                                           |                  |
| 41,367                                    | -                | - Equities                         | 60,493                                    | -                |
| 6,778                                     | -                | - Bonds                            | 7,532                                     | -                |
| -                                         | 2,433            | - Hedge Funds                      | -                                         | 2,247            |
| -                                         | 1,849            | - Other                            | -                                         | 3,303            |
| 48,145                                    | 4,282            |                                    | 68,025                                    | 5,550            |
| -                                         | 3,934            | Private Equity                     | -                                         | 3,738            |
| 6,226                                     | -                | Cash/Cash Equivalents              | 5,867                                     | -                |
| <b>105,742</b>                            | <b>18,193</b>    | <b>Total Assets</b>                | <b>108,815</b>                            | <b>19,190</b>    |

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

| 2016/17<br>£000 |                                       | 2017/18<br>£000 |
|-----------------|---------------------------------------|-----------------|
| 106,173         | <b>Opening Value of Scheme Assets</b> | 123,935         |
|                 | <b>Remeasurement Gain/(Loss):</b>     |                 |
| 3,546           | Expected Rate of Return               | 3,111           |
| 17,855          | Other                                 | (246)           |
|                 | <b>Actuarial Gains/(Losses)</b>       |                 |
| 2,076           | Employer Contributions                | 6,494           |
| 721             | Contributions by Scheme Participants  | 713             |
| (6,436)         | Benefits Paid                         | (6,002)         |
| <b>123,935</b>  | <b>Closing Balance at 31 March</b>    | <b>128,005</b>  |

## 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, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the actuary have been:

| 2016/17 |          |                                                  | 2017/18 |          |
|---------|----------|--------------------------------------------------|---------|----------|
| LGPS    | Unfunded |                                                  | LGPS    | Unfunded |
| 22.1    |          | <b>Longevity at 65 for current pensioners:</b>   | 22.1    |          |
| 24.4    |          | Men                                              | 24.4    |          |
|         |          | Women                                            |         |          |
| 24.1    |          | <b>Longevity at 65 for future pensioners:</b>    | 24.1    |          |
| 26.4    |          | Men                                              | 26.4    |          |
|         |          | Women                                            |         |          |
| 3.4%    | 3.4%     | Rate of Inflation                                | 3.4%    | 3.4%     |
| 2.8%    |          | Rate of Increase in Salaries                     | 2.8%    |          |
| 2.4%    | 2.4%     | Rate of Increase in Pensions                     | 2.4%    | 2.4%     |
| 2.5%    | 2.5%     | Rate for Discounting Scheme Liabilities          | 2.6%    | 2.6%     |
| 50%     |          | Take up re Converting Annual Pension to Lump Sum | 50%     |          |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below is based on possible changes of the assumptions occurring 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.

|                                            | Impact on Defined Benefit Obligation<br>£000 |
|--------------------------------------------|----------------------------------------------|
| 0.5% decrease in real discount rate        | 16,915                                       |
| 0.5% increase in the salary increase rate  | 2,691                                        |
| 0.5% increase in the pension increase rate | 13,971                                       |

### Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Staffordshire County Council has agreed a strategy with the scheme's actuary to achieve a funding strategy to recoup the past deficit over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed in 2018/19, to show the position as at 31 March 2019.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £1.883m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2019 are £0.434m.

The weighted average duration of the defined benefit obligation for scheme members is 15.3 years.

## 4.5. Contingent Assets and Liabilities

The Council does not have any contingent assets. Contingent liabilities as at 31 March 2018 are:

### (a) Municipal Mutual Insurance

In 1992/93 the Council's insurers, Municipal Mutual Insurance, ceased accepting new business. Under the Scheme of Arrangement that was established to ensure an orderly wind up of the company a levy could be made on the Council. The exact amount cannot be quantified at the current time, although the maximum is £693,000. A total of £193,824 has been set aside as a provision for these costs, of which £101,000 was paid to the administrator in 2014/15 and £67,829 was paid in 2016/17. This leaves a maximum contingent liability of £499,176.

### (b) VAT

The computation of the Council's 2017/18 position in respect of exempt category Value Added Tax has yet to be agreed with Revenue and Customs. If the 5% allowance has been exceeded, up to £150,000 in VAT may become payable.

### (c) Housing Stock Transfer Warranty

Liabilities in relation to a warranty given by the Council in respect of the transfer of its housing stock to a registered social landlord in February 2000 could arise. The amount of the potential liability cannot be quantified but could amount to several million pounds.

### (d) Mandatory Relief from Business Rates – NHS Trusts

The Council has received requests for mandatory relief from NHS Trusts that if agreed would amount to a backdated refund of approximately £440,000. There is no certainty evident with the requests. A final adjudication would be required before the Council would make any kind of provision for this request.

### (e) Accident at work

Due to an accident at work and the duties on employers under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) an investigation is being undertaken by the Health and Safety Executive. However at this time no decision has been made with regards to whether legal action shall be taken. If court action is taken, and if the Council is found guilty, then there would be an unspecified financial liability.

## 4.6. Financial Instruments

### 4.6.1. Analysis and Values

#### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet (page 18):

| 31/03/2017      |                                     | 31/03/2018      |
|-----------------|-------------------------------------|-----------------|
| Current<br>£000 |                                     | Current<br>£000 |
| 3,460           | Investments (Loans and Receivables) | 81              |
| 8,904           | Debtors *                           | 9,014           |
| 70              | Borrowings                          | 2,555           |
| 6,469           | Creditors                           | 5,876           |
| 376             | Cash/Cash Equivalents               | 930             |

#### Income, Expense, Gains and Losses

| 2016/17                   |                        |               |                                                    | 2017/18                   |                        |               |
|---------------------------|------------------------|---------------|----------------------------------------------------|---------------------------|------------------------|---------------|
| Expenses & Losses<br>£000 | Income & Gains<br>£000 | Total<br>£000 |                                                    | Expenses & Losses<br>£000 | Income & Gains<br>£000 | Total<br>£000 |
| 1                         | -                      | 1             | Interest Expense Included in Provision of Services | 1                         | -                      | 1             |
| 1                         | -                      | 1             | <b>Total Expense in Provision of Services</b>      | 1                         | -                      | 1             |
| -                         | (115)                  | (115)         | Interest Income                                    | -                         | (65)                   | (65)          |
| -                         | (115)                  | (115)         | <b>Total Income in Provision of Services</b>       | -                         | (65)                   | (65)          |
| 1                         | (115)                  | (114)         | <b>Net (Gain)/Loss for the Year</b>                | 1                         | (65)                   | (64)          |

#### Fair Values of Assets and Liabilities

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

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- No early repayment is recognised;

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

The fair values are as follows:

| 31/03/2017              |                    |                       | 31/03/2018              |                    |
|-------------------------|--------------------|-----------------------|-------------------------|--------------------|
| Carrying Amount<br>£000 | Fair Value<br>£000 |                       | Carrying Amount<br>£000 | Fair Value<br>£000 |
|                         |                    | <b>Liabilities</b>    |                         |                    |
| 70                      | 70                 | Financial Liabilities | 2,555                   | 2,555              |
| 6,469                   | 6,469              | Creditors             | 5,876                   | 5,876              |
|                         |                    | <b>Assets</b>         |                         |                    |
| 3,460                   | 3,460              | Loans & Receivables   | 81                      | 81                 |
| 8,904                   | 8,904              | Debtors *             | 9,014                   | 9,014              |
| 376                     | 376                | Cash/Cash Equivalents | 930                     | 930                |

\* Debtors include Long Term Debtors of £0.444m (31/03/18) and £0.545m (31/03/17), relating to mortgagors and finance leases.

#### 4.6.2. Nature and Extent of Risks Arising from Financial Instruments

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

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise adverse effects on the resources available. Risk management is carried out under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

##### Credit Risk

Credit risks arise from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria.

The credit criteria in respect of financial assets held by the Council are as summarised below:

- Investment counterparties are assessed as to their suitability in relation to credit ratings supplied by the main ratings agencies, with the additional consideration of credit default swap data. A limit is placed on the amount which can in total be placed with individual counterparties and categories of counterparties;
- Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set where considered necessary. Credit references are obtained where contracts are entered into.

The Council's maximum exposure to credit risk in relation to investments in banks and financial institutions 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, and at 31 March 2018 the Council had no such investments. Recent experience has shown that it is rare for such entities to be unable to meet their commitments..

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

|                                            | Amount at<br>31 March<br>2018 | Historic<br>default | Historic<br>default<br>adjusted for<br>market<br>conditions | Estimated<br>maximum<br>exposure at<br>31 March<br>2018 | Estimated<br>maximum<br>exposure at<br>31 March<br>2017 |
|--------------------------------------------|-------------------------------|---------------------|-------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
|                                            | £000                          | %                   | %                                                           | £000                                                    | £000                                                    |
|                                            | A                             | B                   | C                                                           | (A X C)                                                 |                                                         |
| Deposits with Banks/Financial Institutions | -                             | 0%                  | 1.25%                                                       | -                                                       | 43                                                      |
| Customers (Trade Debtors)                  | 2,225                         | -                   | 15%                                                         | 334                                                     | 434                                                     |
|                                            |                               |                     |                                                             | <b>334</b>                                              | <b>477</b>                                              |

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

The Council does not generally allow credit for customers, such that £1.863m of the £2.225m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

| 31/03/2017<br>£000 |                | 31/03/2018<br>£000 |
|--------------------|----------------|--------------------|
| 83                 | 30 to 89 Days  | 84                 |
| 86                 | 90 to 180 Days | 92                 |
| 1,966              | Over 180 Days  | 1,687              |
| <b>2,135</b>       |                | <b>1,863</b>       |

### Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has access to borrowing from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. The maturity analysis of financial liabilities is as follows:

| 31/03/2017<br>£000 |                    | 31/03/2018<br>£000 |
|--------------------|--------------------|--------------------|
| 3,460              | Less Than One Year | 81                 |
| <b>3,460</b>       |                    | <b>81</b>          |

### Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments (no long term money market borrowing at present). Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would increase interest income.

Changes in interest receivable on variable rate investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure. At 31 March 2018 the Council had no investments.

### Price Risk

The Council does not have any investment in equity shares, joint ventures or local industry. Consequently, it is not exposed to losses arising from movements in share prices.

### Foreign Exchange Risk

The Council has no financial assets or a liability denominated in foreign currencies and has no exposure to loss arising from movements in exchange rates.

## 4.7. Leases

### Council as Lessee

#### Finance Leases

As at 31 March 2018 the Council has no requirement to commit to making minimum payments under finance leases.

#### Operating Leases

The Council no longer has any items of vehicles and equipment acquired by entering into operating leases.

### Council as Lessor

#### Finance Leases

The Council has leased out 5 properties on a finance lease basis, with terms remaining ranging from 15 to 75 years.

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

| 31/03/2017<br>£000 |                                                                            | 31/03/2018<br>£000 |
|--------------------|----------------------------------------------------------------------------|--------------------|
|                    | <b>Finance Lease Debtor (Net Present Value of Minimum Lease Payments):</b> |                    |
| 17                 | Current                                                                    | 20                 |
| 153                | Non-current                                                                | 141                |
| 495                | Unearned Finance Income                                                    | 462                |
| <b>665</b>         | <b>Gross Investment in the Lease</b>                                       | <b>623</b>         |

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

| 31/03/2017                     |                                   |                                           | 31/03/2018                     |                                   |
|--------------------------------|-----------------------------------|-------------------------------------------|--------------------------------|-----------------------------------|
| Minimum Lease Payments<br>£000 | Finance Lease Liabilities<br>£000 |                                           | Minimum Lease Payments<br>£000 | Finance Lease Liabilities<br>£000 |
| 51                             | 34                                | Not Later Than One Year                   | 51                             | 31                                |
| 168                            | 122                               | Later Than One Year, Less Than Five Years | 168                            | 122                               |
| 446                            | 339                               | Later Than Five Years                     | 404                            | 309                               |
| <b>665</b>                     | <b>495</b>                        |                                           | <b>623</b>                     | <b>462</b>                        |

#### Operating Leases

The Council leases out property and equipment under operating leases for the purposes of providing community services, such as sports facilities and community centres; to gain income from its investment properties; and for economic development purposes to provide accommodation for local businesses.

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

| 31/03/2017<br>£000 |                                           | 31/03/2018<br>£000 |
|--------------------|-------------------------------------------|--------------------|
| 788                | Not Later Than One Year                   | 783                |
| 646                | Later Than One Year, Less Than Five Years | 412                |
| 1,377              | Later Than Five Years                     | 1,025              |
| <b>2,811</b>       |                                           | <b>2,220</b>       |

## Collection Fund

The Collection Fund 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<br>Council<br>Tax<br>£'000 | 2016/17<br>Business<br>Rates<br>£'000 | 2016/17<br>Total<br>£'000 |                                              | 2017/18<br>Council<br>Tax<br>£'000 | 2017/18<br>Business<br>Rates<br>£'000 | 2017/18<br>Total<br>£'000 |
|------------------------------------|---------------------------------------|---------------------------|----------------------------------------------|------------------------------------|---------------------------------------|---------------------------|
| (55,571)                           | -                                     | (55,571)                  | <b>Income</b>                                |                                    |                                       |                           |
|                                    | (34,678)                              | (34,678)                  | Council Tax Payers                           | (58,343)                           | -                                     | (58,343)                  |
|                                    |                                       |                           | Business Rates Payers                        | -                                  | (34,777)                              | (34,777)                  |
|                                    |                                       |                           | <b>Transfer of Previous Years Deficit</b>    |                                    |                                       |                           |
| -                                  | (276)                                 | (276)                     | - Newcastle-under-Lyme Borough Council       | -                                  | -                                     | -                         |
| -                                  | (62)                                  | (62)                      | - Staffordshire County Council               | -                                  | -                                     | -                         |
| -                                  | -                                     | -                         | - Office of Police & Crime Commissioner      | -                                  | -                                     | -                         |
| -                                  | (7)                                   | (7)                       | - Staffordshire Fire and Rescue Authority    | -                                  | -                                     | -                         |
| -                                  | (345)                                 | (345)                     | - Central Government                         | -                                  | -                                     | -                         |
| <b>(55,571)</b>                    | <b>(35,368)</b>                       | <b>(90,939)</b>           | <b>Total Income</b>                          | <b>(58,343)</b>                    | <b>(34,777)</b>                       | <b>(93,120)</b>           |
|                                    |                                       |                           | <b>Expenditure</b>                           |                                    |                                       |                           |
|                                    |                                       |                           | <b>Council Tax Precepts</b>                  |                                    |                                       |                           |
| 6,906                              | -                                     | 6,906                     | - Newcastle-under-Lyme Borough Council       | 7,188                              | -                                     | 7,188                     |
| 39,276                             | -                                     | 39,276                    | - Staffordshire County Council               | 41,748                             | -                                     | 41,748                    |
| 6,408                              | -                                     | 6,408                     | - Office of Police & Crime Commissioner      | 6,620                              | -                                     | 6,620                     |
| 2,537                              | -                                     | 2,537                     | - Staffordshire Fire and Rescue Authority    | 2,615                              | -                                     | 2,615                     |
|                                    |                                       |                           | <b>Business Rates Apportionment</b>          |                                    |                                       |                           |
| -                                  | 13,571                                | 13,571                    | - Newcastle-under-Lyme Borough Council       | -                                  | 12,946                                | 12,946                    |
| -                                  | 3,054                                 | 3,054                     | - Staffordshire County Council               | -                                  | 2,913                                 | 2,913                     |
| -                                  | 339                                   | 339                       | - Staffordshire Fire and Rescue Authority    | -                                  | 324                                   | 324                       |
| -                                  | 16,964                                | 16,964                    | - Central Government                         | -                                  | 16,182                                | 16,182                    |
|                                    |                                       |                           | <b>Other Expenditure</b>                     |                                    |                                       |                           |
| -                                  | 139                                   | 139                       | Cost of Collection                           | -                                  | 138                                   | 138                       |
| -                                  | 373                                   | 373                       | Transitional Protection                      | -                                  | 907                                   | 907                       |
| 255                                | 448                                   | 703                       | Provision for Bad Debts                      | (1,828)                            | 288                                   | (1,540)                   |
| -                                  | (120)                                 | (120)                     | Provision for Appeals                        | -                                  | 2,883                                 | 2,883                     |
|                                    |                                       |                           | <b>Transfer of Previous Years Surplus</b>    |                                    |                                       |                           |
| 116                                | -                                     | 116                       | - Newcastle-under-Lyme Borough Council       | 44                                 | 19                                    | 63                        |
| 690                                | -                                     | 690                       | - Staffordshire County Council               | 260                                | 4                                     | 264                       |
| 117                                | -                                     | 117                       | - Office of Police & Crime Commissioner      | 44                                 | 1                                     | 45                        |
| 45                                 | -                                     | 45                        | - Staffordshire Fire and Rescue Authority    | 17                                 | -                                     | 17                        |
| -                                  | -                                     | -                         | - Central Government                         | -                                  | 24                                    | 24                        |
| <b>56,350</b>                      | <b>34,768</b>                         | <b>91,118</b>             | <b>Total Expenditure</b>                     | <b>56,708</b>                      | <b>36,629</b>                         | <b>93,337</b>             |
| <b>779</b>                         | <b>(600)</b>                          | <b>179</b>                | <b>Deficit/(Surplus) for the Year</b>        | <b>(1,635)</b>                     | <b>1,852</b>                          | <b>217</b>                |
| <b>(1,143)</b>                     | <b>731</b>                            | <b>(412)</b>              | <b>Balance Brought Forward at 1 April</b>    | <b>(364)</b>                       | <b>131</b>                            | <b>(233)</b>              |
| <b>779</b>                         | <b>(600)</b>                          | <b>179</b>                | <b>Deficit/(Surplus) for the year</b>        | <b>(1,635)</b>                     | <b>1,852</b>                          | <b>217</b>                |
| <b>(364)</b>                       | <b>131</b>                            | <b>(233)</b>              | <b>Balance Carried Forward at 31 March</b>   | <b>(1,999)</b>                     | <b>1,983</b>                          | <b>(16)</b>               |
|                                    |                                       |                           | <b>Allocation of Collection Fund Balance</b> |                                    |                                       |                           |
| (46)                               | 52                                    | 6                         | - Newcastle-under-Lyme Borough Council       | (235)                              | 793                                   | 558                       |
| (259)                              | 12                                    | (247)                     | - Staffordshire County Council               | (1,445)                            | 178                                   | (1,267)                   |
| (17)                               | 1                                     | (16)                      | - Staffordshire Fire and Rescue Authority    | (90)                               | 20                                    | (70)                      |
| -                                  | 66                                    | 66                        | - Central Government                         | -                                  | 992                                   | 992                       |
| (42)                               | -                                     | (42)                      | - Office of Police & Crime Commissioner      | (229)                              | -                                     | (229)                     |
| <b>(364)</b>                       | <b>131</b>                            | <b>(233)</b>              |                                              | <b>(1,999)</b>                     | <b>1,983</b>                          | <b>(16)</b>               |

## Notes

### 1. Business Rates

The Council collects business rates in its area based on non-domestic rateable values (£89.868m at 31 March 2018 and £86.944m at 31 March 2017) multiplied by a uniform business rate. The rate is specified by the Government, in 2017/18 the rate was 47.9p, with a reduction for “small businesses” to 46.6p on application (49.7p in 2016/17 - “small business” reduction, 48.4p).

In 2013/14, the administration of business rates changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility in appeals and non-collection of rates. Instead of paying business rates to a central pool, local authorities retain a proportion of the total collectable rates due. In the case of Newcastle-under-Lyme the local share is 40%. The remainder is distributed to preceptors, these are Central Government (50%), Staffordshire County Council (9%) and Stoke-on-Trent and Staffordshire Fire Authority (1%).

The business rates shares payable for 2017/18 were estimated, via the NNDR1 return, before the start of the financial year as £16.182m to Central Government, £2.913m to Staffordshire County Council, £0.324m to Stoke-on-Trent and Staffordshire Fire and Rescue Authority and £12.946m to Newcastle-under-Lyme Borough Council.

The total of these sums (£32.365m) has been paid in 2017/18 and charged to the collection fund in year.

The actual business rates payable for 2017/18, as per the NNDR3 return, when taking into account the cost of collection, provisions for appeals and bad debts and transitional protection was calculated to be £30.562m.

The variance between the estimated business rates shared between Central Government, Staffordshire County Council, Stoke-on-Trent and Staffordshire Fire and Rescue Authority and Newcastle-under-Lyme Borough Council as per the NNDR1 return (£32.365m) and the actual business rates payable per the NNDR3 return (£30.562m) is £1.803m - a deficit to the collection fund for 2017/18, due to an increase in the required provision for appeals.

In addition to the business rates shares payable for 2017/18, the estimated 2016/17 surplus declared in January 2017 regarding business rates of £0.049m was paid from the collection fund to Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire and Rescue Authority.

The actual 2016/17 deficit was calculated to be £0.131m, therefore there was a shortfall of £0.180m in the collection of this deficit in 2017/18 which will need to be recouped, along with the estimated 2017/18 deficit declared in January 2018, from Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire and Rescue Authority during 2018/19.

Taking into account the remaining 2016/17 deficit and the 2017/18 deficit, the business rates collection fund has a deficit of £1.983m as at 31 March 2018.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. In this respect Newcastle-under-Lyme Borough Council paid a tariff in 2017/18 to the value of £8.743m.

### 2. Council Tax

Council Tax Income is derived from charges raised, in eight valuation bands, according to the value of residential properties. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire, Stoke-on-Trent and Staffordshire Fire and Rescue Authority and Newcastle-under-Lyme Borough Council for the forthcoming year and dividing this by the council tax base. The average Band D tax in 2017/18 of £1,580.71 compared with £1,517.04 in 2016/17. Multiplication of this amount by the proportions set out in the Council Tax Base table below gives the amount due for a property in each band.

The Council Tax base for 2017/18 was 36,540 (36,078 in 2016/17), this was derived as follows:

| Band & Value Range              | Number of Dwellings | After Discounts & Exemptions | Ratio to Band D | Band D Equivalents |
|---------------------------------|---------------------|------------------------------|-----------------|--------------------|
| Band A-                         | -                   | 51                           | 5/9             | 28                 |
| Band A (Up to £40,000)          | 24,023              | 16,053                       | 6/9             | 10,702             |
| Band B (£40,001 - £52,000)      | 10,365              | 8,510                        | 7/9             | 6,619              |
| Band C (£52,001 - £ 68,000)     | 11,263              | 9,808                        | 8/9             | 8,719              |
| Band D (£68,001 - £88,000)      | 4,968               | 4,516                        | 9/9             | 4,516              |
| Band E (£88,001 - £120,000)     | 2,703               | 2,483                        | 11/9            | 3,034              |
| Band F (£120,001 - £160,000)    | 1,724               | 1,606                        | 13/9            | 2,320              |
| Band G (£160,001 - £320,000)    | 914                 | 847                          | 15/9            | 1,411              |
| Band H (Over £320,000)          | 47                  | 26                           | 18/9            | 52                 |
|                                 |                     |                              |                 | <b>37,401</b>      |
| Less non collection rate (2.3%) |                     |                              |                 | (861)              |
| <b>Borough Council Tax Base</b> |                     |                              |                 | <b>36,540</b>      |

In addition to the Council Tax payable for 2017/18, the estimated 2016/17 surplus declared in January 2017 regarding Council Tax of £0.364m was repaid to the preceptors (Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire, Stoke-on-Trent and Staffordshire Fire Authority and Newcastle-under-Lyme Borough Council).

The actual 2016/17 surplus was calculated to be £0.365m, therefore there was a balance of £0.001m on the payment of this surplus in 2016/17 which will need to be paid during 2018/19 to the preceptors.

Taking into account the remaining 2016/17 surplus, the surplus declared to the preceptors for 2017/18 in January 2018 was £0.039m. The actual balance of the Council Tax collection fund as at 31 March 2018 is £1.999m. This surplus is due to a change in the methodology used for the calculation of the provision for bad debts.

# Audit Certificate

## Independent Auditors Report to the Members of Newcastle under Lyme Borough Council

To be provided by Grant Thornton.

# Appendices

## Appendix 1 – Accounting Policies, Standards, Judgements, Assumptions and Adjustments

### Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which is required to be prepared in accordance with accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

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

#### ii. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits 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 used, 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;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where 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.

#### iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Council's own bank which are repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

#### iv. Exceptional Items

When items of income and expenditure are material to understanding the Council's financial performance, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts.

## v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise from changes 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 made when required by 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.

## vi. 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 fixed 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 fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These are therefore reversed out by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

## vii. 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 benefits such as wages and salaries, annual leave and sick leave and non-monetary benefits for current employees that 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 other form of leave, e.g. 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 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 appropriate service at the earlier of when the Council can no longer withdraw the offer of those benefits or costs for a restructuring are recognised.

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 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 (unless they chose to opt out) are members of the Local Government Pensions Scheme, administered by Staffordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

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

- The liabilities of the Staffordshire 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 and forecasts of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (2.6% for the unfunded scheme). IAS19 states that the discount rate used to place a value on the liabilities should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The calculation of the discount rate uses data intended to match to the duration of the pension liabilities of a typical employer together with the use of a weighted average duration to tailor the rate used to an individual employers liability duration profile. The data referred to is the government bond yield curve, which is readily available, and a corporate bond yield curve, constructed by the pension fund actuary based on the constituents of the iBoxx AA Corporate Bond index.
- The assets of Staffordshire 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 arising from current year decisions 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/asset, i.e. net interest expense for the Council - the change during the period in the net defined benefit liability/asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the 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/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments;
- Remeasurements Comprising
  - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Contributions paid to the Staffordshire 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.

### **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 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.

### **viii. Events After the Balance Sheet Date**

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

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

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

### **ix. Financial Instruments**

Financial Instruments are defined as: any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are: Liabilities - trade payables, borrowings, financial guarantees; Assets - bank deposits, trade receivables, investments; derivatives, such as forward investment deals.

### **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. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For 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.

## Financial Assets

Financial assets are classified into two types:

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

## Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due 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.

## Short Term Investments

Short term investments include:

- Deposits with financial institutions repayable without penalty on notice of not more than 24 hours (except for such deposits held in the Council's own bank accounts);
- Investments that mature in less than twelve months from the date of acquisition.

## Available-for-Sale Assets

The Council has no available for sale assets.

## Instruments Entered Into Before 1 April 2006

The Council has entered into a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts to the extent that a contingent liability note, note 4.5, (pages 45 to 46) is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

## x. Foreign Currency Translation

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

## xi. 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;
- The grants or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (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.

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

## xii. Intangible Assets

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

## xiii. Heritage Assets

The Council's Heritage Assets are either held in its Museum or consist of outdoor structures of various kinds. All of these assets are tangible. The Museum's collection of heritage assets are described in note 3.3.3 (page 33) to the accounts. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below:

### **Museum Collection**

These items are reported in the Balance Sheet at insurance valuation, which is based on market values as assessed by an external valuer in October 2006. These valuations are updated where necessary by the museum curator in respect of significant items and changes. New items are added at cost, if purchased and at valuation, if donated, where they are significant. It is considered that obtaining a complete revaluation each year for all items would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. No depreciation is charged since the items in the collection are deemed to have indeterminate lives.

## Outdoor Structures

There is no reliable cost or valuation information available to enable these items to be valued. Consequently, they are not recognised on the Balance Sheet.

## General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment (see note 'xviii', page 62). Heritage assets may occasionally be disposed of which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority'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 (see note 'xviii').

## xiv. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

## xv. 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated, however their values are considered each year according to market conditions at the year-end (i.e. if any properties or classes of properties, following consideration are thought likely to be subject to a valuation change, they are revalued). In any case every property is revalued once every five years according to a rolling programme of revaluations. 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.

## xvi. 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.

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. Depreciation and 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).

### **The Council as Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (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 – applied to write down the lease debtor (together with any premiums received);
- 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. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

Regulations were issued when IFRS was implemented that permit amounts receivable under leases (if they were in existence on or before 31 March 2010) that changed from operating leases to finance leases as a result of changes to proper practices to be treated as if the status of the lease had not changed. This means that amounts receivable under operating leases that became finance leases on transition to IFRS can continue to be credited to the General Fund balance as revenue income. Such leases will be accounted for in accordance with the current provisions of the Code, with any adjustments to the General Fund balance being made by way of an adjusting transaction with the Capital Adjustment Account in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed 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.

## **xvii. Overheads and Support Services**

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

## **xviii. Property, Plant and Equipment**

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

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. No de-minimis level, below which expenditure is not capitalised, applies. 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;

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost. Where the historical cost is unknown, a nominal value of £1 is attributed to the asset concerned;

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Assets within each asset class are revalued together to ensure consistency of valuation within class. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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.

Revaluation gains or losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

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.

Impairment losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

### **Depreciation**

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;

- Vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- Infrastructure - straight-line allocation over estimated life of asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is not permitted by statutory arrangements to have an impact on the General Fund Balance. It is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted 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 previous losses 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. These are 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.

The written-off value of disposals is not a charge against council tax, as the cost of fixed 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.

### **xix. Provisions, Contingent Liabilities and Contingent Assets**

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in note 4.5 to the accounts (pages 45 to 46).

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but are disclosed in note 4.5 to the accounts (pages 45 to 46) where it is probable that there will be an inflow of economic benefits or service potential.

### **xx. 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. 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 transferred back into the General Fund Balance 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, local taxation and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **xxi. 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 (less any grant or contribution received towards it) 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.

### **xxii. VAT**

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

### **xxiii. Council Tax**

The collection of Council Tax is, in substance, an agency arrangement, whereby the Borough Council as the Billing Authority collects the amounts of tax due, on behalf of itself and the major precepting authorities (Staffordshire County Council; Office of the Police and Crime Commissioner Staffordshire; Staffordshire Fire Authority) and pays over to the precepting authorities the amounts of their precept demands. Each of these bodies includes in their Comprehensive Income and Expenditure Statement their proportion of accrued council tax income for the year. The cash collected belongs proportionately to the Borough Council and the preceptors. There is, therefore, a debtor/creditor relationship between the billing authority and each major precepting authority recognised in their respective balance sheets. The Borough Council only recognises in its balance sheet its own share of any outstanding council tax arrears, receipts in advance and receivables impairment allowance.

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 Council Tax Collection Fund Adjustment Account and included in the Movement in Reserves Statement.

#### xxiv. National Non Domestic Rates (NNDR)

The collection of National Non Domestic Rates is, in substance, an agency arrangement, whereby the Borough Council as the Billing Authority collects the amounts of tax due, on behalf of itself, Central Government, Staffordshire County Council and the Staffordshire Fire Authority and pays over to these bodies their share of the amounts collected. Each of these bodies includes in their Comprehensive Income and Expenditure Statement their proportion of accrued NNDR income for the year. The cash collected belongs proportionately to the Borough Council and these other bodies. There is, therefore, a debtor/creditor relationship between the billing authority and each of them which will be recognised in their respective balance sheets. The Borough Council only recognises in its balance sheet its own share of any outstanding NNDR arrears, receipts in advance and receivables impairment allowance.

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 NNDR Collection Fund Adjustment Account and included in the Movement in Reserves Statement. The Borough Council is a member of the Stoke on Trent and Staffordshire Business Rates Pool into which the amount which would have otherwise been payable as a levy to central government is paid.

#### xxv. Fair Value Measurement

Some non-financial assets such as surplus assets and investment properties are measured 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 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. Measurement uses the assumptions that market participants would use when pricing an asset or liability, assuming they are acting in their best economic interest and takes account of their 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. Valuation techniques appropriate in the circumstances are used, and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date;

Level 2 - inputs other than quoted prices that are observable for the asset, either directly or indirectly;

Level 3 - unobservable inputs for the asset or liability.

### Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council’s financial assets does not anticipate any impairment.
- **IFRS 15 Revenue from Contracts with Customers** presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)** will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 3.4.4) in future years. If the standard had applied in 2017/18 there

would be no additional disclosure because the Council does not have activities which would require additional disclosure.

- **IAS 12 Income Taxes (Recognition of Deferred tax Assets for Unrealised Losses)** applies to deferred tax assets related to debt instruments measured at fair value. Neither of the Council's subsidiary companies in the Group Accounts has such debt instruments.
- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

## Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out 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:

- Identifying whether leases of assets are operating or finance leases;
- Whether contractual arrangements have the substance of a lease;
- Whether land and buildings owned by the Council are investment properties;
- Whether the Council's exposure to possible losses is to be accounted for as a provision or a contingent liability.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 significant items in the Council's Balance Sheet at 31 March 2018 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

- The recoverable amounts in relation to debtors;
- Principal actuarial assumptions used at the balance sheet date in respect of the defined benefit pension scheme;
- Fair values for property plant and equipment that are not based on recently observed market prices;
- Fair values for financial assets that are not based on recently observed market prices.
- The business rates retention scheme came into effect on 1 April 2013. The accounts include a provision for the estimated costs of appeals that have been lodged with the valuation office. This is a complex calculation based on past success levels. As at 31 March 2018 the Council's share of the estimated appeals against business rates is £1.878m.

## Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director (Resources and Support Services) on 29 May 2018. Events taking place after this date are not reflected in the financial statements or notes. There were no material events taking place before this date about conditions existing at 31 March 2018 which required the amendment of figures in the financial statements or notes to the financial statements.

## Appendix 2 – Supplementary Accounts

### Building Control Account

The Building (Local Authority Charges) Regulations 2010 require the disclosure of information regarding the setting of charges for the administration of the building control function, however, certain activities performed by the Building Control Division cannot be charged for, such as providing general advice and carrying out enforcement.

The statement below combines the building control accounts for Stoke-on-Trent City Council and Newcastle Borough Council (The North Staffordshire Building Control Partnership) and shows the total cost of providing the service divided between chargeable and non-chargeable activities.

|                             | Total        | Fee Earning | Non-charging |
|-----------------------------|--------------|-------------|--------------|
|                             | <b>£000</b>  | <b>£000</b> | <b>£000</b>  |
| Employees                   | 466          | 289         | 177          |
| Premises                    | 16           | 10          | 6            |
| Transport                   | 11           | 7           | 4            |
| Supplies & Services         | 7            | 4           | 3            |
| Central Support             | 74           | 44          | 30           |
| Structural Engineers        | 16           | 16          | -            |
| <b>Total Expenditure</b>    | <b>590</b>   | <b>370</b>  | <b>220</b>   |
| Building Regulation Charges | 317          | 317         | -            |
| Miscellaneous Income        | 2            | 2           | -            |
| <b>Total Income</b>         | <b>319</b>   | <b>319</b>  | <b>-</b>     |
| <b>Surplus/ (Deficit)</b>   | <b>(271)</b> | <b>(51)</b> | <b>(220)</b> |

### Trusts and Other Similar Funds

The following statement summarises the balances and movements during the year of the various Funds for which the Council assumes a supervisory role. Balances relating to these Funds are not included in the Consolidated Balance Sheet and their transactions are not included in the Consolidated Revenue Account.

|                                               | Balance<br>01/04/2017<br>£000 | Expend.<br>£000 | Income<br>£000 | Balance<br>31/03/2018<br>£000 |
|-----------------------------------------------|-------------------------------|-----------------|----------------|-------------------------------|
| Newcastle Almshouses Trust (Accom. For Poor)  | 44                            | 21              | 16             | 39                            |
| Sports Advisory Council (Assistance to Sport) | 20                            | 24              | 20             | 16                            |
| Museum Purchase Fund (Purchase of Exhibits)   | 6                             | 6               | -              | -                             |

### Business Improvement District

The Council provides services as an agent to the Newcastle-under-Lyme Business Improvement District. The Council collected income of £0.291m on behalf of the Business Improvement District during the financial year 2017/18, this amount was accordingly paid to the Business Improvement District.

## Appendix 3 – Annual Governance Statement 2017/18

### 1.0 Scope of Responsibility

- 1.1 Newcastle-under-Lyme Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newcastle-under-Lyme Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Newcastle-under-Lyme Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Newcastle-under-Lyme Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on the Council's website at <http://www.newcastle-staffs.gov.uk/corporategov> or can be obtained from the Executive Director (Resources and Support Services). This statement explains how Newcastle-under-Lyme Borough Council complies with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.

### 2.0 Delivering Good Governance in Local Government: Framework

#### 2.1 The purpose of the governance framework

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

- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing and embedded process designed to identify and prioritise the risks to the achievement of Newcastle-under-Lyme Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Newcastle-under-Lyme Borough Council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

### 3.0 The Governance Framework

- 3.1 The Council operates a number of systems, policies and procedures that constitute or contribute to the operation of the internal control environment and support the principles set out in the Code of Corporate Governance as detailed in the tables below:

| Core Principle A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law. |
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| <ul style="list-style-type: none"><li>• <b>Behaving with integrity:</b><ul style="list-style-type: none"><li>• The Council has in place Codes of Conduct for both Members and Officers which set out requirements that support the need to behave with integrity.</li><li>• The Council has a set of values which are underpinned by a set of expected behaviours.</li><li>• All new members and officers are made aware of the Code of Conduct when they join the council.</li></ul></li><li>• <b>Demonstrating strong commitment to ethical values:</b><ul style="list-style-type: none"><li>• The council has a framework of policies that incorporate Anti-Fraud &amp; Corruption, Anti- Money Laundering and a Whistleblowing Policy all of which are designed to in the first instance discourage inappropriate behaviour and then secondly encourage both Members and Officers to voice any concerns they have and report any instances found.</li><li>• Members are required to renew their declaration of interest annually and also at any meetings.</li></ul></li></ul> |                                                                                                            |

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| <b>Core Principle A</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.</b> |
| <ul style="list-style-type: none"> <li>• Employees are required to notify their Executive Director or Head of Service about any potential conflict of interest.</li> <li>• A register of Gifts and Hospitality is maintained by the Monitoring Officer, an annual reminder is issued to all Employees.</li> <li>• <b>Respecting the rule of law;</b> <ul style="list-style-type: none"> <li>• The Council has in place a Monitoring Officer who works with Members and Officers to ensure that the law is adhered to.</li> <li>• There is a protocol in place for the Monitoring Officer, which sets out their role and supports them in fulfilling their responsibilities.</li> <li>• Legal advice is given in reports for all decisions to be taken by Members.</li> </ul> </li> </ul> |                                                                                                                   |

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| <b>Core Principle B</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Ensuring openness and comprehensive stakeholder engagement</b> |
| <ul style="list-style-type: none"> <li>• <b>Openness:</b> <ul style="list-style-type: none"> <li>• All meetings of the Authority are held in public unless the Part II requirements of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2000, are met in terms of confidentiality.</li> <li>• Copies of all minutes and agendas are available on the Councils website. All reports contain details of options considered and the advice provided by officers regarding legal and financial implications. The minutes include the reasons behind the decisions made.</li> <li>• The Council has a Freedom of Information Scheme in place and seeks to publish information openly on its website wherever possible and practicable to do so.</li> </ul> </li> <li>• <b>Engaging comprehensively with institutional stakeholders:</b> <ul style="list-style-type: none"> <li>• The Council has in place a Communications Strategy which sets out how we will communicate with our citizens, service users and stakeholders.</li> </ul> </li> <li>• <b>Engaging with individual citizens and service users effectively:</b> <ul style="list-style-type: none"> <li>• The Council has a Consultation Framework and Toolkit in place and provides details of all on-going consultation exercises/surveys on its website.</li> <li>• Whenever we seek the views from the community we provide feedback on the information received and let our citizens know how it has or will be used to help shape Council decisions.</li> </ul> </li> </ul> |                                                                   |

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| <b>Core Principle C</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Defining outcomes in terms of sustainable economic, social, and environmental benefits</b> |
| <ul style="list-style-type: none"> <li>• <b>Defining outcomes:</b> <ul style="list-style-type: none"> <li>• The Council has a clear vision of what it wants to achieve, which is set out in its Council Plan. The vision and priorities have been informed by an analysis of needs for the Borough and also via consultation with key stakeholders and the public.</li> <li>• Each service has a Service Plan that outlines outcomes to be achieved and how they link to the Council Plan.</li> </ul> </li> <li>• <b>Sustainable economic, social and environmental benefits:</b> <ul style="list-style-type: none"> <li>• A Sustainable Community Strategy is in place which aims to create an environment where local people can articulate their priorities, needs and aspirations</li> <li>• In addition the capital strategy sets out the principles and objectives which the Council has identified for its capital investment and how its capital plans link to other strategies and areas of activity of the Council and its partners.</li> <li>• The Councils day to day services support the delivery of the Council Plan, performance in delivering the objectives are monitored by the Executive Management Team (officers), the Cabinet and Scrutiny Committees (Members).</li> </ul> </li> </ul> |                                                                                               |

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| <b>Core Principle D</b>                                                                                                                                                                                                                                                                                                                                        | <b>Determining and planning the actions necessary to optimise the achievement of the intended outcomes</b> |
| <ul style="list-style-type: none"> <li>• <b>Determining Interventions:</b> <ul style="list-style-type: none"> <li>• The principles of decision making are detailed in the Councils constitution.</li> <li>• A calendar of meetings is approved and agreed by Annual Council in May each year.</li> </ul> </li> <li>• <b>Planning Interventions:</b></li> </ul> |                                                                                                            |

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| <b>Core Principle D</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Determining and planning the actions necessary to optimise the achievement of the intended outcomes</b> |
| <ul style="list-style-type: none"> <li>The Councils Forward Plan details all the reports relating to key decisions and the timescales within which they will be presented.</li> <li>Service Plans are produced annually which set out the planned activities for each service area for that year.</li> </ul> <ul style="list-style-type: none"> <li><b>Optimising the achievement of intended outcomes:</b> <ul style="list-style-type: none"> <li>The Medium Term Financial Strategy considers any changes that are required to be made to the base budget to ensure that service priorities are affordable and achievable.</li> <li>The budget process takes account of the full cost of service delivery over the medium and longer terms.</li> <li>The budget setting process ensures that a robust and balanced budget is approved.</li> </ul> </li> </ul> |                                                                                                            |

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| <b>Core Principle E</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>Developing the Council's capacity, including the capability of its leaders and the individuals within it. This includes ensuring effective relationships and a clear understanding of the roles and responsibilities of Members and officers.</b> |
| <ul style="list-style-type: none"> <li><b>Developing the councils capacity:</b> <ul style="list-style-type: none"> <li>The Council regularly reviews its activities to ensure continuous improvement of Service delivery.</li> <li>The Council works closely with its partners to ensure the delivery of agreed outcomes to the community.</li> </ul> </li> <li><b>Developing the capability of the entity's leadership and other individuals:</b> <ul style="list-style-type: none"> <li>The roles of Members, Committees, Officers and Statutory Officers are set out in the Councils Constitution, which is available on the Councils website.</li> <li>The Council has a scheme of delegation in place which forms part of the Constitution, this sets out the types of decision made by the council and who can make these.</li> <li>The Constitution also contains Financial Regulations and Contract Procedures which provide a framework for Officers to follow when running their services and making decisions.</li> <li>An induction programme is in place to provide training and support for all new members and officers.</li> <li>All officers have an annual appraisal to review performance identify any training and development needs.</li> <li>A member development programme is in place in respect of members to identify all their training needs.</li> <li>The Council is committed to supporting the health and well-being of the workforce through appropriate Human Resource policies, working practices and access to an Occupational Health Service.</li> </ul> </li> </ul> |                                                                                                                                                                                                                                                      |

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| <b>Core Principle F</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Managing risks, performance and data through robust internal control and strong public financial management.</b> |
| <ul style="list-style-type: none"> <li><b>Managing Risk:</b> <ul style="list-style-type: none"> <li>The Council has a risk management policy and strategy in place.</li> <li>A strategic Risk Register is maintained by the Executive Management Team, progress is monitored on a quarterly basis by the Audit and Standards Committee.</li> <li>Operational risks are identified and managed by Heads of Service, these are reviewed and monitored quarterly.</li> </ul> </li> <li><b>Managing Performance:</b> <ul style="list-style-type: none"> <li>Heads of Service and Business Managers are responsible operationally for the performance in delivering day to day services. This in turn is monitored by Executive Directors and the Executive Management Team.</li> <li>The performance of delivering the Councils priorities is monitored by Cabinet.</li> <li>There are Scrutiny Committees in place to monitor the performance of the Council and hold the Cabinet to account for the decisions that it makes.</li> </ul> </li> <li><b>Robust internal control:</b> <ul style="list-style-type: none"> <li>The internal control framework comprises a range of policies and procedures to ensure sound management of the Councils operation and delivery of services.</li> <li>Internal Audit undertakes reviews of systems that comprise the internal control and governance framework, it provides assurance and where necessary makes recommendations for improvement.</li> <li>The Audit and Standards Committee receives reports from the Head of Audit with regards to the internal control framework. In addition quarterly reports are presented in respect of the progress and completion of the audit plan and the implementation of outstanding recommendations.</li> </ul> </li> <li><b>Managing Data:</b> <ul style="list-style-type: none"> <li>The Council has a suite of Information Security Policies to ensure and maintain the integrity of the data that it holds.</li> <li>In addition the Council has a Data Protection Officer in place to ensure that personal data is held securely</li> </ul> </li> </ul> |                                                                                                                     |

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| <b>Core Principle F</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Managing risks, performance and data through robust internal control and strong public financial management.</b> |
| <p>and managed appropriately.</p> <ul style="list-style-type: none"> <li>The Council has prepared for the implementation of the new General Data Protection Regulations (GDPR).</li> </ul> <ul style="list-style-type: none"> <li><b>Strong public financial management:</b> <ul style="list-style-type: none"> <li>The Executive Director (Resources &amp; Support Services) as the Councils Section 151 Officer is appropriately qualified and complies with the CIPFA statement on the Role of the Chief Finance Officer.</li> <li>The Executive Director (Resources &amp; Support Services) prepares and advises the Council on its Medium Term Financial Strategy and the Budget.</li> <li>Regular budget monitoring reports are provided to Members and Officers.</li> <li>Financial Regulations and Contract procedures provide a framework for the day to day management of the Councils financial transactions.</li> </ul> </li> </ul> |                                                                                                                     |

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| <b>Core Principle G</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Implementing good practices in transparency, reporting, and assurance (including audit) to deliver effective accountability.</b> |
| <ul style="list-style-type: none"> <li><b>Implementing good practice in transparency and reporting:</b> <ul style="list-style-type: none"> <li>The following information is reported annually to Members and is available on the Councils website; <ul style="list-style-type: none"> <li>Performance in delivering the Council's priorities;</li> <li>Statement of Accounts;</li> <li>Annual Governance Statement;</li> <li>Annual Internal Audit Report</li> <li>Annual External Audit Letter</li> </ul> </li> <li>In addition to the above, the Council has a transparency page on the website which provides public access to information in accordance with the Local Government Transparency Code.</li> </ul> </li> <li><b>Assurance and effective accountability</b> <ul style="list-style-type: none"> <li>Internal Audit provides assurance throughout the year on the key systems of internal control.</li> <li>The External Auditor provides assurance on the Councils financial statement.</li> <li>The Councils governance arrangements are reviewed on an annual basis.</li> <li>There is a Corporate Complaints, Compliments and Comments Policy in place.</li> <li>Independent reviews of council services are undertaken from time to time, any feedback in respect of such reviews are noted and acted upon accordingly.</li> </ul> </li> </ul> |                                                                                                                                     |

3.2 A key element of the Councils governance arrangements concerns safeguarding. Newcastle under Lyme Borough Council has both a moral and legal obligation to ensure a duty of care for children and vulnerable adults across all its services. As a Council we are committed to ensuring that all children and vulnerable adults are protected and kept safe from harm whilst engaged in services organised and provided by us. We ensure this by;

- Having a Safeguarding Policy in place,
- Mandatory training in place for all Members and Officers,
- Carrying out the appropriate level of Disclosure and Barring Service (DBS) checks for employees, and
- Working closely with the Staffordshire Safeguarding Children's Board & Staffordshire and Stoke on Trent Adult Safeguarding Partnership.

#### 4.0 Review of effectiveness

4.1 Newcastle-under-Lyme Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Executive Directors within the authority who have responsibility for the development and maintenance of the governance and internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Code of Corporate Governance adopted by Newcastle-under-Lyme Borough Council demonstrates the Council is committed to ensuring that the principles of good governance flow from a shared ethos or culture, as well as from sound management systems, structures, and processes that are transparent to all its stakeholders. By making

explicit the high standards of self-governance the Council aims to provide a lead to potential partners, to the public, private or voluntary sectors and to all citizens.

- 4.3 The Audit and Standards Committee monitors effectively the system of internal control, this has been demonstrated through the completion of a self-assessment against CIPFA's checklist on 'Measuring the Effectiveness of the Audit Committee'. The Committee receives regular reports on both the Audit and Risk issues and has demonstrated effective challenge to senior officers in instances of non-compliance; it can therefore be relied upon when considering the Annual Governance Statement for 2017/18.
- 4.4 The Scrutiny function continues to ensure effective monitoring and challenge. There are Scrutiny Committees that reflect each of the Council's Corporate Priorities. The terms of reference for each of these committees ensure that performance is effectively monitored and challenged
- 4.5 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk model is used to formulate a twelve month plan which is approved by the Audit and Standards Committee, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Executive Director. The report includes recommendations for improvements that are included within an action plan and require agreement, or challenge, by Directors. The process includes follow ups on a monthly basis, the results of which are reported quarterly to the Audit and Standards Committee in terms of fundamental recommendations and the level of assurance that can be given for that directorate based on the implementation of their recommendations. In addition quarterly reports on all outstanding recommendations are also presented to the Executive Management Team. Internal Audit has continued to receive very positive feedback from External Audit with regards to the coverage of their work and high professional standards.
- 4.6 Internal Audit can provide a level of assurance that the Council's systems of internal control are operating adequately, from their work in 2017/18. Whilst the Internal Audit Service has identified some material deficiencies in controls, the service is satisfied that based upon assurances from Management, action is now being taken to address the issues raised.
- 4.7 A self-assessment on the effectiveness of the system of internal control is completed each financial year. These show that the system of internal control can be relied upon when considering the Governance Statement. This is informed by the completion of a self-assessment against the checklist for compliance with the Public Sector Internal Audit Standards and Local Government Application Note (PSIAS & LGAN). In addition to the self-assessment, an external assessment was undertaken in accordance with the PSIAS & LGAN, this review was completed by CIPFA, overall Internal Audit were found to be compliant with the PSIAS. The full report was presented to the Audit and Standards Committee.
- 4.8 An assessment of the role of the Chief Finance Officer (CFO) has been completed in accordance with the 'CIPFA Statement on the role of the Chief Financial Officer in public service organisations'. The statement produced by CIPFA seeks to strengthen governance and financial management throughout the public sector, in addition it sets out the core responsibilities, personal skills and professional standards that are crucial to the role. It requires that the CFO is professionally qualified, reports directly to the Chief Executive and is a member of the Leadership team. Having undertaken the assessment of the role of the CFO within the Council it can be confirmed that the Authority complies with this statement.
- 4.9 The role of the Head of Internal Audit has been reviewed in accordance with 'CIPFA Statement on the role of the Head of Internal Audit'. The role of the Head of Internal Audit occupies a critical position within any organisation helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role on promoting good corporate governance. The main aim of the CIPFA statement is to promote and raise the profile of the Head of Internal Audit within public service organisations.
- 4.10 The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council keeps the Constitution under review throughout the year, with a report setting out changes to be consolidated to Council on an annual basis.
- 4.11 Managers Assurance Statements are produced annually by both Executive Directors and Heads of Service. These statements provide a level of assurance with regards to the adequacy of internal controls within their own Directorate and Service Areas.

- 4.12 There are various specialist working groups, i.e. Capital Programme Review Group, Corporate Governance, Information Security, Procurement, and Corporate Health and Safety, that agree, oversee and review the various disciplines giving assurance that the Council complies with statute, identifies and manages its risks.
- 4.13 The External Auditors, Grant Thornton gave an unqualified opinion on the 2016/17 Accounts, in their Governance Report. In addition their review of the Council's arrangements for securing financial resilience concluded that the Council had robust financial systems and processes in place to manage its financial risks and opportunities and to secure a stable financial position that enabled it to continue to operate for the foreseeable future.
- 4.14 The Council has a zero tolerance to Fraud and Corruption, the Anti-Fraud and Corruption Framework, Fraud Response Plan and Whistleblowing Policy are in place to help deliver our commitment to protecting public funds and ensuring that all Council activities are carried out in accordance with the principles of openness, honesty and integrity. The commitment to deterring fraud and corruption is actively promoted throughout the organisation. Anyone who has any concerns about any aspect of the Council's work is actively encouraged to come forward and voice those concerns.
- 4.15 Action has been taken after the Council received a report which it commissioned from the Association of Electoral Administrators (AEA) ("the Scallan Report"). It identified a number of issues linked to how Council staff prepared for and ran the Parliamentary election in June 2017 and recommended a number of actions which the Council incorporated into an action plan ("the Council's elections action plan") for delivery in time for the May 2018 elections.
- 4.16 The Council is facing potential legal action relating to accident at work (RIDDOR) being investigated by the Health and Safety Executive. It has not yet been determined whether legal action will be taken. There are potentially significant financial implications upon the Council that may result from this.

## 5.0 Significant governance issues

- 5.1 The following matters have been identified as issues that need to be addressed in order to further improve the Council's overall governance arrangements;
- To ensure that the Council's elections action plan regarding the preparation and running of Elections is implemented for the May 2018 and subsequent elections.
  - To ensure that funding required for the Councils Capital Programme is delivered through the sale of assets identified for disposal as part of the Asset Management Strategy.
  - To ensure that the Council's Constitution is fit for purpose for the new Council, a review is to be undertaken by the Constitution and Members Support Working Group.
  - To continue to raise the profile and status of Information Security and Governance throughout the Council. Work to ensure that the requirements of the new General Data Protection Regulations are complied with is to be continued.
  - To ensure that the Council continues to deliver services that meet the needs of our customers and respond to any issues our customers may have with the current level of service provision. Working with our partners we will ensure that we can deliver effectively and co-operatively against citizen/customer requirements.
  - To ensure that our services demonstrate value for money we will continue to review all Service Areas against best practice and implement actions outlined in Service Plans, in addition we will seek to improve efficiencies across all Council services and ensure that the savings identified from this process can be realised.
  - To work in partnership as part of the North West Staffordshire Corporate Fraud Team to ensure that the Council remains vigilant in combating and tackling all aspects of fraud and corruption.
  - To continue to develop the capability and capacity of officers through the application of the Workforce Development Strategy.
  - To ensure that the Council is committed to the safeguarding of all children and vulnerable adults and that they are protected and kept safe from harm whilst engaged in services organised and provided by us.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed \_\_\_\_\_

**Councillor Simon Tagg, Leader of the Council**

Signed \_\_\_\_\_

**John Tradewell, Acting Chief Executive**

Dated \_\_\_\_\_

## Appendix 4 – Glossary of Terms

To assist readers of the Statement of Accounts to understand its contents the following definitions are provided of terms used in the text.

### Accounting Policies

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses, and changes to reserves.

### Accruals

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

### Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses);
- The actuarial assumptions have changed.

### Amortisation

An annual charge to a revenue account to reduce the value of an asset to zero over a period of years.

### Assets Register

A register of the Council's fixed assets which records their essential details, including their description and location, valuation, basis of valuation, life and service chargeable for their use.

### Balance Sheet

This shows a summary of the overall financial position of the Council at the end of the financial year.

### Business Improvement District (BID)

A BID is a defined area within which businesses are required to pay an additional business rates levy (a business rates supplement) in order to fund projects within the BID's boundaries. A completely separate body from the Council is responsible for operating the BID scheme. The BID is often funded primarily through the levy but can also draw on other public and private funding streams. The Council as billing authority collects the supplement and pays it over to the BID body, whose income it is, charging the body for the costs of collection.

### Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure, which adds to and does not merely maintain existing assets.

### Capital Grants Receipts in Advance Account

An account which holds the balances of capital grants received where conditions apply and have not been satisfied meaning that the grants are not yet available for use to finance expenditure.

### Capital Grants Unapplied Account

A usable reserve holding the balances of capital grants received or due to the Council at the year end where conditions do not apply to those grants or conditions have been satisfied meaning that the grant is available for use to finance expenditure.

## Capital Receipts

Income received from the sale of capital assets which may be used to finance new capital expenditure.

## CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) is one of the leading accountancy bodies in the United Kingdom and specialises in public services.

## Collection Fund

A fund accounting for Council Tax and Non-Domestic Rates received by the Council and the payments which are made from the fund including precepts to other authorities, the Council's own demand and shares of business rates receipts.

## Community Assets

Assets which 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.

## Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

## Contingent Liability

A contingent liability is either: -

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control;
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

## Creditors

Amounts owed by the Council for goods and services, where payments have not been made at the end of the financial year.

## Current Service Cost

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

## Curtailment

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include termination of employees' services earlier than expected, for example as a result of discontinuing a segment of the business and termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

## Debtors

Amounts owed to the Council for goods and services, where the income has not been received at the end of the financial year.

## Deferred Liabilities

These are liabilities which by arrangement are payable beyond the next year at some point in the future or are paid off by an annual sum over a period of time, specifically for this Council amounts outstanding in respect of finance leases.

## Defined Benefit Pension Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

## Depreciation

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, the passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

## Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

## Expected Rate of Return on Pension Assets

For a funded defined benefit pension scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

## Experience Gains and Losses

See Actuarial Gains and Losses

## Fair Value

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

## Fair Value Hierarchy

A three level classification of techniques used in order to measure the fair value of financial assets and liabilities. The highest level (Level 1) uses quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date, Level 2 uses inputs other than quoted prices that are observable for the asset, either directly or indirectly and Level 3 uses unobservable inputs for the asset or liability. Techniques employed should aim to maximise the use of observable inputs and minimise the use of unobservable inputs.

## Financial Instrument

A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are: Liabilities - trade payables, borrowings, financial guarantees; Assets - bank deposits, trade receivables, investments; Derivatives - forward investment deals.

## Financial Reporting Standards (FRSs)

Statements prepared by the Accounting Standards Committee. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

## Financial Year

The period of time to which the Statement of Accounts relates. The financial year of the Council runs from 1 April to 31 March.

## Fixed Assets

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

The classes of fixed assets required to be included in the accounting statements are:

### Operational assets

- Other land and buildings (excluding Council Dwellings);
- Vehicles, plant, furniture and equipment;
- Infrastructure assets;
- Community assets.

### Non operational assets

- Investment Properties;
- Assets Held for Sale.

Assets under construction are not shown separately. They are included in the balance relating to the category of operational asset where they will be included when completed.

## Formula Grant

A Formula Grant is paid by central government to local authorities. Formula Grant is largely funded by local business rates income (which is ultimately collected for central government). Revenue Support Grant and business rates are added together to make up the Formula Grant, which is then distributed to local authorities using a complex formula.

## General Fund Revenue Account

This account records the expenditure and income incurred by the Council in operating its services during the year. It does not record any capital expenditure or income but does include the costs associated with capital expenditure in the form of capital financing costs (mostly related to interest, capital charges for the use of assets by services and depreciation charges).

## Government Grants

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

## Heritage Assets

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

## Historical Cost

Actual cost of acquiring or constructing an asset.

## iBoxx

iBoxx bond market indices are benchmarks for professional use and comprise liquid investment grade bond issues. They enable investors to analyse and select benchmarks that reflect their investment profile

## Impairment

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

## Infrastructure Assets

Fixed assets that are not able to be taken away, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure are highways and sewers.

## Interest Cost

For a defined benefit pension scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

## Insurance Value

The value placed upon an asset for insurance purposes.

## Intangible Assets

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights. Specifically purchased software licenses are included in this category of asset.

## Inventories

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Inventories comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances;
- Finished goods.

## Investments

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be 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 should be qualified as current assets.

## Investment Properties

Interest in land and/or buildings:

- In respect of which construction work and development have been completed;
- Which is held for its investment potential, any rental income being negotiated at arm's length; and
- Which do not support the service or strategic objectives of the Council.

## Leasing

Method of financing the provision of capital assets which does not provide for the title to the asset to pass to the authority. In return for the use of the asset the Council pays rental charges over a specified period of time. There are two basic types of leasing arrangement:

- Finance leases which transfer the risks and rewards of ownership of an asset to the lessee (the Council) and such assets are included within the fixed assets in the Balance Sheet;
- Operating leases where the ownership of the asset remains with the lessor and annual rental is charged direct to the revenue account.

## Liquid Resources

Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or are traded in an active market.

## Long Term Debtors

Comprises amounts which are owed to the Council which are not investments and which are not expected to be realised within the next financial year. The main items included in this heading are outstanding loans from the Council to other bodies and outstanding amounts in respect of finance leases of Council properties to other bodies.

## Material Items

An item is material if its omission, non-disclosure or misstatement could be expected to lead to a distortion of the view given by the financial statements.

## National Non-Domestic Rate (NNDR)

Amounts payable to local authorities from non-domestic properties. The rate poundage is set nationally. The amount collected is distributed via the business rates retention scheme to Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire Authority. The remainder is retained by the Borough Council but is subject to a tariff payment and pool levy.

## Non-Distributed Costs

Overheads from which no user now benefits and which are not apportioned to services.

## Past Service Cost

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## Precept

Demands made upon the Collection Fund by other authorities (Staffordshire County Council, Police and Fire Authorities and Parish Councils) for the services that they provide.

## Prior Period 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 conditions or adjustments of accounting estimates made in prior years.

## Provisions

Amounts set aside to meet liabilities or losses which are likely to be incurred but where the amount remains uncertain.

## Quoted Securities

Assets such as shares that are traded on financial exchanges.

## Realisable Value

Open market value of the asset in its existing use (or open market value in the case of non- operational assets), less the expenses to be incurred in realising the asset.

## Related Parties

Two or more parties are related when at any time during the financial period:

- One party has direct or indirect control over the other party, or
- The parties are subject to common control from the same source, or
- One party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

For individuals identified as related parties, the following are also presumed to be related parties:

- Members of the close family or the same household, and
- Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or same household, has a controlling interest.

## Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

## Reserves

Reserves fall into two different categories:

- Usable Reserves representing sums set aside to meet future expenditure for specific purposes and which the Council is able to utilise to provide services.
- Unusable Reserves which the Council is not able to utilise to provide services. This category of reserves includes reserves which hold unrealisable gains and losses, such as the Revaluation Reserve and reserves which are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards, for example the Capital Adjustment Account.

### Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### Revenue Expenditure

Expenditure on day-to-day running of the Council, including employee costs, running expenses and capital financing costs.

### Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which does not result in the creation of a fixed asset and which is classified as capital for funding purposes but is chargeable to the Income and Expenditure Account (I&E Account) as revenue expenditure. Any grants or contributions towards such expenditure are also chargeable to the I&E Account. An appropriation is made to the I&E Account from the Capital Adjustment Account of the amount of expenditure financed from capital resources. Such expenditure was formerly referred to as deferred charges.

### Revenue Support Grant (RSG)

Grant paid to local authorities by Central Government to help finance its general expenditure.

### Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method r

Reflect the benefits that the employer is committed to provide for service up to the valuation date.

### Settlement

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits, the purchase of an irrevocable annuity contract sufficient to cover vested benefits and the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### Unitised Securities

A fund that is sold in units specified by a fund manager, rather than shares of fund managed assets.

### Unquoted Securities

Assets such as shares that are not traded on financial exchanges.

### Useful Life

Period over which the local authority will derive benefits from the use of a fixed asset.

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# Audit Findings

*Year ending 31 March 2018*

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Newcastle-Under-Lyme Borough Council

July 2018





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**Section**

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**Appendices**

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Newcastle-Under-Lyme Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial Statements</b>         | <p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li> <li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> | <p>Our audit work was completed on site during July. Our findings are summarised on pages 4 to 6. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"> <li>review of the final set of financial statements</li> <li>obtaining and reviewing the management letter of representation</li> <li>updating our post balance sheet events review, to the date of signing the opinion; and</li> <li>submission of the Assurance Statement to the NAO in respect of the Whole of Government Accounts</li> </ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p> |
| <b>Value for Money arrangements</b> | <p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Newcastle-Under-Lyme Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 11 to 13</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Statutory duties</b>             | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

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**Summary**

**Overview of the scope of our audit**

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

**Audit approach**

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

**Conclusion**

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:

- review of the final set of financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion; and
- submission of the Assurance Statement to the NAO in respect of the Whole of Government Accounts



**Our approach to materiality**

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan

We detail in the table below our assessment of materiality for Newcastle-Under-Lyme Borough Council.

|                                                                | Amount (£) | Qualitative factors considered                                                                                                                                                                                          |
|----------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality for the financial statements                       | £1,243k    | Based on a proportion of forecast gross expenditure (2%) for the financial year. In the prior year we used the same benchmark.                                                                                          |
| Performance materiality                                        | £932k      | Quality of financial systems and processes and the nature of the Council's income and expenditure streams. Quality of accounts and working papers in previous years and level of amendments arising from audit process. |
| Trivial matters                                                | £62k       | Set at 5% of materiality                                                                                                                                                                                                |
| Materiality for specific transactions, balances or disclosures | £100k      | Lower materiality applied to remuneration disclosures due to their sensitive nature and public interest.                                                                                                                |

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Newcastle-Under Lyme Borough Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Newcastle-Under-Lyme Borough Council. Whilst not a significant risk as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate that the rebuttal was incorrect.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness.
- reviewed the journal entry process and the control environment around journal entries.
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness.
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any evidence of management over-ride of controls. The journals testing that we have performed has identified that journals posted by authorised users are reviewed by another person.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

### 3 Valuation of property, plant and equipment

The Council revalues its land and buildings on a 5 year rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration

### Auditor commentary

We have undertaken the following work in relation to this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.
- Consideration of the competence, expertise and objectivity of any management experts used.
- Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.
- Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.
- Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register.
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Our work identified that 1 asset (value £8.936m) has not been revalued within the last 5 years as required by the CIPFA Code of Practice. The internal valuer has undertaken an impairment review of all properties at the year end to identify any significant variations in carrying value between the date that they were valued and the year end and concluded that there was no material movements in value between these dates. Based on our work there is no indication that the value of these assets is materially misstated.

### 4 Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out.
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made.
- Tested accuracy of data provided to the actuary.
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Our work has not identified any significant issues in respect of this risk.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Employee remuneration

Payroll expenditure represents a significant percentage (28%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness.
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls.
- performed substantive analytical procedures, disaggregated by month.
- obtained year-end payroll reconciliations and ensure amount in accounts can be reconciled to ledger and through to payroll reports. Investigated significant adjusting items.
- agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness.

Our work has not identified any significant issues in respect of this risk.

2

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- obtained an understanding of the accruals process and test accruals
- obtained a listing from the cash book of non-pay payments made in April and tested a sample to ensure that they have been charged to the correct financial period
- reviewed GRNI report for evidence of expenditure not accrued

Our work has not identified any significant issues in respect of this risk.

# Accounting policies

| Accounting area                 | Summary of policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Comments                                                                                                                                                                                                                                                               | Assessment                                                                                              |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Revenue recognition</b>      | <ul style="list-style-type: none"> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>We have reviewed the Council's revenue recognition policies and whilst we have not identified any significant issues, the Council should consider including a policy for all material revenue streams, such as Council Tax and NDR, in line with good practice.</p> | <br><b>(Green)</b>   |
| <b>Judgements and estimates</b> | <p>The Council has disclosed the key judgements within the notes to the accounts as relating to:</p> <ul style="list-style-type: none"> <li>Identifying whether leases of assets are operating or finance leases;</li> <li>Whether contractual arrangements have the substance of a lease;</li> <li>Whether land and buildings owned by the Council are investment properties;</li> <li>Whether the Council's exposure to possible losses is to be accounted for as a provision or a contingent liability.</li> </ul> <p>The Council has disclosed the following sources of estimation uncertainty within the notes to the accounts:</p> <ul style="list-style-type: none"> <li>The recoverable amounts in relation to debtors;</li> <li>Principal actuarial assumptions used at the balance sheet date in respect of the defined benefit pension scheme;</li> <li>Fair values for property plant and equipment that are not based on recently observed market prices;</li> <li>Fair values for financial assets that are not based on recently observed market prices.</li> <li>The business rates retention scheme and the provision for the estimated costs of appeals that have been lodged with the valuation office.</li> </ul> | <p>The judgements and estimates are considered appropriate under the accounting framework in place.</p>                                                                                                                                                                | <br><b>(Green)</b>   |
| <b>Other critical policies</b>  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>                                                                           | <br><b>(Green)</b> |

**Assessment**

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue                                                | Commentary                                                                                                                                                                                                                                 |
|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ① <b>Matters in relation to fraud</b>                | We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures |
| ② <b>Matters in relation to related parties</b>      | From the work we carried out, we have not identified any related party transactions which have not been disclosed.                                                                                                                         |
| ③ <b>Matters in relation to laws and regulations</b> | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.                                                               |
| ④ <b>Written representations</b>                     | A standard letter of representation has been requested from the Council, which is included in the Audit and Standards Committee papers.                                                                                                    |
| ⑤ <b>Confirmation requests from third parties</b>    | We requested from management permission to send requests to confirm year end bank and investment balances. This permission was granted and the requests were sent, and all received to confirm year end balances.                          |
| ⑥ <b>Disclosures</b>                                 | Our review found no material omissions in the financial statements.                                                                                                                                                                        |
| ⑦ <b>Significant difficulties</b>                    | We did not encounter significant difficulties in the completion of our audit.                                                                                                                                                              |

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

| Issue                                                          | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ① <b>Other information</b>                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E</p> |
| ② <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>                          |
| ③ <b>Specified procedures for Whole of Government Accounts</b> | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This is not required at Newcastle-Under-Lyme Borough Council as the Council does not exceed the threshold of £500m for 2017/18.</p>                                                                                                                                                                                                  |
| ④ <b>Certification of the closure of the audit</b>             | <p>We intend to certify the closure of the 2017/18 audit of Newcastle-Under-Lyme Borough Council in the audit opinion, as detailed in Appendix E</p>                                                                                                                                                                                                                                                                                                                                                              |

# Value for Money

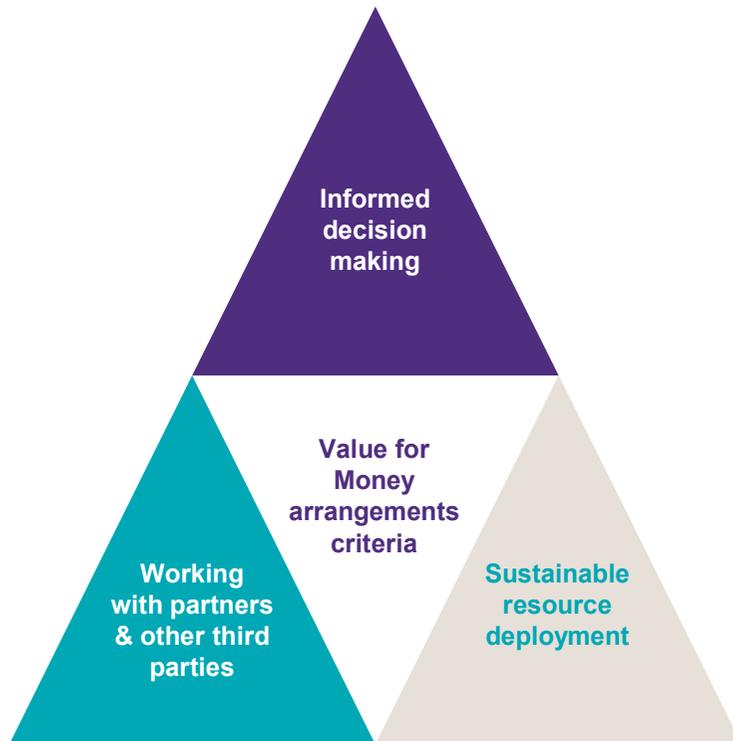
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The financial sustainability of the Council given the challenging environment that it current operates within.
- The progress the Council is making investigating the electoral problems it encountered in June 2017 for the general election.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 13.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations

We discussed findings arising from our work with management and have agreed the recommendations.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk                                                                                                                                                                                                                                                                        | Findings                                                                                                                                                                                    | Conclusion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>1</b> <b>Financial sustainability</b></p> <p>The medium term financial strategy (MTFS) 2018/19 to 2022/23 indicates a forecast budget shortfall of £1.535m for 2018/19, with additional shortfalls across 2019/20 to 2022/23 totalling £3.43m.</p>                                | <p>We have reviewed the MTFS, assessed the realism of savings/income generation plans, reviewed the outturn for 2017/18 and the Council's track record of addressing budget shortfalls.</p> | <p><b>Auditor view</b></p> <p>Overall our work concluded that the Council has appropriate arrangements for delivering economy, efficiency and effectiveness.</p> <p>The Council has continued to deliver services broadly in line with its budget plan for 2017-18, in line with its past record of sound financial control.</p> <p>The Council has set a balanced budget for 2018/19 and has identified funding gaps to 2022/23 in its medium term financial strategy. The Council has already identified actions to address around 50% of these funding gaps and has an efficiency and savings programme in place to identify further savings.</p> |
| <p><b>2</b> <b>Arrangements for voting at the last general election</b></p> <p>There has been an independent investigation into arrangements at the last general election. The council has now set up a cross-party investigation and disciplinary panel to look into arrangements.</p> | <p>We have monitored the investigation and the Council response to determine whether there are any implications for our VFM conclusion.</p>                                                 | <p><b>Auditor view</b></p> <p>As the Council's cross-party investigation and disciplinary panel process are still underway we do not consider there to be any implications for our 2017/18 VfM conclusion.</p> <p>However we have the following recommendations:</p> <p>The Council needs to ensure that the momentum of investigation is maintained and is concluded in a timely manner.</p> <p>The Council also needs to ensure that sufficient management capacity is maintained within the Council during the investigation and disciplinary panel to ensure effective and appropriate governance is maintained.</p>                             |

# Independence and ethics

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

# Action plan

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| 1 | Assessment | Issue and risk                                                                                                                                                                                              | Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|   | ●          | The Council are currently undertaking a cross-party investigation and disciplinary panel in relation to the issues arising from the Council's delivery of the voting for the General Election in June 2017. | <ul style="list-style-type: none"> <li>The Council need to ensure that the momentum of investigation is maintained and is concluded in a timely manner.</li> <li>The Council also need to ensure that the sufficient capacity is maintained within the Council during the investigation and disciplinary panel to ensure effective and appropriate governance is maintained.</li> </ul> <p data-bbox="1144 707 1420 730"><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council understands the importance of concluding things in a timely manner but also needs to ensure that a thorough and proper investigation has been undertaken. The investigation is reaching a conclusion and reports are currently being prepared for the investigation and disciplinary panel. It is envisaged that a meeting of the panel will be held in August / September 2018.</li> </ul> |
| 2 | ●          | Our work identified that 1 asset (value £8.936m) that has not been revalued within the last 5 years as required by the CIPFA Code of Practice.                                                              | <ul style="list-style-type: none"> <li>The Council should ensure that all PPE assets are revalued on a five year rolling basis to comply with the requirements of the CIPFA Code of Practice.</li> </ul> <p data-bbox="1144 999 1420 1023"><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council will ensure that the requirements of the CIPFA Code of Practice are adhered to for 2018/19.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

# Follow up of prior year recommendations

We identified the following issues in the audit of Newcastle-Under-Lyme Borough Council's 2016/17 financial statements, which resulted in 2 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

|   | Assessment | Issue and risk previously communicated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Update on actions taken to address the issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | X          | <p>There is a need for management to perform periodic, formal reviews of the user accounts and permissions on Chris21 application systems. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties)</p> | <ul style="list-style-type: none"> <li>The Council's ICT team are currently in the process of reviewing its account and access controls in general. This will include provisions for reviews of user account access at periodic intervals. The Payroll system will be an integral part of these reviews with each respective service area, and their service administrator, signing off the review process. This will confirm that any user account in existence is necessary and has the correct level of privilege. Findings will be reported to the Council's Information Governance Group as part of its regular meeting schedule.</li> </ul> |
| 2 | X          | <p>Management should establish a formal process for existing employees to formally acknowledge updates or changes to the IT security documentation. This process could be done in the form of mandatory reading/acknowledgement of updates prior to logon to the network and access to resources. Alternatively, this can be delivered in the form of refresher user IT security training courses.</p>                                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>Proposals have been put forward to the Council's Information Governance Group for the implementation of an acknowledgment system that will positively confirm staff have read, understood and accepted key policies. This proposal will shortly progress to the Council's Executive Management Team for further consideration.</li> </ul>                                                                                                                                                                                                                                                                  |

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission                     | Detail                                                                                                                                                                                                                                                                                                                                             | Auditor recommendations                                                                                                                                                                                                                                                                                     | Adjusted? |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Cash Flow Statement                     | The accounting for the upfront pension payment (£4.582m) has been incorrectly accounted for in the Cash Flow statement.                                                                                                                                                                                                                            | That the upfront pension payment is shown on a separate line within the Cash Flow Statement                                                                                                                                                                                                                 | ✓         |
| Collection Fund                         | The Council have transposed the allocation of the collection fund balance against Staffordshire Fire and Rescue Authority and the Office of Police & Crime Commissioner                                                                                                                                                                            | That the correct allocation of the collection fund figures for Staffordshire Fire and Rescue Authority and Office of Police & Crime Commissioner are included in the Collection Fund.                                                                                                                       | ✓         |
| Note 3.2.2                              | The investment property – revaluation figure in the note doesn't agree to the movements within Note 3.3.2 Investment Properties. The difference has been included in the Net Cost of Services.                                                                                                                                                     | That Note 3.2.2 is amended to be consistent with the Investment Property Note.                                                                                                                                                                                                                              | ✓         |
| Note 3.2.8 Officers' Remuneration       | The incorrect figures are included for the Head of Recycling and Fleet Services                                                                                                                                                                                                                                                                    | That the correct figures are included for the Head of Recycling and Fleet Services                                                                                                                                                                                                                          | ✓         |
| Note 3.3.1 Property Plant and Equipment | The revaluation table is incorrect                                                                                                                                                                                                                                                                                                                 | That the revaluation table within the note is amended to correctly record the year that assets have been revalued.                                                                                                                                                                                          | ✓         |
| Note 3.3.1 Property Plant and Equipment | Revaluations in relation to PPE assets were made with reference to values as at 1 April 2017. Cumulative depreciation at the revaluation date was written out of the PPE balance and charged to the revaluation reserve and the capital adjustment account. However, the depreciation charged for 2017/18 was also written off, which is incorrect | <p>The write off the depreciation charge in relation to 2017/18 should be reversed and the accounts amended accordingly</p> <p><b>Management response</b></p> <p>The depreciation charge for 2017/18 for the assets affected is £112k. This is an immaterial amount therefore no amendment is required.</p> | X         |

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission                                 | Detail                                                                                                                                                                | Auditor recommendations                                                                                                                                                                                               | Adjusted? |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Note 3.3.4 Debtors and Note 3.3.5 Creditors         | The accounting treatment for the NNDR and Council Tax debtors and creditors is not in accordance with the Code of Practice                                            | The split between the NNDR debtor and creditor is made in accordance with the CIPFA Code of Practice.<br>The split between the Council Tax debtor and creditor is made in accordance with the CIPFA Code of Practice. | ✓         |
| Comprehensive Income and Expenditure Account (CIES) | The amounts included in the Net Costs of Services and remeasurement of the Defined Benefit Liability / Asset for pension costs do not agreed to the actuarial report. | That the CIES is updated to reflect the pension figures contained within the actuarial report                                                                                                                         | ✓         |
| Note 3.3.8 Unusable Reserves                        | The movements on the pension reserve are not consistent within the figures in Note 4.4 Defined Benefit Pension Schemes.                                               | The movements on the pension fund are amended to be consistent with the Defined Benefit Pension Schemes Note and the actuarial report.                                                                                | ✓         |
| Note 4.4 Defined Benefit Pension Schemes            | The Council made an upfront pension payment covering 2017/18 to 2019/20, however there is no disclosure of this within the accounts.                                  | That the narrative disclosures in the note are updated to include information about the upfront benefit payment.                                                                                                      | ✓         |
| Note 4.4 Defined Benefit Pension Schemes            | Our review of the actuarial report identified a number of inconsistencies between the report and the figures in the accounts.                                         | That the note is amended to reflect the figures in the Actuarial Report                                                                                                                                               | ✓         |

# Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Audit Fees

|                                         | Proposed fee   | Final fee      |
|-----------------------------------------|----------------|----------------|
| Council Audit                           | £55,002        | £55,002        |
| Grant Certification                     | £7,552         | £7,552         |
| <b>Total audit fees (excluding VAT)</b> | <b>£62,554</b> | <b>£62,554</b> |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Newcastle-under-Lyme Borough Council

### Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of Newcastle-under-Lyme Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow, the Collection Fund Statement, the notes to the financial statements and Appendix 1 - Accounting Policies, Standards, Judgements, Assumptions and Adjustments. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

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

- the Executive Director (Resources and Support Services)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director (Resources and Support Services) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Executive Director (Resources and Support Services) is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 4 to 75 and Appendix 3 – Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Executive Director (Resources and Support Services) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 15, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director (Resources and Support Services). The Executive Director (Resources and Support Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director (Resources and Support Services) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director (Resources and Support Services) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Standards Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

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

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

### Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Responsibilities of the Authority

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

**Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Report on other legal and regulatory requirements - Certificate**

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

Phil Jones  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building  
20 Colmore Circus  
Birmingham  
West Midlands  
B4 6AT

Xx July 2018

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Grant Thornton UK LLP  
The Colmore Building  
20 Colmore Plaza  
Birmingham  
B4 6AT

30 July 2018

Dear Sirs

**Newcastle-Under-Lyme Borough Council**  
**Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of Newcastle-Under-Lyme Borough Council for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the financial statements:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are

consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are for the reasons noted on the schedule.

The financial statements are free of material misstatements, including omissions.

- xii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

#### **Information Provided**

- xv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.

- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

- xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

- xxvii The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit & Standards Committee at its meeting on 30 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

**Signed on behalf of the Governing Body**

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