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| **Date of meeting** | **Monday, 25th September, 2017** |
| **Time** | **7.00 pm** |
| **Venue** | **Committee Room 1, Civic Offices, Merrial Street, Newcastle-under-Lyme, Staffordshire, ST5 2AG** |
| **Contact** | Geoff Durham |

NEWCASTLE UNDER LYME
BOROUGH COUNCIL

**Civic Offices**
**Merrial Street**
**Newcastle-under-Lyme**
**Staffordshire**
**ST5 2AG**

# Audit and Standards Committee

## AGENDA

### PART 1 – OPEN AGENDA


| | | |
|---|---|---|
| **1** | **APOLOGIES** | |
| **2** | **DECLARATIONS OF INTEREST**<br>To receive Declarations of Interest from Members on items included in the agenda | |
| **3** | **MINUTES OF PREVIOUS MEETING**<br>To consider the minutes of the previous meeting(s). | **(Pages 3 - 6)** |
| **4** | **CORPORATE RISK MANAGEMENT REPORT -APRIL TO JUNE, 2017 (QUARTER 1)** | **(Pages 7 - 14)** |
| **5** | **STATEMENT OF ACCOUNTS 2016/17 AND EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT** | **(Pages 15 - 150)** |
| **6** | **LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER** | **(Pages 151 - 162)** |
| **7** | **INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 2017/18** | **(Pages 163 - 168)** |
| **8** | **QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2017** | **(Pages 169 - 174)** |
| **9** | **URGENT BUSINESS**<br>To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972 | |


Co-operative Councils Innovation Network

***Working to be a co-operative council***

**Members:** Councillors Dymond (Vice-Chair), Pickup (Chair), Waring, Cooper, S White, S Hambleton and Wing

**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.**

**<u>Meeting Quorums :-</u> 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 FOLLOWING THE FIRE EXIT SIGNS. PLEASE **<u>DO NOT</u>** USE THE LIFTS.

<u>COUNCIL CHAMBER</u>: FIRE EXITS ARE AT THE REAR OF THE CHAMBER AT BOTH SIDES AND THIS IS THE SAME FOR OCCUPANTS OF THE PUBLIC GALLERY.

<u>COMMITTEE ROOMS</u>: EXIT VIA THE WAY YOU ARRIVED AT THE MEETING OR AT THE FAR END OF THE COUNCIL CHAMBER.

ON EXITING THE BUUILDING, PLEASE ASSEMBLE AT THE REAR OF THE ASPITRE HOUSING OFFICE OPPOSITE THE CIVIC OFFICES. DO NOT REENTER THE BUILDING UNTIL ADVISED TO DO SO.

# AUDIT AND STANDARDS COMMITTEE

Monday, 3rd July, 2017
Time of Commencement: 7.00 pm

| | |
|---|---|
| **Present:-** | Councillor Ms Sarah Pickup – in the Chair |
| Councillors | Dymond, Waring, Cooper, Wing and Burgess |
| Officers | Executive Director (Resources and Support Services) - Kelvin Turner, Liz Dodd - Head of Audit and Elections (and Monitoring Officer), Annette Vacquier, Nesta Barker - Head of Environmental Health Services, Geoff Durham and Dave Roberts |

1. **APOLOGIES**

Apologies were received from Councillor Sandra Hambleton and representatives from Grant Thornton.

2. **MINUTES OF PREVIOUS MEETINGS**

**Resolved:** That the minutes of the meeting held on 19 April, 2017 be agreed as a correct record.

3. **DECLARATIONS OF INTEREST**

There were no declarations of interest stated.

4. **TERMS OF REFERENCE**

A copy of the revised Terms of Reference was presented to Members for information. The new Terms were agreed at Council on 17 May, 2017 following the decision to merge the Audit and Risk Committee and the Standards Committee. Members were advised that training sessions would be arranged for Audit and Standards.

**Resolved:** That the revised Terms of Reference be noted.

5. **WORK PLAN 2017/18**

A copy of the Work Plan, for this Committee, for 2017/18 was presented to Members for information. The Plan was not exhaustive and could have items added as and when they arose.

**Resolved:** That the work plan for 2017/18 be received.

6. **CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD JANUARY-MARCH, 2017**

Consideration was given to a report informing Members of the progress made in enhancing and embedding risk management for the period January to March, 2017.

Members were advised that there had been seventeen overdue risks but five of those had now been completed.

There had been risk level increase and this was due to the loss of specialist equipment, as a result of moving to the new Civic Hub – Castle House in the near future.

Risks three and four, on Appendix A, would be coming off the list in the next quarter.

Members requested that, as hard copies of agendas were now only printed in monochrome, that any shading could be done in patterned format rather than colour in order to make them more distinguishable.

**Resolved:** That the report be received and the comments noted.

7. **HEALTH AND SAFETY ANNUAL REPORT 2016/17**

Consideration was given to a report informing members of issues and trends regarding health and safety at the Council.

A copy of the Annual Report was attached to the agenda.

Members queried whether, in light of the Grenfell tragedy, the materials being used on the new council building had been checked. The Council's Executive Director for Resource and Support Services confirmed that they had and that there were no issues.

**Resolved:** That the report be noted.

8. **TREASURY MANAGEMENT ANNUAL REPORT 2016/17**

Consideration was given to a report outlining the Treasury Management Annual Report for 2016/17.

Members were advised that there had been no borrowing at all last year and that no targets had been exceeded.

**Resolved:** That the Treasury Management Annual Report for 2016/17 received and be reported to Full Council on 7 September, 2017.

9. **DRAFT STATEMENT OF ACCOUNTS 2016/17**

Consideration was given to a report outlining the draft Statement of Accounts 2016/17 and the financial position at 31 March, 2017.

Members were advised that the full Statement would be available in September when they had been audited.

**Resolved:** That the information be noted.

10. **INTERNAL AUDIT SECTION ANNUAL REPORT 2016/17**

Consideration was given to a report regarding the annual report for the Internal Audit Section for 2016-17. The report was attached to the agenda.

**Resolved:** That the Internal Audit Section Annual Report for 2016-17 be received.

11. **REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

Consideration was given to a report informing Members of an assessment that had been carried out to assess the effectiveness of the Audit Committee between 2016/17.

A copy of the self-assessment checklist was appended to the agenda. Further information and evidence was available upon request.

**Resolved:** That the report be received.

12. **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

Consideration was given to a report outlining the findings of the annual review of the effectiveness of the system of Internal Audit for 2016/17.A self- assessment had been carried out by the Head of Audit and Elections against a checklist for compliance alongside the Public Sector Internal Audit Standards (PSIAS).

Members attention was draw to the Action plan which was attached as Appendix D.

Members were advised that evidence and information can be provided electronically upon request.

**Resolved:** That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2016/17, together with the action plan, be agreed.

13. **ANNUAL GOVERNANCE STATEMENT 2016/17**

Consideration was given to a report requesting approval of the Annual Governance Statement 2016/17 for inclusion in the financial statements.

All evidence and information could be made available to Members electronically upon request.

Members were advised that the Statement had been signed by the Leader of the Council and the Chief Executive.

**Resolved:** That the Annual Governance Statement for 2016/17 be approved.

14. **PLANNED AUDIT FEE FOR 2017/18**

Consideration was given to a letter, received from Grant Thornton regarding the Planned Audit Fee for 2017/18. Members were advised that the fee would remain the same as the current fee at £55,002.

**Resolved:** That the information contained within the letter from Grant Thornton be noted.

15. **URGENT BUSINESS**

There was no Urgent Business.

**COUNCILLOR MS SARAH PICKUP**
**Chair**

Meeting concluded at 7.40 pm

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM**
**TO THE AUDIT AND STANDARDS COMMITTEE**

**25 September 2017**

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD April to June 2017 (Quarter 1)**

**Submitted by:** **Simon Sowerby - Business Improvement Manager**

**Portfolio:** **Policy, People and Partnerships**

**Ward(s) affected:** **All**

**Purpose of the Report**

To inform Members of the progress made by the Council in enhancing and embedding risk management for the period April - June 2017 (Q1), including progress made in managing identified corporate risks.

**Recommendations**

**The Committee is asked to:-**

**(a) Scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable.**

**(b) Note the point 2.1.1 showing the number of overdue risks.**

**(c) Note the point 2.2.1 advising of the risk level increases.**

**(d) Note the point 2.2.2 regarding the new risks identified between April to June 2017.**

**(e) Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee.**

**Reasons**

The risk management process previously adopted by the Council has been reviewed to incorporate changes in the way the Council works and to provide continuity and streamlined reporting of risks to allow the process to become further embedded at each level of the authority. This will also aid the identification of key risks that potentially threaten the delivery of the Council's corporate priorities. The Risk Management Strategy provides a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

1. **Background**

1.1 The Council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software used to record and manage risks.

1.2 The Council currently reviews its high (red 9) risks at least monthly and its medium (amber) risks at least quarterly.

1.3 The last review of these risks (Q4 2016) was reported to the Council's Audit & Standards Committee in July 2017.

1.4 Risk owners are challenged by the Council's Risk Champions in respect of the controls, further actions, ratings and emerging risks related to their risks, and are also challenged on the reasons for inclusion or non-inclusion and amendment of these.

1.5 Projects are managed to a high level in relation to risk and are reviewed in accordance with the Risk Management Strategy (i.e. at least monthly).

2. **Issues**

2.1 Further to an Audit Assurance recommendation, your officer has been asked to report on overdue risk reviews that are 6 months out of date.

2.1.1 At the time of running the report, there were NO overdue reviews.

2.2 Following a previous meeting a brief point is now produced to show any risks where the risk level has increased to a Medium 7, 8 or High 9.

2.2.1 Your officer can report that there has been 2 (two) risk level increases under the profiles of Corporate Health and Safety and Environmental Protection.

2.2.2 There have been no new risks added to profiles during April to June 2017.

2.2.3 Should there be any increase during July to September 2017 these will be reported to the next meeting of the Committee.

3. **Strategic, Operational, Project and Partnership Risk Registers (Appendices)**

3.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.

3.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.

3.3 The risk map below shows the descriptions of the ratings, for ease of use.

| | | | | |
|---|---|---|---|---|
| **L I K E** | High | 7 Amber | 8 Amber | 9 High Red |
| | | 4 | 5 | 6 |

| | | | | |
|---|---|---|---|---|
| **L I H O O D** | Medium | Green | Amber | Amber |
| | Low | 1<br>Green | 2<br>Green | 3<br>Amber |
| | | Low | Medium | High |
| | | **IMPACT** | | |

3.4 Appendix A now highlights the risks that fall into the top line of the above risk map.

**4. <u>Issues from last meeting</u>**

4.1 At the last meeting at point 2.1.1, it was reported that there were 17 overdue risk reviews. At this time, it can be reported that these were all completed by 24 August 2017 with the Head of Service.

4.2 As requested, it was queried with the officer as to the reason for the delay in the reviews. It was stated that due to the workload, external and internal challenges within the section, the risk reviews were delayed.

5. **<u>Outcomes Linked to Corporate and Sustainable Community Priorities</u>**

5.1 Good risk management is a key part of the overall delivery of the Council's four corporate priorities of:

- Borough of Opportunity
- A Clean, Safe and Sustainable Borough
- A Healthy and Active Community
- Becoming a Co-operative Council, which delivers high quality, community-driven services

6. **<u>Legal and Statutory Implications</u>**

6.1 The Accounts and Audit (England) Regulations 2015, state that:

*"The relevant body **<u>is</u>** responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control, which facilities the effective exercise of that body's functions and which includes arrangements for the management of risk"*

7. **<u>Equality Impact Assessment</u>**

7.1 There are no differential equality impact issues in relation to this report.

8.1 **<u>Financial and Resource Implications</u>**

8.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

9. **List of Appendices**

   Appendix A – Notable High and Medium risks

10. **Background Papers**

    None

## Notable High and Medium Risks - Appendix A

| | | | |
|---|---|---|---|
| | High 9 risks | | Medium 7 & 8 risks |
| | Risk reduced from last 1/4 profile | | New risks/Increased rating risks |
| | Risks to be deleted from next 1/4 profile | | |

| | **Appendix A**<br><br>Risks and Action Plan<br>**Risk Identified** | **Risk Owner** | **Action Required to Address Risk**<br><br>in order to reduce the risk | **Target Date**<br><br>for action completion | **Risk Category**<br><br>Strategic, Operational, Project | **Current position / progress**<br><br>as at 12/09/2017 | **Status**<br><br>as at Dec 16 | **Status**<br><br>as at Mar 17 | **Current Rating**<br><br>as at June 17 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Potential Claims growth | Chief Executive | The Council has robust systems in place both to deal with claims when they happen and also to prevent, where possible, the circumstances where claims could arise. In doing so, the Council has in place policies and procedures designed to enhance safety at work and also to advise staff and others when driving or operating machinery. The Council checks, on a regular basis, that it is up to date on best practice in this area and that systems reflect changes in the local, national or international environments | | Strategic | Risks reviewed and noted that this area is of growing significance with the number and value of claims increasing. Further actions reviewed. Consideration was given to potential control measures, but these are addressed by the existing further actions. | I = 3<br>L = 3<br>High<br>9 | I = 3<br>L = 3<br>High<br>9 | I = 3<br>L = 3<br>High<br>9 |

| | **Appendix A**<br><br>Risks and Action Plan<br>**Risk Identified** | **Risk Owner** | **Action Required to Address Risk**<br><br>in order to reduce the risk | **Target Date**<br><br>for action completion | **Risk Category**<br><br>Strategic, Operational, Project | **Current position / progress**<br><br>as at 12/09/2017 | **Status**<br><br>as at Dec 16 | **Status**<br><br>as at Mar 17 | **Current Rating**<br><br>as at June 17 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| 2 | Financial consequences of adverse planning decisions | Regeneration and Development | Housing Clarification Statement preparation to assist members and officers in dealing with housing development proposals in advance of the Local Plan being adopted | Feb-17 | Strategic | Completion of this action has been delayed because of the priority given to undertaking key aspects of the Local Plan. Report to go to Planning Committee June 2017. | I = 3<br>L = 3<br>High<br>9 | I = 3<br>L = 3<br>High<br>9 | I = 3<br>L = 3<br>High<br>9 |
| 3 | Fire risk occurrence | Corporate Health and Safety | | | Operational | Staff trained in evacutation, dealing with fire and suppression, evacuation procedures listed, partner organisations trained. Whilst this is a high risk all controls work. The risk rating increased to a high 9 due to two incidents in the past 4-6 months | | **I = 3**<br>**L = 1**<br>**Medium**<br>**3** | I = 3<br>L = 3<br>High<br>9 |

## Notable High and Medium Risks - Appendix A

| | Risks and Action Plan<br>**Risk Identified** | **Risk Owner** | **Action Required to Address Risk**<br>in order to reduce the risk | **Target Date**<br>for action completion | **Risk Category**<br>Strategic, Operational, Project | **Current position / progress**<br>as at 12/09/2017 | **Status**<br>as at Dec 16 | **Status**<br>as at Mar 17 | **Current Rating**<br>as at June 17 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| 4 | Failure to deliver Local Air Quality Management action plans | Environmental Protection | Deliver Air Quality Action Plan to DEFRA. Failure to manage air quality in accordance with statutory requirements and not addressing risks to residents health in affected areas. The minister has reserve power functions and judicial review of the council function /decision making may be called. Development and delivery of measures requires buy in from key stakeholders. | Sep-17 | Operational | The action plan should have been delivered during 2016/17, however it has been revised to be delivered during Q2 of 2017/18 - this will be reviewed at the end of September 2017 | | I = 2<br>L = 1<br>Low 2 | I = 2<br>L = 3<br>Medium<br>8 |

# Notable High and Medium Risks - Appendix A

Page 14

| Risks and Action Plan<br>**Risk Identified** | **Risk Owner** | **Action Required to Address Risk**<br>in order to reduce the risk | **Target Date**<br>for action completion | **Risk Category**<br>Strategic, Operational, Project | **Current position / progress**<br>as at 12/09/2017 | **Status**<br>as at Dec 16 | **Status**<br>as at Mar 17 | **Current Rating**<br>as at June 17 |
|---|---|---|---|---|---|---|---|---|
| 5 Loss of Specialist equipment - servers | ICT | With the move to Castle House, the council's business continuity plan needs to be fully reviewed, taking in to account the interim period before re-location | Dec-17 | Business Impact Assessment | 12/09/17 - Update – ICT have completed the migration of the Council's principal data centre to the Kidsgrove Customer Service Centre and further backup facilities have been introduced at the Depot. The new Kidsgrove site contains sufficient capacity to run all of the Council's services with multiple virtual server sets providing support for the Council's line of business applications and virtual PC infrastructure. The centre has an increased data bandwidth, 5 times greater than in previous iterations and now has dual wide area network links to geographically separated sites. The backup facilities introduced at the Depot have the capacity to run a significant volume of the Council's production services should a disaster happen at Kidsgrove. The depot site also has multiple high capacity links ensuring that the failure of a single provider cannot disrupt services. Data is continually replicated between our production and backup sites, ensuring that for critical Council infrastructure, recovery point losses are kept to a minimum. Services will be contacted again to discuss their Service Continuity arrangements and ensure that ICT's service priority list is ordered appropriately. The introduction of Castle House will significantly impact on service area continuity plans as the loss of a single site will no longer have the capacity to restrict all of the Council's operations. Increased numbers of agile workers and greater recovery capacity should all assist in making the Council's disaster recovery plans more sustainable and realistic. Further work will be undertaken once the move to Castle House has been completed. | | I = 1<br>L = 3<br>Medium<br>7 | I = 1<br>L = 3<br>Medium<br>7 |

**ITEM FOR AUDIT AND STANDARDS COMMITTEE 25/09/17**

**Statement of Accounts 2016/17 and External Auditor's Audit Findings Report**

**Submitted by:** Head of Finance

**Portfolio** Finance IT and Customer

**Ward(s) affected** All indirectly

**Purpose of the Report**

To approve the statement of accounts, receive the external auditor's Audit Findings Report for 2016/17 and to agree the Letter of Representation to the Auditor.

**Recommendations**

a) **That the Statement of Accounts 2016/17 be approved and signed by the person presiding at the meeting.**
b) **That the Audit Findings Report for 2016/17 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 30 September 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 3 July in relation to the draft Statement of Accounts and the Outturn position for 2016/17. The report explained that the 2016/17 Statement of Accounts does not have to be formally approved by a Council Committee until 30 September 2017. However, it was felt that members needed an earlier update on the position for 2016/17, 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 2016/17 accounts is attached at Appendix 1.

1.2 The Committee now needs to formally receive the Statement of Accounts for 2016/17 for scrutiny and approval. Accordingly a copy of the Statement is appended at Appendix 2 for your consideration.

1.3 The external auditor appointed by the Audit Commission (Grant Thornton) 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.

1.4 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 2016/17, 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 2016/17

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 (£6,037) reported to you in July 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 (£6,037) reported to you in July is unchanged.

2.3 The Council's Annual Governance Statement, which you approved at your July meeting, will be incorporated in the Statement of Accounts as in previous years. Please note that this has not been included in the Statement appended to this report, however, in order to save paper.

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 July.

## 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 4 July 2016
Appendix 2: Statement of Accounts 2016/17
Appendix 3: Audit Findings Report Year Ended 31 March 2017
Appendix 4: Letter of Representation

## 6. Background Papers

Report to Audit and Risk Committee 4 July 2016 “Draft Statement of Accounts 2016/17”; Audit Findings Report Year Ended 31 March 2017 produced by the External Auditor appointed by the Audit Commission; Letter of Representation 2016/17.

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## 3. The General Fund Outturn

3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £6,037 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:

| Type of Income | Budget | Outturn | Variance |
|---|---|---|---|
| | £000s | £000s | £000s |
| Land Charges Search Fees | 230 | 214 | 16 |
| Commercial Portfolio Rents | 1,150 | 1,014 | 136 |
| Waste Services | 1,730 | 1,575 | 155 |
| Newcastle Open Market Stall Fees | 198 | 159 | 39 |
| Car Parking Income | 1,228 | 1,037 | 191 |
| Jubilee 2 Income | 1,459 | 1,370 | 89 |
| Kidsgrove Sports Centre Income | 393 | 298 | 95 |
| Cemeteries Income | 350 | 322 | 28 |
| Council Tax Court Costs | 680 | 470 | 210 |
| **Total** | **7,418** | **6,459** | **959** |

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

| Item | Additional expenditure |
|---|---|
| | £000s |
| New Waste Service costs | 220 |
| Kidsgrove Sports Centre costs | 54 |
| **Total** | **274** |

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.

| Item | Saving or additional income |
|---|---|
| | £000s |
| **Additional Income:** | |
| Bereavement Service Income | 49 |
| Planning Applications Fees | 255 |
| Street Naming and Numbering Income | 16 |
| Income from Business Improvement District levy collection | 19 |
| **Procurement Savings** | |
| Vehicle Fuel | 68 |
| **Good Housekeeping Efficiencies:** | |
| Jubilee 2 Expenditure | 60 |
| Parks and Open Spaces expenditure | 65 |
| Corporate Training expenditure | 10 |
| CCTV expenditure | 16 |
| **Staffing Efficiencies:** | |
| Overall employee costs savings | 337 |
| **Corporate:** | |
| New Homes Bonus | 210 |
| Miscellaneous additional government grant income | 38 |
| Minimum Revenue Provision not required | 100 |
| **Other Variances** | -4 |
| **Total** | **1,239** |

3.2 An amount of £6,037 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Note 3.3.7 to the Accounts, the balance on the Budget Support Fund now stands at £0.269m, a decrease of £0.072m from the 1 April 2016 balance, which apart from the above transfer is accounted for by payments out of the reserve in respect of commitments brought forward and to finance invest to save projects.

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 2018/19.

3.4 Business Rates Retention

3.4.1 The Council collects business rates and is able to retain in the General Fund a share of the income after paying part to the government, Staffordshire County Council and the Staffordshire Fire Authority. Excess income above the amount budgeted for in 2016/17 amounted to £0.072m.

3.4.2 In the current year it is not expected that there will be a significant variance compared to the budgeted amount for retained business rates income, based on the initial NNDR1 return to the government, compiled in January 2017 which forecast the estimated business rates income for 2017/18 and was the basis for the budget calculation. It should be noted, however, that business rates income is subject to considerable volatility, particularly owing to successful appeals in relation to rateable values which may occur and businesses closing down etc leading to rates no longer being payable.

3.4.3 Various anomalies and grey areas exist within the business rates system which from time to time result in ratepayers making representations that they are entitled to reductions in the amounts payable by them, for example applications for downwards revaluation of their properties or for the granting of reliefs which they assert they are entitled to and, if successful, refunds of amounts already paid. Looking forward, a significant claim for a reduction in the amounts payable is being made by National Health Service Trusts, which contend that they are entitled to mandatory charitable relief in relation to their properties, which would reduce the amount payable by 80%. This contention is not accepted by the Council, in common with other authorities, and the Local Government Association has obtained a legal opinion which does not support the NHS Trusts' view, therefore, NHS properties will continue to be billed for the full amount.

3.4.4 Fortunately there are no major NHS facilities within the Borough Council boundaries so the impact would be nowhere near as severe as it could be for some other authorities. It looks likely that this issue will take some time to resolve, probably through the courts. Instances such as these, unless they involve large amounts of income loss, are presently of limited significance to the Borough Council because the loss of income is shared with the government and the County Council and Fire Authority with this Council suffering only 40 per cent of the loss. However, most likely from 2021/22, local authorities will be permitted to retain 100 per cent of business rates collected, so will suffer the whole of any losses, with 80 per cent of the amount lost being attributable to the Borough Council. As a result of the new arrangements Revenue Support Grant will no longer be paid to authorities by the government so business rates, along with council tax, will become one of the two largest sources of income for the Council. The exact details of the new arrangements have yet to be determined so the precise impact on the Council's finances cannot currently be determined.

3.4.4 The Business Rates Reserve will be available to meet any such shortfalls in business rates income and to meet the Council's share of business rates Collection Fund deficits, of which the Council's share in relation to 2016/17 was £0.052m. The regulations concerning the Collection Fund require this deficit share to be made good by a transfer from the General Fund into the Collection Fund in subsequent years, which will be the first call upon the Reserve. Because of the previously mentioned volatility in income and the time required to assess the longer term workings of the new rates retention system, it is considered prudent that the remaining balance on the Reserve should remain unused for the time being.

3.4.5 It is worth noting that by participating in the Stoke on Trent and Staffordshire Business Rates Pool, along with Staffordshire County Council, Stoke on Trent City Council, Stafford Borough Council, Staffs Moorlands DC, South Staffs DC and the Fire Authority, and thereby avoiding the payment of a levy to the government, the Borough Council has achieved a worthwhile increase in the amount of rates retained. The amount of levy that would otherwise have been paid in 2016/17 was £0.510m. Of this £0.204m (40%) has been retained by the Borough Council, with the balance of £0.306m being paid over to the Pool, £0.102m (20%) to be held as a reserve to meet any future business rates income shortfalls experienced by Pool members, and £0.204m (40%) in a reserve to fund economic development projects in Staffordshire.

## 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 £0.179m for the year, leaving a balance of an accumulated surplus of £0.233m at the year-end. Separating this out into its individual components, the respective positions were as follows:

| | Council Tax | | Business Rates | | | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | | £m |
| Balance Brought Forward - Surplus/(Deficit) | | 1.137 | | (2.122) | | (0.985) |
| | | | | | | |
| Contribution towards previous year's surplus/deficit (A) | (1.143) | | 2.000 | | | |
| Surplus/(Deficit) relating to 2015/16 (B) | 1.149 | | (0.609) | | | |
| Overall Surplus/(Deficit) for Year (A + B) | | 0.006 | | 1.391 | | 1.397 |
| | | | | | | |
| Balance Carried Forward - Surplus/(Deficit) | | 1.143 | | (0.731) | | 0.412 |

More 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 achieved a surplus of £0.189m for the year, which compares to an in-year surplus of £1.149m in 2015/16. 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 2017/18. The main reason for the reduced surplus is a revision to the method of calculating the council tax base, first applied to the 2016/17 year, which more accurately reflects underlying changes in the tax base data and as a result makes large surplus or deficit amounts less likely.

4.4 The Business Rates element of the Fund experienced an in-year deficit of £0.090m. 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 because the Fund is required to pay a sum to each of the four bodies equating to their share of the estimated business rates which will be collected in the year. The estimate is made before the start of the year and if the actual rates collected are less than the estimated amount, there will be a deficit, which is what occurred in 2016/17. The reduced collectable amount occurred because of various factors, chiefly changes in reliefs, exemptions and appeals.

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 2016/17 were as follows:

| | £m |
|---|---|
| Balance Brought Forward at 1 April 2016 | 1.932 |
| Used in 2016/17 | (1.731) |
| Contribution to Provision | 1.611 |
| Balance at 31 March 2017 | 1.812 |

The balance of £1.812m 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. £0.725m. The amount has increased due to the high level of appeals currently being experienced, reflecting the volatility referred to in paragraph 3.4.

## 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 £65.246m (£57.304m at 31 March 2015) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets. The main reasons for the increase are increases in Plant, Property and Equipment (£3.576m) which includes the purchases of new vehicles for the waste recycling service and an increase in investment properties (£4.366m) primarily due to revaluations.

- Investments (all short term at 31 March 2017 - i.e. with less than 1 year to run from that date) show a decrease, amounting to £3.460m compared to £7.549m at 31 March 2016. 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.

- 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 £8.000m. Short Term Debtors have decreased by £1.306m compared with 31 March 2016. The main reasons for this are a decrease in amounts owed by central government to the Council of £1.383m, this primarily relates to the reduced share of the business rates deficit owed. Additionally, the level of sundry debtors relating to other entities and individuals (including NHS bodies) has decreased by £0.441m at 31 March 2016. Offsetting this, the amounts owed by other local authorities has increased (£0.518m) this is due to an increase in the cash amount owed by precepting authorities in respect of council tax due to arrears remaining relatively constant but the collection fund surplus decreasing.

- The amount the Council owes to its creditors is £5.738m. Creditors have increased by £0.045m compared to 31 March 2016.

- Provisions are £1.270m compared with £1.290m at 31 March 2016. This overall total comprises four provisions (31 March 2016 balance in brackets): NNDR Appeals £0.725m (£0.773m); Insurance Claims Provision £0.148m (£0.072m); Municipal Mutual Insurance (MMI) Provision £0.025m (£0.079m); Employee Benefits Provision £0.372m (£0.366m).

- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) increased from £68.428m to £71.709m. The variance between the two years comprises a £1.200m decrease in the liability arising from the final year's payment in respect of the "prepayment" agreement whereby the Council received a discount on payments into the Pension Fund in return for paying the amounts due in advance and a £4.481m increase in the liability arising from changes in demographic and financial assumptions. The balance on the Pensions Liability is mirrored by a corresponding balance on the Pensions Reserve included in the balance sheet under unusable reserves. The £4.481m change mainly arises as a result of a significant decrease in the net discount rate applied to pension fund assets over this period (3.4% down to 2.5%), the negative impact of which has outweighed the much higher than expected pension fund asset returns. 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 £5.812m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2017, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£1.611m)
- Capital Grants Unapplied (£1.126m)
- Budget Support Fund (£0.269m)
- Contingency Reserve Fund (£0.135m)
- ICT Development Fund (£0.068m)
- Renewal and Repairs Fund (£0.002m)
- Equipment Replacement Fund (£0.481m)
- Revenue Investment Fund (£0.105m)
- Business Rates Reserve (£0.442m)

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 2017. 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 2016/17, the year-end balance reflecting underspending in relation to the 2016/17 capital programme, as discussed at paragraphs 7.2 and 7.3, 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 2017/18. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund balance is insufficient to meet likely commitments.

## 7. Capital Expenditure

7.1 Capital expenditure totalled £8.729m in 2016/17.

7.2 The capital programme approved by Full Council on 24 February 2016 provided for an amount of £14.249m to be spent in 2016/17. However, the budget report to Full Council on 23 February 2017 revised the estimated spend for 2016/17 to £11.744m. This was largely due to the need to curtail the capital programme by putting around £2.400m of projects on hold because of a lack of capital receipts to finance them.

7.3 As can be seen, the actual outturn for the year was lower than the forecast reported to Full Council. The main reasons for this are: some vehicle replacements were deferred until 2017/18 (£0.646m) and £2.248m of payments in relation to the construction of Castle House did not become due until 2017/18.

7.4 Projects in progress or committed will be completed or commenced in 2017/18. 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 2017/18 programme will also need to be reviewed for the same reason.

7.5 The expenditure of £8.729m was financed as shown below:

| | £m |
|---|---|
| Capital Receipts | 5.519 |
| New Homes Bonus | 0.165 |
| BetterCare Funding (re Disabled Facilities Grants) | 0.988 |
| Contributions from Other Bodies | 0.015 |
| Section 106 payments | 0.087 |
| Reserves - ICT Development Fund | 0.216 |
| Sport England Grant (Clayton Sports Centre) | 0.016 |
| Internal Borrowing | 1.723 |
| Total Financing | 8.729 |

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# Statement of Accounts

## 2016/17

# Contents


| | | |
|---|---|---|
| | Guide to the Statement of Accounts | 4 |
| | Narrative Report | 6 |
| | Statement of Responsibilities | 15 |
| | Financial Statements | 16 |
| | Comprehensive Income and Expenditure Statement | 16 |
| | Movement in Reserves Statement | 17 |
| | Balance Sheet | 18 |
| | Cash-Flow Statement | 18 |
| | Notes to the Financial Statements | 20 |
| 1.1. | Accounting Policies, Standards, Judgements, Assumptions and Adjustments | 20 |
| 2. | Expenditure and Funding Analysis | 21 |
| 2.1.1. | Reconciliation to the Comprehensive Income and Expenditure Statement | 21 |
| 2.1.2. | Segmental Income and Expenditure | 23 |
| 3.1.1. | Adjustments Between Accounting Basis and Funding Basis | 24 |
| 3.1.2. | Transfers to/from Earmarked Reserves | 26 |
| 3.2.1. | Other Operating Expenditure | 26 |
| 3.2.2. | Financing and Investment Income and Expenditure | 26 |
| 3.2.3. | Taxation and Non Specific Grant Income | 27 |
| 3.2.4. | Expenditure and Income Analysed by Nature | 27 |
| 3.2.5. | External Audit Costs | 27 |
| 3.2.6. | Members' Allowances | 28 |
| 3.2.7. | Termination Benefits | 28 |
| 3.2.8. | Officers' Remuneration | 28 |
| 3.2.9. | Grant Income | 29 |
| 3.3.1. | Property Plant and Equipment | 29 |
| 3.3.2. | Investment Properties | 32 |
| 3.3.3. | Heritage Assets | 33 |
| 3.3.4. | Debtors | 33 |
| 3.3.5. | Creditors | 34 |
| 3.3.6. | Provisions | 34 |
| 3.3.7. | Usable Reserves | 35 |
| 3.3.8. | Unusable Reserves | 36 |
| 3.4.1. | Cash Flow Statement – Analysis of Adjustments | 39 |
| 3.4.2. | Cash Flow Statement – Operating Activities | 40 |
| 3.4.3. | Cash Flow Statement – Investing Activities | 40 |
| 3.4.4. | Cash Flow Statement – Financing Activities | 40 |
| 4.1. | Capital Expenditure and Capital Financing | 41 |

| | | |
|---|---|---|
| 4.2. | Impairment Losses | 41 |
| 4.3. | Related Parties | 41 |
| 4.4. | Defined Benefit Pension Schemes | 42 |
| 4.5. | Contingent Assets and Liabilities | 45 |
| 4.6.1. | Analysis and Values | 46 |
| 4.6.2. | Nature and Extent of Risks Arising from Financial Instruments | 47 |
| 4.7. | Leases | 49 |
| 4.8. | Prior Period Restatements | 50 |
| | Collection Fund | 52 |
| | Audit Certificate | 55 |
| | Appendices | 56 |
| | Appendix 1 – Accounting Policies, Standards, Judgements, Assumptions and Adjustments | 56 |
| | Appendix 2 – Supplementary Accounts | 70 |
| | Appendix 3 – Annual Governance Statement | 71 |
| | Appendix 4 – Glossary of Terms | 72 |

# 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 71) 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 2017. 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. |
| 18 | Cash Flow Statement | Summarises the total cash movement of the Council's Transactions. |
| 20 | 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. |

| | | |
|---|---|---|
| 41 | Additional Information supplementing the Financial Statements | To provide additional information. |
| 52 | 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. |
| 55 | 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. |
| 56 | 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. |
| 70 | 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. |
| 71 | 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. |
| 71 | 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 2016/17. It sets out a summary of the money that the Council received and what it has been spent on and highlights specific issues regarding its financial position at 31 March 2017.

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

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2015, the requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" and the "Service Reporting Code of Practice 2016/17" 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 3 July and 11 August 2017, as advertised in the local press.

The accounts were approved by the Audit and Standards Committee on 25 September 2017 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 statement in line with these regulations as evidence of approval of the 2016/17 Statement of Accounts.

### c. General Accounting Policies

The accounting policies (page 56) 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. 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.

There have been no changes in accounting policies during the year apart from those required to accommodate changes to the presentation of the statement of accounts outlined in the following section and changing the valuation date in relation to plant, property and equipment from 31 March (the year-end) to 1 April (the start of the year) in order to ensure a more timely closedown process. There have been no changes 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.

The 2016/17 Accounting Code of Practice requires a number of changes to the Statement of Accounts, some of them concerning the way that information is presented in existing statements and some requiring additional information to be provided, particularly the provision of a new Expenditure and Funding Analysis and associated Notes (page 21) which provide a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund Balance and the amounts in the Comprehensive Income and Expenditure Statement. Where the format of existing statements has been amended for 2016/17, the comparative figures for 2015/16 have been restated. The analysis of the cost of services has been changed from one based on functional services as prescribed by CIPFA to one based on the Council's own management reporting structure.

## 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. 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 there are signs that the situation continues to improve (e.g. planning fees income has experienced an increase) 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 2016/17. Efficiency savings were agreed when the budget for 2016/17 was set in February 2016 by the Full Council in order to allow for this reduction.

## g. General Fund Revenue Budget Outturn

The outturn position in relation to the General Fund Revenue Budget was a positive variance of £6k, i.e. the net budget was £14.138m and the outturn was £14.132m. This amount has been transferred into the Budget Support Fund. The balance on the Fund, as at 31 March 2017 is £0.269m, as against its balance at 1 April 2016, which was £0.341m. In addition to the transfer into the Fund of £6,000, a net transfer of some £78,000 was made from the fund, largely comprising payments in respect of 2016/17 commitments carried forward and to finance invest to save projects.

This was in line with budget monitoring predictions of a final outturn close to the original budget for the year. 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 2016/17 would be another challenging year financially for the Council. Members and officers have therefore continued to operate within an environment of tight budget management to, wherever possible, mitigate any adverse impact. The table below shows how the surplus arose:

| | £m |
|---|---|
| **Expenditure** (Comprehensive Income & Expenditure -p16) | 62,160 |
| **Income** (Comprehensive Income & Expenditure -p16) | (43,114) |
| **Net Service Expenditure** | 19,046 |
| **Non-Service Specific Income & Expenditure** | |
| Interest Receivable | (115) |
| Investment Properties Net Expenditure | (4,947) |
| Council Tax Income | (6,886) |
| Non-Domestic Rates Net Income | (4,220) |
| Non-Ringfenced Government Grants | (4,051) |
| Pensions Net interest Cost | 2,336 |
| Other Items | (245) |
| Reversal of Pensions Net Interest Cost & other Pensions Transactions via Pensions Reserve | (1,769) |
| Reversal of Capital Charges included in Service Costs | 1,185 |
| Transactions with Other Unusable Reserves (Collection Fund Adjustment & Accumulated Absences) | 98 |
| Transactions with Earmarked Reserves | (438) |
| **Outturn** | **(6)** |

## h. Financial Summary 2016/17

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 (£1.814m in 2016/17) 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.

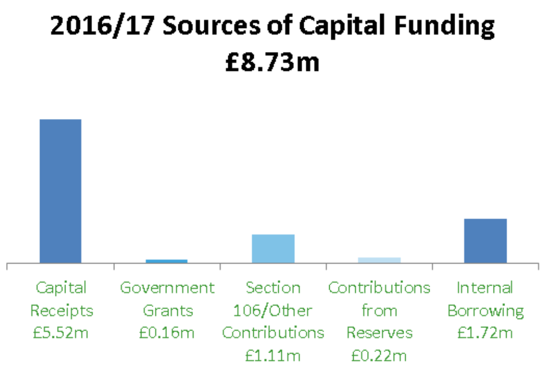
The gross income attributable to management reporting areas is shown in the Comprehensive Income and Expenditure Statement (page 16).

### *How the money was spent*

The Comprehensive Income and Expenditure Statement (page 16) shows that Gross Expenditure for the year was £62.160m 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 2017.

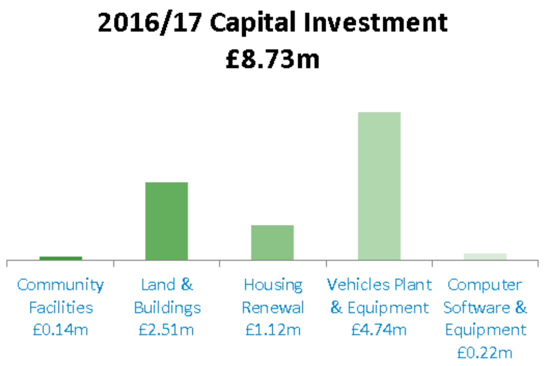



There are a number of sources of funding which may be available to finance the Council's capital expenditure. In 2016/17 and previous years the major sources of finance have been capital receipts (from sales of land, property and other assets) and contributions from external parties towards the cost 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 and the New Homes Bonus Reserve. 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. This has not recently been employed by the Council and has not been incurred in 2016/17. The Council has used internal balances (internal borrowing) to fund the £1.72m of the expenditure incurred in 2016/17 in respect of its new shared administrative building, Castle House, currently being constructed. This is reflected in a change to its Capital Financing Requirement (note 4.1 page 41).

Whether it is employed in the future (other than to fund the Council's contribution towards the costs of Castle House in 2017/18) will depend upon its cost relative to other means of capital financing and the availability of other sources of capital financing.



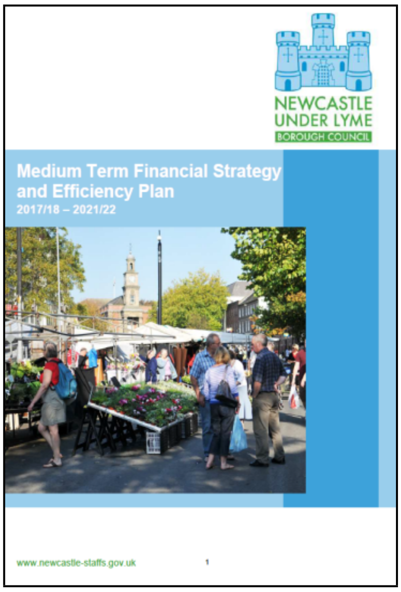

In 2016/17 the Council planned to spend £14.25m, including expenditure on projects brought forward from 2015/16 where under spending had occurred in that year. £6.10m of this was in respect of Castle House expenditure. As it became apparent there would be delays in receiving the majority of the capital receipts needed to fully fund the 2016/17 capital programme, a number of schemes, amounting to around £2.50m in total, were put on hold and expenditure was restricted to defined priority areas only. This resulted in a revised planned expenditure amount of £11.74m (£8.73m was spent, leaving the balance to be carried forward to 2017/18).

The shortfall in spending occurred because some projects were not commenced or completed in 2016/17, for example some of the replacement vehicles for the waste collection service were not delivered and paid for until 2017/18 and contributions towards the cost of Castle House did not need to be made as early as anticipated.

## i. 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 2017/18 to 2021/22.

The forecast shortfall for 2017/18 was £2.728m. On 22 February 2017 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. 2016/17 saw a significant reduction in central government support by way of the formula grant which is repeated in 2017/18 (a reduction of £0.684m (13.1%) from the 2016/17 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.

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.
- These plans are considered by a member led Budget Review Group which endorses the savings plans before they are submitted to Cabinet and Council for approval. The plans are also scrutinised by members through the scrutiny committee process. The Budget Review Group has also carried out work to prioritise services to enable resources to be directed to those which meet corporate priorities and represent the optimum use of resources.

## Capital

The capital programme approved on 22 February 2017 provides for total capital spending of £14.791m over two financial years, this capital spending includes Castle House and a large part of the capital cost of the new Recycling and Waste Service.

Only £0.500m is included in the programme for new capital investment funded by the Council in 2017/18, due to the forecast shortage of capital receipts for financing of schemes. 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, largely towards the end of 2017/18 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 Budget Review Group and 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.

## 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, originally built up out of past surpluses, 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. The current level, as at 31 March 2017 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. Examples of this are the Staffordshire Connects Partnership intended to standardise ICT software use across Staffordshire authorities for customer facing services and 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 will be to Castle House where facilities will be shared with Staffordshire County Council and Staffordshire Police.

## j. 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. There is also a formal member led scrutiny process, with five service area focussed Scrutiny Committees and an overarching Scrutiny Chairs/Vice Chairs Committee to enable 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 71). 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 Budget Review Group and 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.

For 2016/17 the external auditor concluded that the Council's arrangements for securing economy, efficiency and effectiveness were proper and significant.

## k. Assets and Liabilities Acquired

No significant assets or liabilities have been acquired during 2016/17. Whilst vehicles required for the operation of the new in house waste recycling service were acquired, these replaced vehicles operated by the former contractor which were included in the Council's balance sheet as required by regulations relating to finance leases. Castle House, which is currently under construction, will not be owned by the Council so will not be included in the balance sheet.

## l. Pensions Scheme Liability

The Liability relating to Defined Benefit Pension Schemes increased from £68.428m at 31 March 2016 to £71.709m at 31 March 2017. 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.

## m. Specific Events in 2017/18 and Beyond

The government has published its response to the consultation on the future of the New Homes Bonus scheme, which rewards authorities and communities for the numbers of new homes which are built or become occupied after standing empty. There will be a number of changes which, from 2017/18 will adversely affect local authorities. It is intended to reduce the amount paid as New Homes Bonus and re-direct this saving towards social care. Specific changes can be summarised as follows:

- New Homes Bonus amounts earned will be payable for five years in 2017/18 and then for four years in subsequent years rather than the current six.
- New payments will only be made for housing that is built over a nationally established baseline of 0.4% as it is thought by the Government that building would occur up to this level whether or not an incentive was given.
- Payments may be reduced where new developments take place only after successful appeals against an original decision to refuse permission (this will be implemented from 2018/19).

There will be a negative impact on the Council's finances arising from these changes in 2017/18 of £0.777m.

Longer term, the government is in the process of enacting legislation to permit local authorities to retain all of the business rates which are collected. This would enable the government to cease to pay revenue support grant and a number of other grants to authorities who would 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.

As well as the above legislative changes affecting all local authorities, there are a number of other specific developments which affect the Council in 2017/18 and beyond.

The most significant of these will be 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 and Staffordshire Police. The cost of construction of the new building and subsequent running costs will be shared between the three partners, according to the accommodation they will occupy. The construction of the new building is well advanced and the move is scheduled to take place in September 2017. 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 will also facilitate more agile working practices to be introduced and provide 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.

2017/18 will be the first full year of operation for the new waste recycling arrangements which commenced in July 2016, whereby the service transferred from an external contractor to in house provision and new ways of working were introduced, with the intention of providing a more efficient service and significant long term savings to the revenue budget. Altogether around £2.800m will have been invested in new vehicles and equipment and alterations to facilities at the Knutton Lane depot. Despite problems experienced when the new service started, it is anticipated to achieve planned savings of around £0.500m per annum.

## n. 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:

John Gregory

Grant Thornton UK LLP

20 Colmore Circus

Birmingham

B4 6AT

## o. 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

## p. 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.

## q. 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 25 September 2017

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 2017.

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 2017 and its income and expenditure for the year ended 31 March 2017.

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).

| 2015/16 (Restated) | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 3,987 | 1,049 | 2,938 | Chief Executive | 3,791 | 1,090 | 2,701 |
| 36,024 | 32,485 | 3,539 | Resources & Support Services | 35,123 | 31,469 | 3,654 |
| 7,482 | 4,466 | 3,016 | Regeneration & Development | 9,656 | 4,653 | 5,003 |
| 13,521 | 6,020 | 7,501 | Operational Services | 12,720 | 6,161 | 6,559 |
| 646 | 180 | 466 | Corporate | 870 | 226 | 644 |
| **61,660** | **44,200** | **17,460** | **Cost of Services** | **62,160** | **43,599** | **18,561** |
| 460 | 541 | (81) | Other Operating Expenditure (Note 3.2.1-p26) | 395 | 312 | 83 |
| 6,488 | 6,253 | 235 | Financing & Investment Income/Expenditure (Note 3.2.2-p26) | 6,964 | 9,204 | (2,240) |
| 9,469 | 24,575 | (15,106) | Taxation & Non-Specific Grant Income (Note 3.2.3-p27) | 9,951 | 25,436 | (15,485) |
| | | **2,508** | **(Surplus)/Deficit on Service Provision** | | | **919** |
| | | (253) | (Surplus)/Deficit on Revaluation of Assets | | | (144) |
| | | (8,680) | Remeasurement of the Defined Benefit Liability/Asset (Note 4.4-p42-p45) | | | 312 |
| | | **(8,933)** | **Other Income & Expenditure** | | | **168** |
| | | **(6,425)** | **Total Income & Expenditure** | | | **1,087** |

### Note

Resources and Support Services includes housing benefits expenditure and housing benefits grant income of circa £30m.

### Restatement

As a result of the application of changes in the 2016/17 Accounting Code of Practice, the format of the Comprehensive Income and Expenditure Statement has changed compared with that for 2015/16. Accordingly, the amounts for 2015/16 have been restated where necessary. The changes concern:

- The segmental information in the top section of the Statement has changed from a service based analysis to an analysis based on the way in which expenditure and income is reported to those charged with governance, i.e. the Council's management structure.
- The above analysis does not include recharges between accounts, showing instead expenditure and income directly attributable to the headings shown before any recharges are made.

See Note 4.8 (page 50) for details of the restatement.

## Movement in Reserves Statement

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

| 2016/17 | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Council Reserves £000 |
|---|---|---|---|---|---|---|
| **Balance at 31 March 2016 B/Fwd** | **(3,507)** | **(6,586)** | **(889)** | **(10,982)** | **11,139** | **157** |
| **Movement in Reserves 2016/17** | | | | | | |
| Total Comprehensive Income & Expenditure | 919 | | | 919 | 168 | 1,087 |
| Adjustments Between Accounting & Funding Basis (Note 3.1.1-p24-p25) | (487) | 4,975 | (237) | 4,251 | (4,251) | - |
| **Increase/Decrease in Year** | **432** | **4,975** | **(237)** | **5,170** | **(4,083)** | **1,087** |
| **Balance at 31 March 2017 C/Fwd** | **(3,075)** | **(1,611)** | **(1,126)** | **(5,812)** | **7,056** | **1,244** |
| **2015/16 (Restated)** | | | | | | |
| **Balance at 31 March 2015 B/Fwd** | **(4,284)** | **(6,365)** | **(868)** | **(11,517)** | **18,099** | **6,582** |
| **Movement in Reserves 2015/16** | | | | | | |
| Total Comprehensive Income & Expenditure | 2,508 | - | - | 2,508 | (8,933) | (6,425) |
| Adjustments Between Accounting & Funding Basis (Note 3.1.1-p24-p25) | (1,731) | (221) | (21) | (1,973) | 1,973 | - |
| **Increase/Decrease in Year** | **777** | **(221)** | **(21)** | **535** | **(6,960)** | **(6,425)** |
| **Balance at 31 March 2016 C/Fwd** | **(3,507)** | **(6,586)** | **(889)** | **(10,982)** | **11,139** | **157** |

### Note

The General Fund Balance includes £1.875m of Earmarked Reserves (2015/16 £2.307m), therefore leaving a general balance of £1.200m.

### Restatement

As a result of the changes in the 2016/17 Accounting Code of Practice, the format of the Movement in Reserves Statement has changed compared with that for 2015/16. Accordingly, the amounts for 2015/16 have been restated where necessary. The changes concern:

- The inclusion of earmarked reserves in the General Fund Balance which means that there is no longer a requirement to show movements in relation to these reserves in the Statement;

- One line showing the balance on the Comprehensive Income and Expenditure Statement is now shown rather than splitting this between the Surplus or Deficit on Provision of Services and Other Comprehensive Income and Expenditure.

See Note 4.8 (page 50) for details of the restatement.

## 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 basis and funding basis under regulations' (page 17).

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| 40,323 | Property, Plant & Equipment (Note 3.3.1-p29) | 43,899 |
| 1,025 | Surplus Assets (Note 3.3.1-p29) | 1,025 |
| 14,527 | Investment Property (Note 3.3.2-p32) | 18,893 |
| 1,429 | Heritage Assets (Note 3.3.3-p33) | 1,429 |
| 158 | Intangible Assets | 81 |
| 591 | Long Term Debtors (Note 3.3.4-p33) | 545 |
| **58,053** | **Long Term Assets** | **65,872** |
| 7,549 | Short Term Investments (Note 4.6.1-p46-p47) | 3,460 |
| 206 | Inventories | 236 |
| 9,306 | Short Term Debtors (Note 3.3.4-p33-p34) | 8,359 |
| 595 | Cash/Cash Equivalents (Note 4.6.1-p46-p47) | 376 |
| **17,656** | **Current Assets** | **12,431** |
| (6,059) | Short Term Creditors (Note 3.3.5-p34) | (6,469) |
| (59) | Short Term Borrowing (Note 4.6.1-p46-p47) | (70) |
| (773) | Provisions (Note 3.3.6-p34) | (725) |
| **(6,891)** | **Current Liabilities** | **(7,264)** |
| (151) | Provisions (Note 3.3.6-p34) | (173) |
| (68,428) | Net Pensions Liability (Note 4.4-p42-p45) | (71,709) |
| (396) | Capital Grants Receipts in Advance | (401) |
| **(68,975)** | **Long Term Liabilities** | **(72,283)** |
| **(157)** | **Net Assets** | **(1,244)** |
| | **Usable Reserves** (Note 3.3.7-p35-p36) | |
| 1,200 | General Fund Balance | 1,200 |
| 2,307 | Other Usable Reserves | 1,875 |
| 6,586 | Capital Receipts Reserve | 1,611 |
| 889 | Capital Grants Unapplied Account | 1,126 |
| **10,982** | **Total Usable Reserves** | **5,812** |
| | **Unusable Reserves** (Note 3.3.8-p36-p39) | |
| 14,711 | Revaluation Reserve | 14,855 |
| 43,634 | Capital Adjustment Account | 49,632 |
| 620 | Deferred Capital Receipts Reserve | 545 |
| (69,628) | Pensions Reserve | (71,709) |
| (110) | Collection Fund Adjustment Account | (7) |
| (366) | Accumulated Absences Account | (372) |
| **(11,139)** | **Total Unusable Reserves** | **(7,056)** |
| **(157)** | **Total Reserves** | **(1,244)** |

# 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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 2,508 | Net (Surplus)/Deficit on the Provision of Services | 919 |
| | **Adjustments** (Note 3.4.1-p39) | |
| (264) | For non-cash movements | (760) |
| 1,299 | For items that are Investing/Financing Activities | 831 |
| **3,543** | **Net Cash Flows from Operating Activities** | **990** |
| (1,484) | Investing Activities (Note 3.4.3-p40) | 554 |
| (2,335) | Financing Activities (Note 3.4.4-p40) | (1,325) |
| **(276)** | **Net Increase or Decrease in Cash & Equivalents** | **219** |
| (319) | Cash & Equivalents brought forward | (595) |
| **(595)** | **Cash & Equivalents carried forward** | **(376)** |

# 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 2016/17 and the Service Reporting Code of Practice for Local Authorities 2016/17 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 56), 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.

| 2015/16 | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund £000 | Adjustments between Funding & Accounting Basis £000 | Net Expenditure - Comprehensive Inc & Exp Statement £000 | | Net Expenditure Chargeable to the General Fund £000 | Adjustments between Funding & Accounting Basis £000 | Net Expenditure - Comprehensive Inc & Exp Statement £000 |
| 2,875 | 63 | 2,938 | Chief Executive | 2,703 | (2) | 2,701 |
| 3,192 | 347 | 3,539 | Resources & Support Services | 3,517 | 137 | 3,654 |
| 2,630 | 386 | 3,016 | Regeneration & Development | 2,390 | 2,613 | 5,003 |
| 5,912 | 1,589 | 7,501 | Operational Services | 5,678 | 881 | 6,559 |
| 1,108 | (642) | 466 | Corporate | 1,320 | (676) | 644 |
| **15,717** | **1,743** | **17,460** | **Net Cost of Services** | **15,608** | **2,953** | **18,561** |
| **(14,940)** | **(12)** | **(14,952)** | **Other Income and Expenditure** | **(15,176)** | **(2,466)** | **(17,642)** |
| **777** | **1,731** | **2,508** | **Surplus or Deficit** | **432** | **487** | **919** |
| **4,284** | | | **Opening General Fund Balance** | **3,507** | | |
| **(777)** | | | **Less/Plus Surplus or Deficit on General Fund Balance in Year** | **(432)** | | |
| **3,507** | | | **Closing General Fund Balance** | **3,075** | | |

Notes to the Expenditure and Funding Analysis

### 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.

## 2016/17

| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement Amounts | Adjustments for Capital Purposes (Note 1) £000 | Net Change for the Pensions Adjustments (Note 2) £000 | Other Differences (Note 3) £000 | Total Adjustments £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) |
| **Net Cost of Services** | **3,514** | **(566)** | **5** | **2,953** |
| **Other Income and Expenditure** | **(4,733)** | **2,336** | **(69)** | **(2,466)** |
| **Difference between General Fund surplus or deficit & Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services** | **(1,219)** | **1,770** | **(64)** | **487** |

## 2015/16

| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement Amounts | Adjustments for Capital Purposes (Note 1) £000 | Net Change for the Pensions Adjustments (Note 2) £000 | Other Differences (Note 3) £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Chief Executive | 33 | 12 | 18 | 63 |
| Resources & Support Services | 229 | 29 | 89 | 347 |
| Regeneration & Development | 327 | 29 | 30 | 386 |
| Operational Services | 1,499 | 48 | 42 | 1,589 |
| Corporate | (217) | (425) | - | (642) |
| **Net Cost of Services** | **1,871** | **(307)** | **179** | **1,743** |
| **Other Income and Expenditure** | **(1,763)** | **2,306** | **(555)** | **(12)** |
| **Difference between General Fund surplus or deficit & Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services** | **108** | **1,999** | **(376)** | **1,731** |

### 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 IAS 19 Employee Benefits pension related expenditure and income:

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

- **For Financing and investment income and expenditure -** the net interest on the defined benefit liability is charged to the 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 2016/17 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:

| 2015/16 £000 | Segment | 2016/17 £000 |
|---|---|---|
| | ***Depreciation & Amortisation*** | |
| 33 | Chief Executive | 30 |
| 222 | Resources & Support Services | 176 |
| 245 | Regeneration & Developmet | 309 |
| 1,143 | Operational Services | 906 |
| - | Corporate | - |
| **1,643** | **Total** | **1,421** |
| | ***Impairment*** | |
| - | Chief Executive | - |
| 7 | Resources & Support Services | 45 |
| 64 | Regeneration & Developmet | 60 |
| 511 | Operational Services | 77 |
| - | Corporate | - |
| **582** | **Total** | **182** |
| | ***External Income*** | |
| 816 | Chief Executive | 840 |
| 1,007 | Resources & Support Services | 904 |
| 3,846 | Regeneration & Development | 4,338 |
| 5,915 | Operational Services | 6,028 |
| 180 | Corporate | 227 |
| **11,764** | **Total** | **12,337** |

# 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.

| 2016/17 | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Unusable Reserves £000 |
|---|---|---|---|---|
| ***Adjustments Primarily Involving - Capital Adjustment Account*** | | | | |
| **Reversal of Items Debited or Credited to the Comprehensive Income & Expenditure Statement** | | | | |
| 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 Statutus (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 |
| **Insertion of Items Not Debited or Credited to the Comprehensive Income & Expenditure Statement** | | | | |
| Statutory Provision for the Financing of Capital Investment | - | - | - | - |
| Capital Expenditure charged in year to the General Fund | 381 | | | (381) |
| ***Adjustments Primarily Involving - Capital Grants Unapplied Account*** | | | | |
| 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) |
| ***Adjustments Primarily Involving - Capital Receipts Reserve*** | | | | |
| 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 |
| ***Adjustments Primarily Involving - Pensions Reserve*** | | | | |
| 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) |
| ***Adjustments Primarily Involving - Collection Fund Adjustment Account*** | | | | |
| 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) |
| ***Adjustments Primarily Involving - Accumulated Absences Account*** | | | | |
| 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 |
| **Total Adjustments** | **(487)** | **4,975** | **(237)** | **(4,251)** |

| 2015/16 | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Unusable Reserves £000 |
|---|---|---|---|---|
| ***Adjustments Primarily Involving - Capital Adjustment Account*** | | | | |
| **Reversal of Items Debited or Credited to the Comprehensive Income & Expenditure Statement** | | | | |
| Charges for Depreciation & Impairment of Non-Current Assets | (2,180) | - | - | 2,180 |
| Revaluation Losses on Property, Plant & Equipment | (34) | - | - | 34 |
| Movements in Fair Value of Investment Properties | 1,471 | - | - | (1,471) |
| Amortisation of Intangible Assets | (111) | - | - | 111 |
| Capital Grants & Contributions Applied | 62 | - | - | (62) |
| Non-Current Assets Written-Off on Disposal or Sale as Part of the Gain/Loss on Disposal | (881) | - | - | 881 |
| Capital Element of Finance Leases Where Council is the Lessor | (42) | - | - | 42 |
| Reversal of REFCUS expenditure | (1,272) | - | - | 1,272 |
| Reversal of REFCUS income | 1,208 | | | (1,208) |
| **Insertion of Items Not Debited or Credited to the Comprehensive Income & Expenditure Statement** | | | | |
| Statutory Provision for the Financing of Capital Investment | 155 | - | - | (155) |
| Capital Expenditure charged in year to the Genera Fund | 217 | - | - | (217) |
| ***Adjustments Primarily Involving - Capital Grants Unapplied Account*** | | | | |
| Capital Grants & Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement | 31 | - | (31) | - |
| Application of Grants to Capital Financing Transferred to the Capital Adjustment Account | - | - | 10 | (10) |
| ***Adjustments Primarily Involving - Capital Receipts Reserve*** | - | - | | |
| Transfer of Sales Proceeds from Revenue to the Capital Receipts Reserve | 1,268 | (1,268) | | |
| Use of the Capital Receipts Reserve to Finance Capital | - | 1,047 | - | (1,047) |
| Contribution From the Capital Receipts Reserve to Finance Payments to the Government Capital Receipts Pool | (1) | 1 | - | - |
| Transfer from Deferred Capital Receipts Reserve on Receipt of Cash | | (1) | - | 1 |
| ***Adjustments Primarily Involving - Pensions Reserve*** | | | | |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Comprehensive Income & Expenditure Statement | (5,063) | - | - | 5,063 |
| Employers pension contributions and direct payments to pensioners payable in the year | 3,064 | - | - | (3,064) |
| ***Adjustments Primarily Involving - Collection Fund Adjustment Account*** | | | | |
| 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 | 556 | - | - | (556) |
| ***Adjustments Primarily Involving - Accumulated Absences Account*** | | | | |
| Amount by Which Officer Remuneration Charged to the Comprehensive Income & Expenditure Statement on an Accruals Basis Differs from Remuneration Chargeable Calculated for the Year | (179) | - | - | 179 |
| **Total Adjustments** | **(1,731)** | **(221)** | **(21)** | **1,973** |

## 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.

| 2015/16 | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| Transfers Out £000 | Transfers In £000 | Net Movement £000 | | Transfers Out £000 | Transfers In £000 | Net Movement £000 |
| (141) | 141 | - | Equipment Replacement Fund | (107) | 212 | 105 |
| (431) | 430 | (1) | Renewals and Repairs Fund | (390) | 390 | - |
| (27) | 90 | 63 | ICT Development Fund | (247) | 90 | (157) |
| - | 126 | 126 | New Homes Bonus Reserve | (165) | 165 | - |
| (57) | - | (57) | New Initiatives Fund | - | - | - |
| (50) | - | (50) | Contingency Reserve Fund | (91) | - | (91) |
| (28) | 72 | 44 | Budget Support Fund | (80) | 8 | (72) |
| (12) | 10 | (2) | Conservation and Heritage Fund | - | 10 | 10 |
| (8) | - | (8) | Museum Purchases Fund | - | 4 | 4 |
| (50) | 35 | (15) | Maintenance Contributions | (30) | 44 | 14 |
| (1) | - | (1) | Mayors Charities Reserve | (3) | - | (3) |
| (76) | 35 | (41) | Revenue Investment Fund | (1) | 35 | 34 |
| - | 139 | 139 | Keele Masterplan Reserve | - | - | - |
| (800) | 43 | (757) | Business Rates Reserve | (276) | - | (276) |
| **(1,681)** | **1,121** | **(560)** | **Total** | **(1,390)** | **958** | **(432)** |

Details of all transfers to/from reserves, both usable and unusable, are shown in notes 3.3.7 and 3.3.8 (pages 35 and 36) 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

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 306 | Parish Precepts | 395 |
| 1 | Payment to Housing Capital Receipts Pool | - |
| 112 | (Gains)/Losses on Disposal of Non-Current Assets | 191 |
| (500) | Capital Income not Arising from Asset Sales | (503) |
| **(81)** | **Total** | **83** |

### 3.2.2. Financing and Investment Income and Expenditure

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 13 | Interest Payable & Similar Charges | 1 |
| 2,307 | Interest on the Net Defined Benefit Liability | 2,336 |
| (256) | Interest Receivable & Similar Income | (115) |
| (1,207) | Investment Properties - Rental Income | (1,240) |
| (1,471) | Investment Properties - Revaluations | (4,133) |
| 849 | Investment Properties - Expenses | 911 |
| **235** | **Total** | **(2,240)** |

## 3.2.3. Taxation and Non Specific Grant Income

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| (6,679) | Council Tax Income | (6,886) |
| 9,508 | Non Domestic Rates Expenditure | 9,587 |
| (13,585) | Non Domestic Rates Income | (13,807) |
| (4,257) | Non-Ringfenced Government Grants | (4,050) |
| (93) | Capital Grants & Contributions | (329) |
| **(15,106)** | **Total** | **(15,485)** |

## 3.2.4. Expenditure and Income Analysed by Nature

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

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| | **Expenditure** | |
| 16,338 | Employees | 17,447 |
| 3,235 | Premises | 2,552 |
| 1,064 | Transport | 1,171 |
| 4,603 | Supplies and Services | 6,786 |
| 1,103 | Grants | 1,374 |
| 725 | Contributions | 282 |
| 2,116 | Agency and Contracted Services | 1,229 |
| 30,751 | Housing Benefits Payments | 30,102 |
| 855 | Capital Financing | (2,489) |
| 12 | Capital Financing Costs | 1 |
| 1 | Direct Revenue Financing Expenditure | - |
| 9,776 | Sources of Finance Expenditure | 10,346 |
| 5,626 | Pensions Interest Cost less Return on Asset | 5,882 |
| **76,205** | **Total Expenditure** | **74,683** |
| | **Income** | |
| 387 | Direct revenue Financing Income | 312 |
| 19,255 | Sources of Finance Income | 20,477 |
| 37,210 | Government grants | 35,213 |
| 141 | Transfer from Collection Fund | 140 |
| 724 | Other Grants and Contributions | 1,402 |
| 3,037 | Reimbursements | 2,767 |
| 7,549 | Customer Receipts | 8,158 |
| 1,170 | Rents | 1,070 |
| 256 | Interest and Investment Income | 115 |
| 585 | Summons Costs | 510 |
| 3,319 | Pensions Return on Assets | 3,546 |
| 64 | Recharges to Other Services | 54 |
| **73,697** | **Total Income** | **73,764** |
| **2,508** | **Surplus or Deficit on the Provision of Services** | **919** |

## 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):

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 55 | External audit services carried out | 55 |
| 6 | Certification of grant claims and returns | 6 |
| **61** | | **61** |

### 3.2.6. Members' Allowances

In 2016/17 a total of £319,048 was paid to members (including the Mayor and Deputy Mayor) in respect of allowances (£323,126 in 2015/16). In addition expenses of £2,540 were paid to members (£3,886 in 2015/16).

### 3.2.7. Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17, incurring liabilities of £57,327 (£100,743 in 2015/16). The termination benefits consisted of £53,753 for loss of office and £3,574 in relation to long service awards.

### 3.2.8. Officers' Remuneration

Remuneration between £50,000 and £150,000 per annum was paid to the Council's senior employees as follows:

| 2016/17 - Post Holder | Salary (£) | Benefits in Kind (£) | Total exc. Employer Pension (£) | Employer Pension (£) | Total inc. Employer Pension (£) |
|---|---|---|---|---|---|
| Chief Executive* | 114,489 | - | 114,489 | 18,702 | 133,191 |
| **Executive Directors** | | | | | |
| 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 |
| **Heads of Service** | - | - | | - | |
| 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 |
| Communications | 51,023 | 1,650 | 52,673 | 8,725 | 61,398 |
| Finance *** | 29,752 | 1,650 | 31,402 | 2,908 | 34,310 |
| Environmental Health | 52,357 | - | 52,357 | 8,965 | 61,322 |

| 2015/16 - Post Holder | Salary (£) | Benefits in Kind (£) | Total exc. Employer Pension (£) | Employer Pension (£) | Total inc. Employer Pension (£) |
|---|---|---|---|---|---|
| Chief Executive** | 113,139 | - | 113,139 | 19,368 | 132,507 |
| **Executive Directors** | | | | | |
| Regeneration & Development | 85,673 | 2,750 | 88,423 | 15,724 | 104,147 |
| Operational Services | 85,673 | 1,375 | 87,048 | 14,753 | 101,801 |
| Resources & Support Services | 85,673 | - | 85,673 | 14,759 | 100,432 |
| **Heads of Service** | | | | | |
| Operations | 56,174 | 1,650 | 57,824 | 9,852 | 67,676 |
| Planning | 56,174 | - | 56,174 | 9,606 | 65,780 |
| Leisure and Cultural Services | 56,174 | - | 56,174 | 9,606 | 65,780 |
| Recycling and Fleet Services | 53,360 | 1,650 | 55,010 | 9,222 | 64,232 |
| Housing, Regeneration and Assets | 51,236 | 1,650 | 52,886 | 8,843 | 61,729 |
| Communications | 50,518 | 1,650 | 52,168 | 8,645 | 60,813 |
| Finance | 50,518 | 1,650 | 52,168 | 8,639 | 60,807 |

* This includes salary of £100,733 plus Returning Officers fees for the Borough Council Elections.

** This includes salary of £99,736 plus Returning Officers fees for the Borough Council Elections.

*** Part-Time from August 2016

## 3.2.9. Grant Income

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

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| | **Credited to Taxation/Non Specific Grant** | |
| 93 | Planning Obligations Contributions | 329 |
| 213 | Other Government Grants | 53 |
| 85 | New Burdens Grant (Land Charges) | 14 |
| 846 | Section 31/Business Rates Relief Grant | 580 |
| 1,407 | New Homes Bonus Scheme | 2,170 |
| 2,682 | Revenue Support Grant | 1,814 |
| **5,326** | **Total** | **4,960** |
| | **Credited to Services** | |
| 30,581 | Housing Benefits Subsidy/Grants | 29,849 |
| 619 | Housing Benefit/Council Tax Benefit Admin | 547 |
| 654 | Disabled Facilities Grant | 998 |
| 265 | New Homes Bonus | - |
| 104 | Individual Electoral Registration Section 31 | 62 |
| 274 | Other Grants | 124 |
| 111 | Contributions towards Community Safety | 75 |
| **32,608** | **Total** | **31,655** |

## 3.3. In Relation to the Balance Sheet

## 3.3.1. Property Plant and Equipment

### Movements on Balances

| 2016/17 | Land & Buildings £000 | Infrastructure Assets £000 | Vehicles, Plant, Furniture & Equipment £000 | Community Assets £000 | Surplus Assets £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | |
| **At 1 April 2016** | **30,585** | **1,337** | **13,574** | **7,210** | **1,025** | **53,731** |
| 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 | - | - | - | - | - | - |
| **At 31 March 2017** | **30,471** | **1,338** | **17,262** | **7,302** | **1,025** | **57,398** |
| **Accumulated Depreciation & Impairment** | | | | | | |
| **At 1 April 2016** | (2,237) | (422) | (8,726) | (998) | - | (12,383) |
| Depreciation Charge | (595) | (26) | (633) | (91) | - | (1,345) |
| Derecognition - Disposals | 5 | - | 1,249 | - | - | 1,254 |
| **At 31 March 2017** | **(2,827)** | **(448)** | **(8,110)** | **(1,089)** | **-** | **(12,474)** |
| **Net Book Value** | | | | | | |
| 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 |

| 2015/16 | Land & Buildings £000 | Infrastructure Assets £000 | Vehicles, Plant, Furniture & Equipment £000 | Community Assets £000 | Surplus Assets £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | |
| **At 1 April 2015** | **30,682** | **1,337** | **13,844** | **6,874** | **1,025** | **53,762** |
| Additions | 775 | - | 539 | (61) | - | 1,253 |
| Deletions | - | - | - | - | - | - |
| Revaluation Increases/(Decreases) - Revaluation Reserve | (425) | - | - | 31 | - | (394) |
| Revaluation Increases/(Decreases) - Surplus/Deficit on Provision of Services | (677) | - | - | 66 | - | (611) |
| Derecognition - Disposals | - | - | (809) | - | - | (809) |
| Transfers Between Asset Categories | 230 | - | - | (37) | - | 193 |
| Other Movements in Cost or Valuation | - | - | - | 337 | - | 337 |
| **At 31 March 2016** | **30,585** | **1,337** | **13,574** | **7,210** | **1,025** | **53,731** |
| **Accumulated Depreciation & Impairment** | | | | | | |
| **At 1 April 2015** | (2,264) | (396) | (8,451) | (871) | - | (11,982) |
| Depreciation Charge | (520) | (26) | (857) | (131) | - | (1,534) |
| Derecognition - Disposals | - | - | 582 | 4 | - | 586 |
| Derecognition - Other | 547 | - | - | - | - | 547 |
| **At 31 March 2016** | **(2,237)** | **(422)** | **(8,726)** | **(998)** | **-** | **(12,383)** |
| **Net Book Value** | | | | | | |
| As at 31 March 2015 | 28,418 | 941 | 5,393 | 6,003 | 1,025 | 41,780 |
| As at 31 March 2016 | 28,348 | 915 | 4,848 | 6,212 | 1,025 | 41,348 |

### 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

At 31 March 2017, the Council has entered into one contract for the acquisition, construction or enhancement of Property, Plant and Equipment in 2017/18 and future years, budgeted to cost £0.339m. The commitment relates to vehicles for the new waste recycling service. Similar commitments at 31 March 2016 were £2.542m.

### 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 2017 and for the prior period.

| 31/03/2016 £'000 | | 31/03/2017 £'000 |
|---|---|---|
| 1,025 | Surplus Assets | 1,025 |
| | ***Land and Buildings*** | |
| 2,795 | Community Centres | 2,795 |
| 6,581 | Car Parks Charging | 6,580 |
| 1,655 | Car Parks Non-charging | 1,523 |
| 1,500 | Depot | 1,500 |
| 4,011 | Offices | 4,011 |
| 380 | Guildhall | 380 |
| 294 | Bus Station | 294 |
| 1,245 | Cemeteries | 1,245 |
| 498 | Crematorium | 498 |
| 9,057 | Leisure Centres | 8,936 |
| 1,487 | Parks and Sports Grounds | 1,487 |
| 520 | Museum | 520 |
| 113 | Public Toilets | 113 |
| 157 | Business Centre | 157 |
| 293 | Other Land and Buildings | 432 |
| 1,337 | Infrastructure Assets | 1,338 |
| 13,574 | Vehicles, Plant, Furniture, Equipment | 17,262 |
| 7,209 | Community Assets | 7,302 |
| **53,731** | **Total** | **57,398** |

## 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 £000 | Vehicles, Plant, Furniture & Equipment £000 | Community Assets £000 | Infrastructure Assets £000 | Surplus Assets £000 | Total £000 |
|---|---|---|---|---|---|---|
| Carried at Historical Cost | 141 | 14,894 | 6,069 | 1,338 | - | 22,442 |
| Valued at Fair Value at: | | | | | | |
| 31 March 2012 | 15,244 | 1,486 | 21 | - | - | 16,751 |
| 31 March 2013 | 4,002 | 420 | 561 | - | - | 4,983 |
| 31 March 2014 | 5,732 | 462 | - | - | 500 | 6,694 |
| 31 March 2015 | 1,228 | - | - | - | 525 | 1,753 |
| 31 March 2016 | 3,984 | - | 590 | - | - | 4,574 |
| 31 March 2017 | 140 | - | 61 | - | - | 201 |
| **Total Cost or Valuation** | **30,471** | **17,262** | **7,302** | **1,338** | **1,025** | **57,398** |

## 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:

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **14,218** | **Balance at 1 April** | **14,527** |
| - | Additions - Purchases | - |
| 67 | Additions - Subsequent Expenditure | 171 |
| (660) | Disposals | (21) |
| 820 | Net Gains/(Losses) - Fair Value Adjustments | 4,133 |
| 612 | Termination of Finance Leases | - |
| (530) | Transfers (To)/From Property, Plant & Equipment | 83 |
| **14,527** | **Balance at 31 March** | **18,893** |

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 | 31/03/2017 £000 | Valuation technique used to measure fair value | Unobservable Inputs | Sensitivity |
|---|---|---|---|---|
| Shops | 3,617 | Investment Method | Rental Values Yield | (a) |
| Offices | 1,298 | Investment Method | Rental Values Yield | (a) |
| Industrial Units | 2,292 | Investment Method | Rental Values Yield | (a) |
| Other | 2,986 | Investment Method | Rental Values Yield | (a) |
| Development Sites | 8,700 | Comparable Method | Capital Value | (a) |
| | **18,893** | | | |

(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 2016/17.

**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. Details of the policy for the acquisition, preservation, management and disposal of the Council's heritage assets are contained in the Acquisition and Disposal Policy and the Collection Management Plan.

**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**

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| 217 | Finance Lease Balances Outstanding | 178 |
| 1 | Right to Buy Mortgages | 1 |
| 373 | Kickstart Loans (re home improvements) | 366 |
| **591** | **Total** | **545** |

### Short Term Debtors

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| 2,173 | Central Government Bodies | 790 |
| 1,088 | Other Local Authorities | 1,606 |
| 93 | NHS Bodies | - |
| 5,952 | Other Entities & Individuals | 5,963 |
| **9,306** | **Total** | **8,359** |

## 3.3.5. Creditors

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| 1,893 | Central Government Bodies | 1,955 |
| 1,463 | Other Local Authorities | 1,573 |
| 57 | Public Corporations & Trading Funds | 25 |
| 2,448 | Other Entities & Individuals | 2,916 |
| **5,861** | **Total** | **6,469** |

## 3.3.6. Provisions

| | Short-Term | | Total Short-Term £000 | Long-Term | | Total Long-Term £000 |
|---|---|---|---|---|---|---|
| | Land Charges £000 | NNDR Appeals £000 | | Insurance Claims £000 | MMI £000 | |
| **Balance at 1 April 2015** | 82 | 346 | 428 | 104 | 79 | 183 |
| Additional Provisions Made | 7 | 773 | 780 | 4 | - | 4 |
| Amounts Used | (89) | (346) | (435) | (36) | - | (36) |
| **Balance at 1 April 2016** | **-** | **773** | **773** | **72** | **79** | **151** |
| Additional Provisions Made | - | 644 | 644 | 97 | 14 | 111 |
| Amounts Used | - | (692) | (692) | (21) | (68) | (89) |
| Unused Amounts Reversed | - | - | - | - | - | - |
| **Balance at 31 March 2017** | **-** | **725** | **725** | **148** | **25** | **173** |

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.

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 Employee Benefits Provision contains an amount equivalent to the accruals made in the Cost of Services within the Comprehensive Income and Expenditure Statement in respect of outstanding employee benefits (untaken leave, etc.) at the year end.

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.

The Land Charges Provision was created to provide for repayments of personal search fee income following a change in the law relating to charging for personal searches and was fully used in 2015/16.

## 3.3.7. Usable Reserves

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

| | 31/03/2015 £000 | Transfers Out £000 | Transfers In £000 | 31/03/2016 £000 | Transfers Out £000 | Transfers In £000 | 31/03/2017 £000 |
|---|---|---|---|---|---|---|---|
| **Capital:** | | | | | | | |
| Capital Receipts Reserve | 6,365 | (1,047) | 1,268 | 6,586 | (6,112) | 1,137 | 1,611 |
| Capital Grants Unapplied | 868 | (221) | 242 | 889 | (443) | 680 | 1,126 |
| **Both Revenue and Capital:** | | | | | | | |
| Equipment Replacement Fund | 376 | (141) | 141 | 376 | (107) | 212 | 481 |
| Renewals and Repairs Fund | 3 | (431) | 430 | 2 | (390) | 390 | 2 |
| ICT Development Fund | 253 | (118) | 90 | 225 | (247) | 90 | 68 |
| New Homes Bonus Reserve | - | (186) | 186 | - | (165) | 165 | - |
| New Initiatives Fund | 57 | (57) | - | - | - | - | - |
| **Revenue:** | | | | | | | |
| General Fund Balance | 1,200 | - | - | 1,200 | - | - | 1,200 |
| Contingency Reserve Fund | 276 | (50) | - | 226 | (91) | - | 135 |
| Budget Support Fund | 297 | (28) | 72 | 341 | (80) | 8 | 269 |
| Conservation and Heritage Fund | 37 | (12) | 10 | 35 | - | 10 | 45 |
| Museum Purchases Fund | 68 | (8) | - | 60 | - | 4 | 64 |
| Maintenance Contributions | 76 | (50) | 35 | 61 | (30) | 44 | 75 |
| Mayors Charities Reserve | 12 | (1) | - | 11 | (3) | - | 8 |
| Standards Fund | 6 | - | - | 6 | - | - | 6 |
| Deposit Guarantee Scheme Reserve | 36 | - | - | 36 | - | - | 36 |
| Revenue Investment Fund | 112 | (76) | 35 | 71 | (1) | 35 | 105 |
| Keele Master Plan Reserve | - | - | 139 | 139 | - | - | 139 |
| Business Rates Reserve | 1,475 | (800) | 43 | 718 | (276) | - | 442 |
| **Total** | **11,517** | **(3,226)** | **2,691** | **10,982** | **(7,945)** | **2,775** | **5,812** |

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 New Initiatives Fund was established to fund new initiatives, both capital and revenue, not currently provided for in the Council's budgets;
- 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:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| | **Capital:** | |
| 14,711 | Revaluation Reserve | 14,855 |
| 43,634 | Capital Adjustment Account | 49,632 |
| 620 | Deferred Capital Receipts Reserve | 545 |
| | **Revenue:** | |
| (69,628) | Pensions Reserve | (71,709) |
| (110) | Collection Fund Adjustment Account | (7) |
| (366) | Accumulated Absences Account | (372) |
| **(11,139)** | **Total Unusable Reserves** | **(7,056)** |

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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **14,458** | **Balance at 1 April** | **14,711** |
| 283 | Upward Revaluation of Assets not charged to the Surplus/Deficit on the Provision of Services | 144 |
| (30) | Downward Revaluation of Assets & impairment losses not charged to the Surplus/Deficit on the Provision of Services | - |
| **14,711** | **Balance at 31 March** | **14,855** |

### 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.

| £000 | | £000 |
|---|---|---|
| **43,916** | **Balance at 1 April** | **43,634** |
| | ***Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:*** | |
| (2,180) | Charges for depreciation/impairment of non-current assets | (1,730) |
| (34) | Revaluation losses on Property, Plant & Equipment | - |
| (111) | Amortisation of Intangible Assets | (84) |
| (1,271) | Revenue Expenditure Funded from Capital Under Statute | (3,305) |
| (881) | Amounts of non-current Assets written off on disposal or sale as part of the gain/loss on disposal | (191) |
| **(4,477)** | | **(5,310)** |
| | ***Capital financing applied in the year:*** | |
| 1,047 | Use of the Capital Receipts Reserve to finance new capital expenditure | 5,518 |
| 62 | Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing | - |
| 10 | Application of grants to capital financing from the Capital Grants Unapplied Account | 92 |
| 155 | Statutory Provision for the financing of capital investment charged against the General Fund | - |
| 1,207 | Revenue Expenditure Funded from Capital Under Statute | 1,014 |
| 217 | Capital expenditure charged against the General Fund | 381 |
| **2,698** | | **7,005** |
| 1,471 | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement | 4,303 |
| 26 | Reinstatement of Investment Properties at end of finance lease | - |
| - | Loan repayments | |
| **43,634** | **Balance at 31 March** | **49,632** |

### 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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **690** | **Balance at 1 April** | **620** |
| (1) | Transfer to the Capital Receipts Reserve upon receipt of cash | (41) |
| (43) | Capital element of finance leases where Council is the lessor | (34) |
| (26) | Reinstatement of Investment Properties at end of finance lease | - |
| **620** | **Balance at 31 March** | **545** |

### 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 IAS 19 – *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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **(76,309)** | **Balance at 1 April** | **(69,628)** |
| 8,680 | Remeasurements of the net defined benefit liability/(asset) | (312) |
| (5,063) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services | (5,045) |
| 3,064 | Employers pensions contributions and direct payments to pensioners payable in the year | 3,276 |
| **(69,628)** | **Balance at 31 March** | **(71,709)** |

### 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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **(666)** | **Balance at 1 April** | **(110)** |
| - | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year | (136) |
| 556 | 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 | 239 |
| **(110)** | **Balance at 31 March** | **(7)** |

### 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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **(188)** | **Balance at 1 April** | **(366)** |
| 188 | Settlement or cancellation of accrual made at the end of the preceding year | 366 |
| (366) | Amounts accrued at the end of the current year | (372) |
| **(366)** | **Balance at 31 March** | **(372)** |

## 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**

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 3,656 | (Increase)/Decrease In Creditors | (842) |
| (125) | Increase/(Decrease) in Debtors | (469) |
| 44 | Increase/(Decrease) in Inventories | 30 |
| (125) | (Increase)/Decrease in Provisions | 26 |
| (2,180) | Charges for Depreciation/Impairment of Non-Current Assets | (1,730) |
| (34) | Revaluation Losses on Property, Plant & Equipment | - |
| 1,471 | Movements in fair value of Investment Properties | 4,303 |
| (111) | Amortisation of Intangible Assets | (84) |
| 62 | Capital Grants & Contributions applied | - |
| (42) | Capital Element of Finance Leases Where Council is Lessor | (34) |
| (1,999) | Movement in Pension Liability | (1,769) |
| (881) | Non-Current Assets Written Off on Disposal or Sale as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | (191) |
| **(264)** | | **(760)** |

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

| £000 | | £000 |
|---|---|---|
| 31 | Capital Grants & Contributions Unapplied Credited to Comprehensive Income & Expenditure Statement | 329 |
| 1,268 | Transfer of Cash Sales Proceeds Credited as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | 519 |
| - | Transfer from Deferred Capital Receipts Reserve on Receipt of Cash | (17) |
| **1,299** | | **831** |

### 3.4.2. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| (232) | Interest Received | (135) |
| 13 | Interest Paid | 1 |

### 3.4.3. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 1,286 | Purchase of Property, Plant & Equipment, Investment Property & Intangible Assets | 5,472 |
| 60,477 | Purchase of Short & Long Term Investments | 50,183 |
| (1,376) | Proceeds from Sale of Property, Plant & Equipment, Investment Property & Intangible Assets | (460) |
| (61,750) | Proceeds from Short & Long Term Investments | (54,250) |
| (121) | Other Receipts From Investing Activities | (391) |
| **(1,484)** | **Net Cash Flows from Investing Activities** | **554** |

### 3.4.4. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| (1,523) | Cash Receipts of Borrowing | (11) |
| (1,377) | Other Receipts from Financing Activities | (662) |
| 155 | Cash Payments for Liabilities re. Finance Leases | - |
| 1,500 | Repayments of Borrowing | - |
| (1,090) | Other Payments for Financing Activities | (652) |
| **(2,335)** | **Net Cash Flows from Financing Activities** | **(1,325)** |

# 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.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| **(503)** | **Opening Capital Financing Requirement** | **(895)** |
| **(237)** | Correction of opening CFR balance* | **-** |
| **(740)** | | **(895)** |
| | ***Capital Investment*** | |
| 1,172 | Property, Plant & Equipment | 5,245 |
| 67 | Investment Properties | 171 |
| 32 | Intangible Assets | 8 |
| 1,272 | REFCUS | 3,305 |
| | ***Sources of Finance*** | |
| (1,047) | Capital Receipts | (5,518) |
| (1,279) | Government Grants & Other Contributions | (1,107) |
| (217) | Sums Set Aside From Revenue | (381) |
| (155) | Minimum Revenue Provision | - |
| **(895)** | ***Closing Capital Financing Requirement*** | **828** |
| | ***Explanation of Movements in Year*** | |
| (155) | Minimum Revenue Provision | - |
| - | Capital expenditure financed from internal borrowing | 1,723 |
| **(155)** | **Increase/(Decrease) in Capital Financing Requirement** | **1,723** |

* This correction relates to the de-recognition of assets leased in under a finance lease which terminated in 2010/11. The de-recognition arising from the termination was recorded in the accounts and reflected in the balance sheet, but was not reflected in this note. The effect of the adjustment is to reduce the capital financing requirement by £0.237m.

## 4.2. Impairment Losses

During 2016/17 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 2016/17 was £0.386m (2015/16 £0.645m). 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 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). During 2016/17, expenditure transactions with Keele University totalled £21,929. Four members are employed by Keele University, as lecturers / administrative staff and as such have no direct influence. One member is employed by J.C. Bamford Excavators Limited and transactions totalled £81,887, however they have no direct influence upon the transactions. One member is also a Non-Executive Director on the Board of Aspire Housing. Payments to Aspire Housing during 2016/17 amounted to £971,631. The majority of this is in relation to housing benefit rental payments.

### Officers

No payments have been made to any entities that have a relationship with Council officers during 2016/17.

### Sublyme

Sublyme is a company wholly owned by the Council, set up to provide printing services. No services were provided to the Council in 2016/17 whilst Sublyme received in kind support from the Council of £30,646, which, together with the previous year's support, is shown as an investment in the Council's balance sheet. As at 31 March 2017 the balance of the investment is £57,527, 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.

### 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:

| 2015/16 LGPS £000 | 2015/16 Unfunded Benefits £000 | | 2016/17 LGPS £000 | 2016/17 Unfunded Benefits £000 |
|---|---|---|---|---|
| | | **Comprehensive Income & Expenditure Statement** | | |
| | | ***Cost of Services:*** | | |
| 3,186 | - | Current Service Cost | 2,991 | - |
| 33 | - | Past Service Costs/(Gains) | 169 | - |
| - | (463) | Unfunded Benefit Contributions | - | (451) |
| | | ***Financing and Investment Income & Expenditure*** | - | - |
| 2,307 | - | Net Interest Expense | 2,336 | - |
| **5,526** | **(463)** | **Total Pension Benefit Charged to the Surplus/Deficit on Provision of Services** | **5,496** | **(451)** |
| | | ***Remeasurement of the Net Defined Benefit Liability Comprising:*** | | |
| 2,215 | - | Return on Plan Assets | (17,855) | - |
| - | - | Changes in Demographic Assumptions | (773) | - |
| (8,533) | - | Changes in Financial Assumptions | 26,433 | - |
| (2,362) | - | Other Experience | (7,493) | - |
| **(8,680)** | **-** | **Total Pension Benefit Charged to Comprehensive Income & Expenditure Statement** | **312** | **-** |
| | | **Movement in Reserves Statement** | | |
| (5,526) | 463 | Reversal of Net Charges Made to the Surplus/Deficit on Provision of Services for Pension Benefits | (5,496) | 451 |
| | | **Actual Amount Charged Against the General Fund Balance for Pensions** | | |
| 3,527 | - | Employers' Contributions Payable to Scheme | 3,727 | - |
| - | (463) | Retirement Benefits Payable to Pensioners | - | (451) |
| **(1,999)** | **-** | | **(1,769)** | **-** |

## Pensions Assets and Liabilities Recognised in the Balance Sheet

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| (174,601) | Present Value of Defined Benefit Obligation | (195,644) |
| 106,173 | Fair value of Plan Assets | 123,935 |
| **(68,428)** | **Net Liability Arising From Defined Benefit Obligation** | **(71,709)** |

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

| 2015/16 Funded Liabilities £000 | 2015/16 Unfunded Liabilities £000 | | 2016/17 Funded Liabilities £000 | 2016/17 Unfunded Liabilities £000 |
|---|---|---|---|---|
| 186,221 | (3,165) | Opening Balance | 178,229 | (3,628) |
| 3,186 | - | Current Service Cost | 2,991 | - |
| 5,626 | - | Interest Cost | 5,882 | - |
| 726 | - | Contributions by Scheme Participants | 721 | - |
| (10,895) | - | Actuarial (Gains)/Losses | 18,167 | - |
| (6,668) | (463) | Benefits Paid | (6,436) | (451) |
| 33 | - | Past Service Costs/(Gains) | 169 | - |
| **178,229** | **(3,628)** | **Closing Balance** | **199,723** | **(4,079)** |

### Local Government Pensions Scheme Assets comprised

| 2015/16 Fair Value of Scheme Assets | | | 2016/17 Fair Value of Scheme Assets | |
|---|---|---|---|---|
| Quoted £000 | Unquoted £000 | | Quoted £000 | Unquoted £000 |
| | | ***Equities:*** | | |
| 7,566 | - | Consumer | 8,313 | - |
| 6,190 | - | Manufacturing | 7,167 | - |
| 2,421 | - | Energy & Utilities | 3,072 | - |
| 6,847 | - | Financial | 8,301 | - |
| 5,703 | - | Health & Care | 6,896 | - |
| 6,466 | - | Information Technology | 8,295 | - |
| 126 | - | Other | 123 | - |
| 35,319 | - | | 42,167 | - |
| | | ***Bonds*** | | |
| 5,343 | - | Corporate (Investment) | 9,204 | - |
| - | - | Corporate (Non-Investment Grade) | - | - |
| 5,343 | - | | 9,204 | - |
| | | ***Property*** | | |
| - | 9,425 | UK | - | 9,977 |
| - | 9,425 | | - | 9,977 |
| | | ***Investment funds*** | | |
| 36,087 | - | Equities | 41,367 | - |
| 5,422 | - | Bonds | 6,778 | - |
| - | 2,485 | Hedge Funds | - | 2,433 |
| - | 2,971 | Other | - | 1,849 |
| 41,509 | 5,456 | | 48,145 | 4,282 |
| - | 3,322 | Private Equity | - | 3,934 |
| 5,799 | - | Cash/Cash Equivalents | 6,226 | - |
| **87,970** | **18,203** | **Total Assets** | **105,742** | **18,193** |

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

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 109,037 | **Opening Value of Scheme Assets** | 106,173 |
| | ***Remeasurement Gain/(Loss):*** | |
| 3,319 | Expected Rate of Return | 3,546 |
| (2,215) | Other | 17,855 |
| | ***Actuarial Gains/(Losses)*** | |
| 1,974 | Employer Contributions | 2,076 |
| 726 | Contributions by Scheme Participants | 721 |
| (6,668) | Benefits Paid | (6,436) |
| **106,173** | **Closing Balance at 31 March** | **123,935** |

### 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:

| 2015/16 | | | 2016/17 | |
|---|---|---|---|---|
| LGPS | Unfunded | | LGPS | Unfunded |
| | | **Longevity at 65 for current pensioners:** | | |
| 22.1 | | Men | 22.1 | |
| 24.3 | | Women | 24.4 | |
| | | **Longevity at 65 for future pensioners:** | | |
| 24.3 | | Men | 24.1 | |
| 26.6 | | Women | 26.4 | |
| 3.1% | 3.1% | Rate of Inflation | 3.4% | 3.4% |
| 4.1% | | Rate of Increase in Salaries | 2.8% | |
| 2.1% | 2.1% | Rate of Increase in Pensions | 2.4% | 2.4% |
| 3.4% | 3.4% | Rate for Discounting Scheme Liabilities | 2.5% | 2.5% |
| 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 £000 |
|---|---|
| 0.5% decrease in real discount rate | 16,408 |
| 0.5% increase in the salary increase rate | 2,706 |
| 0.5% increase in the pension increase rate | 13,432 |

### 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 2018 is £3.384m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2018 are £0.451m.

The weighted average duration of the defined benefit obligation for scheme members is 16.3 years.

## 4.5. Contingent Assets and Liabilities

The Council does not have any contingent assets. Contingent liabilities as at 31 March 2017 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 £721,000. 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 £527,176.

### (b) VAT

The computation of the Council's 2016/17 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 £380,000. 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.

## 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):

| 31/03/2016 Current £000 | | 31/03/2017 Current £000 |
|---|---|---|
| 7,549 | Investments (Loans and Receivables) | 3,460 |
| 9,897 | Debtors * | 8,904 |
| 59 | Borrowings | 70 |
| 5,861 | Creditors | 6,469 |
| 595 | Cash/Cash Equivalents | 376 |

### Income, Expense, Gains and Losses

| 2015/16 | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| Expenses & Losses £000 | Income & Gains £000 | Total £000 | | Expenses & Losses £000 | Income & Gains £000 | Total £000 |
| 13 | - | 13 | Interest Expense Included in Provision of Services | 1 | - | 1 |
| **13** | **-** | **13** | **Total Expense in Provision of Services** | **1** | **-** | **1** |
| - | (256) | (256) | Interest Income | - | (115) | (115) |
| **-** | **(256)** | **(256)** | **Total Income in Provision of Services** | **-** | **(115)** | **(115)** |
| **13** | **(256)** | **(243)** | **Net (Gain)/Loss for the Year** | **1** | **(115)** | **(114)** |

### 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:

| 31/03/2016 | | | 31/03/2017 | |
|---|---|---|---|---|
| Carrying Amount £000 | Fair Value £000 | | Carrying Amount £000 | Fair Value £000 |
| | | **Liabilities** | | |
| 59 | 59 | Financial Liabilities | 70 | 70 |
| 5,861 | 5,861 | Creditors | 6,469 | 6,469 |
| | | **Assets** | | |
| 7,549 | 7,549 | Loans & Receivables | 3,460 | 3,460 |
| 9,897 | 9,897 | Debtors * | 8,904 | 8,904 |
| 595 | 595 | Cash/Cash Equivalents | 376 | 376 |

* Debtors include Long Term Debtors of £0.545m (31/03/17) and £0.591m (31/03/16), 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 its investments in banks and financial institutions of £0.043m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

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 31 March 2017<br><br>£000 | Historic default<br><br>% | Historic default adjusted for market conditions<br><br>% | Estimated maximum exposure at 31 March 2017<br>£000 | Estimated maximum exposure at 31 March 2016<br>£000 |
|---|---|---|---|---|---|
| | A | B | C | (A X C) | |
| Deposits with Banks/Financial Institutions | 3,460 | 0% | 1.25% | 43 | 94 |
| Customers (Trade Debtors) | 2,893 | - | 15% | 434 | 454 |
| | | | | **477** | **548** |

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 £2.135m of the £2.893m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

| 31/03/2016<br>£000 | | 31/03/2017<br>£000 |
|---|---|---|
| 141 | 30 to 89 Days | 83 |
| 134 | 90 to 180 Days | 86 |
| 2,176 | Over 180 Days | 1,966 |
| **2,451** | | **2,135** |

### 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:

| 31/03/2016<br>£000 | | 31/03/2017<br>£000 |
|---|---|---|
| 7,549 | Less Than One Year | 3,460 |
| **7,549** | | **3,460** |

### 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 2017, if interest rates had been one per cent higher with all other variables held constant, the financial effect would be an increase of £0.109m.

### 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 2017 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:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| | **Finance Lease Debtor (Net Present Value of Minimum Lease Payments):** | |
| 39 | Current | 17 |
| 155 | Non-current | 153 |
| 558 | Unearned Finance Income | 495 |
| **752** | **Gross Investment in the Lease** | **665** |

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

| 31/03/2016 | | | 31/03/2017 | |
|---|---|---|---|---|
| Minimum Lease Payments £000 | Finance Lease Liabilities £000 | | Minimum Lease Payments £000 | Finance Lease Liabilities £000 |
| 87 | 48 | Not Later Than One Year | 51 | 34 |
| 177 | 141 | Later Than One Year, Less Than Five Years | 168 | 122 |
| 488 | 368 | Later Than Five Years | 446 | 339 |
| **752** | **557** | | **665** | **495** |

#### 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:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|---|---|---|
| 869 | Not Later Than One Year | 788 |
| 856 | Later Than One Year, Less Than Five Years | 646 |
| 1,392 | Later Than Five Years | 1,377 |
| **3,117** | | **2,811** |

## 4.8. Prior Period Restatements

**Comprehensive Income and Expenditure Statement**

Expenditure and income on services is classified in the Comprehensive Income and Expenditure Statement in accordance with the CIPFA Code of Local Authority Accounting in the UK. The Code requires that authorities present expenditure and income on services on the basis of its reportable segments per the Council's internal management reporting structure. The analysis does not include recharges between accounts, showing instead expenditure and income directly attributable to the headings. This is a change from the previous requirement to present expenditure and income in accordance with the Service Expenditure Code of Practice (SERCOP). The following table shows how the net expenditure and income has been restated:

| 2015/16 | Published Original | Restated | | | | | | | Recharges | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Chief Executive | Operational Services | Regeneration & Dev. | Resources & Support | Corporate | Other | Total CIES | Recharges Excluded | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Central Services | 2,515 | 736 | - | 21 | 526 | 121 | - | 1,404 | 1,111 | 2,515 |
| Cultural & Related | 7,152 | - | 4,775 | 399 | - | - | - | 5,174 | 1,978 | 7,152 |
| Environmental | 10,963 | 221 | 8,251 | 1,360 | - | - | - | 9,832 | 1,131 | 10,963 |
| Planning Services | 2,533 | - | 24 | 1,699 | - | - | - | 1,723 | 810 | 2,533 |
| Highways & Transport | 1,243 | - | 35 | 689 | - | - | - | 724 | 519 | 1,243 |
| Housing Services | 33,621 | 58 | - | 1,605 | 31,969 | - | - | 33,632 | (11) | 33,621 |
| Corporate | 2,246 | 899 | - | - | - | 58 | - | 957 | 1,289 | 2,246 |
| Non-Distributed Costs | 186 | - | - | - | - | 172 | - | 172 | 14 | 186 |
| Administration | - | 1,480 | - | 536 | 3,401 | 44 | - | 5,461 | (5,461) | - |
| Holding Accounts | - | 593 | 436 | 1,173 | 128 | 251 | - | 2,581 | (2,581) | - |
| **Total Expenditure** | **60,459** | **3,987** | **13,521** | **7,482** | **36,024** | **646** | **-** | **61,660** | **(1,201)** | **60,459** |
| Central Services | (1,413) | (490) | - | - | (923) | - | - | (1,413) | - | (1,413) |
| Cultural & Related | (2,736) | - | (2,480) | (267) | - | - | - | (2,747) | 11 | (2,736) |
| Environmental | (3,898) | (94) | (3,214) | (598) | - | - | - | (3,906) | 8 | (3,898) |
| Planning Services | (772) | - | - | (801) | - | - | - | (801) | 29 | (772) |
| Highways & Transport | (1,352) | - | (137) | (1,215) | - | - | - | (1,352) | - | (1,352) |
| Housing Services | (32,561) | - | - | (1,106) | (31,455) | - | - | (32,561) | - | (32,561) |
| Corporate | (267) | (267) | - | - | - | - | - | (267) | - | (267) |
| Non-Distributed Costs | | - | - | - | - | - | - | - | - | - |
| Administration | - | (161) | (15) | (215) | (95) | (8) | - | (494) | 494 | - |
| Holding Accounts | - | (37) | (174) | (264) | (12) | (172) | - | (659) | 659 | - |
| **Total Income** | **(42,999)** | **(1,049)** | **(6,020)** | **(4,466)** | **(32,485)** | **(180)** | **-** | **(44,200)** | **1,201** | **(42,999)** |
| Other Operating Expenditure | (81) | | | | | | (81) | (81) | | (81) |
| Financing & Investment Income/Expenditure | 235 | | | | | | 235 | 235 | | 235 |
| Taxation & Non-Specific Grant Income | (15,106) | | | | | | (15,106) | (15,106) | | (15,106) |
| (Surplus)/Deficit on Provision of Services | | | | | | | | | | |
| (Surplus)/Deficit on Revaluations | (253) | | | | | | (253) | (253) | | (253) |
| Remeasurement of the Defined Benefit Liability | (8,680) | | | | | | (8,680) | (8,680) | | (8,680) |
| **Total** | **(6,425)** | **2,938** | **7,501** | **3,016** | **3,539** | **466** | **(23,885)** | **(6,425)** | **-** | **(6,425)** |

**Movement in Reserves Statement**

The CIPFA Code of Local Authority Accounting requires the General Fund Balance to be presented. Previously Earmarked General fund Reserves have been separately presented. As a consequence of this change, it is necessary to restate the figure for “adjustments between accounting and funding basis” in order that transfers between reserves in relation to capital expenditure funded from revenue (£0.217m) are accounted for correctly. This also affects the Unusable Reserves column of the statement. The 2015/16 Movement in Reserves has been restated for these changes, as shown in the table below:

| | Published Original | | | Restated | |
|---|---|---|---|---|---|
| 2015/16 | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Unusable Reserves £000 | General Fund Balance £000 | Unusable Reserves £000 |
| **Balance at 31 March 2015 B/Fwd** | **(1,200)** | **(3,084)** | **18,099** | **(4,284)** | **18,099** |
| **Movement in reserves 2015/16** | | | | | |
| Surplus/(Deficit) on Provision of Services | 2,508 | - | - | - | - |
| Other Comprehensive Income & Expenditure | - | - | (8,933) | - | |
| Total Comprehensive Income and Expenditure | - | - | - | 2,508 | (8,933) |
| Adjustments between Accounting and Funding Basis | (1,948) | - | 2,190 | (1,731) | 1,973 |
| **Net Increase/Decrease Before Transfers to earmarked Reserves** | **560** | **-** | **(6,743)** | **-** | **-** |
| Transfers to/from Earmarked Reserves | (560) | 777 | (217) | - | - |
| **Increase/Decrease in Year** | **-** | **777** | **(6,960)** | **777** | **(6,960)** |
| **Balance at 31 March 2016 C/Fwd** | **(1,200)** | **(2,307)** | **11,139** | **(3,507)** | **11,139** |

# 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.

| 2015/16 Council Tax £'000 | 2015/16 Business Rates £'000 | 2015/16 Total £'000 | | 2016/17 Council Tax £'000 | 2016/17 Business Rates £'000 | 2016/17 Total £'000 |
|---|---|---|---|---|---|---|
| | | | **Income** | | | |
| (53,488) | - | (53,488) | Council Tax Payers | (55,571) | | (55,571) |
| - | (33,588) | (33,588) | Business Rates Payers | | (34,678) | (34,678) |
| | | | ***Transfer of Previous Years Deficit*** | | | |
| - | (800) | (800) | - Newcastle-under-Lyme Borough Council | - | (276) | (276) |
| - | (180) | (180) | - Staffordshire County Council | - | (62) | (62) |
| - | - | - | - Office of Police & Crime Commissioner | - | - | - |
| - | (20) | (20) | - Staffordshire Fire and Rescue Authority | - | (7) | (7) |
| - | (1,000) | (1,000) | - Central Government | - | (345) | (345) |
| **(53,488)** | **(35,588)** | **(89,076)** | **Total Income** | **(55,571)** | **(35,368)** | **(90,939)** |
| | | | **Expenditure** | | | |
| | | | ***Council Tax Precepts*** | | | |
| 6,541 | - | 6,541 | - Newcastle-under-Lyme Borough Council | 6,906 | - | 6,906 |
| 36,907 | - | 36,907 | - Staffordshire County Council | 39,276 | - | 39,276 |
| 6,259 | - | 6,259 | - Office of Police & Crime Commissioner | 6,408 | - | 6,408 |
| 2,430 | - | 2,430 | - Staffordshire Fire and Rescue Authority | 2,537 | - | 2,537 |
| | | | ***Business Rates Apportionment*** | | | |
| - | 13,144 | 13,144 | - Newcastle-under-Lyme Borough Council | - | 13,571 | 13,571 |
| - | 2,958 | 2,958 | - Staffordshire County Council | - | 3,054 | 3,054 |
| - | 328 | 328 | - Staffordshire Fire and Rescue Authority | - | 339 | 339 |
| - | 16,430 | 16,430 | - Central Government | - | 16,964 | 16,964 |
| | | | ***Other Expenditure*** | | | |
| - | 141 | 141 | Cost of Collection | - | 139 | 139 |
| - | (230) | (230) | Transitional Protection | - | 373 | 373 |
| 202 | 359 | 561 | Provision for Bad Debts | 255 | 448 | 703 |
| - | 1,067 | 1,067 | Provision for Appeals | - | (120) | (120) |
| | | | ***Transfer of Previous Years Surplus*** | | | |
| 140 | - | 140 | - Newcastle-under-Lyme Borough Council | 116 | - | 116 |
| 809 | - | 809 | - Staffordshire County Council | 690 | - | 690 |
| 140 | - | 140 | - Office of Police & Crime Commissioner | 117 | - | 117 |
| 54 | - | 54 | - Staffordshire Fire and Rescue Authority | 45 | - | 45 |
| **53,482** | **34,197** | **87,679** | **Total Expenditure** | **56,350** | **34,768** | **91,118** |
| **(6)** | **(1,391)** | **(1,397)** | **Deficit/(Surplus) for the Year** | **779** | **(600)** | **179** |
| **(1,137)** | **2,122** | **985** | **Balance Brought Forward at 1 April** | **(1,143)** | **731** | **(412)** |
| **(6)** | **(1,391)** | **(1,397)** | **Deficit/(Surplus) for the year** | **779** | **(600)** | **179** |
| **(1,143)** | **731** | **(412)** | **Balance Carried Forward at 31 March** | **(364)** | **131** | **(233)** |
| | | | **Allocation of Collection Fund Balance** | | | |
| (144) | 292 | 148 | - Newcastle-under-Lyme Borough Council | (46) | 52 | 6 |
| (809) | 66 | (743) | - Staffordshire County Council | (259) | 12 | (247) |
| (53) | 7 | (46) | - Staffordshire Fire and Rescue Authority | (17) | 1 | (16) |
| - | 366 | 366 | - Central Government | - | 66 | 66 |
| (137) | - | (137) | - Office of Police & Crime Commissioner | (42) | - | (42) |
| **(1,143)** | **731** | **(412)** | | **(364)** | **131** | **(233)** |

## Notes

### 1. Business Rates

The Council collects business rates in its area based on non-domestic rateable values (£86.944m at 31 March 2017 and £86.369m at 31 March 2016) multiplied by a uniform business rate. The rate is specified by the Government, in 2016/17 the rate was 49.7p, with a reduction for "small businesses" to 48.4p on application (49.3p in 2015/16 - "small business" reduction, 48.0p).

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 2016/17 were estimated, via the NNDR1 return, before the start of the financial year as £16.964m to Central Government, £3.054m to Staffordshire County Council, £0.339m to Stoke-on-Trent and Staffordshire Fire and Rescue Authority and £13.571m to Newcastle-under-Lyme Borough Council.

The total of these sums (£33.928m) has been paid in 2016/17 and charged to the collection fund in year.

The actual business rates payable for 2016/17, 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 £33.837m.

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 (£33.928m) and the actual business rates payable per the NNDR3 return (£33.837m) is £0.091m - a deficit to the collection fund for 2016/17.

In addition to the business rates shares payable for 2016/17, the estimated 2015/16 deficit declared in January 2016 regarding business rates of £0.691m was repaid into the collection fund by Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire and Rescue Authority.

The actual 2015/16 deficit was calculated to be £0.731m, therefore there was a shortfall of £0.040m in the collection of this deficit in 2016/17 which will need to be recouped, along with the estimated 2016/17 deficit declared in January 2017, from Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire and Rescue Authority during 2017/18.

Taking into account the remaining 2015/16 deficit and the 2016/17 deficit, the business rates collection fund has a deficit of £0.131m as at 31 March 2017.

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 2016/17 to the value of £9.587m.

### 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 2016/17 of £1,517.04 compared with £1,470.78 in 2015/16.

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 2016/17was 36,078 (35,242 in 2015/16), 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 | 28.36 |
| Band A (Up to £40,000) | 23,846 | 15,935 | 6/9 | 10,623.60 |
| Band B (£40,001 - £52,000) | 10,307 | 8,418 | 7/9 | 6,546.94 |
| Band C (£52,001 - £ 68,000) | 11,173 | 9,691 | 8/9 | 8,614.02 |
| Band D (£68,001 - £88,000) | 4,926 | 4,456 | 9/9 | 4,455.98 |
| Band E (£88,001 - £120,000) | 2,701 | 2,474 | 11/9 | 3,023.26 |
| Band F (£120,001 - £160,000) | 1,717 | 1,573 | 13/9 | 2,272.08 |
| Band G (£160,001 - £320,000) | 912 | 837 | 15/9 | 1,395.80 |
| Band H (Over £320,000) | 46 | 22 | 18/9 | 43.50 |
| | | | | **37,004** |
| Less non collection rate (2.5%) | | | | (925) |
| **Borough Council Tax Base** | | | | **36,079** |

In addition to the Council Tax payable for 2016/17, the estimated 2015/16 surplus declared in January 2016 regarding Council Tax of £0.968m 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 2015/16 surplus was calculated to be £1.143m, therefore there was a balance of £0.174m on the payment of this surplus in 2015/16 which will need to be paid during 2017/18 to the preceptors.

Taking into account the remaining 2015/16 surplus, the surplus declared to the preceptors for 2016/17 in January 2017 was £0.365m. The actual balance of the Council Tax collection fund as at 31 March 2017 is £0.364m.

# 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 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which 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 2016/17 and the Service Reporting Code of Practice 2016/17, 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 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 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 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 2.5% (3.4% 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:

    - 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;

- 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 64).

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. 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;
- 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 initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 – fair 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, 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 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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. There are no changes which are expected to impact upon the 2017/18 Statement of Accounts.

## 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 2017 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 2017 the Council's share of the estimated appeals against business rates is £0.725m.

## Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director (Resources and Support Services) on 25th May 2017. 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 2017 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 |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Employees | 502 | 318 | 184 |
| Premises | 16 | 10 | 6 |
| Transport | 12 | 8 | 4 |
| Supplies & Services | 6 | 4 | 2 |
| Central Support | 93 | 58 | 35 |
| Structural Engineers | 21 | 21 | - |
| **Total Expenditure** | **650** | **419** | **231** |
| Building Regulation Charges | 375 | 375 | - |
| Miscellaneous Income | 2 | 2 | - |
| **Total Income** | **377** | **377** | **-** |
| **Surplus/ (Deficit)** | **(273)** | **(42)** | **(231)** |

## 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 01/04/2016 £000 | Expend. £000 | Income £000 | Balance 31/03/2017 £000 |
|---|---|---|---|---|
| Newcastle Almshouses Trust (Accom. For Poor) | 36 | 8 | 16 | 44 |
| Sports Advisory Council (Assistance to Sport) | 17 | 16 | 19 | 20 |
| Museum Purchase Fund (Purchase of Exhibits) | 6 | - | - | 6 |
| | **Balance 01/10/2015 £000** | **Expend. £000** | **Income £000** | **Balance 30/09/2016 £000** |
| United Charities Eliza Hinds Charity (Grave Maintenance) | 3 | - | 3 | 6 |
| United Charities Relief in Need (Gifts - Elderly) | 31 | 2 | 5 | 34 |
| United Charities Relief in Sickness (Gifts - Elderly) | 75 | 4 | 11 | 82 |
| | **168** | **30** | **54** | **192** |

The United Charities financial year ends at 30 September each year. The balances brought forward in relation to these charities are those at 30 September 2015 and the carried forward balances are those for 30 September 2016.

## Business Improvement District

The Council provides services as an agent to the Newcastle-under-Lyme Business Improvement District. The Council collected income of £0.318m on behalf of the Business Improvement District during the financial year 2016/17, this amount was accordingly paid to the Business Improvement District.

## 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 two 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 employers 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 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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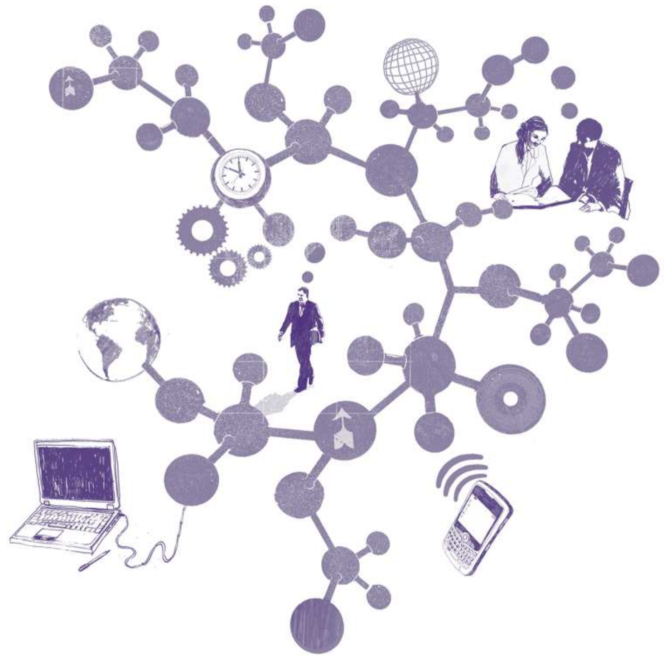
# The Audit Findings for Newcastle Under Lyme Borough Council

**Year ended 31 March 2017**

September 2017



**John Gregory**
Engagement Lead
T 0121 232 5333
E john.gregory@uk.gt.com

**Paul Harvey**
Engagement Manager
T 0121 232 5329
E paul.m.harvey@uk.gt.com

**Matthew Berrisford**
Executive
T 0121 232 5352
E matthew.j.berrisford@uk.gt.com

Grant Thornton

Private and Confidential

Newcastle under Lyme Borough Council
Civic Offices
Merrial Street
Newcastle-under-Lyme
ST5 2AG

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

T +44 (0) 121 4000
www.grant-thornton.co.uk
www.grant-thornton.co.uk

September 2017

Dear Members of the Audit and Standards Committee

**Audit Findings for Newcastle Under Lyme Borough Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Newcastle Under Lyme Borough Council, the Audit and Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

John Gregory

Engagement lead

# Contents


| Section | Page |
|---|---|
| 1. Executive summary | 4 |
| 2. Audit findings | 8 |
| 3. Value for Money | 24 |
| 4. Other statutory powers and duties | 29 |
| 5. Fees, non-audit services and independence | 31 |
| 6. Communication of audit matters | 33 |

**Appendices**

A Action plan

B Audit opinion

# Section 1: Executive summary

01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non audit services and independence
06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Newcastle Under Lyme Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In carrying out our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- 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

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.



## Key audit and financial reporting issues

**Financial statements opinion**

The audit has gone well overall. The Council has made four adjustments to the accounts, none of which affect the Council's reported net expenditure for the year, as well as making a number of adjustments to improve the presentation of the financial statements.

Management have declined to make an adjustment in respect of one further issue we raised, which would have affected the reported net expenditure position but not to a material extent.

Further details are set out in section two of this report.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

**Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

**Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to the Council's key financial IT systems. Further details are provided within the 'Internal Controls' section of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money is set out in section three of this report.

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Standards Committee, which is due in February 2018.

## The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director (Resources and Support Services).

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Executive Director (Resources and Support Services) and the finance team.

## Acknowledgement

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.

**Grant Thornton UK LLP**
**September 2017**

# Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non audit services and independence
06. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,290k (being 2% of expected gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £1,243k (being 2% of outturn gross revenue expenditure of £62,160k in the draft accounts as presented for audit.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £62,150. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

| Balance/transaction/disclosure | Explanation | Materiality level |
|---|---|---|
| Related party transactions | Related party transactions have to be disclosed if they are material to the Council or to the related party | £20k. Individual misstatements will also be evaluated with reference to how material they are to the other party. |
| Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £20k |

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|
| **The revenue cycle includes fraudulent transactions**<br>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Newcastle Under Lyme Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition;<br>• opportunities to manipulate revenue recognition are very limited; and<br>• the culture and ethical frameworks of local authorities, including Newcastle Under Lyme Borough Council, mean that all forms of fraud are seen as unacceptable. | Financing & Investment expenditure of £2,176k has been recognised within the Comprehensive Income and Expenditure Statement. From a review of the analysis of the expenditure we have identified that it includes a net credit entry of £4,303k representing the net revaluation movement on Investment Property. This credit entry should properly be recorded as income rather than a reduction in expenditure. (The same issue applies for 2015/16 whereby the reported expenditure of £4,616k includes a credit of £1,471k representing revaluation gains). |
| **Management over-ride of controls**<br>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities. | We have<br>• Reviewed entity controls<br>• Reviewed the journal entry process and selection of unusual journal entries for testing back to supporting documentation<br>• reviewed accounting estimates, judgements and decisions made by management<br>• Reviewed any unusual significant transactions identified | Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.<br>We set out later in this section of the report our work and findings on key accounting estimates and judgements. |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|
| **Valuation of property, plant and equipment**<br>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements. | We have<br>• Reviewed management's processes and assumptions for the calculation of the estimate.<br>• Reviewed the competence, expertise and objectivity of the Council's internal valuer.<br>• Reviewed the instructions issued to valuation experts and the scope of their work.<br>• Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.<br>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register.<br>• Evaluated of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. | During 2016/17 the Council elected to amend the date of valuation from 31 March to 1 April. Therefore those assets scheduled for valuation at 31 March 17 under the rolling programme (last revalued 31 March 12), will now be valued at 1 April 17, and therefore the revaluations are not reflected in the 2016/17 financial statements. Therefore they will have not been valued within a 5 year period with the result that the requirements of the CIPFA code are not being complied with in this regard.<br>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 year end. We have compared this to the Gerald Eve expected movements and overall the difference is just above our trivial value. There is no indication that the value in the accounts is materially misstated. This issue will be addressed in 2017/18 when the assets are revalued at 1 April 2017. |
| **Valuation of pension fund net liability**<br>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements. | We have<br>• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.<br>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.<br>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.<br>• Reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. | Our audit work has not identified any issues in respect of the valuation of pension fund liability. |



# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Operating expenses** | Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.<br><br>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:<br>• Creditors understated or not recorded in the correct period (Operating expenses understated) | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding<br>• Obtained an understanding of the accruals process and test accruals<br>• Reviewed post year end payments to identify unrecorded liabilities<br>• Reviewed GRNI reports to identify any items which have not been properly accrued<br>• Substantively tested a sample of expenditure transactions | We identified that the trade creditors reconciliation includes a debit entry for invoices paid in 2016/17 of £358,719.32 where the service will not be delivered until 2017/18. These are therefore prepayments and should be treated as such. An adjustment has been proposed in this regard which will have the effect of reducing the creditors balance by £356k and increasing the debtors balance by £356k. There is no impact on the Council's reported net expenditure position.<br><br>Provisions include the Council's calculated employee leave accrual of £372k. This does not meet the definition of a 'provision' and should therefore be included in creditors, within current liabilities.<br><br>This will have a net nil impact on the Council's reported net expenditure position as it is a reclassification within liabilities. |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Employee remuneration** | Payroll expenditure represents a significant percentage of the Council's gross expenditure.<br><br>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:<br>• Employee remuneration accruals understated (Remuneration expenses not correct) | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding<br>• Reviewed and tested the reconciliation between the payroll and the general ledger<br>• Produced and reviewed a monthly trend analysis of total payroll<br>• Substantively tested a sample of payroll transactions<br>• reviewed remuneration disclosures and agreed them to supporting documentation | From our review of disclosures we identified that:<br>The salary disclosed for the Head of Finance was the WTE amount, but should be amended to reflect the actual salary paid during the year.<br><br>In respect of members' allowances the disclosure presented for audit did not include members' expenses, which is a requirement of the Code.<br><br>These adjustments have both been made. |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
| --- | --- | --- | --- |
| **Changes to the presentation of local authority financial statements** | CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.<br><br>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required. | We have undertaken the following work in relation to this risk:<br>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements<br>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure<br>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)<br>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES<br>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger<br>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements<br>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | We recommended adjustments to ensure that the Council was fully compliant with the Code; specifically paragraph 3.4.2.38. This resulted in the following adjustments being made to the 2015/16 comparatives, such that the financial statements more accurately reflect both the Code and the Council's internal reporting arrangements.<br><br>• Increase Financing and Investment Income by £401k.<br><br>We also recommended that the Council should amend the format of the note such that the entries in the top half of the note for net expenditure in the CIES mirror those in the Cost of Services section of the CIES.<br>These amendments have had a net nil impact on the Council's reported net expenditure position. |

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Revenue recognition** | • 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.<br>• 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.<br>• Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract.<br>• While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an Authority's precept or demand for the year, plus or minus the Authority's share of the surplus/deficit on the Collection Fund for the previous year.<br>• The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year.<br>• The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non Domestic Rates (NNDR) 1 return.<br>• The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return. | We have reviewed the Council's policy against the requirements of the Code and are satisfied that the policy is appropriate and adequate disclosures have been made in the financial statements. | ● |

**Assessment**
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Judgements and estimates** | • Key estimates and judgements include:<br>– Useful life of PPE<br>– Revaluations<br>– Impairments<br>– Accruals<br>– Valuation of pension fund net liability<br>– Provision for NNDR appeals<br>– Bad debt provisions<br>– Other provisions | We have considered the key estimates and judgements included in the accounts and note the following.<br><br>• The Council have used Inform CPI Ltd to provide them with an estimate of the effect of outstanding proposal and appeal records. The third party have estimated a total liability of £4.18m with the Council's share being £1.67m; however the Council have only recognised a provision of £725k. There is a risk therefore that the business rates appeal provision is understated by £946k. | ● |

**Assessment**
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Other accounting policies** | N/A | 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. | ● |
| **Going concern** | The Executive Director (Resources and Support Services), s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements. | ● |

**Assessment**
- ● Marginal accounting policy which could potentially attract attention from 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. | **Matters in relation to fraud** | • 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. | **Matters in relation to related parties** | • From the work we carried out, we have asked the Council to disclose its relationship with SubLyme and pertinent information that may be necessary. |
| 3. | **Matters in relation to laws and regulations** | • 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. | **Written representations** | • A standard letter of representation has been requested from the Council, which is appended in the Audit and Standards Committee papers. |
| 5. | **Confirmation requests from third parties** | • We requested from management permission to send confirmation requests to those organisations with which it banks. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. |
| 6. | **Disclosures** | • We have made a number of recommendations to improve the disclosures in the financial statements. See table on page 23. |

# Other communication requirements continued

| | Issue | Commentary |
|---|---|---|
| 7. | **Matters on which we report by exception** | • We are required to report on a number of matters by exception in a number of areas:<br>We have not identified any issues we would be required to report by exception in the following areas<br>• 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 information of which we are aware from our audit<br>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. |
| 8. | **Specified procedures for Whole of Government Accounts** | 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.<br><br>In respect of Newcastle Under Lyme Borough Council we note that work is not required as the Council does not exceed the threshold. However, we are still required to submit an Assurance Statement to the NAO which we will do upon completion of our audit. |



# Internal controls

| | Assessment | Issue and risk | Recommendations |
|---|---|---|---|
| 1. | ● | **Proactive Reviews of Logical Access**<br>During the audit of the design effectiveness of IT general controls, we noted that user accounts and associated permissions on Chris21-Payroll application system are not formally and proactively reviewed for appropriateness. | 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) |
| 2. | ● | **No requirement for existing to formally acknowledge any IT Security documentation following periodic updates**<br>During the audit of the design effectiveness of IT general controls, we noted that Information Security policies are updated in line with changes to IT environment, however, there was no formally established process and requirements for existing employees to acknowledge the IT security policy following the periodic updates. | 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. |

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

**Assessment**
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

**Impact of adjusted misstatements**

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|---|---|---|---|---|
| 1 | **Trade Creditors reconciliation**<br>The trade creditors reconciliation includes a debit entry for invoices paid in 2016/17 of £359k for services not due to be delivered until 2017/18. This therefore constitutes a prepayment and should he treated as such. | | CR creditors £359k<br>DR prepayments £359k | £0 |
| 2 | **Employee leave accrual**<br>This has been classified as a provision when it should be classified as an accrual | | DR provisions £372k<br>CR accruals £372k | £0 |
| 3 | **Financing & Investment expenditure**<br>From a review of the analysis of the financing and investment expenditure we have identified that it includes a net credit entry of £4,303k representing the net revaluation movement on Investment Property. This credit entry should properly be recorded as income rather than a reduction in expenditure. | CR income £4,303k<br>DR expenditure £4,303k | | £0 |
| 4 | **Cost of services**<br>Amendments required to cost of services to ensure full compliance with the Code and alignment with internal reporting practices. | CR income £485k<br>DR expenditure £485k | | |
| | **Overall impact** | **£0** | **£0** | **£0** |

# Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|---|---|---|---|---|
| 1 | **NDR appeals provision**<br>The Council have used Inform CPI Ltd to provide them with an estimate of the effect of outstanding proposal and appeal records. The third party have estimated a total liability of £4.18m, with the Council's share being £1.67m; however the Council have only recognised a provision of £725k. There is a risk therefore that the business rates appeal provision is understated by £947k. | DR expenditure £947k | CR provisions £947k | Officers have stated that they have chosen to provide for all appeals likely to be settled during 2017/18 (i.e. £1.812m). They intend to provide for all appeals that may be settled during 2018/19 and 2019/20 at the close of the financial years 2017/18 and 2018/19 respectively due to the relative uncertainty and timeline of those appeals. They consider that this approach does not unnecessarily remove business rates income from the public sector, and, that this approach is in line with both the CIPFA Accounting Code of Practice 2016/17 and IAS 37.<br>In our view, the 2016/17 provision should have allowed for appeals likely to be settled beyond 2017/18. |
| | | | | |
| | **Overall impact** | **£947k** | **£947k** | |

# Misclassifications 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. None of these changes had an impact on the net expenditure position reported by the Council.

| | Adjustment type | Value £'000 | Account balance | Description |
|---|---|---|---|---|
| 1 | Disclosure | £,1,270k | Provisions | Provisions are all classified as long term liabilities, and have not been analysed across short term/Long term based on future expected cash flows. |
| 2 | Disclosure | £319k | Members' Allowances | The draft disclosure only reports the total members allowances when the Code requires that members' expenses (£3k) are also disclosed. |
| 3 | Misclassification | £42k<br>£17k | Collection Fund allocation of surplus | The Allocation of the Collection Fund Balance at 31 March 2017 has been incorrectly allocated between OPCC and Stoke & Staffs Fire. OPCC share has been amended to be £42k and Staffs Fire £17k |
| 4 | Misclassification and Disclosure | Various | Reserves | Our consistency review of movements across reserves has identified several issues, which required amendment such that the financial statements were internally consistent. Notes affected were:<br>• Adjustments between Accounting Basis and Funding Basis<br>• Capital Adjustment Account<br>• Movement in Reserves Statement<br>• Investment Properties Note<br>• Property, Plant and Equipment Note |
| 5 | Disclosure | Various | Earmarked Reserves | This disclosure note only includes movements in 2016/17. Prior year comparatives are required to disclose the movements in 2015/16. |
| 6 | Comparatives | £401k | CIES | Telling the Story amendments required to prior year comparatives to ensure full compliance with the Code and alignment with internal reporting practices. |
| 7 | Disclosure | Various | Expenditure Funding Analysis | The format of the note has been amended to reflect the Cost of Services Section of the CIES to comply with the Code. |

# Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

### Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

### Risk assessment

We carried out an initial risk assessment in March 2017 and identified a number of 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 March 2017.

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.

### Significant qualitative aspects

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 Council's arrangements for medium term financial planning and identifying savings

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 pages 27 to 28.

### 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 B.

## 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 | Work to address | Findings and conclusions |
| --- | --- | --- |
| **Financial Standing**<br>The medium term financial strategy (MTFS) 2017/18 to 2021/22 indicates a forecast budget shortfall of £2.728m for 2017/18, with additional shortfalls across 2018/19 to 2021/22 totalling £3.235m. The Budget Review Group, along with officers are building upon the work already done to identify savings opportunities as part of the 2020 project, to find ways of eliminating the shortfall.<br><br>This links to the Council's arrangements for under- standing and using appropriate cost and performance information to support informed decision making; and planning finances effectively to support the sustainable delivery of strategic priorities. | We reviewed the MTFS, assess the realism of savings/income generation plans, reviewing the outturn for 2016/17 and the Council's track record of addressing budget shortfalls. | We found that the Council has:<br><br>• set a balanced budget for 2017/18<br>• identified and taken account of funding cuts in its medium term financial plans including responding to consultations on changes to the New Home Bonus and 100% Business Rate Retention, both of which will have an impact on the Council.<br>• identified actions to address over 50% of these shortfalls and have developed a efficiency and savings programme to identify further savings.<br><br>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements |

### 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.

### Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

# Section 4: Other statutory powers and duties


01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non audit services and independence
06. Communication of audit matters

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

| | Issue | Commentary |
|---|---|---|
| 1. | **Public interest report** | • We have not identified any matters that would require a public interest report to be issued |
| 2. | **Written recommendations** | • We have not made any written recommendations that the Council is required to respond to publicly |
| 3. | **Application to the court for a declaration that an item of account is contrary to law** | • We have not used this duty |
| 4. | **Issue of an advisory notice** | • We have not used this duty |
| 5. | **Application for judicial review** | • We have not used this duty |

# **Section 5:** Fees, non-audit services and independence


01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non audit services and independence
06. Communication of audit matters

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

## Fees

| | Proposed fee £ | Final fee £ |
|---|---|---|
| Council audit | 55,002 | 55,002 |
| Grant certification | 6,210 | 6,210 |
| **Total audit fees (excluding VAT)** | **61,212** | **61,212** |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Grant certification

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'.

### 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 Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.
- No non-audit or audit related services have been undertaken by the Council.

# Section 6: Communication of audit matters

01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non audit services and independence
06. Communication of audit matters

# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

**Respective responsibilities**

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report, or emphasis of matter | | ✓ |
| Unadjusted misstatements and material disclosure omissions | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | ✓ | ✓ |

# Appendices

A. Action Plan
B. Audit Opinion

# A. Action plan

**Priority**

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---|---|---|---|---|
| | 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) | | As part of ICT Services proposals to meet the requirements of the forthcoming General Data Protection Regulations, plans are currently being drawn up to accommodate much more stringent enforcement and review regimes for the control of access privileges.<br>ICT have already begun reviewing and updating the Council's current Account and Access Control policy to ensure that the periodic review of logical access controls for both storage and application systems are addressed in a more effective manner at agreed periods.<br>ICT see this activity as being crucial to maintaining the Confidentiality, Integrity and Availability of our systems and data.<br>At present, the risk presented by the Chris21 payroll system is quite low as only a very small number of known users have access to the system. However, this does not relieve any responsibility to ensure these accounts are managed appropriately.<br>ICT will ensure that more proactive steps are taken in light of this recommendation. | March 2018<br>Executive Director (Resources and Support Services) |
| | 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. | | ICT will work with the Council's Information Security Group and Human Resources team to find an acceptable method of recording acceptance and acknowledgement of policy updates.<br>Whilst technical solutions may be readily available to accommodate such activities, ICT consider it essential that such utilities are backed up by appropriate policies and controls that would allow the Council to act effectively against any member of staff who would not comply. | March 2018<br>Executive Director (Resources and Support Services) |

**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# B: 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

We have audited the financial statements of Newcastle Under Lyme Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the related notes 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the Executive Director (Resources and Support Services) and auditor

As explained more fully in the Statement of Responsibilities, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Resources and Support Services); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

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

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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

Xx September 2017

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**Letter of Representation**

Grant Thornton UK LLP
Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Dear Sirs

**Newcastle Under Lyme Borough Council**
**Financial Statements for the year ended 31 March 2017**

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 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 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 2016/17 ("the Code") which give a true and fair view 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 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 We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii 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.

viii 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.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

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 for the reasons noted on the schedule

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

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 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 our knowledge of fraud or suspected fraud affecting the Council involving:
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 our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, 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 all 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**

xxiv 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**

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

**Approval**

The approval of this letter of representation was minuted by the **Council's Audit and Standards Committee** at its meeting on **25 September 2017.**

Yours faithfully

Name……………………………
Position………………………….
Date…………………………….

Signed on behalf of the Council

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**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**MONITORING OFFICER'S REPORT TO STANDARDS COMMITTEE**

**25 September 2017**

## 1. LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER

**Submitted by: Monitoring Officer**

**Ward(s) affected: All**

**Purpose of the Report**

To inform the Members of the Committee of the Council's performance in relation to complaints made to the Local Government Ombudsman (LGO).

**RECOMMENDATION:**

**That the report be received.**

**Reasons**

Part of being an open and accountable Ombudsman service is having transparent decision making processes.

Background

1.1 The LGO provides an annual summary of complaints they have received against the Council. This annual letter is distributed to councils in July and covers the 12 month period from April to March. It includes statistics on the number of enquiries and complaints received by the LGO Advice Team.

1.2 Decision statements are published on the LGO website no earlier than three months after the date of the final decision. The information published does not name the complainant or any individual involved with the complaint.

1.3 Part of being an open and accountable Ombudsman service is having transparent decision making processes. The LGO will publish its decisions so that the public and bodies within its jurisdiction see the full range of decisions and can feel reassured that they are fair, thorough and impartial.

1.4 Publishing decisions also recognises the key role the LGO plays in helping to ensure that public services are accountable to the public, who use and fund those services. Greater transparency of the LGO's decisions means greater transparency of public services.

1.5 The LGO does however retain discretion not to publish a decision, for example where it would not be in the interests of the person complaining to publish or where there is a reason in law not to.

Issues

2.1 Last year, the total number of complaints and enquiries received was 33. This year the total number is 30.

2.2 Last year, the total number of decisions made was 35, of which 2 were upheld and 5 were not upheld. This year, the total number of decisions made has decreased to 28, of which 2 were upheld and 3 were not upheld.

2.3 It is considered that overall the Council is performing well in its response to complaints to the LGO. The largest numbers of complaints made relate to Benefits and Tax, and Planning.

Outcomes Linked to Sustainable Community Strategy and Corporate Priorities

The LGO service contributes to the Council's priority of delivering high quality community driven services.

3. Legal and Statutory Implications

There are no new legal or statutory implications.

4. Equality Impact Assessment

No differential equality impact issues have been identified.

5. Major Risks

There are no specific risk issues.

6. Financial Implications

There are no financial implications flowing from this report but the Council does face the risk of financial penalty should there be a finding of fault causing injustice in any future complaints.

7. List of appendices

Annual review letter
2 x spreadsheets

Local Government & Social Care
OMBUDSMAN

20 July 2017

*By email*

John Sellgren
Chief Executive
Newcastle-under-Lyme Borough Council

Dear John Sellgren,

**Annual Review letter 2017**

I write to you with our annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman (LGO) about your authority for the year ended 31 March 2017. The enclosed tables present the number of complaints and enquiries received about your authority and the decisions we made during the period. I hope this information will prove helpful in assessing your authority's performance in handling complaints.

The reporting year saw the retirement of Dr Jane Martin after completing her seven year tenure as Local Government Ombudsman. I was delighted to be appointed to the role of Ombudsman in January and look forward to working with you and colleagues across the local government sector in my new role.

You may notice the inclusion of the '*Social Care Ombudsman'* in our name and logo. You will be aware that since 2010 we have operated with jurisdiction over all registered adult social care providers, able to investigate complaints about care funded and arranged privately. The change is in response to frequent feedback from care providers who tell us that our current name is a real barrier to recognition within the social care sector. We hope this change will help to give this part of our jurisdiction the profile it deserves.

**Complaint statistics**

Last year, we provided for the first time statistics on how the complaints we upheld against your authority were remedied. This year's letter, again, includes a breakdown of upheld complaints to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us.

We have chosen not to include a 'compliance rate' this year; this indicated a council's compliance with our recommendations to remedy a fault. From April 2016, we established a new mechanism for ensuring the recommendations we make to councils are implemented, where they are agreed to. This has meant the recommendations we make are more specific, and will often include a time-frame for completion. We will then follow up with a council and seek evidence that recommendations have been implemented. As a result of this new process, we plan to report a more sophisticated suite of information about compliance and service improvement in the future.

This is likely to be just one of several changes we will make to our annual letters and the way we present our data to you in the future. We surveyed councils earlier in the year to find out, amongst other things, how they use the data in annual letters and what data is the most useful; thank you to those officers who responded. The feedback will inform new work to provide you, your officers and elected members, and members of the public, with more meaningful data that allows for more effective scrutiny and easier comparison with other councils. We will keep in touch with you as this work progresses.

I want to emphasise that the statistics in this letter comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

**The statutory duty to report Ombudsman findings and recommendations**

As you will no doubt be aware, there is duty under section 5(2) of the Local Government and Housing Act 1989 for your Monitoring Officer to prepare a formal report to the council where it appears that the authority, or any part of it, has acted or is likely to act in such a manner as to constitute maladministration or service failure, and where the LGO has conducted an investigation in relation to the matter.

This requirement applies to all Ombudsman complaint decisions, not just those that result in a public report. It is therefore a significant statutory duty that is triggered in most authorities every year following findings of fault by my office. I have received several enquiries from authorities to ask how I expect this duty to be discharged. I thought it would therefore be useful for me to take this opportunity to comment on this responsibility.

I am conscious that authorities have adopted different approaches to respond proportionately to the issues raised in different Ombudsman investigations in a way that best reflects their own local circumstances. I am comfortable with, and supportive of, a flexible approach to how this duty is discharged. I do not seek to impose a proscriptive approach, as long as the Parliamentary intent is fulfilled in some meaningful way and the authority’s performance in relation to Ombudsman investigations is properly communicated to elected members.

As a general guide I would suggest:

- Where my office has made findings of maladministration/fault in regard to routine mistakes and service failures, and the authority has agreed to remedy the complaint by implementing the recommendations made following an investigation, I feel that the duty is satisfactorily discharged if the Monitoring Officer makes a periodic report to the council summarising the findings on all upheld complaints over a specific period. In a small authority this may be adequately addressed through an annual report on complaints to members, for example.
- Where an investigation has wider implications for council policy or exposes a more significant finding of maladministration, perhaps because of the scale of the fault or injustice, or the number of people affected, I would expect the Monitoring Officer to consider whether the implications of that investigation should be individually reported to members.
- In the unlikely event that an authority is minded not to comply with my recommendations following a finding of maladministration, I would always expect the Monitoring Officer to report this to members under section five of the Act. This is an exceptional and unusual course of action for any authority to take and should be considered at the highest tier of the authority.

The duties set out above in relation to the Local Government and Housing Act 1989 are in addition to, not instead of, the pre-existing duties placed on all authorities in relation to Ombudsman reports under The Local Government Act 1974. Under those provisions, whenever my office issues a formal, public report to your authority you are obliged to lay that report before the council for consideration and respond within three months setting out the action that you have taken, or propose to take, in response to the report.

I know that most local authorities are familiar with these arrangements, but I happy to discuss this further with you or your Monitoring Officer if there is any doubt about how to discharge these duties in future.

**Manual for Councils**

We greatly value our relationships with council Complaints Officers, our single contact points at each authority. To support them in their roles, we have published a Manual for Councils, setting out in detail what we do and how we investigate the complaints we receive. When we surveyed Complaints Officers, we were pleased to hear that 73% reported they have found the manual useful.

The manual is a practical resource and reference point for all council staff, not just those working directly with us, and I encourage you to share it widely within your organisation. The manual can be found on our website www.lgo.org.uk/link-officers

**Complaint handling training**

Our training programme is one of the ways we use the outcomes of complaints to promote wider service improvements and learning. We delivered an ambitious programme of 75 courses during the year, training over 800 council staff and more 400 care provider staff. Post-course surveys showed a 92% increase in delegates' confidence in dealing with complaints. To find out more visit www.lgo.org.uk/training

Yours sincerely

Michael King
Local Government and Social Care Ombudsman for England
Chair, Commission for Local Administration in England

**Local Authority Report:** Newcastle-under-Lyme Borough Council
**For the Period Ending:** 31/03/2017

For further information on how to interpret our statistics, please visit our website:
http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics

## Complaints and enquiries received

| Adult Care Services | Benefits and Tax | Corporate and Other Services | Education and Children’s Services | Environment Services | Highways and Transport | Housing | Planning and Development | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| 0 | 10 | 1 | 0 | 8 | 2 | 0 | 9 | 0 | 30 |

## Decisions made

| | | | | Detailed Investigations | | | |
|---|---|---|---|---|---|---|---|
| Incomplete or Invalid | Advice Given | Referred back for Local Resolution | Closed After Initial Enquiries | Not Upheld | Upheld | Uphold Rate | Total |
| 2 | 0 | 13 | 8 | 3 | 2 | 40% | 28 |

**Notes**

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

| Complaints Remedied | |
|---|---|
| by LGO | Satisfactorily by Authority before LGO Involvement |
| 2 | 0 |

| | Reference | Authority |
|---|---|---|
| 1 | 15013286 | Newcastle-under-Lyme Borough Council |
| 2 | 15013754 | Newcastle-under-Lyme Borough Council |
| 3 | 15018807 | Newcastle-under-Lyme Borough Council |
| 4 | 16000075 | Newcastle-under-Lyme Borough Council |
| 5 | 16000629 | Newcastle-under-Lyme Borough Council |
| 6 | 16001834 | Newcastle-under-Lyme Borough Council |
| 7 | 16001979 | Newcastle-under-Lyme Borough Council |
| 8 | 16002852 | Newcastle-under-Lyme Borough Council |
| 9 | 16003066 | Newcastle-under-Lyme Borough Council |
| 10 | 16003116 | Newcastle-under-Lyme Borough Council |
| 11 | 16003880 | Newcastle-under-Lyme Borough Council |
| 12 | 16005949 | Newcastle-under-Lyme Borough Council |
| 13 | 16006420 | Newcastle-under-Lyme Borough Council |
| 14 | 16006896 | Newcastle-under-Lyme Borough Council |
| 15 | 16007365 | Newcastle-under-Lyme Borough Council |
| 16 | 16007553 | Newcastle-under-Lyme Borough Council |
| 17 | 16008013 | Newcastle-under-Lyme Borough Council |
| 18 | 16008114 | Newcastle-under-Lyme Borough Council |
| 19 | 16008369 | Newcastle-under-Lyme Borough Council |
| 20 | 16009146 | Newcastle-under-Lyme Borough Council |
| 21 | 16010046 | Newcastle-under-Lyme Borough Council |
| 22 | 16010441 | Newcastle-under-Lyme Borough Council |
| 23 | 16011396 | Newcastle-under-Lyme Borough Council |
| 24 | 16012550 | Newcastle-under-Lyme Borough Council |
| 25 | 16012987 | Newcastle-under-Lyme Borough Council |
| 26 | 16013839 | Newcastle-under-Lyme Borough Council |
| 27 | 16014789 | Newcastle-under-Lyme Borough Council |
| 28 | 16015702 | Newcastle-under-Lyme Borough Council |
| 29 | 16017099 | Newcastle-under-Lyme Borough Council |
| 30 | 16019504 | Newcastle-under-Lyme Borough Council |

| Category | Received |
|---|---|
| Benefits & Tax | 08-Nov-16 |
| Planning & Development | 14-Jul-16 |
| Benefits & Tax | 07-Jul-16 |
| Benefits & Tax | 05-Apr-16 |
| Corporate & Other Services | 15-Apr-16 |
| Benefits & Tax | 10-May-16 |
| Planning & Development | 12-May-16 |
| Highways & Transport | 31-May-16 |
| Planning & Development | 02-Jun-16 |
| Planning & Development | 03-Jun-16 |
| Planning & Development | 17-Jun-16 |
| Environmental Services & Public Protection & Regulation | 18-Aug-16 |
| Benefits & Tax | 03-Aug-16 |
| Environmental Services & Public Protection & Regulation | 12-Aug-16 |
| Environmental Services & Public Protection & Regulation | 22-Aug-16 |
| Planning & Development | 24-Aug-16 |
| Planning & Development | 05-Sep-16 |
| Planning & Development | 06-Sep-16 |
| Environmental Services & Public Protection & Regulation | 09-Sep-16 |
| Benefits & Tax | 23-Sep-16 |
| Highways & Transport | 11-Oct-16 |
| Benefits & Tax | 18-Oct-16 |
| Benefits & Tax | 04-Nov-16 |
| Environmental Services & Public Protection & Regulation | 25-Nov-16 |
| Benefits & Tax | 02-Dec-16 |
| Planning & Development | 20-Dec-16 |
| Environmental Services & Public Protection & Regulation | 15-Mar-17 |
| Environmental Services & Public Protection & Regulation | 30-Jan-17 |
| Benefits & Tax | 20-Feb-17 |
| Environmental Services & Public Protection & Regulation | 31-Mar-17 |

| | Reference | Authority |
|---|---|---|
| 1 | 15013286 | Newcastle-under-Lyme Borough Council |
| 2 | 15013754 | Newcastle-under-Lyme Borough Council |
| 3 | 15018807 | Newcastle-under-Lyme Borough Council |
| 4 | 16000075 | Newcastle-under-Lyme Borough Council |
| 5 | 16000629 | Newcastle-under-Lyme Borough Council |
| 6 | 16001834 | Newcastle-under-Lyme Borough Council |
| 7 | 16001979 | Newcastle-under-Lyme Borough Council |
| 8 | 16002852 | Newcastle-under-Lyme Borough Council |
| 9 | 16003066 | Newcastle-under-Lyme Borough Council |
| 10 | 16003116 | Newcastle-under-Lyme Borough Council |
| 11 | 16003880 | Newcastle-under-Lyme Borough Council |
| 12 | 16005949 | Newcastle-under-Lyme Borough Council |
| 13 | 16006420 | Newcastle-under-Lyme Borough Council |
| 14 | 16006896 | Newcastle-under-Lyme Borough Council |
| 15 | 16007365 | Newcastle-under-Lyme Borough Council |
| 16 | 16007553 | Newcastle-under-Lyme Borough Council |
| 17 | 16008013 | Newcastle-under-Lyme Borough Council |
| 18 | 16008114 | Newcastle-under-Lyme Borough Council |
| 19 | 16008369 | Newcastle-under-Lyme Borough Council |
| 20 | 16009146 | Newcastle-under-Lyme Borough Council |
| 21 | 16010046 | Newcastle-under-Lyme Borough Council |
| 22 | 16010441 | Newcastle-under-Lyme Borough Council |
| 23 | 16011396 | Newcastle-under-Lyme Borough Council |
| 24 | 16012550 | Newcastle-under-Lyme Borough Council |
| 25 | 16012987 | Newcastle-under-Lyme Borough Council |
| 26 | 16015702 | Newcastle-under-Lyme Borough Council |
| 27 | 16017099 | Newcastle-under-Lyme Borough Council |
| 28 | 16019504 | Newcastle-under-Lyme Borough Council |

| Category | Decision Date |
| --- | --- |
| Benefits & Tax | 30-Nov-16 |
| Planning & Development | 13-Feb-17 |
| Benefits & Tax | 11-Aug-16 |
| Benefits & Tax | 05-Apr-16 |
| Corporate & Other Services | 09-May-16 |
| Benefits & Tax | 10-May-16 |
| Planning & Development | 12-May-16 |
| Highways & Transport | 14-Oct-16 |
| Planning & Development | 26-Sep-16 |
| Planning & Development | 15-Jul-16 |
| Planning & Development | 12-Jul-16 |
| Environmental Services & Public Protection & Regulation | 16-Nov-16 |
| Benefits & Tax | 06-Sep-16 |
| Environmental Services & Public Protection & Regulation | 08-Sep-16 |
| Environmental Services & Public Protection & Regulation | 22-Aug-16 |
| Planning & Development | 24-Aug-16 |
| Planning & Development | 05-Sep-16 |
| Planning & Development | 29-Sep-16 |
| Environmental Services & Public Protection & Regulation | 03-Oct-16 |
| Benefits & Tax | 23-Sep-16 |
| Highways & Transport | 11-Oct-16 |
| Benefits & Tax | 01-Mar-17 |
| Benefits & Tax | 04-Nov-16 |
| Environmental Services & Public Protection & Regulation | 25-Nov-16 |
| Benefits & Tax | 06-Jan-17 |
| Environmental Services & Public Protection & Regulation | 13-Feb-17 |
| Benefits & Tax | 13-Mar-17 |
| Environmental Services & Public Protection & Regulation | 31-Mar-17 |

| Decision |
| --- |
| Closed after initial enquiries |
| Not Upheld |
| Closed after initial enquiries |
| Referred back for local resolution |
| Closed after initial enquiries |
| Referred back for local resolution |
| Referred back for local resolution |
| Not Upheld |
| Not Upheld |
| Closed after initial enquiries |
| Closed after initial enquiries |
| Upheld |
| Closed after initial enquiries |
| Referred back for local resolution |
| Referred back for local resolution |
| Referred back for local resolution |
| Incomplete/Invalid |
| Referred back for local resolution |
| Closed after initial enquiries |
| Referred back for local resolution |
| Referred back for local resolution |
| Upheld |
| Referred back for local resolution |
| Referred back for local resolution |
| Closed after initial enquiries |
| Referred back for local resolution |
| Referred back for local resolution |
| Incomplete/Invalid |

| Remedy |
|---|
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Financial Redress |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |
| Other Remedy |
| Null |
| Null |
| Null |
| Null |
| Null |
| Null |

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO AUDIT & RISK COMMITTEE**

**Date 25 September 2017**

**HEADING** ***INTERNAL AUDIT PROGRESS REPORT – Quarter 1 2017/18***

**Submitted by:** Head of Audit & Elections

**Portfolio** Finance IT and Customer

**Ward(s) affected** All

**Purpose of the Report**

To report on the work undertaken by the Internal Audit section during the period 1st April to 30th June 2017. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

**Recommendations**

**That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.**

**Reasons**

The role of Internal Audit is to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

## 1 Background

1.1 The Internal Audit Plan for 2017/18 allows for 435 days of audit work.

1.2 This is the first progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;

- Actual against planned performance for the first quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Head of Audit & Elections with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

## 2 Issues

2.1 **Performance Indicators**

The indicators reported below relate to the end of the first quarter (June 2017).

2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of June 2017, 117 recommendations had been made of which 50 have been implemented, 43%, the target for the implementation of all recommendations is 96% by the end of the financial year. This is the first report to be extracted from the new audit management system, Pentana. The system which enables automated recommendation tracking is now starting to be rolled out to Heads of Service and Business Managers, training is being provided on how to utilise the web portal part of the system so that in future they can provide updates to their outstanding recommendations directly to the system for us to review.

**Progress made against the plan.**

This is measured using two indicators;

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non-productive time covers aspects such as administration, training and leave. The target for productive time is 74%

  This figure is not available for the first quarter due to the implementation of the new audit management system Pentana. This is reliant on data from the time management part of the system which has only become operational during the last month.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 15% of the planned audits had been completed by the end of quarter 1.

2.3 **Audit reviews completed and final reports issued between 1 April and 30 June 2017**

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

| | |
|---|---|
| **Well Controlled** | Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity |

| | |
|---|---|
| | should achieve its objectives safely whilst achieving value for money (vfm) |
| **Adequately controlled** | There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| **Less than adequately controlled** | Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| **Poorly controlled** | Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |

2.4 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1st April 2017.

| **Audit Area** | **Risk Category** | **Level of Assurance** | **Number of Recommendations and Classification** | | | **Total** |
|---|---|---|---|---|---|---|
| | | | **High** | **Medium** | **Low** | |
| **Resources & Support Services** | | | | | | |
| Payroll Key Controls | A | Well controlled | 0 | 1 | 0 | 1 |
| | | | | | | |
| **Computer Audit Contract** | | | | | | |
| Patch Management (2016/17 plan) | B | Adequate Controls | 0 | 1 | 5 | 6 |
| Third Party Access (2016/17 plan) | B | Adequate Controls | 0 | 2 | 2 | 4 |
| | | | | | | |
| **Corporate Reviews** | | | | | | |
| Corporate Governance | A | No opinion given – work completed as part of the Annual Governance Statement | 0 | 0 | 0 | 0 |
| Gifts & Hospitality | A | Well Controlled | 0 | 0 | 0 | 0 |
| Transparency – Compliance with the Localism Act | B | Adequate Controls | 0 | 1 | 0 | 1 |
| Mileage Travel & Subsistence | B | Adequate Controls | 0 | 8 | 0 | 8 |

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.5 **Consultancy and non-audit projects**

During the latter part of the first quarter the new audit management system, Pentana went live after spending a little longer than anticipated to develop and implement. This is a new way of working and we will continue to develop the system as we go in order to meet our service requirements. As we continue to develop the system further it is intended to review how we present reports such as this to the committee.

During quarter 1 the Head of Audit & Elections has been involved in various projects which have included the following;

- An assessment of the Council's Corporate Governance arrangements was completed which culminated in the production of the Annual Governance Statement which was presented to the Audit & Standards Committee on the 3 July 2017 for approval alongside the Statement of Accounts. This process involved a number of separate pieces of work being co-ordinated and then an assessment undertaken of the overall governance arrangements for the Council, which resulted in the final statement being produced.
- The delivery of both the County Council Elections in May and then the Parliamentary Election in June, both of which have had a significant impact on her workload

## 3 Options Considered

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

## 4 Proposal

4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

## 5 Reasons for Preferred Solution

5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

## 6 Outcomes Linked to Corporate Priorities

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

**7 Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

**8 Equality Impact Assessment**

8.1 There are no differential equality impact issues identified from this proposal.

**9 Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

**10 Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

**11 Key Decision Information**

11.1 Not applicable

**12 Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2017/18 (Audit and Risk Committee 13 February 2017).

**13 Recommendations**

13.1 That Members consider any issues that they may wish to raise with Cabinet and, or Chief Officers.

**14 Background Papers**

14.1 Internal Audit Plan & PI's Folder
14.2 Pentana

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**QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2017**

**Submitted by:** Head of Audit & Elections

**Portfolio** Finance IT and Customer

**Ward(s) affected** All

**Purpose of the Report**

To report on any outstanding high risk recommendations to the Audit and Standards Committee on a quarterly basis and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates.

To provide Members with an assurance opinion on internal controls over Council Services.

**Recommendations**

**That the action of your officers and levels of assurance be noted**

**Reasons**

High risk recommendations are those agreed with management that are key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review. By agreeing to prolong target dates Members are accepting the risk of not implementing the control. Delayed implementation of such controls should be challenged to identify reasons behind this and solutions to the delay. Delays may be a result of external or internal influences, lack of resources or inertia. Such delays in the implementation of recommendations will affect the assurance opinion provided on each Service.

1. **Background**

1.1 High risk recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks and to do this it needs to be implemented within 1 month of the recommendation being agreed with managers.

1.2 Recommendations are reported to committee on an exception basis, i.e. reports where high risk recommendations have been followed up with Managers on more than two occasions are brought to the attention of Members. In addition the Chair and Vice Chair receive exception reports quarterly where high risk recommendations have been followed up with Managers after the initial implementation date has expired.

1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal controls.

1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. **Issues**

2.1 At the end of quarter one there was 1 outstanding high risk recommendation. This is at its first review date and therefore does not need to be reported to committee.

2.2 A summary of the number of outstanding recommendations and assurance levels for each of the 4 directorates during quarter 1 can be found at Appendix A.

2.3 Given these results at the end of the first quarter there are no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

3. **Reasons for Preferred Solution**

3.1 Reasons for each Director proposal are specific to the actions required.

4. **Outcomes Linked to Corporate Priorities**

4.1 The systems, services and processes reviewed by Internal Audit link to and support the four priority themes of the Council, by reviewing these Audit is making the best use of the Council's resources and improving efficiency and this is further reinforced by managers as they implement the recommendations made.

5. **Legal and Statutory Implications**

5.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

6. **Equality Impact Assessment**

6.1 There are no differential equality impact issues identified from this proposal.

7. **Financial and Resource Implications**

7.1 The majority of recommendations are met within existing resources; where additional resources are required these will form part of a separate report.

8. **Major Risks**

8.1 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. High Risk Recommendations identify areas where action is required in order to avoid exposure to risk. If managers fail to act upon fundamental audit recommendations assurance cannot be given on the adequacy of the systems of internal control.

9. **Key Decision Information**

9.1 Not applicable

10. **Earlier Cabinet/Committee Resolutions**

10.1 Where fundamental recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive Management Team and to members for consideration of the risks prior to agreeing an extended implementation date or other action.

11. **List of Appendices**

Summary of Outstanding Audit Recommendations and level of Assurance for quarter 1

12. **Background Papers**

Pentana Audit Management system.

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Appendix 1

**Summary of Outstanding Audit Recommendations and Level of Assurance – Quarter 1 2017-18**

| **Directorate** | **Total Number of Recommendations** | **Number of Recommendations completed** | **Number of outstanding recommendations** | | | | **Assurance level** |
|---|---|---|---|---|---|---|---|
| | | | High | Medium | Low | Total | |
| Chief Executives | 25 | 9 | 0 | 10 | 6 | 16 | **Adequately controlled** |
| Resources & Support Services | 30 | 16 | 0 | 9 | 5 | 14 | **Adequately controlled** |
| Regeneration & Development Services | 20 | 4 | 1 | 11 | 4 | 16 | **Adequately Controlled** |
| Operational Services | 22 | 12 | 0 | 5 | 5 | 10 | **Adequately controlled** |
| Corporate Reviews | 20 | 9 | 0 | 11 | 0 | 11 | **Adequately controlled** |
| **Total** | **117** | **50** | **1** | **46** | **20** | **67** | |

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