# Agenda Item No: 4

Meeting: 26 September 2017

#### NORTH LINCOLNSHIRE COUNCIL

## AUDIT COMMITTEE

# AUDIT OF ACCOUNTS 2016/2017 MATTERS ARISING FROM THE AUDIT

## 1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 The council's unaudited accounts were approved by the Director Governance and Partnerships on 22 June 2017. This met the statutory requirement that they be approved by 30 June 2017.
- 1.2 The Accounts have been produced under International Financial Reporting Standards (IFRS).
- 1.3 The accounts have since been audited and the external auditors have set out their findings in a report. This committee now needs to consider the proposed amendments and approve the changes to the accounts that result from it. It is a statutory requirement that this process concludes by 30 September 2017.
- 1.4 Some amendments are required to the accounts. However they do not change the position previously reported to Cabinet, in terms of the General Fund or balances available. There is therefore no impact on the Medium Term Financial Plan.
- 1.5 The council's external auditors will issue an unqualified opinion on the accounts and the arrangements to secure Value for Money shortly.

#### 2. BACKGROUND INFORMATION

- 2.1. The Accounts and Audit Regulations require the Council to publish a statement of accounts each financial year. These accounts are the formal statement of the Council's financial performance for the year and its financial position at the end of that period. A financial year runs from April to March.
- 2.2. These accounts have to be considered and approved by the Council's Chief Financial Officer by 30 June. They must then be audited and published within six months of the financial year-end. These deadlines are statutory requirements. The accounts were approved on the 22 June, before the statutory deadline.

- 2.3. The International Standard on Auditing 260 'The Auditor's Communication with Those Charged with Governance (ISA 260)' requires auditors to report certain matters arising from the audit of the council's financial statements before giving an opinion on them.
- 2.4. The report from the council's Auditors (KPMG) is attached. It sets out the matters arising from the audit of the council's 2016/2017 accounts. Staff from KPMG will present the report to Committee. A copy of the amended accounts is included with this report.
- 2.5. The main findings of the report are:
  - ➤ An unqualified opinion on the council's accounts and arrangements for achieving Value for Money will be issued shortly
  - > That the closedown process has met the necessary statutory deadlines.
  - Some adjustments to the accounts were required.
  - A system weakness relating to super user accounts within Northgate was identified. This issue will be addressed with the system supplier during 2017/2018. No inappropriate use or changes to the system were identified during the audit.
  - ➤ The arrangements for valuing the council's Property, Plant and Equipment were identified as an area for process improvement
- 2.6. International Standard on Auditing 580 'Management Representations' requires auditors to obtain written confirmations of appropriate representations from management before the audit report is issued. A proposed letter of representation is attached, which the Committee is asked to approve and authorise the Chair of the Audit Committee and the Director Governance and Partnerships to sign.
- 2.7. Additionally IAS 570 requires a specific statement on the applicability of the 'Going Concern' concept to the council. The accounts have been prepared on a going concern basis. A review of the applicability of the concept to the council can be seen at Appendix 1. The Audit Committee are asked to confirm their agreement with this view.

# 3. OPTIONS FOR CONSIDERATION

- 3.1. The Audit Committee are invited to approve the amended accounts as attached.
- 3.2. That the Committee considers the Auditor's ISA 260 report and note its findings.
- 3.3. The Audit Committee are also invited to endorse the signing of the Letter of Representation.

#### 4. ANALYSIS OF OPTIONS

4.1 Statutorily the accounts must be approved by the 30th September. The Committee should ask sufficient questions to gain assurance that the accounts present fairly the financial position of the council.

# 5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 The accounts present the council's financial position as at 31 March 2017. There are no other resource implications.

# 6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 The Accounts and Audit Regulations 2015 (England) require that each authority prepare and approve its accounts by 30 June and publish them by 30 September. The format and content of the accounts is also governed by the IFRS Code of Practice issued by CIPFA.

## 7. OUTCOMES OF CONSULTATION

7.1 None

# 8. **RECOMMENDATIONS**

- 8.1 That the Statement of Accounts for 2016/2017, prepared on a going-concern basis and as amended in line with the Auditor's findings be received and approved.
- 8.2 The Audit Committee notes the contents of the ISA260 Report.
- 8.3 The Audit Committee endorse the signing of the Letter of Representation by the Chair of the Audit Committee and the Director Governance and Partnerships.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Date:

**Background Papers used in the preparation of this report** 

## **GOING CONCERN REVIEW**

#### 1. INTRODUCTION

Local authorities are generally assumed to be going concerns as they carry out functions essential to the local community and are themselves revenue raising bodies, with limits on their revenue-raising powers arising only at the discretion of central government.

If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, external auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. In response, this report sets out the position at North Lincolnshire Council.

## 2. BACKGROUND

As with all local authorities, the council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2016/2017 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the council's Statement of Accounts is prepared assuming that the council will continue to operate for the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the council will realise its assets and settle its obligations in the normal course of business.

## 3. GOING CONCERN ASSESSMENT

The main factors which underpin this assessment are outlined below and include:

- The council's current financial position
- The council's projected financial position
- The council's strategic planning and budget framework process
- The regulatory and control environment applicable to the council as a local authority

# 3.1 The council's current financial position

The council's financial management arrangements continue to be effective and its financial position resilient. Despite the challenge of tighter resources year on year to meet the Government's deficit reduction programme and to keep council tax as low as possible, the council continues to deliver spend within budget.

The revenue outturn position for 2016/2017 shows an under-spend of £0.7m. As at the 31 March 2017, the council held revenue reserves of £34.7m.

On capital there was a £6.6m under-spend in the approved capital programme for the year. This reflects the need to re-phase expenditure into later years and also slippage on schemes involving partner organisations.

# 3.2 The council's projected financial position

The council has approved a balanced Medium Term Financial Plan covering the period 2017/18 – 2019/20, that was approved by Council in February 2017. The Council's budget is sustainable and maintains General Fund reserves at a prudent level, providing flexibility to help manage the financial impact of unforeseen and one-off events that may occur in the current volatile economic climate.

There remain a number of risks to the Council's future financial position, which include:

- Non-achievement of planned savings or income targets
- Potential further reductions in central government funding
- Additional spend pressures as a result of inflation, demographic pressures and other factors
- The Fair Funding review in 2020

# 3.3 The council's strategic planning and budget framework process

The revenue budget forms part of the council's overall strategic planning framework. It provides the means whereby the council's overarching vision and priorities are delivered.

# 3.4 The regulatory and control environment applicable to the council as a local authority

The council has a well-established and robust corporate governance framework. This includes the statutory elements like the post of Head of Paid Service, the Monitoring Officer and the Section 151 Officer in addition to the current political arrangements.

An overview of this governance framework is provided within the Annual Governance Statement. This includes a detailed review of the effectiveness of the council's governance arrangements. Whilst it is not possible to provide absolute assurance, the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide assurance of their effectiveness.

As a local authority the council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being, when faced with such a scenario, that central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery.

#### 4. CONCLUSION

The Council has assessed and continues to monitor the risks associated with the above and the projected falls in central government funding and has a Medium Term Financial Plan that mitigates those risks to help ensure continued financial stability and service provision both in the short and medium term.

Insofar as it can, the council continues to position itself to be best placed to cope with these challenges and it is considered that the council remains a going concern.

The assessment of the going concern of the council will be undertaken annually in the course of preparing the council's Statement of Accounts for each financial year.



# North Lincolnshire Council Statement of Accounts

FINANCIAL YEAR 2016/2017

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# **Narrative Statement**

These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017 (the Code). The purpose of this narrative statement is to explain, in an easy to understand way, the financial facts in relation to the council.

This Statement of Accounts explains North Lincolnshire Council's finances during the financial year 2016/2017 and its financial position at the end of that year. It follows approved accounting standards and is necessarily technical in parts.

The Narrative Statement is not part of the financial statements but is prepared on the basis that it is consistent with the financial statements. Its purpose is to comment on the financial performance of the council and the economy, efficiency and effectiveness in its use of resources over the financial year.

#### **Main Statements**

#### The Expenditure and Funding Analysis

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

#### The Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the council, analysed into 'usable reserves' and other 'unusable reserves'. The statement show how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following these adjustments.

#### **Comprehensive Income and Expenditure Statement (CIES)**

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

#### **The 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. Reserves are reported in two categories. The first category of reserve are usable reserves, ie those reserves that the council may use to fund service provision, 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 fund service provision. This category of reserve includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to fund service provision 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.

#### **The Cash Flow Statement**

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

#### **The Collection Fund**

The Collection Fund shows the transactions of the billing council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing council and the Government) on behalf of which the billing council collects these taxes.

#### **Group Accounts**

The Code requires Local Authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. North Lincolnshire Council does not have material interests in such bodies and accordingly is not required to prepare group financial statements.

### **Review of the Year**

#### **Revenue Activities**

The Council's financial management arrangements continued to be effective and its financial position resilient. With the challenge of tighter resources year on year, the Council continues to deliver spend within budget. The financial outturn shows that services have delivered an under-spend of £0.203m or 0.2% of budget. When corporate budgets are included this increases to a total service underspend of £0.940m or 0.7% of budget. Combined with an over-achievement of funding, the overall total Council underspend is £1.758m or 1.4% of budget. This means that the call on reserves is lower than planned, and the council did not need to use the capital receipts flexibility to fund transformation spending in 2016/2017.

The table below shows the outturn by service area. Taking each grouping of services in turn:

- Extra demands increased costs in adult and children's social care, but these were offset by increased income, grant and other cost savings producing an underspend of £215k.
- Taken together the cost of council support services was £41k under budget.
- Additional resources were added to the customer and community service budgets in January to
  address in year cost and income pressures. At outturn there were residual overspends as a result of
  lower income and higher demand respectively. Underspends in related service areas produce a
  modest combined overspend £53k.
- There were significant savings in corporate budgets, primarily in capital financing costs. A review of council policy on Minimum Revenue Provision charged to revenue generated a saving and insurance costs were lower.
- There was also a net increase in council funding for the year, primarily because the government levy payable on NNDR growth reduced to reflect reductions in the taxbase.

5,768 9,277 16,635		Variance £000's 75
9,277 16,635		75
9,277 16,635		75
16,635	9,170	
		(107)
21 724	16,601	(34)
31,724	31,575	(149)
-	-	-
63,404	63,189	(215)
1,577	1,541	(36)
2,434	2,511	77
2,673	2,698	25
3,768	3,661	(107)
10,452	10,411	(41)
5,472	5,631	159
24,846	24,947	101
3,817	3,741	(76)
2,130	2,024	(106)
349	324	(25)
36,614	36,667	53
		<u> </u>
110,470	110,267	(203)
4,729	4,487	(242)
13,804	11,526	(2,278)
(1,782)	-	1,782
(4,003)	(1,881)	2,122
		1,385
123,218	124,400	1,182
	2,130 349 <b>36,614</b> <b>110,470</b> 4,729 13,804 (1,782) (4,003)	2,130 2,024 349 324 36,614 36,667  110,470 110,267  4,729 4,487 13,804 11,526 (1,782) - (4,003) (1,881)

In 2016/2017, of the Key Performance Indicators that data is held for, 75% were on track or within tolerance and the majority showed year-on-year improvement.

#### **Capital Programme**

The Council approves a capital programme to invest in improving infrastructure, enabling economic growth, supporting healthy active lives, improving the Council's asset base, supporting transformation and innovation in service redesign, while fulfilling the Council's statutory responsibility for school places.

Its approved capital investment programme for 2016-17 was £39.6m. Spending was £33.1m which was £6.5m less than budget. The main variances were on regeneration schemes, facilities improvement and major construction projects. These underspends are largely due to timing and programme re-phasing will be required.

The Council funds its capital programme through a mix of resources. It has funded the 2016-17 programme from a mix of:

- Government grants for individual schemes and programmes
- Other external funding
- Borrowing
- Direct revenue funding.

The council's previous policy of using internal cash resources to fund the capital programme deferred the need for external borrowing for eight years. Since 2015-16 borrowing has resumed and £25m of external long-term borrowing has been required during 2016-17.

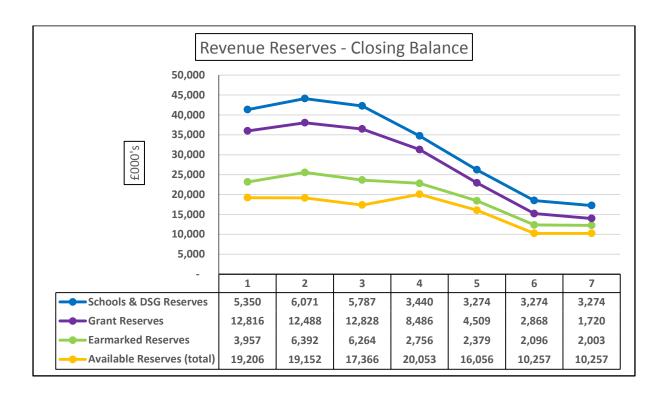
The budget included a target of generating £4.7m of capital receipts from the sale of Council assets. Actual receipts were £1.8m. These have not been applied to the 2016/17 programme, and have been held for use in 2017/18. Shortfalls in capital receipt generation puts pressure on the funding of the programme and any shortfall has to be made up through additional borrowing.

2016/2017 Capital Outturn Position	Budget 2016/2017 £000's	Actual 2016/2017 £000's	Varian 2016/20 £000's/	017	Re-phasing 2016/2017 £000's
People	6,072	4,453	(1,619)	-27%	(1,619)
Policy & Resources	645	393	(252)	-39%	(288)
Places	32,863	28,249	(4,614)	-14%	(4,740)
Total	39,580	33,094	(6,486)	-16%	(6,647)
Funding Analysis					
Grants & External Funding	17,301	14,947	(2,354)	-14%	(2,184)
Revenue / Reserve Funding	398	592	194	49%	(100)
Internal & External Borrowing	17,161	17,555	394	2%	167
Property Trading Account	220	0	(220)	-100%	(39)
Capital Receipts	4,500	0	(4,500)	-100%	(4,491)
Total	39,580	33,094	(6,486)	-16%	(6,647)

Active management will be needed to deliver the 2017/2018 programme of £91m and minimise the need for later re-phasing.

#### **Revenue Reserves**

The Council has used reserves significantly to support transformation, specific initiatives and to support phased delivery of cost reduction programmes, there was £7.5m of reserve utilisation in 2016/2017. This is in line with the financial plan. Total reserves at the end of 2016/2017 were £34.7m. The overall reserves position can be seen in the graph below.



# **Future Prospects**

This is a challenging time for the public sector as funding resources change, but the council is taking a positive approach to the challenge. Over the years of austerity it has managed to maintain front-line services and maintained a good track record on delivering to budget, on making successful transformation initiatives and achieving cost savings while improving performance.

It has a clear strategy for the future to reshape council delivery through transformation and a robust commercial approach. These are built into its Medium Term Financial Plan. The key objective of the plan is to secure financial resilience by 2020.

A new Executive management structure has been put in place from 2017 which repositions the organisation for the future. It builds the council around two key executive posts: an executive director for people and transformation and an executive director for commercial development.

The MTFP aims to compensate for loss of resources through grant reductions by seeking to grow the local taxbase, both council tax and business rates. It has grown its taxbase under the current business rates retention scheme and plans to grow this further. The council is also making use of the adult social care precept to meet rising care costs, and general council tax increases if required. The plan makes use of earmarked reserves to fund transition to 2020, while maintaining core balances.

Growth in the local economy drives growth in the taxbase. Success in providing opportunities for work generates a greater tax take through business development and, with that, a growing and better rewarded local workforce, which reduces dependence on council tax support. The council has helped to secure the future of the steel industry in Scunthorpe, and continues to leverage private sector investment through major developments in port facilities for wind energy in the North Sea and large scale residential developments along the Trent. The council also has a substantial capital investment programme to improve area infrastructure, and to create an attractive environment for inward investment and population growth through promoting quality of life measures.

To ensure the council can provide a sustainable service offer the strategy also aims to:

Reduce dependency on council services and redefining the relationship with citizens. It aims to achieve this through a focus on preventative activity, increasing independence, working more effectively with partners and by delivering a prosperous economy which offers good employment opportunities.

Transform service delivery through cross-council initiatives around transforming customer access, business process redesign and more effective asset utilisation.

Consolidate the shared service arrangements, which from 2016 cover most council support services including Finance, HR and IT with a plan to deliver £12m shared savings over a 10 year period.

Develop its Commercial capabilities, by exploiting opportunities to deliver additional financial returns from property investment, building on its existing commercial income base of £7m and taking a more commercial approach to how it does business, including full cost recovery where charges are levied such as in sport and leisure.

# **Statement of Responsibilities**

# The Council's Responsibilities

The council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director: Governance and Partnerships.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

# The Director: Governance and Partnerships' Responsibilities

The Director: Governance and Partnerships is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director: Governance and Partnerships has:

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

Director: Governance and Partnerships has also:

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

## **Certificate of the Chief Financial Officer**

#### I certify that:

- (a) the Statement of Accounts for the year ended 31 March 2017 has been prepared in the form directed by the Code and under the accounting policies set out in note 1.
- (b) in my opinion the Statement of Accounts presents fairly the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.

#### R McIntyre

Director: Governance and Partnerships Date of certification: 22 June 2017

# **Council Approval of Statement of Accounts**

#### **Audit Committee**

Date of approval: 26 September 2017

# North Lincolnshire Council Annual Governance Statement 2016/2017

The Annual Governance Statement is presented alongside the statement of accounts and not as part of the main document.

**Independent Auditor's Report to the Members of North Lincolnshire Council** 

# **Expenditure and Funding Analysis**

Net Expenditure Chargeable to the General Fund Balances £'000	2015/2016  Adjustments between the Funding and Accounting Basis	Net Expenditure in the CIES £'000		Net Expenditure Chargeable to the General Fund Balances £'000	2016/2017 Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the CIES £'000
62,223	11,310	73,533	People Directorate	63,189	15,582	78,771
11,442	(905)	10,537	Policy and Resources Directorate	10,411	1,115	11,526
37,895	28,682	66,577	Places Directorate	36,667	18,673	55,340
13,895	(12,306)	1,589	Corporate and Central Services	14,133	(11,211)	2,922
125,455	26,781	152,236	Net Cost of Services	124,400	24,159	148,559
(125,455)	10,360	(115,095)	Other Income and Expenditure	(124,400)	(36,455)	(160,855)
0	37,141	37,141	(Surplus) or Deficit	0	(12,296)	(12,296)
6,858			Opening General Fund Balance (Surplus) or Deficit on General Fund	6,858		
0			Balance in Year	0		
6,858			Closing General Fund Balance	6,858		

# **Movement in Reserves Statement**

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves of the Council £000
Balance as at 1 April 2015	6,858	37,244	0	9,717	53,819	6,838	60,657
Movement in reserves during 2015/2016							
Total Comprehensive Income and Expenditure	(37,141)	0	0	0	(37,141)	91,583	54,442
Adjustments from income and expenditure charged under the	35,284	0	0	(4.505)	20 670	(30,679)	
accounting basis to the funding basis		0	0	(4,605)	30,679	_ , ,	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(1,857)	0	0	(4,605)	(6,462)	60,904	54,442
Transfer to or from Earmarked Reserves	1,857	(1,857)			0	0	0
Increase/(Decrease) in 2015/2016	0	(1,857)	0	(4,605)	(6,462)	60,904	54,442
Balance as at 31 March 2016	6,858	35,387	0	5,112	47,357	67,742	115,099
Movement in reserves during 2016/2017							
Total Comprehensive Income and Expenditure	12,296	0	0	0	12,296	11,275	23,571
Adjustments from income and expenditure charged under the accounting basis to the funding basis	(19,806)	0	1 701	3	(10.012)	19.013	0
			1,791		(18,012)	18,012	
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(7,510)	0	1,791	3	(5,716)	29,287	23,571
Transfer to or from Earmarked Reserves	7,510	(7,510)	0	0	0	0	0
Increase/(Decrease) in 2016/2017	0	(7,510)	1,791	3	(5,716)	29,287	23,571
Balance Sheet as at 31 March 2017	6,858	27,877	1,791	5,115	41,641	97,029	138,670

# **Comprehensive Income and Expenditure Statement**

	1					Restated *	
			2016/2017			2015/2016	
	Notes	£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net
People Directorate		195,516	(116,745)	78,771	187,301	(113,768)	73,533
Policy and Resources Directorate		58,155	(46,629)	11,526	61,428	(50,891)	10,537
Places Directorate		66,225	(10,885)	55,340	73,758	(7,181)	66,577
Corporate and Central Services		8,477	(5,555)	2,922	7,428	(5,839)	1,589
Cost of Services		328,373	(179,814)	148,559	329,915	(177,679)	152,236
Other Operating Expenditure	11	3,981	0	3,981	18,901	0	18,901
Financing and Investment Income and Expenditure	12	29,669	(21,409)	8,260	30,825	(22,241)	8,584
Taxation and Non-Specific Grant Income and Expenditure	13	0	(173,096)	(173,096)	0	(142,580)	(142,580)
(Surplus) or Deficit on Provision of Services		362,023	(374,319)	(12,296)	379,641	(342,500)	37,141
Surplus or deficit on revaluation of Property, Plant and Equipment Impairment losses on non-current assets charged to the	14			(11,540)			(18,655)
Revaluation Reserve	14			4,707			1,692
Re-measurement of the net defined benefit liability/(asset)	43		_	(4,442)		_	(74,620)
Other Comprehensive Income and Expenditure			•	(11,275)		•	(91,583)
Total Comprehensive Income and Expenditure			-	(23,571)			(54,442)

 $<sup>{\</sup>rm *Restated~2015/2016~figures~to~reflect~the~change~from~SERCoP~headings~to~Management~Structure~Headings}$ 

# **Balance Sheet**

Note		31st March 2017	31st March 2016
		£000	£000
Property, Plant & Equipment	14	458,877	427,806
Heritage Assets	15	1,039	1,039
Investment Property	16	53,143	45,947
Intangible Assets	17	753	628
Long Term Investments	18	64	64
Long Term Debtors	18	49	76
Long Term Assets		513,925	475,560
Inventories	19	366	360
Short Term Debtors	20	31,497	27,238
Cash and Cash Equivalents	21	3,552	310
Assets held for sale	22	13,586	5,919
Current Assets		49,001	33,827
Short Term Borrowing	18	30,065	14,041
Short Term Creditors	23	25,093	29,030
Provisions	24	4,221	3,024
Current Liabilities		59,379	46,095
Provisions	24	2,027	2,092
Long Term Borrowing	18	131,547	119,459
Other Long Term Liabilities	43	231,303	226,642
Long Term Liabilities		364,877	348,193
Net Assets		138,670	115,099
Usable Reserves	25/26	41,641	47,357
Unusable Reserves	25/26	97,029	67,742
Total Reserves		138,670	115,099

# **Cash Flow Statement**

2015/2016 £000		Note	2016/2017 £000
(37,524)	Net surplus or (deficit) on the provision of services		12,296
44,237	Adjustment to surplus or deficit on the provision of services for noncash movements		29,967
	Adjust for items included in the net surplus or deficit		
(21,102)	on the provision of services that are investing and financing activities		(13,965)
(14,389)	Net Cash flows from operating activities	27	28,298
(8,952)	Net Cash flows from Investing Activities	28	(53,596)
24,992	Net Cash flows from Financing Activities	29	28,540
1,651	Net increase or (decrease) in cash and cash equivalents		3,242
(1,341)	Cash and cash equivalents at the beginning of the reporting period	21	310
310	Cash and cash equivalents at the end of the reporting period	21	3,552

# Notes to the Accounts

# **Note 1 Accounting Policies**

#### i. General Principles

The Statement of Accounts summarises the council's transactions for the 2016/2017 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 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017, 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 simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when they are consumed where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet where individual inventory categories are above £50,000.
- 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 for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where 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. In respect of both capital and revenue transactions, the council operates on the normal accruals concept of income and expenditure above the council's de minimis threshold of £10,000. Exceptions to this policy are:
  - Housing Benefit payments
  - Social services Income for home care
  - Travel and supply teachers
  - Property Trading account Income for commercial properties

These exceptions still mean a full 12 months of income and expenditure are accounted for in a financial year.

## iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### v. Charges to Revenue for Non-current Assets

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### vi. Council Tax and Non-Domestic Rates

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

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

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

#### vii. Employee Benefits

## **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, 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 accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements 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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and

credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### **Post-employment Benefits**

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by East Riding of Yorkshire Council.
- The NHS Pension Scheme, administered by the NHS Business Services Authority

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The People Service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. Various lines within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

#### The Local Government Pension Scheme

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

- The liabilities of the East Riding pension fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined when pension's data is available (based on an indicative equivalent return on high quality corporate bonds).
- The assets of East Riding pension fund attributable to the council are included in the Balance Sheet at their fair value:
  - quoted securities current bid price
  - unquoted securities professional estimate
  - unitised securities current bid price
  - property market value

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

Service cost comprising:

- current service cost the increase in liabilities as a result of years of service earned this year –
  allocated in the Comprehensive Income and Expenditure Statement to the services for which the
  employees worked
- past service cost the increase in liabilities as a result of a scheme amendment or curtailment whose
  effect relates to years of service earned in earlier years debited to the Surplus or Deficit on the
  Provision of Services in the Comprehensive Income and Expenditure Statement
- 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.

Re-measurements comprising:

- the return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses changes in the net pensions liability that arise because events have not
  coincided with assumptions made at the last actuarial valuation or because the actuaries have
  updated their assumptions charged to the Pensions Reserve as Other Comprehensive Income and
  Expenditure

• contributions paid to the East Riding 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 transfers 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 (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### viii. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the 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 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 most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

#### **Financial Assets**

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 under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### Available-for-sale Assets

The council does not have any financial assets available-for-sale.

#### x. Government Grants and Contributions

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

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

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of 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 and Expenditure (non-ring fenced 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.

#### xi. Heritage Assets

The council holds several assets which are held to increase the knowledge, understanding and appreciation of the council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The council's collections of heritage assets are accounted for as follows:

Civic Regalia and Museum Collection

The asset will be accounted for at the value used for insurance purposes or its fair value as determined by a qualified valuer.

#### Heritage Assets - 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 council's general policies on impairment. The council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. 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. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using recognised formula. The council has set a de minimis value of £50,000, below which inventories are not held on balance sheet.

#### xiv. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

#### The Council as Lessee

#### **Finance Leases**

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

- a charge for the acquisition of the interest in the property, plant or equipment applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation 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), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and 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.

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

#### **Operating Leases**

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

#### xvi. Overheads and Support Services

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

#### xvii. Property, Plant and Equipment

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

#### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the 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.

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
- dwellings fair value, determined using the basis of existing use value for social housing (EUV–SH)
- council offices current value, determined as the amount that would be paid for the asset in its existing use (existing use value EUV), except where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- school buildings current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets current value, determined as the amount that would be paid for the asset in its existing use (existing use value EUV).

Where there is no market-based evidence of 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 that 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. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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

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

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

#### **Impairment**

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

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

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

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

#### Depreciation

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

Deprecation is normally charged in the first full year of operational use, except where stated, and 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. Depreciation is charged on vehicles from the point of initial use.
- infrastructure straight-line allocation over its technically assessed life.

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.

#### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is

revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to noncurrent 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 (ie 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.

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

#### xviii. 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 disclosed in a note to the accounts.

#### **Contingent Assets**

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

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

#### xix. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive

Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

#### xx. Revenue Expenditure Funded from Capital under Statute

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

#### xxi. Schools

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

#### 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. Fair Value Measurement

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

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

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

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

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

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

# Note 2 Accounting Standards Issued, Not Adopted

No relevant accounting standards have been issued that have not been complied with.

# **Note 3 Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most critical judgement made in the Statement of Accounts is that there remains a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

# Note 4 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 council has made a series of assumptions with regard to the level of National Non-Domestic Rate income it will receive over the next four financial years.

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

#### Effect if Actual Results Differ from Assumptions Property, Plant and Equipment Assets are depreciated over useful lives that are dependent on assumptions If the useful life of assets is reduced, depreciation increases and about the level of repairs and maintenance that will be incurred in relation to the carrying amount of the assets falls. individual assets. The current economic climate makes it uncertain that the It is estimated that the annual depreciation charge for buildings council will be able to sustain its current spending on repairs and maintenance, would increase by £0.7m if the average useful life of the bringing into doubt the useful lives assigned to assets. council's buildings fell by one year. Pensions Liability Estimation of the net liability to pay pensions depends on a number of complex The assumptions interact in complex ways. During 2016/2017, judgements relating to the discount rate used, the rate at which salaries are the council's actuaries advised that the net pension liability had projected to increase, changes in retirement ages, mortality rates and expected increased by £4.6m as a result of updating of the assumptions. returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied. Impairment At 31 March 2017, the council had a balance of sundry debtors of £10.3m. A If collection rates were to deteriorate, a doubling of the amount review of significant balances suggested that an impairment of doubtful debts of the impairment of doubtful debts would require an additional of £2.2m was appropriate. However it is not certain that such an allowance £2.2m to be set aside as an allowance. would be sufficient. National Non Domestic Rates (NNDR) Provision The impact of appeals is highly uncertain and outside of the The council set aside, from its collection fund, £9.8m as a provision against the cost of the future settlement of current appeals outstanding against NNDR control of the council. rateable values. The council's share of this provision of £4.8m is shown in the Provisions Note. Fair Value Measurement When the fair values of financial assets and financial liabilities cannot be The council uses the discounted cash flow (DCF) model to measured based on guoted prices in active markets (i.e. Level 1 inputs), their measure the fair value of some of its investment properties and fair value is measured using valuation techniques (e.g. quoted prices for similar surplus assets. assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on The significant unobservable inputs used in the fair value observable data, but where this is not possible judgement is required in measurement include management assumptions regarding rent establishing fair values. These judgements typically include considerations such growth, vacancy levels, occupancy levels and others. as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities. Significant changes in any of the unobservable inputs would Where Level 1 inputs are not available, the council employs relevant experts to result in a significantly lower or higher fair value measurements. identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the council's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the council's assets and liabilities is disclosed in notes 14 and 16 below.

# Note 5 Material Items of Income and Expense

For this council a material item of income and expense would be around £5m or more. During 2016/2017 one such item has been identified. School buildings valued at £37.5m were constructed under the Priority Schools Building Programme in North Lincolnshire. As these buildings were paid for directly by Central Government, they have been treated as donated assets in the accounts.

#### **Note 6 Events After the Balance Sheet Date**

#### **Collection Fund Transitional Relief**

In March the council was notified by the Valuation Office Agency of the outcome of several appeals which resulted in large reductions in the relevant site's rateable value – the estimated resulting refunds have been provided for. However, the reduction in rateable value will also mean the council will have to repay around £5m of Transitional Relief from its Collection Fund in 2017/2018.

# Note 7 Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital purposes £000	Net change for the Pensions Adjustments £000	Other Statutory Adjustments £000	2016/2017 Total Adjustments £000
People Directorate	11,845	376	3,361	15,582
Policy and Resources Directorate	(72)	182	1,005	1,115
Places Directorate	17,029	680	964	18,673
Corporate and Central Services	(5,431)	(81)	(5,699)	(11,211)
Net Cost of Services	23,371	1,157	(369)	24,159
Other income and expenditure from the EFA	(52,851)	7,946	8,450	(36,455)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services	(29,480)	9,103	8,081	(12,296)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital purposes £000	Net change for the Pensions Adjustments £000	Other Statutory Adjustments £000	2015/2016 Total Adjustments £000
People Directorate	7,596	2,042	1,672	11,310
Policy and Resources Directorate	151	575	(1,631)	(905)
Places Directorate	26,981	1,853	(152)	28,682
Corporate and Central Services	(7,204)	(428)	(4,674)	(12,306)
Net Cost of Services	27,524	4,042	(4,785)	26,781
Other income and expenditure from the EFA	(7,521)	9,278	8,603	10,360
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services	20,003	13,320	3,818	37,141

#### Segmental Income

Income received on a segmental basis is analysed below:

		Revenues from
	Revenue from	Transactions with
2016/2017	External	Other Operating
	Customers	Segments of the
		Authority
	£000	£000
People Directorate	(18,726)	(8,683)
Policy and Resources Directorate	(2,602)	(2,124)
Places Directorate	(21,401)	(16,637)
Corporate and Central Services	(1,462)	(619)
Total income analysed on a segmental basis	(44,191)	(28,063)

2015/2016	Revenue from External Customers £000	Revenues from Transactions with Other Operating Segments of the Authority F000
People Directorate	(16,712)	(9,248)
Policy and Resources Directorate	(2,910)	(2,034)
Places Directorate	(20,980)	(15,921)
Corporate and Central Services	(2,471)	(588)
Total income analysed on a segmental basis	(43,073)	(27,791)

Revenue from External Customers – Income from organisations/individuals from outside the council, excluding any grant income.

Revenues from Transactions within Other Operating Segments – Income to the segment from internally trading/recharging to another segment within the council.

### Note 8 Expenditure and Income Analysed by Nature

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

	2016/2017	2015/2016
	£000	£000
Expenditure/Income		
Expenditure		
Employee benefits expenses	153,406	154,560
Other services expenses	174,161	169,720
Depreciation, amortisation, impairment	22,300	16,676
Interest payments	6,207	5,932
Precepts and levies	2,623	2,571
(Gain)/Loss on the disposal of assets	1,358	16,330
Other Expenditure (REFCUS)	1,967	13,850
Total expenditure	362,023	379,639
Income		
Fees, charges and other service income	(43,270)	(43,258)
Interest and investment income	(23)	(80)
Income from council tax, non-domestic rates income	(97,122)	(91,570)
Government grants and contributions	(228,764)	(203,693)
Other Income	(5,140)	(3,897)
Total income	(374,319)	(342,498)
Surplus or Deficit on the Provision of Services	(12.296)	37.141

# Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations

	Usable Reserves						
2016/2017	General	Capital	Capital	Movement			
	Fund	Receipts	Grants	in Unusable			
	Balance	Reserve	Unapplied	Reserves			
	£000	£000	£000	£000			
Adjustments to the Revenue Resources							
Amounts by which income and expenditure included in the Comprehensive Income and Expenditu	ire Statement ai	re different from	revenue for the	year			
calculated in accordance with statutory requirements.							
Pension cost (transferred to (or from) the Pensions Reserve)	9,103			(9,103)			
Council tax and NDR (transfers to or from the Collection Fund)	1,779			(1,779)			
Holiday pay (transferred to the Accumulated Absences reserve)	(1,207)			1,207			
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to							
capital expenditure (these items are charged to the Capital Adjustment Account)	(18,043)			18,043			
Total Adjustments to Revenue Resources	(8,368)	0	0	8,368			
Adjustments between Revenue and Capital Resources							
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,866)	1,866		0			
Administrative costs of non-current asset disposals (funded by a contribution from the Capital							
Receipts Reserve)	75	(75)		0			
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	(678)			678			
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(5,342)			5,342			
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(592)			592			
Total Adjustments to Revenue Resources	(8,403)	1,791	0	6,612			
Adjustments to Capital Resources							
Use of the Capital Receipts Reserve to finance capital expenditure	0	0					
Application of capital grants to finance capital expenditure	(3,035)		3	3,032			
Cash payments in relation to deferred capital receipts		0		0			
Total Adjustments to Capital Resources	(3,035)	0	3	3,032			
Total Adjustments	(19,806)	1,791	3	18,012			

	Usable Reserves						
2015/2016	General	Capital	Capital	Movement			
	Fund	Receipts	Grants	in Unusable			
	Balance	Reserve	Unapplied	Reserves			
	£000	£000	£000	£000			
Adjustments to the Revenue Resources							
Amounts by which income and expenditure included in the Comprehensive Income and Expenditu	ire Statement a	re different from	revenue for the	year			
calculated in accordance with statutory requirements.							
Pension cost (transferred to (or from) the Pensions Reserve)	13,320			(13,320)			
Council tax and NDR (transfers to or from the Collection Fund)	1,753			(1,753)			
Holiday pay (transferred to the Accumulated Absences reserve)	208			(208)			
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	35,205			(35,205)			
Total Adjustments to Revenue Resources	50,486	0	0	(50,486)			
Adjustments between Revenue and Capital Resources							
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,829)	3,829					
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	153	(153)					
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(7,247)			7,247			
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(340)			340			
Total Adjustments to Revenue Resources	(11,263)	3,676	0	7,587			
Adjustments to Capital Resources							
Use of the Capital Receipts Reserve to finance capital expenditure		(3,676)		3,676			
Application of capital grants to finance capital expenditure	(3,939)		(4,605)	8,544			
Cash payments in relation to deferred capital receipts		0		0			
Total Adjustments to Capital Resources	(3,939)	(3,676)	(4,605)	12,220			
Total Adjustments	35,284	0	(4,605)	(30,679)			

### Note 10 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund Expenditure in 2016/2017.

		2015,	2016,	2016/2017			
	Balance			Balance			Balance
	as at 1 April	Transfers	Transfers	as at 31 March	Transfers	Transfers	as at 31 March
	2015	In	Out	2016	In	Out	2017
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Revenue Support Reserve	12,293	956	(2,741)	10,508	3,741	(1,055)	13,194
Revenue Grants	10,179	3,975	(3,528)	10,626	2,173	(6,548)	6,251
Dedicated Schools Grant	3,022	1,829	(1,993)	2,858	317	(809)	2,366
Public Health	2,309	118	(225)	2,202	33	0	2,235
Safety Camera Partnership	1,064	1,157	(1,064)	1,157	100	0	1,257
Schools Delegated Reserve	3,048	411	(530)	2,929	0	(1,855)	1,074
Commuted Sums	70	640	(130)	580	145	(439)	286
Self-Insurance	284	0	0	284	0	0	284
Property Trading Account	42	385	(222)	205	61	(9)	257
Scunthorpe Special Expenses	205	114	(110)	209	34	(37)	206
Dedicated Schools Grant-Delegated	240	182	(240)	182	0	0	182
Organisational Development Programme	0	0	0	0	100	0	100
Shared Service Development	113	0	0	113	0	(38)	75
Licensing	0	0	0	0	53	0	53
Finance Systems Implementation	0	0	0	0	50	0	50
Crematorium Enhancement Fund	37	2	(35)	4	3	0	7
General Carry Forwards	2,736	1,898	(2,736)	1,898	0	(1,898)	0
Insurance	1,173	0	0	1,173	0	(1,173)	0
Pumping Stations	156	30	0	186	0	(186)	0
Legal Services Reserve	172	0	0	172	0	(172)	0
Flood Reserve	101	0	0	101	0	(101)	0
Total Earmarked Reserves	37,244	11,697	(13,554)	35,387	6,810	(14,320)	27,877

### Revenue Support Reserve

This reserve has been set aside to fund specific spending requirements in future years as part of the council's medium term financial plan.

### **Revenue Grants**

This reserve has been set aside to hold the balances of revenue grants where the conditions of use have been met but remain unapplied at year end.

### **Dedicated Schools Grant**

This reserve has been set aside to hold the balance of the Dedicated Schools Grant received but unapplied at year end.

### Self-Insurance

This reserve is held to meet the costs of claims which are insured internally.

### **Property Trading Account**

This reserve is earmarked for use in managing the council's stock of commercial properties and promoting economic growth.

### **Note 11 Other Operating Expenditure**

	2016/2017	2015/2016
	£000	£000
Levies	1,278	1,269
Parish council precepts	1,345	1,302
(Gains)/losses on the disposal of non-current assets	1,358	16,330
	3,981	18,901

### Note 12 Financing and Investment Income and Expenditure

	2	016/2017		2015/2016		
	Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
Interest payable and similar charges	6,207	0	6,207	5,932	0	5,932
Net interest on the net defined benefit liability (asset)	7,947	0	7,947	9,278	0	9,278
Interest receivable and similar income	0	(23)	(23)	0	(80)	(80)
Income and expenditure in relation to investment properties and changes in						
their fair value	2,382	(7,595)	(5,213)	1,932	(8,360)	(6,428)
Other investment income (see note 30)	13,133	(13,791)	(658)	13,683	(13,801)	(118)
Total	29,669	(21,409)	8,260	30,825	(22,241)	8,584

### Note 13 Taxation and Non-specific Grant Income and Expenditure

Taxation and Non-Specific Grant Income and Expenditure	2016/2017	2015/2016
Taxacion and Non-Specific Grant income and Expenditure	£000	£000
Council Tax Income	(63,299)	(60,599)
Non Domestic Rates Income and Expenditure	(33,823)	(30,971)
Non-ring-fenced government grants	(26,978)	(33,584)
Capital Grants and Contributions and Donations	(48,996)	(17,426)
Total Taxation and Non-Specific Grant Income and Expenditure	(173,096)	(142,580)

## Note 14 Property, Plant and Equipment

### Current Year

Current real			Proporty-Ple	ınt & Equipment	(DD9.E)					
	Other		Vehicles.	mt & Equipment	(PP&E)					
	Land and	Infrastructure	Plant &	Community	PP&E Under	Surplus	Total	Investment	Intangible	
	Buildings	Assets	Equipment	Assets	Construction	Assets	PP&E	Properties	Assets	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation										
Balance as at 1 April 2016	346,012	108,967	12,371	3,814	4,419	16,959	492,542	45,947	903	539,392
Adjustments between cost/value &										
depreciation/impairment	(2)	1	2	(1)	1	1	2	1	0	3
Adjusted opening balance	346,010	108,968	12,373	3,813	4,420	16,960	492,544	45,948	903	539,395
Additions	10,884	10,025	1,680	205	4,139	76	27,009	258	271	27,538
Donations	37,500	0	0	0	0	0	37,500	0	0	37,500
Revaluation increases/decreases to	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-	_	_	_		, , , , , , , , , , , , , , , , , , , ,			, , , , , , , , , ,
Revaluation Reserve	5,600	0	0	(296)	0	(1,007)	4,297	0	0	4,297
Revaluation increases/decreases to	-,	-		( /	-	( , ,	,			,
Surplus or Deficit on the Provision of										
Services	(2,559)	0	0	0	0	(1,838)	(4,397)	1,832	0	(2,565)
De-recognition - Disposals	(1,762)	(258)	(1,809)	0	0	0	(3,829)	(1.394)	(131)	(5,354)
De-recognition - Other	0	0	0	0	0	0	0	0	0	0
Reclassifications & Transfers	(6,605)	500	0	385	(2.987)	2,193	(6,514)	6,514	0	0
Reclassified to/from Held for Sale	820	0	0	0	(254)	(8,442)	(7,876)	0	0	(7,876)
Other movements	0	1	0	0	(234)	0	1	0	1	2
Balance as at 31 March 2017	389,888	119,236	12,244	4,107	5,318	7,942	538,735	53,158	1,044	592,937
Balance as at 51 March 2017	303,000	113,230	12,244	4,107	3,310	7,342	330,733	33,130	1,044	332,337
Depreciation and Impairment										
Balance as at 1 April 2016	(25,853)	(29,177)	(6,955)	(661)	(26)	(2,064)	(64,736)	0	(275)	(65,011)
Adjustments between cost/value &	(23,833)	(23,177)	(0,933)	(001)	(20)	(2,004)	(04,730)		(273)	(03,011)
depreciation/impairment	3	0	(2)	1	0	(1)	1	(1)	0	0
Adjusted opening balance	(25,850)	(29,177)	(6,957)	(660)	(26)	(2,065)	(64,735)	(1)	(275)	(65,011)
Depreciation Charge	(10,594)	(6,149)	(1,252)	(132)	(26)	(5)	(18,132)	(1)	(147)	(18,279)
Depreciation charge  Depreciation written out on Revaluation	(10,594)	(6,149)	(1,252)	(132)	U	(5)	(18,132)	U	(147)	(18,279)
Reserve	7,290	0	0	0	0	414	7,704	0	0	7,704
Depreciation written out on Revaluation	7,290	U	U	U	U	414	7,704	U	U	7,704
taken to Surplus or Deficit on the										
Provision of Services	472	0	0	0	0	16	488	160	0	648
Impairment losses/reversals to	472	0	0	U	U	10	400	100		048
· ·	(4,711)	0	0	0	0	4	(4.707)	0	0	(4 707)
Revaluation Reserve Impairment losses/reversals to Surplus	(4,/11)	U	U	U	U	4	(4,707)	U	, , , , , , , , , , , , , , , , , , ,	(4,707)
or Deficit on the Provision of Services	(4,189)	0	0	(1)	0	16	(4,174)	0	0	(4,174)
		257	1,777	0	0	0		0		
De-recognition - Disposals	299 0		,	0	0	0	2,333	0	131	2,464 0
De-recognition - Other	0	0	0	0	0		0	0	0	
Reclassifications & Transfers	U	0	0	0	0	0	U	0	0	0
Eliminated on reclassification to Held	500	_	_		_	770	4 265	(474)	_	4 404
for Sale	586	(35.000)	(6.422)	(702)	0	779	1,365	(174)	(201)	1,191
Balance as at 31 March 2017	(36,697)	(35,069)	(6,432)	(793)	(26)	(841)	(79,858)	(15)	(291)	(80,164)
Net Book Value									1	
Balance as at 31 March 2017	353,191	84,167	5,812	3,314	5,292	7,101	458,877	53,143	753	512,773
Balance as at 31 March 2017  Balance as at 31 March 2016	320,159	79,790	5,812	3,314	4,393	14,895	427,806	45,947	628	474,381
Datatice as at 31 Ivial CII 2010	320,139	13,130	3,410	3,133	4,333	14,073	441,000	+3,34/	1 028	4/4,301

#### Comparator Year

Comparator fear				nt & Equipment	: (PP&E)					
	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000	Investment Properties £000	Intangible Assets £000	TOTAL £000
Cost or Valuation										
Balance as at 1 April 2015	355,002	97,317	12,943	1,653	2,200	10,550	479,665	41,804	511	521,980
Adjustments between cost/value &										
depreciation/impairment	0	0	0	0	0	0	0		0	0
Adjusted opening balance	355,002	97,317	12,943	1,653	2,200	10,550	479,665	41,804	511	521,980
Additions	6,180	11,663	1,193	248	3,304	388	22,976	2,277	392	25,645
Donations	0	0	0	0	0	0	0	0	0	0
Revaluation increases/decreases to										
Revaluation Reserve	6,785	(11)	0	0	0	4,069	10,843	0	0	10,843
Revaluation increases/decreases to Surplus or Deficit on the Provision of										
Services	(3,520)	(11)	(65)	0	0	3	(3,593)	2,924	0	(669)
De-recognition - Disposals	(15,394)	0	(1,700)	0	0	(76)	(17,170)	(1,237)	0	(18,407)
De-recognition - Other	0	0	0	0	0	0	0	0	0	0
Reclassifications & Transfers	(3,041)	9	0	1,913	(1,085)	2,025	(179)	179	0	0
Reclassified to/from Held for Sale	0	0	0	0	0	0	0	0	0	0
Other movements	0	0	0	0	0	0	0	0	0	0
Balance as at 31 March 2016	346,012	108,967	12,371	3,814	4,419	16,959	492,542	45,947	903	539,392
Depreciation and Impairment										
Balance as at 1 April 2015	(25,133)	(23,579)	(6,945)	0	0	(1,621)	(57,278)	0	(198)	(57,476)
Adjustments between cost/value &										
depreciation/impairment	0	0	0	0	0	0	0	0	0	0
Adjusted opening balance	(25,133)	(23,579)	(6,945)	0	0	(1,621)	(57,278)	0	(198)	(57,476)
Depreciation Charge	(9,074)	(5,599)	(1,416)	(118)	0	(35)	(16,242)	0	(77)	(16,319)
Depreciation written out on										
Revaluation Reserve	6,695	0	0	0	0	87	6,782	0	0	6,782
Depreciation written out on										
Revaluation taken to Surplus or Deficit										
on the Provision of Services	2,287	1	65	0	0	17	2,370	34	0	2,404
Impairment losses/reversals to	(4.705)		_	_	_	4.5	(4.505)		_	(4.505)
Revaluation Reserve	(1,705)	0	0	0	0	13	(1,692)	0	0	(1,692)
Impairment losses/reversals to Surplus	F4	_	(2)	/F)	(20)	(274)	/257	0	_	(257)
or Deficit on the Provision of Services	51 303	0	(3)	(5)	(26)	(374)	(357)	0	0	(357)
De-recognition - Disposals	303	0	1,344 0	0	0	0	1,647	0	0	1,647
De-recognition - Other	723	0	0		0		34		0	0
Reclassifications & Transfers	/23	0	Ü	(538)	0	(151)	34	(34)	0	U
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0	0	0	0	0
Balance as at 31 March 2016								0	(275)	
Dalance as at 31 March 2016	(25,853)	(29,177)	(6,955)	(661)	(26)	(2,064)	(64,736)	0	(2/5)	(65,011)
Net Book Value										<u> </u>
Balance as at 31 March 2016	320,159	79,790	5,416	3,153	4,393	14,895	427,806	45,947	628	474,381
Balance as at 31 March 2015	329,869	73,738	5,998	1,653	2,200	8,929	422,387	41,804	313	464,504

### Depreciation

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

- Other Land and Buildings 1–90 years
- Vehicles, Plant, Furniture & Equipment 1-30 years
- Infrastructure straight-line allocation over the useful life of the property as estimated by a suitably qualified officer

### **Capital Commitments**

At 31 March 2017, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/2017 and future years. Of these contracts, those considered to be major contracts are those having outstanding commitments in excess of £1m. As at 31 March 2017, two contracts met this criteria:

- North Axholme Sport Centre at £5.5m
- LED Street Lighting Replacement at £2.4m

### **Effects of Changes in Estimates**

No material changes in estimates have been made in year. Useful lives are assessed as part of the valuation rolling programme.

### Revaluations

The council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations except two were carried out internally. The District Valuer was appointed to provide two specific valuations. Valuations of land and buildings were carried out in

accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the current values of property, plant and equipment are:

- that good title can be shown and all valid planning permissions and statutory approvals are in place;
- that all easements; rights of way, restrictions and other encumbrances have been considered
- that the properties are in good repair unless otherwise stated
- that any services are in good working order or free from defect unless otherwise stated
- that no deleterious or hazardous materials have been used in the construction nor any existing or potential environmental factors are known that could affect the values.

The table below shows the property, plant and equipment held on the asset register valued at historical cost or at the fair value of the asset at the time of valuation (5-year rolling programme).

2016/2017 Valuation of PPE	Land and Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total PPE
Carried at historical cost	92,773	5,812	0	98,585
Valued at fair value as at:				
31/03/2017	118,777	0	3,642	122,419
31/03/2016	94,764	0	361	95,125
31/03/2015	62,497	0	1,598	64,095
31/03/2014	49,824	0	1,500	51,324
31/03/2013	27,327	0	0	27,327
Total Cost or Valuation	445,962	5,812	7,101	458,875

### Fair Value Measurement for Surplus Assets and Investment Properties

See Note 1 (xxiii) for an explanation of fair value and the fair value levels.

#### Fair Value Hierarchy

Details of the council's surplus assets and investment properties as at 31 March 2017 are as follows:

2016/2017 Recurring fair value measurements using:	Significant unobservable inputs (Level 3) £000	Fair value £000		
Surplus Assets:				
All Surplus Assets	7,101	7,101		
Total Surplus Assets	7,101	7,101		
Investment Properties:				
Residential (Market Rental) Properties	0	0		
Office Units	0	0		
Commercial Units	53,143	53,143		
Total Investment Properties	53,143	53,143		

### Comparator year:

Comparator year.			
2015/2016 Recurring fair value measurements using:	Significant unobservable inputs (Level 3) £000	Fair value	
Surplus Assets:			
All Surplus Assets	14,895	14,895	
Total Surplus Assets	14,895	14,895	
Investment Properties:			
Residential (Market Rental) Properties	0	0	
Office Units	0	0	
Commercial Units	45,947	45,947	
Total Investment Properties	45,947	45,947	

### Determined value level, valuation process and techniques

There is limited evidence in respect of actual transactions for this region and no publicly available market reports for North Lincolnshire. Much of the evidence of actual sales comes for this region from North Lincolnshire Council itself. Adjustments are required to reflect the location, size, age, use and condition of the assets. The council's assets 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 and there is no readily available information that indicates that market participants would use different assumptions.

All valuations are normally carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The council's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters

The Industrial and commercial units located in the local authority area are valued on an income approach that is based on capitalisation of current rental income and taking into account existing lease terms, any increases at the next review and other lease terms. Rentals and yields are derived from market evidence for similar properties in the local authority area adjusted to reflect each asset. The rental comparables are measured from a mixture of deals on council assets and third party assets. The yields are derived from third party sales and discussions with other agents and the District Valuer.

The agricultural valuations are based on market comparable rents and yields for similar properties in the local authority area taking into account existing lease terms, any increases at the next review and other lease terms. Rentals and yields are derived from market evidence for similar properties in the local authority area adjusted to reflect each asset. The rental comparables are a mixture of deals on council assets and third party assets. The yields are derived from third party sales and discussions with other agents and the District Valuer. The fair value of the council's investment property is measured annually at each reporting date.

The fair value of the council's Surplus Assets is measured at 5 yearly intervals.

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

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

### Reconciliation of Fair Value Measurements

2016/2017 Assets categorised within Level 3	Surplus Assets £000	Investment Properties £000
Opening Balance	14,895	45,947
Reclassifications in at Level 3	2,193	6,514
Reclassifications out of at Level 3	(7,663)	(174)
Transfers into Level 3	0	0
Transfers out of Level 3	0	0
Total gains [or losses] for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	(2,400)	1,992
Additions	76	258
Disposals	0	(1,394)
Closing Balance	7,101	53,143

### Comparator year:

2015/2016 Assets categorised within Level 3	Surplus Assets £000	Investment Properties £000
Opening Balance	8,929	41,804
Reclassifications in at Level 3	2,200	460
Reclassifications out of at Level 3	(326)	(315)
Transfers into Level 3	0	0
Transfers out of Level 3	0	0
Total gains [or losses] for the period included in the Surplus or Deficit on		
the Provision of Services resulting from changes in fair value	3,780	2,958
Additions	388	2,277
Disposals	(76)	(1,237)
Closing Balance	14,895	45,947

Gains arising from changes in the fair value of surplus assets are recognised in the revaluation reserve, unless they reverse a previous impairment charged to the Surplus or Deficit on the Provision of Services. Losses arising from changes in the fair value of the surplus assets reduce any revaluation reserve balance relating to that asset and, thereafter, are recognised in Surplus or Deficit on the Provision of Services.

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

#### Quantitative Information about Fair Value

Subcategory at Fair Value Level 3	2016/2017 £000	Valuation technique used to measure fair value	Unobservable inputs	Sensitivity
Surplus Assets:				
Land	7,040	market comparison/ residual	sale levels finance / construction costs build period	significant changes in sale levels, finance and construction costs will result in a significantly lower or higher fair value
Buildings	61	market comparison/ residual	sale levels finance / construction costs build period	significant changes in sale levels, finance and construction costs will result in a significantly lower or higher fair value
Investment Properties				
			Rent Growth	Significant changes in rental income and rent growth,
Industrial and commercial units	51,511	market comparison	Vacancy Levels	Vacancy levels or yields will result in a significantly
			Yields	Lower or higher value
			Rent Growth	Significant changes in rental income and rent growth,
Agricultural units	1,632	market comparison	Vacancy Levels	Vacancy levels or yields will result in a significantly
			Yields	Lower or higher value

### **Note 15 Heritage Assets**

	Civic Regalia £000	Museum Collection £000	Total Assets £000
Cost or Valuation Balance as At 1 April 2015	159	880	1,039
Movements	0	0	0
Balance as at 31 March 2016	159	880	1,039
Cost or Valuation			
Balance as At 1 April 2016	159	880	1,039
Movements	0	0	0
Balance as at 31 March 2017	159	880	1,039

### **Museum Collection**

This category includes the exhibits on display and in storage at Scunthorpe Museum and Normanby Hall.

### Civic Regalia

This category includes a variety of items including items held by the council's predecessors Scunthorpe and Glanford Borough Councils.

### **Note 16 Investment Properties**

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

### Income and Expenditure from Investment Properties

	2016/2017	2015/2016
	£000	£000
Rental income from investment property	(4,066)	(4,036)
Direct operating expenses arising from investment property	988	696
Net (Gain)/Loss	(3,078)	(3,340)

There are no restrictions on the council's ability to realise the value inherent in its investment property and none on the council's right to the remittance of income but there are some restrictions on the council's right to the proceeds of disposal due to the conditions of grant funding. The council has no contractual obligations to purchase, construct or develop investment property or on repairs, maintenance or enhancement.

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

The remarkable carrier and remarkable and remarkabl						
	2016/2017	2015/2016				
	£000	£000				
Balance at start of the year	45,947	41,804				
Additions:						
- Purchases	258	2,277				
- Construction	0	0				
- Subsequent expenditure	0	0				
Disposals	(1,394)	(1,237)				
Net (gains)/losses from fair value adjustments	1,992	2,958				
Transfers:						
- to/from Assets Held for Sale	777	0				
- to/from Property, Plant and Equipment	5,563	145				
Other changes	0	0				
Balance at end of the year	53,143	45,947				

### **Note 17 Intangible Assets**

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful lives assigned to the major software suites used by the council are:

Client access Licences – 18 years Microsoft office Licences – 10 years Carefirst – 5 years

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £147k charged to revenue in 2016/2017 was charged to People Services (£39k) and Policy & Resources Services (£108k) in the Cost of Services.

The movement on intangible asset balances during the year can be seen in Note 14.

### **Note 18 Financial Instruments**

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

	Long	g-term	Current		
	2016/2017	2015/2016	2016/2017	2015/2016	
	£000	£000	£000	£000	
Investments					
Unquoted equity investment at cost	64	64	0	0	
Total investments	64	64	0	0	
Debtors					
Loans and receivables	49	76	350	360	
Financial assets carried at contract amounts	0	0	17,431	14,840	
Total Debtors	49	76	17,781	15,200	
Borrowings					
Financial liabilities at amortised cost	131,547	119,459	30,065	14,041	
Total borrowings	131,547	119,459	30,065	14,041	
Creditors					
Financial liabilities carried at contract amount	0	0	25,093	29,030	
Total creditors	0	0	25,093	29,030	

Amounts relating to Financial Instruments recognised in the Comprehensive Income and Expenditure Account:

	2016/2017			20	015/2016	
	Financial	Financial		Financial	Financial	
	Liabilities Liabilities	Assets		Liabilities Liabilities	Assets	
	measured	Available-		measured	Available-	
	at amortised	for-sale assets	Total	at amortised	for-sale assets	Total
	cost			cost		
	£000	£000	£000	£000	£000	£000
Interest expense	6,207	0	6,207	5,932	0	5,932
Impairment losses	0	0	0	0	0	0
Total expense in Surplus or Deficit on the Provision of						
Services	6,207	0	6,207	5,932	0	5,932
Amounts recycled to the Surplus or Deficit on the Provision						
of Services after impairment	0	0	0	0	0	0
Surplus/(deficit) arising on revaluation of financial assets in						
Other Comprehensive Income and Expenditure	0	0	0	0	0	0
Net gain/(loss) for the year	6,207	0	6,207	5,932	0	5,932

### Fair Values of Financial Assets and Financial Liabilities

Financial liabilities and 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:

- Estimated ranges of interest rates at 31 March 2017 of 1.03% to 10.63% for loans from the PWLB and 9.69% to 9.94% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

This table shows the carrying value and fair value of the loans to the council by the Public Works Loans Board and other organisations.

	2016/2	.017	2015/2016		
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000	
Financial liabilities:					
PWLB	140,959	184,238	118,367	156,705	
Bonds	3,500	3,500	5,000	5,707	
Other Borrowing	17,153	17,153	10,133	10,133	
Total	161,612	204,891	133,500	172,545	

### Fair value hierarchy:

,	2016/2017							
Recurring Fair Value Measurements using:	Quoted prices in active markets for identical assets / liabilities (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total				
	£000	£000	£000	£000				
Financial Liabilities								
Financial liabilities held at a	mortised cost:							
PWLB	184,238	0	0	184,238				
Bonds	0	3,500	0	3,500				
Other Borrowing	17,153	0	0	17,153				
Total	201,391	3,500	0	204,891				

### Comparator year

	2015/2016							
Recurring Fair Value Measurements using:	Quoted prices in active markets for identical assets / liabilities (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total				
	£000		£000	£000				
Financial Liabilities								
Financial liabilities held at a	mortised cost:							
PWLB	156,705	0	0	156,705				
Bonds	0	5,707	0	5,707				
Other Borrowing	10,133	0	0	10,133				
Total	166,838	5,707	0	172,545				

### **Note 19 Inventories**

In undertaking its work the council holds reserves of stock.

The figure shown in the Balance Sheet is broken down as follows:

		Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in year £000	Written off balances £000	Reversals of write- offs in previous years £000	Balance outstanding at end of year £000
Waste Stock	2016/2017	151	105	(84)	(39)	0	133
	2015/2016	141	164	(101)	(53)	0	151
Highways Materials	2016/2017	137	127	(152)	(2)	0	110
	2015/2016	156	290	(308)	(1)	0	137
Highways Salt Stock	2016/2017	0	133	(69)	0	0	64
Highways Sait Stock	2015/2016	0	0	0	0	0	0
Fleet Stock	2016/2017	72	756	(769)	0	0	59
FIEEL SLOCK	2015/2016	76	729	(733)	0	0	72
Technical & Environment Stock	2016/2017	0	0	0	0	0	0
recriffical & Environment Stock	2015/2016	36	0	(36)	0	0	0
Consta Facilities Tondino	2016/2017	0	0	0	0	0	0
Sports Facilities Trading	2015/2016	23	0	(23)	0	0	0
Normanhy Hall Trading	2016/2017	0	0	0	0	0	0
Normanby Hall Trading	2015/2016	16	0	(16)	0	0	0
Tatal	2016/2017	360	1,121	(1,074)	(41)	0	366
Total	2015/2016	448	1,183	(1,217)	(54)	0	360

### **Note 20 Debtors**

	Long terr	m debtors	Short terr	m debtors
	2016/2017 £000	2015/2016 £000	2016/2017 £000	2015/2016 £000
Central Government Bodies	0	0	2,095	1,202
Other Local Authorities	0	0	1,696	1,650
NHS Bodies	0	0	4,322	1,636
Other entities and individuals	0	0	10,511	11,244
Prepayments	0	0	975	1,085
Impairment of loans and receivables	0	0	(2,168)	(1,977)
Loans and Advances	49	76	350	360
Total of Financial Instruments	49	76	17,781	15,200
NDR & Council Tax	0	0	11,381	9,835
Value Added Tax	0	0	2,335	2,203
Non-Financials Instruments	0	0	13,716	12,038
	49	76	31,497	27,238

### Note 21 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand and in bank and short term deposits and investments (considered to be cash equivalents), net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

	2016/2017	2015/2016
	£000	£000
Cash and Bank balances	(4,040)	(742)
Short Term Investments	7,592	1,052
Total	3.552	310

### **Note 22 Assets Held for Sale**

These assets are being actively marketed for sale

	2016/2017 £000	2015/2016 £000
Balance outstanding at start of year	5,919	8,030
Additions	133	0
Transferred from Non-Current Assets during year:		
- Property Plant and Equipment	7,508	0
Revaluation losses	0	(24)
Revaluation gains	1,790	1,030
Impairment gains/losses to revenue	153	0
Impairment gains/losses to revaluation reserve	(461)	0
Assets declassified as held for sale to PPE	(822)	0
Assets sold	(634)	(3,117)
Balance outstanding at year-end	13,586	5,919

### **Note 23 Creditors**

These are amounts owed by the council in the next twelve months:

Short Term Creditors	2016/2017 £000	2015/2016 £000
Central government bodies	3,924	3,689
Other local authorities	612	670
NHS bodies	893	932
NNDR & Council Tax	7,568	6,978
Accumulated Absences	2,161	3,369
Receipts in Advance	1,172	1,804
Bodies external to general government	8,763	11,588
Total Short Term Creditors	25,093	29,030

### **Note 24 Provisions**

A provision is a liability of uncertain timing or amount. Amounts and timings are subject to future insurance, NNDR appeal and legal decisions.

### **Current Year**

	Balance as at 1 April 2016 £000	Increase in provision during year £000	Utilised during year £000	Unwinding of discount	Balance as at 31 March 2017 £000	Estimated to Current Provision £000	be settled: Long Term Provision £000
NNDR Appeals	3,645	3,301	(2,117)	0	4,829	3,234	1,595
Insurance Claims	1,394	543	(613)	0	1,324	951	373
Municipal Mutual	59	0	0	0	59	0	59
Other	18	18	0	0	36	36	0
	5,116	3,862	(2,730)	0	6,248	4,221	2,027

### **Comparator Year**

	Balance as at 1 April 2015 £000	Increase in provision during year £000	Utilised during year £000	Unwinding of discount	Balance as at 31 March 2016 £000	Estimated to Current Provision £000	be settled: Long Term Provision £000
NNDR Appeals	6,512	3,645	(6,512)	0	3,645	2,169	1,476
Insurance Claims	1,544	360	(510)	0	1,394	837	557
Municipal Mutual	59	0	0	0	59	0	59
Other	27	0	(9)	0	18	18	0
	8,142	4,005	(7,031)	0	5,116	3,024	2,092

### National Non-Domestic Rates Appeals (NNDR)

This provision has been established to meet the council's share of the estimated costs of settling appeals against the NNDR valuation of properties currently lodged with the Valuation Office Agency (VOA). The figure of £4.8m is the council's share of the full £9.8m appeals provision made from the collection fund.

### Insurance Claims

This provision has been set aside to meet the estimated costs of current insurance claims that will not be met by the council's insurance policies.

### Municipal Mutual

This provision was set aside to meet the cost of a payment levied by the administrators of Municipal Mutual Insurance. An initial levy payment was made in 2012/2013. The provision has been maintained to cover the costs of any further levy payments.

#### Other

This covers a number of smaller provisions that are held to account for potential liabilities that are likely to result in a payment having to be made by the council but for which the timing amount is currently uncertain.

### Note 25 Usable Reserves

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement.

### Note 26 Unusable Reserves

#### Unusable Reserves

	2016/2017 £000	2015/2016 £000
Capital Adjustment Account	223,421	190,502
Revaluation Reserve	108,106	107,183
Deferred Capital Receipts Reserve	678	0
Pensions Reserve	(231,303)	(226,642)
Collection Fund Adjustment Account	(1,711)	68
Accumulated Compensated Absences Adjustment Account	(2,162)	(3,369)
Total Unusable Reserves	97,029	67,742

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2016	/2017	2015	/2016
	£000	£000	£000	£000
Balance at 1 April 2016		190,502		198,374
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and				
Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(22,153)		(16,599)	
Revaluation losses on Property, Plant and Equipment	(2,119)		(1,247)	
Amortisation of Intangible Assets	(147)		(77)	
Revenue expenditure funded from capital under statute	(1,967)		(13,850)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the				
Comprehensive Income and Expenditure Statement	(3,524)		(19,877)	
		(29,910)		(51,650)
Adjusting amounts written out of the Revaluation Reserve		5,910		7,526
Net written out amount of the cost of non-current assets consumed in the year		(24,000)		(44,124)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	0		3,676	
Application of grants to capital financing from the Capital Grants Unapplied Account	3,032		8,544	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have				
been applied to capital financing	8,461		13,487	
Statutory provision for the financing of capital investment charged against the General Fund balance	5,342		7,247	
Capital expenditure charged against the General Fund balance	592		340	
		17,427		33,294
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and				
Expenditure Statement		1,992		2,958
Donated Asset credited to the Comprehensive Income and Expenditure Statement		37,500		0
Balance at 31 March 2017		223,421		190,502

#### **Revaluation Reserve**

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets.

The balance is reduced when assets with accumulated gains are:

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

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

	2016/2017	2015/2016
	£000	£000
Balance at 1 April 2016	107,183	97,746
Upward revaluation of assets	6,833	16,963
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the		
Provision of Services	6,833	16,963
Difference between fair value depreciation and historical cost depreciation	(4,811)	(2,847)
Revaluation balances on assets scrapped or disposed of	(1,099)	(4,679)
Amount written off to the Capital Adjustment Account	(5,910)	(7,526)
Balance at 31 March 2017	108,106	107,183

### **Deferred Capital Receipts Reserve**

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

	2016/2017 £000	2015/2016 £000
Balance at 1 April	0	0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the		
Comprehensive Income and Expenditure Statement	678	0
Transfer to the Capital Receipts Reserve upon receipt of cash	0	0
Balance at 31 March	678	0

### **Pensions Reserve**

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

	2016/2017 £000	2015/2016 £000
Balance at 1 April	(226,642)	(287,942)
Re-measurements of the net defined benefit liability/(asset)	4,442	74,620
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the		
Comprehensive Income and Expenditure Statement	(27,446)	(30,955)
Employers pensions contributions and direct payments to pensioners payable in the year	18,343	17,635
Balance at 31 March	(231,303)	(226,642)

### Collection Fund Adjustment Account

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

	2016/2017	2015/2016
	£000	£000
Balance at 1 April	68	1,821
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and		
Expenditure Statement is different from council tax income calculated for the year in accordance with		
statutory requirements	(1,779)	(1,753)
Balance at 31 March	(1,711)	68

### Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2016/2017 £000	2015/2016 £000
Balance at 1 April	(3,369)	(3,161)
Settlement or cancellation of accrual made at the end of the preceding year	3,369	3,161
Amounts accrued at the end of the current year	(2,162)	(3,369)
Balance at 31 March	(2,162)	(3,369)

### **Note 27 Cashflow from Operating Activities**

The cash flows for operating activities include the following items:

	2016/2017	2015/2016
	£000	£000
Interest Paid	(6,187)	(5,916)
Interest Received	54	165

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

	2016/2017	2015/2016
	£000	£000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	22,153	16,599
Impairment & downward valuations	2,119	1,247
Amortisation	147	77
Increase/(Decrease) in impairment for bad debts	191	(496)
(Increase)/Decrease in Inventories	(6)	88
(Increase)/Decrease in Debtors	(5,487)	(961)
Increase/(Decrease) in Creditors	182	470
Movement in pension liability	9,103	13,320
Carrying amount of non-current assets sold	2,425	19,877
Movement in provisions	1,132	(3,026)
Movement in value of investments properties	(1,992)	(2,958)
Adjust for Impairment reduction on cash equivalents		•
	29,967	44,237
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of PP&E, investment property and intangible assets	(2,469)	(3,676)
Capital grants include in Taxation & non-specific grant income	(11,496)	(17,426
	(13,965)	(21,102)

### **Note 28 Cashflow from Investing Activities**

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

	2016/2017	2015/2016
	£000	£000
Purchase of PP&E, investment property and intangible assets	(68,798)	(27,581)
Purchase of Long Term Investments	0	0
Proceeds from the sale of PP&E, investment property and intangible assets	3,706	1,203
Capital Grants and Contributions Received	11,496	17,426
Other Receipts from Investing Activities	0	0
Net Cash flows from Investing Activities	(53,596)	(8,952)

### **Note 29 Cashflow from Financing Activities**

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

	2016/2017	2015/2016
	£000	£000
Appropriation to/from Collection Fund Adjustment Account	1,778	1,753
Cash Receipts of short and long term borrowing	94,000	46,500
Cash payments for the reduction of the outstanding liability relating to a finance lease	0	(56)
Repayment of Short and Long Term Borrowing	(65,908)	(18,948)
Council Tax and NNDR Adjustments	(1,330)	(4,257)
Net Cash flows from Financing Activities	28,540	24,992

### **Note 30 Trading Operations**

Details of the council's significant Trading Operations are as follows:

		2016/2017	'		2015/2016	
	Expenditure £000	Income £000	Net Expenditure/ (Income) £000	Expenditure £000	Income £000	Net Expenditure/ (Income) £000
Fleet Management & Maintenance	4,693	(5,792)	(1,099)	4,817	(5,715)	(898)
Catering	5,827	(5,483)	344	5,673	(5,646)	27
Markets	483	(475)	8	602	(431)	171
Building Control	360	(413)	(53)	563	(330)	233
Building Cleaning/ Maintenance	1,770	(1,628)	142	2,028	(1,679)	349
Total	13,133	(13,791)	(658)	13,683	(13,801)	(118)

### **Note 31 Pooled Budgets**

North Lincolnshire Council and North Lincolnshire Clinical Commissioning Group (CCG) are involved in three Pooled Budget Schemes. The Pooled funds are for Learning Disability, Mental Health and Better Care Fund. The purpose of the pools are to deliver strategic national objectives for a modern service and improving service user and carer experiences.

The Better Care Fund pooled budget is split into separate funds:

Fund 2 – Capital Provision – Total value of £2,187k (£1,736k received from DCLG (relating to Disabled Facilities Grant) and £424k carried forward from the Department of Health (relating to Social Care Capital Grant). The fund is hosted by North Lincolnshire Council.

Fund 3 – Social Care Provision –Total value of £6,224k. The fund is hosted by North Lincolnshire Council.

und 5 – Social Care Provision – rotal value of £6,224k. The fund is nosted by North Encomstine Council.									
2015/2016	2015/2016	2015/2016	2015/2016		2016/2017	2016/2017	2016/2017	2016/2017	
		Better	Better				Better	Better	
Learning	Mental	Care Fund	Care Fund		Learning	Mental	Care Fund	Care Fund	
Disability	Health	(2)	(3)		Disability	Health	(2)	(3)	
£000	£000	£000	£000		£000	£000	£000	£000	
				Funding provided to the pooled budget:					
7,194	2,395	1,364	0	The Council	7,738	1,944	2,187	0	
410	11,890	0	7,224	The CCG	415	12,018	0	6,224	
7,604	14,285	1,364	7,224		8,153	13,962	2,187	6,224	
				Expenditure met from the pooled budget:					
7,198	2,686	940	7,224	The Council	7,576	2,910	1,127	6,224	
410	11,891	0	0	The CCG	617	12,018	0	0,	
7,608	14,577	940	7,224		8,193	14,928	1,127	6,224	
				Net surplus/(deficit) arising on the pooled budget					
(4)	(292)	424	0	during the year	(40)	(966)	1,060	0	
				Council share of 94.91%/13.92% of the net surplus arising on the pooled budget	(38)	(134)			

### Note 32 Members' Allowances

Members' allowances, including Employer's costs, are as follows:

	2016/2017	2015/2016
	£000	£000
Allowances	537	537
Expenses	29	31
	566	568

### Note 33 Officers' Remuneration

During 2016/2017 the council has undergone a management re-structure. Therefore a direct comparison of the officer's remuneration has not been possible. The tables below show the 2015/2016 structure and associated figures, the 2016/2017 structure and associated figures and also any senior officers whose contracts ended.

Continuing Employees 2016/2017		Basic Salary	Salary Supplement	Benefit in Kind	Compensation for Loss of Office	Pension Contribution	Total
Executive Director of People and Transformation (Head of							
Paid Service)	2016/2017	60,000	3,600	0	0	13,678	77,278
Director of Operations	2016/2017	15,794	948	0	0	3,522	20,264
Director of Children & Community Resilience	2016/2017	16,946	1,017	0	0	3,779	21,742
Director of Adults & Community Well-being	2016/2017	16,344	981	1,189	0	3,645	22,159
Director of Learning, Skills & Culture	2016/2017	15,656	939	0	0	3,491	20,086
Director of Governance and Partnerships	2016/2017	14,477	869	0	0	3,228	18,574
Director of Business Development	2016/2017	14,477	869	0	0	3,228	18,574
Executive Director Commercial	2016/2017	14,866	892	0	0	3,315	19,073
Director of Public Health (Vacant) *	2016/2017	0	18,056	0	0	2,582	20,638
Director of Public Health (Vacant)	2015/2016	71,890	2,157	0	0	10,589	84,636
TOTALS	2016/2017	168,560	28,171	1,189	0	40,468	238,388
TOTALS	2015/2016	71,890	2,157	0	0	10,589	84,636

<sup>\*</sup> During 2016/2017, cover for the Director of Public Health post was provided by the Director of Public Health for North East Lincolnshire Council (NELC). NELC was reimbursed for the cost of this. An appointment to the Director of Public Health post has now been made and the individual will commence employment during 2017/2018.

Resigned, Redundant, Re-designated or Retired Employees		Basic Salary	Salary Supplement	Benefit in Kind	Compensation for Loss of Office	Pension Contribution	Total
		£	£	£	£	£	
Chief Executive	2016/2017	71,404	0	2,771	88,588	155,435	318,198
Chief Executive	2015/2016	129,699	0	5,245	0	28,923	163,867
Diseases of Delian & December 1	2016/2017	91,800	5,578	0	51,056	73,877	222,311
Director of Policy & Resources	2015/2016	91,800	2,247	4,530	0	20,471	119,048
Discrete of Decale	2016/2017	61,250	12,425	0	0	15,958	89,633
Director of People	2015/2016	120,000	6,300	0	0	27,406	153,706
Diseases of Disease	2016/2017	76,006	4,453	0	0	16,949	97,408
Director of Places	2015/2016	91,800	0	11,055	0	20,471	123,326
TOTALS	2016/2017	300,460	22,456	2,771	139,644	262,219	727,550
TOTALS	2015/2016	433,299	8,547	20,830	0	97,271	559,947

The table below does not include the Senior Officers listed individually above.

		2016,	/2017		2015/2016				
	Teachers	Other Staff	Terminated Employment	Total	Teachers	Other Staff	Terminated Employment	Total	
£50,001 to £55,000	21	31	0	52	21	27	1	49	
£55,001 to £60,000	18	16	1	35	22	15	0	37	
£60,001 to £65,000	8	8	0	16	11	10	2	23	
£65,001 to £70,000	10	5	1	16	10	7	0	17	
£70,001 to£ 75,000	3	5	0	8	2	2	0	4	
£75,001 to £80,000	1	1	1	3	0	2	1	3	
£80,001 to £85,000	1	0	0	1	2	1	1	4	
£85,001 to £90,000	4	0	0	4	1	1	0	2	
£90,001 to £95,000	1	0	1	2	2	0	0	2	
£95,001 to £110,000	3	0	1	4	1	0	0	1	
	70	66	5	141	72	65	5	142	

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below (excluding any Senior Officers which are listed individually above):

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of oth agr		Total num packages b		Total cost of exit packages in each band		
	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	
							£000	£000	
£0-£20,000	18	9	50	37	68	46	460	345	
£20,001 - £40,000	0	0	6	5	6	5	159	121	
£40,001 - £150,000	0	0	3	5	3	5	225	482	
Total cost included in ba	Total cost included in bandings								
Add: Amounts provided for in CIES not included in bandings								0	
Total cost included in CI	Total cost included in CIES							948	

### **Note 34 External Audit Costs**

The council has incurred the following costs relating to the annual audit of the Statement of Accounts, certification of grant claims and other services provided by the council's external auditors.

	2016/2017	2015/2016
	£000	£000
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	104	104
Fees payable in respect of grants provided by KPMG during the year	22	20
Fees payable in respect of other services provided by KPMG during the year	7	43
	133	167

### **Note 35 Dedicated Schools Grant**

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

Details of the deployment of DSG receivable for 2016/2017 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total
Final DSG for 2016/2017 before Academies recoupment	20,144	102,607	122,751
Academy figure recouped for 2016/2017	0	(46,107)	(46,107)
Total DSG after academy recoupment for 2016/2017	20,144	56,500	76,644
Plus: Brought forward from 2015/2016	2,858	0	2,858
Less: Carry forward to 2017/2018 (agreed in advance)	0	0	0
Agreed initial budgeted distribution in 2016/2017	23,002	56,500	79,502
In year adjustments	0	0	0
Final budget distribution for 2016/2017	23,002	56,500	79,502
Less: Actual central expenditure	(20,636)		(20,636)
Less: Actual ISB deployed to schools		(56,500)	(56,500)
Plus: Local authority contribution for 2016/2017	0	0	0
Carry forward to 2017/2018	2,366	0	2,366

### **Note 36 Grant Income**

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

	Note	2016/2017 £000	2015/2016 £000
Credited to Taxation and Non-Specific Grant Income			
Revenue Support Grant	13	(20,511)	(26,731)
Other non-ring-fenced grants	13	(1,818)	(1,812)
New Homes Bonus	13	(3,225)	(2,735)
Council Tax Reduction Grant	13	0	(676)
Capital Grants	13	(11,496)	(17,426)
Business Rates Retention Grant	13	(1,424)	(1,630)
Donations	13	(37,500)	0
Total		(75,974)	(51,010)
Credited to Services			
Dedicated Schools Grant		(76,684)	(75,232)
DWP - Rent Allowance Subsidy		(42,784)	(45,425)
Public Health England		(9,803)	(8,951)
EFA- Pupil Premium		(4,691)	(4,655)
Scunthorpe Steel Support Package		(1,885)	0
EFA – Free School Meals		(1,427)	(1,385)
Skills Funding Agency		(1,425)	(1,243)
Transformation Challenge Award - Shared Services		0	(1,900)
Total		(138,699)	(138,791)

### **Note 37 Related Parties**

#### **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

Central government has significant influence over the general operations of the council – it is responsible for providing statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants receipts are shown in Note 36.

#### Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2016/2017 is shown in Note 32. During 2016/2017, works and services to the value of £411k were commissioned from companies in which twelve members had an interest. Contracts were entered into in full compliance with the council's standing orders. In addition, cabinet members paid grants totalling £252k to voluntary organisations in which twenty four members had interests and £376k to charities in which ten members had interests. In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments.

#### Officers

Officers that might be in a position to influence significantly the policies of the Authority are considered to be members of the Senior Leadership Team. There were no declarable material transactions between any of these officers and the Authority on a personal basis.

One officer was the council's nominee Director of Engage North Lincolnshire. This company is a Local Education Partnership and was established to manage the council's Building Schools for the Future project. In year spend with this company was £388k. Two officers were the council's nominee board members for the social enterprise PHASE CIC. In year spend was £808k.

### Note 38 Capital Expenditure and Capital Financing

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

Capital Expenditure and Capital Financing		2015/2016
Capital Experiorture and Capital Financing	£000	£000
Opening Capital Financing Requirement	184,023	177,822
Capital Investment		
Property, Plant and Equipment	64,642	22,976
Investment Properties	258	2,277
Intangible Assets	271	392
Revenue Expenditure Funded from Capital under Statute	1,967	13,850
	67,138	39,495
Sources of finance		
Capital receipts	0	(3,676)
Government grants and other contributions	(48,993)	(22,031)
Sums set aside from revenue:		
Direct revenue contributions	(592)	(340)
Minimum Revenue Provision	(5,342)	(7,247)
	(54,927)	(33,294)
Closing Capital Finance Requirement	196,234	184,023
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial		
assistance)	12,211	6,201
Increase/(decrease) in Capital Financing Requirement	12,211	6,201

### **Note 39 Leases**

### Finance Leases (council as lessee)

The council has acquired a number of vehicles under finance leases. The assets acquired under these leases are carried as vehicles, plant and equipment in the Balance Sheet. The primary rental period for those assets have concluded during this financial year.

	2016/2017	2015/2016
	Vehicles	Vehicles
	£000	£000
Cost or Valuation		
Opening Balance	723	723
Additions	0	0
Disposals	0	0
	723	723
Depreciation		
Opening Balance	667	558
Disposals	0	0
Provided for year	56	109
	723	667
Net Book Value		
Closing Balance	0	56
Opening Balance	56	165

There are no finance lease payments due in the future.

### Operating Leases (council as lessee)

The council has previously used winter maintenance, refuse and other vehicles together with miscellaneous equipment financed under terms of an operating lease. The council's current policy is to purchase outright, no commitments still exist under former leases as the primary period has expired.

There are no future minimum lease payments due under non-cancellable leases in future years:

	2016/2017	2015/2016
Minimum lease rentals payable:	£000	£000
No later than 1 year	0	0
Later than 1 year and no later than 5 years	0	0
Later than 5 years	0	0

The expenditure charged to services in the CIES during the year in relation to these leases was:

	2016/2017	2015/2016
	£000	£000
Minimum lease payments	0	90
	0	90

No sub-lease payments or contingent rent payments were made or received. No sublease income is expected as all assets held under operating lease agreements are used exclusively by the council.

### Operating Leases (council as lessor)

The council, in accordance with its statutory and discretionary responsibilities, leases out property and equipment under operating leases for the following purposes:

- for the provision of smallholdings
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for the provision of leisure and cultural purposes

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

	2016/2017	2015/2016
	Land and	Land and
	Buildings	Buildings
	£000	£000
Minimum lease rentals receivable:		
No later than 1 year	3,464	82
Later than 1 year and no later than 5 years	9,725	2,010
Later than 5 years	103,653	108,850
_	116,842	110,942

### **Note 40 Impairment Losses**

During 2016/2017, the council has recognised an impairment loss of £1.4m in relation to its disposal and demolition of surplus buildings programme (mainly the former Priory lane Infants school) and £11.8m in relation to the Priority School Buildings Programme where the existing schools were demolished. The one exception was Baysgarth where some blocks of the existing school remained.

Any non-enhancing spend was also impaired. This included retention payments for Frederick Gough School and The Pods.

### **Note 41 Termination Benefits**

The council terminated the contracts of a number of employees in 2016/2017, incurring liabilities of £948k (£666k in 2015/2016) – see Note 33 for the number of exit packages and total cost per band.

In 2016/2017 the council began a major review of its executive management team. The four most senior posts were deleted and replaced by two Executive Director posts. The Chief Executive and the Director of Policy and Resources left the council.

### Note 42 Pension Schemes Accounted for as Defined Contribution Schemes

#### **Teachers**

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

The Scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The Scheme has 3,700 participating employers and consequently the council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/2017, the council paid £4.7m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2015/2016 were £4.2m and 15.5%. There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £4.7m.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 43.

The council is not liable to the Scheme for any other entities' obligations under the plan.

### Public Health staff

Since 1 April 2013, public health staff have been employed by the council. These members of staff retained access to the NHS Pension Scheme, administered by the NHS Business Services Authority on behalf of the Department of Health. The scheme is run on the same basis as the teachers' pension scheme. The scheme has over 1.3m active members.

In 2016/2017 the council paid £95k to the NHS Pension Scheme in respect of the retirement benefits of public health staff representing 14.3% of pensionable pay. In 2015/2016 the council paid £111k to the NHS Pension Scheme, representing 14.3% of pensionable pay. There were no contributions remaining payable at the year-end. Contributions due to be paid in the next financial year are estimated to be £95k.

The council is not liable to the Scheme for any other entities' obligations under the plan.

### Note 43 Defined Benefit Pension Schemes

### Participation in the Local Government Pension Scheme

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

The council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by East Riding of Yorkshire Council this is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's 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 liabilities, and cash has to be generated to
  meet actual pension payments as they eventually fall due.

The East Riding Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of East Riding of Yorkshire Council. Policy is determined in accordance with the Public Service Pensions Act 2013.

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 required by statute as described in the accounting policies note.

### **Discretionary Post-retirement Benefits**

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

### Transactions relating to Post-Employment Benefits

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

	Local Government Pension Scheme		sion Discretionary Benefi	
	2016/2017	2015/2016	2016/2017	2015/2016
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of services:				
Service cost comprising:				
Current service cost	19,034	21,601	0	0
Past service cost	465	76	0	0
(Gain)/loss from settlements	0	0	0	0
Financing and Investment Income and Expenditure:				
Net Interest expense	7,947	9,278	0	0
Total post-employment benefits charged to the Surplus of Deficit on the Provision of Services	27,446	30,955	0	0
Other post-employment benefits charged to the CIES				
Re-measurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(87,710)	10,818	0	0
Actuarial gains and losses arising on changes in demographic assumptions	(13,629)	0	0	0
Actuarial gains and losses arising on changes in financial assumptions	123,449	(72,401)	2,282	(1,640)
Other	(28,834)	(11,397)	0	0
Total post-employment benefits charged to the CIES	20,722	(42,025)	2,282	(1,640)
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-				
employment benefits in accordance with the Code	(27,446)	(30,955)	0	0
Actual amount charged against the general fund balance for pensions in the year:				
Employers' contributions payable to scheme	16,435	15,672		
Retirement benefits payable to pensioners			1,908	1,963

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

The amount included in the Balance Sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

		Local Government Pension Scheme		ionary Benefits	
	2016/2017	2016/2017 2015/2016		2015/2016	
	£000	£000	£000	£000	
Present value of the defined obligation	(840,487)	(730,664)	(26,568)	(26,194)	
Fair value of plan assets	635,752	530,216	0	0	
Net liability arising from the defined benefit obligation	(204,735)	(200,448)	(26,568)	(26,194)	
Total Liability	(231,303)	(226,642)			

### Reconciliation of movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits	
	2016/2017 £000	2015/2016 £000	2016/2017 £000	2015/2016 £000
Opening fair value of scheme assets	530,216	523,806		
Interest income	18,532	16,769		
Re-measurement gain/(loss):				
the return on plan assets, excluding the amount included in the net interest expense	87,710	(10,818)		
Other (if applicable)	0	0		
The effect of changes in foreign exchange rates				
Contributions from employer	16,435	15,672	1,908	1,963
Contributions from employees into the scheme	4,421	4,339		
Benefits/transfers paid	(21,562)	(19,552)	(1,908)	(1,963)
Other (if applicable)	0	0		
Closing value of scheme assets	635,752	530,216	0	0

### Reconciliation of present value of the scheme liabilities:

		Local Government Pension Scheme		ry Benefits
	2016/2017 £000	2015/2016 £000	2016/2017 £000	2015/2016 £000
Opening balance at 1 April	(730,664)	(781,951)	(26,194)	(29,797)
Current service cost	(19,034)	(21,601)		
Interest cost	(26,479)	(26,047)		
Contributions from scheme participants	(4,421)	(4,339)		
Re-measurement (gains) and losses:				
Actuarial (gains)/losses from changes in demographic assumptions	13,629	0		
Actuarial (gains)/losses from changes in financial assumptions	(123,449)	72,401	(2,282)	1,640
Other (if applicable)	28,834	11,397		
Past service cost	(465)	(76)		
Losses/(gains) on curtailments where relevant	0	0		
Liabilities assumed on entity combinations				
Benefits/transfers paid	21,562	19,552	1,908	1,963
Liabilities extinguished on settlements (where relevant)	0	0		
Balance as at 31 March	(840.487)	(730.664)	(26.568)	(26,194)

### Local Government Pension Scheme assets comprised:

Local Government Pension Sche			
	2016/2017 £000	2015/2016	
Cook and sook assistants		£000	
Cash and cash equivalents	18,575	14,878	
Equities:			
by industry type			
Consumer	62,366	53,073	
Manufacturing	34,610	14,954	
Energy and utilities	35,826	33,228	
Financial institutions	39,462	65,201	
Health and care	37,151	34,326	
Information technology	24,347	31,002	
Other	221	0	
sub-total equity	233,983	231,784	
Bonds:			
by sector			
Corporate (Investment Grade)	9,847	9,080	
Corporate (non-Investment			
Grade)	18,706	10,423	
Government	18,847	15,605	
Other	19,559	17,730	
sub-total bonds	66,959	52,838	
Property:			
by type			
UK Property	74,375	62,525	
Overseas Property	0	0	
sub-total property	74,375	62,525	
Private equity			
UK	29,716	26,740	
Overseas	0	0	
sub-total private equity	29,716	26,740	
Other investment funds:			
Equities	147,743	93,483	
Infrastructure	23,085	16,400	
Other	41,316	31,568	
sub-total other investment funds	212,144	141,451	
Total assets	635,752	530,216	

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Hymans, Roberts and Partners, an independent firm of actuaries, estimates for the Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary are set out below:

		Local Government Pension Scheme		
	2016/2017	2015/2016		
Mortality assumptions:				
Longevity at 65 current pensioners:				
Men	21.7	21.9		
Women	24.2	24.1		
Longevity at 65 for future pensioners:				
Men	23.7	24.2		
Women	26.4	26.7		
Financial assumptions:				
Rate of increase in salaries	2.6%	3.7%		
Rate of increase in pensions	2.4%	2.2%		
Discount Rate	2.6%	3.5%		
Rate of Inflation (CPI)	2.4%	2.2%		

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	Approximate increase to Employer			
Change in assumptions at 31 March 2017	% £000			
0.5% decrease in Real Discount Rate	9%	82,239		
0.5% increase in the Salary Increase Rate	1%	12,911		
0.5% increase in the Pension Increase Rate	8% 68,14			

### Impact on the Council's Cash Flows

The council's anticipated contributions to the scheme in 2017/2018 is £14.4m.

### **Note 44 Contingent Liabilities**

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. The new arrangements for the business rates came into effect on 1 April 2013. Billing authorities acting as agents on behalf of the major preceptors (1%) and Central Government (50%), and themselves (49%) are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

The council has included a provision of £4.8m (the overall provision in the Business Rates Collection Fund is £9.9m and this council's share of the Local Business Rates Retention scheme is 49%) as at the 31 March 2017. The 2010 Rating List had now closed, and local businesses can only appeal against their Rateable Value in this list in limited circumstances.

Therefore there may be further backdated claims, but it is difficult to estimate the likelihood of businesses both submitting and being successful with any new appeals and therefore the council has made no further provision in the accounts.

### **Note 45 Contingent Assets**

The council does not have any material contingent assets.

### Note 46 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 market pricing of financial instruments.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, 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.

### Credit risk

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

This risk is minimised through the annual Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Standard & Poors, Fitch and Moody's Ratings Services. The Treasury Management Strategy also imposes a maximum sum to be invested with a financial institution or group of financial institutions located within each category.

The council's maximum exposure to credit risk in relation to its investments in banks and building societies 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. Experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

#### Liquidity Risk

The council closely monitors cash flow to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from other local authorities and the Public Works Loans Board (PWLB). There is no perceived risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the council may be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The council sets limits on the proportion of its fixed rate borrowing maturing during specified periods. The strategy is shown below:

Maturity structure of borrowing	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	25%

The maturity analysis of financial liabilities is as follows:

	2016/2017 £000	2015/2016 £000	
Less than 1 year	28,916	43,071	
Between 1 and 2 years	3,215	9,943	
Between 2 and 5 years	9,611	3,659	
Between 5 and 10 years	44,201	29,418	
Between 10 and 20 years	69,270	69,221	
Over 20 years	6,247	7,218	
	161,460	162,530	

#### Interest rate risk

The council faces a risk in terms of its exposure to interest rate movements on its investments and to a lesser extent borrowings. Movements in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates the interest expense will rise
- borrowings at fixed rates the fair value of the liabilities borrowings will fall
- investments at variable rates the interest income credited will rise
- investments at fixed rates the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance £ for £.

The council's strategy for managing interest rate risk is to predominantly borrow at fixed interest rates. Secondly the treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, and is tracked through monthly budget monitoring reports and periodic budget reviews.

If the interest rate had been 1% higher during 2016/2017 the council would have earned an additional £75k in interest on investments but paid an extra £120k on its variable rate borrowing. If rates had been 1% lower the council would have earned no investment interest and paid no temporary borrowing interest.

### Price risk

The council does not generally invest in equity shares but does have shareholdings in Humberside Airport International Limited and in Engage Limited, the Local Education Partnership (£10k). The council is consequently exposed to losses arising from movements in the prices of the shares, however, the airport shares are carried at a value, after impairment, of zero.

### **Collection Fund**

The Collection Fund shows the transactions of the billing council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing council and the Government) on behalf of which the billing council collects these taxes.

	2015/2016				2016/2017	
Business			Collection Fund	Business		
Rates	Council Tax	Total	Concession and	Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
	T		INCOME			
	(72,954)	(72,954)	Council Tax Receivable		(76,183)	(76,183)
(79,014)		(79,014)	Business Rates Receivable	(90,834)		(90,834)
(79,014)	(72,954)	(151,968)	Total amounts to be credited	(90,834)	(76,183)	(167,017)
			EXPENDITURE			
			Apportionment of Previous Year Surplus/(Deficit)			
(206)		(206)	Central Government	(1,655)		(1,655)
(201)	1,003	802	Billing Authority	(1,622)	2,065	443
(4)	60	56	Fire Authority	(33)	123	90
	135	135	Police Authority	, ,	283	283
			Precepts, demands and shares			
44,759		44,759	Central Government 44,61			44,612
43,864	59,216	103,080	Billing Authority 43,77		62,244	105,964
895	3,514	4,409	Fire Authority	892	3,668	4,560
	8,122	8,122	Police Authority		8,540	8,540
			Charges to Collection Fund			
705	464	1,169	Write-offs of uncollectable amounts	831	369	1,200
201	(22)	179	Increase/(decrease) in allowance for impairment	686	105	791
(5,850)		(5,850)	Increase/(decrease) in allowance for appeals	2,418		2,418
1,255		1,255	Transitional Protection Payments Payable	345		345
251		251	Charge to General Fund for allowable collection costs for non-domestic rates	254		254
			Other transfers to General Fund in accordance with non-domestic rates regulations			
156		156	Enterprise Zone Growth	1,048		1,048
1122		1,122	Renewable Energy	2,486		2,486
86,947	72,492	159,439	Total amounts to be debited	93,982	77,397	171,379
	· I		1	1	ı	
7,933	(462)	7,471	(Surplus) /deficit arising during the year	3,148	1,214	4,362
(1,898)	(1,850)	(3,748)	(Surplus)/deficit brought forward at 1 April	6,035	(2,312)	3,723
6,035	(2,312)	3,723	(Surplus)/deficit carried forward at 31 March	9,183	(1,098)	8,085

### Collection Fund Note 1 - Council Tax Income

Income from council tax is derived from charges raised according to the value of residential properties, which have been classified into valuation bands using estimated values as at 1 April, 1991. The tax base calculation is based upon the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts and exemptions. Individual charges are calculated by estimating the amount of income required to fund the demands on the Collection Fund and dividing this by the tax base.

The number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings is detailed below:

	Valuation B	Valuation Band Limits			Ratio to	Equated	Council
Band				number of dwellings		number of dwellings	Tax Payable
Α	Up to 40,000			22,587	6/9	15,058	1,041
В	40,001	-	52,000	12,559	7/9	9,768	1,215
С	52,001	-	68,000	9,319	8/9	8,283	1,388
D	68,001	-	88,000	6,622	9/9	6,622	1,562
Ε	88,001	-	120,000	3,342	11/9	4,085	1,909
F	120,001	-	160,000	1,327	13/9	1,917	2,256
G	160,001	-	320,000	439	15/9	732	2,603
Н	More than 320,001			10	18/9	20	3,124
						46,485	
				Adjustment for MOD Properties		13	
						46,498	

The amount of Council Tax required for Band D, for North Lincolnshire Council and its major preceptors, was calculated on the following basis:

(i) Preceptor's Council Tax Requirements £72,625,383 (ii) Number of Band D equivalent Dwellings 46,498.1 Band D ( (i) divided by (ii) ) £1,561.90

Prior year figures are as follows:

Band	Valuation B	and Lim	nits	Calculated number of dwellings	Ratio to Band D	Equated number of dwellings	Council Tax Payable
Α	Up to 40,000			21,644	6/9	14,429	1,021
В	40,001	-	52,000	11,998	7/9	9,332	1,191
С	52,001	-	68,000	9,193	8/9	8,172	1,362
D	68,001	-	88,000	6,525	9/9	6,525	1,532
Ε	88,001	-	120,000	3,264	11/9	3,990	1,872
F	120,001	-	160,000	1,297	13/9	1,874	2,213
G	160,001	-	320,000	437	15/9	728	2,553
Н	More than 320,001			11	18/9	22	3,064
						45,071	
				Adjustment for MOD Properties		32	
						45,103	

(i) Preceptor's Council Tax Requirements £69,091,635 (ii) Number of Band D equivalent Dwellings 45,103.1 Band D ( (i) divided by (ii) ) £1,531.86

### Collection Fund Note 2 - Non-Domestic Rates

Non-Domestic Rates are determined on a local basis. The Government specifies an amount and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. In 2016/2017 the amount was 49.7p (49.3p in 2015/2016) and 48.4p for small businesses (48.0p in 2015/2016).

The council is responsible for collecting rates due from the ratepayers in its area and distributing the amount collected between itself, central government and major preceptors in proportions specified by central government. The council's share of this is shown in the Comprehensive Income and Expenditure Statement and analysed at Note 13. The total rateable value as at 31 March 2017 was £206,804,501 (as at 31 March 2016, it was £213,720,921).

A national Business Rates revaluation exercise took effect on 1<sup>st</sup> April 2017. The local effect was to reduce the area's total rateable value to circa £194m. This had no effect in 2016/2017 and the Government is making changes to the Rates Retention scheme to minimise the impact on individual councils in future years.

In late 2016/2017 the council was notified of several successful appeals against the valuation on some of the area's power stations. A provision for the full value of the resulting refunds has been made in the 2016/2017 accounts. There is also likely to be a significant repayment of Transitional Relief to Central Government.

### **Glossary of Financial Terms**

### Financial Abbreviations and roundings

Throughout this document we have used standard financial abbreviations k and m. In this case 'k' means thousands and 'm' means millions e.g. £6k means £6,000 and £1.577m means £1,577,000.

Most of the numbers in the accounts are rounded. Those in the main statements are presented to the nearest 1,000 pounds. Where necessary to ensure that totals are correct, small adjustments have been made to individual figures.

### Glossary

### **Accruals**

This is the concept of recognising income and expenditure when earned or incurred, not as money is received or paid.

#### **Actuary**

Pension expert

#### **Amortisation**

The writing off of a balance over a period of time to reflect the reduced value.

### **Capital Expenditure**

This is expenditure on the acquisition, creation or enhancement of a fixed asset.

#### **Capital Receipts**

Income received from the sale of capital assets.

### **Cash and Cash Equivalents**

Cash and cash equivalents include petty cash, cash in transit, bank balances (according to the ledger), and short-term, highly liquid investments that are readily convertible to known amounts of cash.

### **Code of Practice (The Code)**

This is a document issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). All English and Welsh Local Authorities must comply with the COP in compiling their financial statements.

### **Collection Fund**

This is a statutory fund for the receipt of Council Tax and Non-Domestic Rates collected by the authority and the payments made from these funds including precepts and payments to precepting authorities.

### **Community Assets**

Assets that the authority 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

This is the principle that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

### **Creditors**

Amounts owed by the authority for goods and services, where payment has not been made at the end of the financial year.

### **Current Assets**

Current assets are items that can be readily converted into cash.

### **Current Liabilities**

Current liabilities are items that are due immediately or in the short term.

### **Curtailments (Pension)**

A curtailment is 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. Examples might include a

redundancy programme as a result of e.g. closing a factory or the introduction of a defined contribution pension arrangement covering all employees for future service.

#### De minimis

An immaterial amount or balance.

#### **Debtors**

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

### **Dedicated Schools Grant (DSG)**

School funding for local authorities in England is provided by a ring fenced grant.

#### **Deferred Credits**

These consist of deferred capital receipts, which are amounts derived from the sales of assets that will be received in instalments over agreed periods of time and deferred government grants that are grants received in advance.

#### **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.

#### Depreciation

This is the measure of the wearing out, consumption, or other reduction in the useful life of a non-current asset, whether arising from use, over time or obsolescence through technological or other changes.

#### Events after the balance sheet date

Those events of such materiality that their disclosure is required for the fair presentation of the authority's statements, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### **Exceptional Items**

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

### **Extraordinary Items**

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

#### **General Fund**

This is the main revenue account of a local authority, from which day to day spending on its services is met.

#### Going Concern

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

### **Government Grants**

Assistance by government and inter-government agencies and similar bodies, 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.

### **Impairment**

A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet

### **International Financial Reporting Standards (IFRSs)**

Statements prepared by the International Accounting Standards Board. Many of the International Financial Reporting Standards (IFRSs) and some International Public Sector Accounting Standards (IPSAS) apply to local authorities and any departure from these must be disclosed in the published accounts.

### **Intangible Asset**

Assets that have a useful life of over one year but are not material or physical.

#### Infrastructure Assets

Infrastructure assets can be defined as groups of assets that together form an integrated system. Such a system could not be effectively operated if individual components were removed. Examples of such assets are highways and footpaths.

### **Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential with any rental income being negotiated at arm's length.

### Leasing

Method of financing the provision of various capital assets, usually in the form of operating leases which tend not to provide for title in the asset to transfer to the authority.

#### Levy

Impose or collect an amount (such as a tax) by compulsion or legal authority.

### **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 traded in an active market.

### **Long Term Borrowing**

Amounts repayable in more than 12 months.

### **Long Term Investments**

Long-term investments are investments intended to be held for use on a continuing basis in the activities of the authority. They should be so classified only where an intention to hold the asset for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Where investments are not classified as long term investments, they are classified as current assets.

### Minimum Revenue Provision (MRP)

The minimum amount which must be charged to an authority's revenue account each year for the repayment of loan principal.

### National Non-Domestic Rate (NNDR)

Amounts payable to the authority from non-domestic properties. National Non-Domestic Rate is a standard rate in the pound set by central government on the assessed rateable value of properties used for business purposes.

### **Net Current Replacement Cost**

Cost of replacing or recreating the particular asset in its existing condition and in its existing use.

### **Net 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.

### **Non-Operational Assets**

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

### **Operational Assets**

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

### Precept

Demands made upon the collection fund by the authorities which it directly funds, i.e. the authority, Humberside Police and Humberside Fire and Rescue Service for the services they provide. Parish Councils also raise precepts which are paid by the authority and included within the precept it levies on the collection fund.

### **Property, Plant & Equipment**

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

#### **Provision**

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

### **Prudence**

An accounting concept that revenue is not anticipated but is recognised only when realised in the form of either cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. Proper allowance must be made for all known and foreseeable losses and liabilities.

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

A central government agency, which lends money to local authorities usually at interest rates which are more favourable than those found elsewhere.

#### Remuneration

All amounts paid to or receivable by a person, and includes sums due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash.

#### Reserves

Sums set aside to meet future expenditure. Some reserves are earmarked for specific purposes only. Others are general reserves.

#### **Revaluation Reserve**

This is an account containing any surpluses arising from the revaluation of fixed assets.

### **Revenue Expenditure**

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

### Revenue Expenditure Financed From Capital Under Statute (REFCUS)

Expenditure which may be properly capitalised, but which does not result in, or remain matched with, tangible non-current assets. An example would be capital expenditure on improvement grans.

#### **Revenue Support Grant (RSG)**

Grant paid to local authorities by central government to help finance its general expenditure. It is determined under the Formula Spending Share system.

### **Settlement (Pension)**

A settlement is an irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the assets and liabilities in respect of that obligation. Examples would include purchasing annuities in respect of pensioner liabilities or making a bulk transfer payment to another arrangement.

### **Useful Life**

This is the period over which the authority will derive benefits from the use of a fixed asset.



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External audit report 2016/17

**North Lincolnshire Council** 

September 2017



# Summary for Audit and Governance Committee

#### **Financial statements**

This document summarises the key findings in relation to our 2016/17 external audit at North Lincolnshire Council ('the Authority'). This report focusses on our on-site work which was completed in September 2017 on the Authority's significant risk areas, as well as other areas of your financial statements.

Subject to all outstanding queries being resolved, to our satisfaction we will issue an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We have identified no significant audit adjustments. See page 10 for details.

Based on our work, we have raised two recommendations. Details of our recommendations can be found in Appendix 1.

We are still working on the audit with work on some non material notes still ongoing; we then have the completion stage of the audit and anticipate issuing our completion certificate by 30 September and Annual Audit Letter in October.

#### **Use of resources**

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We will issue an unqualified value for money conclusion.

See further details on page 14.

### **Public Interest Report**

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not issued such a report this year.

#### **Acknowledgements**

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit Committee to note this report.



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This report is addressed to North Lincolnshire Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

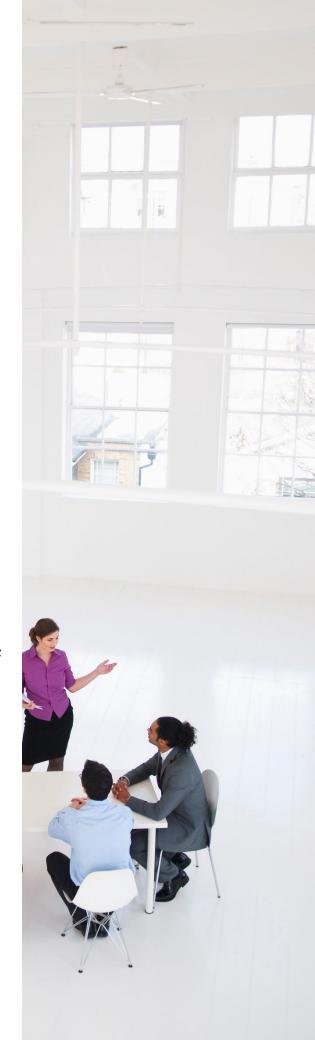
We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



We will be issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus on provision of services of £12.3m.

The Authority has used £5.8m of usable reserves leaving £41.64m at 31 March 2017.



# Significant audit risks

Our External Audit Plan 2016/17 sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

#### Significant audit risks

#### Work performed

# 1. Significant changes in the pensions liability due to LGPS Triennial Valuation

#### Why is this a risk?

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by East Riding of Yorkshire Council, who administer the Pension Fund.

#### Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We found that there was no management review of actuarial assumptions. Management has subsequently confirmed that the assumptions used by the actuary are appropriate.

We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with your Pension Fund audit team to gain assurance over the pension figures.

#### 2. Implementation of Shared Service with North East Lincolnshire Council for financial services, audit and assurance services and other central services

#### Why is this a risk?

The Authority set up a shared services organisation from 1 April 2016, with neighbours, North East Lincolnshire Council. This service, Northern Lincolnshire Business Connect (NLBC), covers financial services, audit and assurance services and other central services.

The shared service arrangements present a risk to the delivery of the audit. The new structure will present additional pressures for the service to closedown two sets of financial statements. At this stage there is a risk that the changes in structure and closedown procedures may lead to a fall in the quality of the prepared accounts and audit working papers and the ability to meet the deadlines in place.

There is also a risk that we do not have appropriate channels of communication in place with Authority staff and those at NLBC.

#### Our work to address this risk

We discussed the requirements with the new team leaders and reviewed the Authority's proposed closedown plans as part of our interim audit visit and reviewed updates as the draft accounts were prepared. We have attempted to coordinate our audit work across the two Authorities where possible, although this has not been wholly successful due to the availability of staff. There were some delays in the completion of the draft accounts, the production of working papers and the completion of the quality review process – all tasks were completed by end of June 2017. We agreed reporting lines with Authority staff and NLBC staff to ensure audit issues are discussed with relevant staff who have the appropriate authority to deal with matters raised.

### Considerations required by professional standards

#### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



#### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.



### Other areas of audit focus

We identified one area of audit focus as part of our planning for the final accounts audit. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

#### Other areas of audit focus

#### Our work to address this area

# 1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS

#### **Background**

CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES);
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

#### What we have done

We had originally planned to carry out this work during our interim visit in order for us to feed back any findings ahead of our final audit. We were unable to do this as the Authority had not completed the restatement exercise

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.



Level of prudence

## Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

#### Audit difference Cautious Balanced Acceptable range 2016/17 2015/16 Subjective areas Commentary **Provisions (including** The main provision included in the Authority accounts is for the potential 8 8 NDR) impact of appeals for business rates (NNDR). The Authority has carefully assessed the likely impact of these appeals to make an assessment of the Authority's financial position. We consider the provision disclosures to be appropriate. The balance has increased from £5.1 million in 2015/16 to £6.2 million. Property, Plant and The property plant and equipment held by the Authority are revalued on a 8 8 **Equipment** rolling programme by the internal valuers. There has been no adjustment to estimated asset lives in the year. The value of property plant and (valuations / asset lives) equipment on the balance sheet is £458.9 million. **Pensions Liability** The Authority has used the data supplied by the Pension Fund and the 4 4 Actuary (Hymans Robertson) to assess the long term liability for pensions. With the pension fund auditor and actuarial specialists, we have assessed the reasonableness of the assumptions made and are satisfied with the items included in the Authority's financial statements. While in line with actuary figures, the rating reflects that the deficit situation will require improvement and funding in the long term. **Total Earmarked** The Authority continues to hold a healthy usable reserves balance, which 8 8 **General Fund** is required for future financial plans. There should be sufficient headroom Reserves available within reserves to meet some unforeseen demands or contribute partially towards medium term financial pressures. The value of usable reverses has reduced by £5.8 million to £41.64 million in 2016/17.

# Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we will be issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 26 September 2017.

#### **Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £6 million. Audit differences below £300,000 are not considered significant.

We did not identify any material misstatements.

We did not identify any other significant misstatements that have been adjusted by management.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

#### **Annual governance statement**

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

#### **Narrative report**

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



### Accounts production and audit process

Auditing standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good quality working papers are critical to meeting the tighter deadlines in the future.

#### Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We engaged with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority had planned to have the 2016/17 draft accounts available at the end of May 2017 but due mainly to delays in the completion of sections of non current assets and capital accounting this was not achieved. The Finance staff have identified the causes of the delays and will amend the timetable for 2017/18.

#### **Completeness of draft accounts**

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline. This was slightly later than planned as discussed above.

#### Quality of supporting working papers

We issued our Accounts Audit Protocol 2016/17 ("Prepared by Client" request) in April 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

This was the first year that the accounts were prepared by NLBC. This change did not adversely affect the accounts preparation process or the audit.

The working papers were mostly in line with the PBC and where additional papers were requested these were produced in a timely manner.

However, there was a weakness identified in the Property, Plant and Equipment (PPE) Valuation Audit Trail. This has led to delays in the audit process and time needed by officers to demonstrate the completeness of the valuations and the value included in the note for PPE valuation in 2016/17.

We have added a recommendation to address this (see Appendix 1).

#### 2017/18

The big issue that the Authority faces is that for 2017/18 they will have to meet the 31 May 2018 deadline for the production of both the draft statement of accounts and also the working paper requirements outlined in the PBC.

We will work alongside NLBC and the Authority to highlight a number of areas in which the closedown can be streamlined, and also where audit work can be moved from the year end process to the interim visit, however this will need the Authority to sign up to improved arrangements, therefore we have added a recommendation to address this (see Appendix 1).



#### The use of KPMG Central

We will work with the NLBC finance team to introduce KPMG Central for 2017/18. This is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authorities to efficiently share requested information.

Although we have had no issues in sharing data this year, experience from other clients has shown that the use of KPMG Central has benefits for both parties allowing us both to keep track of uploaded documents.

#### Response to audit queries

Officers responded promptly to our audit queries usually within a couple of days of the inquiry, which was in line with our expectations.

This was in line with previous years, and will be important to maintain in 2017/18 when we must meet early statutory deadlines.

#### **Prior year recommendations**

As part of our audit we have followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report.

The Authority has implemented the recommendation in our ISA 260 Report 2015/16.

Appendix 2 provides further details.

#### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We found controls to be operating in all areas tested except in relation to:

#### Local Taxation and Benefits System

As part of our audit approach we planned to review the general IT controls on the Northgate (Local Taxation and Benefits system) to obtain assurance over material entries to the financial statements that flow from this feeder system. We identified that although there are individual super user accounts there is also a RB super user account with a shared password that is known by several officers. This shared user account is used to access the system to carry out specific actions e.g. run overnight batch routines and input system parameters. It is not possible to identify who has performed specific actions or changes to the system using this user access account and therefore there

is no effective audit trail. This is a control deficiency.

Although we have not identified any inappropriate use or changes to the system and the parameters used, we are reporting this to you as a control weakness. In order to maintain the integrity of the Northgate system we recommend that you consult with the system supplier to ensure the RB super user account is being used as intended. If so, this RB super user access should be restricted to a small number of staff who need it to perform specific functions assigned to their role. The RB super user account should also only be used for those actions that must be performed via this access, with individually assigned super user accounts being used for all other actions.

As a result of the identified system weakness we had to amend our audit approach in order to gain assurance over the material accounting entries relating to Local Taxation and Benefits.

Further detail and associated recommendations can be found in Appendix 1.



### Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representations letter.

Once we have finalised our opinions and conclusion we will prepare our Annual Audit Letter and close our audit.

#### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North Lincolnshire Council and for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and North Lincolnshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

#### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Director of Finance, Operations and Resources for presentation to the Audit and Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

#### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence, with management;
- Other matters arising from the audit that, in the auditor's professional judgement, are significant to the

oversight of the financial reporting process; and

 Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related parties, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.





Our 2016/17 VFM conclusion considers 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.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



#### Section two: value for money

### VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

with

partners

and third

parties

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers 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.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Sustainable

resource

deployment

**Identification of** Continually re-**VFM** significant VFM assess potential conclusion risks (if any) VFM risks VFM audit risk Assessment of work by assessment other review agencies Conclude on arrangements to secure VFM Specific local risk-based Financial statements work and other audit work VFM conclusion based or Informed decisionmaking Overall VFM criteria: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people Working

#### Section two: value for money

# Significant VFM risks

We have identified no significant VFM risks, as communicated to you in our 2016/17 External Audit Plan. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements are adequate.

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.

The Council has taken a strategic change in direction and this has included a management reorganisation which is aligning the Council to address the risks and demands to the Council and members of the public in North Lincolnshire in the near future.

The Council has been consulting with the public and stakeholders as to the direction that is proposed to be taken, while still delivering the current plans.

The Council adopted a budget for 2017/18 in Feb 2017 which is part of a Medium Term Financial Plan for 2017-20 that requires savings or additional income of £20.4m to be delivered.

This included £12.1m for 2017/18 which the Council is confident that the majority of this is on track to be delivered.

Later in 2017, the Council will produce a revised strategic plan and medium term financial forecast following the consultation and agreed priorities for the Council.

While risks remain to medium term delivery, the action in hand provides sufficient assurance that an unqualified conclusion is appropriate for 2016/17.





### Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified three issues. We have detailed our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.



Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised for 2016/17.

2016/17 recommendations summary	
Priority	Number raised from our year-end audit
High	0
Medium	2
Low	0
Total	2

### 1. General IT controls on the Northgate (Local Taxation and Benefits system)

We identified that although there are individual super user accounts there is also a RB super user account with a shared password that is known by several officers. This shared user account is used to access the system to carry out specific actions e.g. run overnight batch routines and input system parameters. It is not possible to identify who has performed specific actions or changes to the system using this user access account and therefore there is no effective audit trail. This is a control deficiency.



#### Recommendation

Although we have not identified any inappropriate use or changes to the system and the parameters used, we are reporting this to you as a control weakness. In order to maintain the integrity of the Northgate systems we recommend that you consult with the system supplier to ensure the RB super user account is being used as intended. If so, this RB super user access should be restricted to a small number of staff who need it to perform specific functions assigned to their role. The RB super user account should also only be used for those actions that must be performed via this access, with individually assigned super user accounts being used for all other actions.

#### Management Response -

#### Accepted

We will review the use of the RB super user account in conjunction with the system supplier

#### **Owner**

Richard Catlin/Liz Kelly - Local Taxation and Benefits Shared Service, Northern Lincolnshire Business Connect

#### **Deadline**

31 December 2017





### 2. Property, Plant and Equipment (PPE) Valuation processes.

We identified that the Finance team received the valuations from the valuer piecemeal and not always in the same excel format that can be loaded direct into the Tech Forge system. This means that the information cannot be loaded directly into Tech Force and has to be entered manually.

This process has been previously carried out at year end as part of the closedown process.

The valuation certificate was not supported by a consolidated summary of all the piecemeal valuations therefore this led to additional work by both the Finance team and Audit team to demonstrate the completeness of the valuations in Tech Forge.

#### Recommendation

We recommend that during the appointment of the valuer, the Finance team provide a proforma valuation spreadsheet which can be efficiently loaded into Tech Forge.

The valuer should supply a consolidated summary of all the valuations that supports the valuation certificate total value.

The timing of the updating of Tech Forge for valuations as at 1.4.17 should be carried out much earlier in year (early 2018) away from the time pressured year end.

#### Management Response

Accepted

The valuer has already been appointed and a pro-forma valuation spreadsheet will be provided. Updating Tech Forge in early 2018 will be carried out to aid early closedown of accounts.

#### **Owner**

**Sarah Milburn.** Financial Systems and Accounting Strategic Lead

#### Deadline

30 November 2017



## Follow-up of prior year recommendations

In the previous year, we raised one recommendation which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented the recommendation.

We have used the same rating system as explained in Appendix 1.

The recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date.

Below is a summary of the prior year's recommendation.

2015/16 recommendations status summary						
Priority	Number raised	Number implemented / superseded	Number outstanding			
High	0	0	0			
Medium	1	1	0			
Low	0	0	0			
Total	1	1	0			

#### 1. IT controls - new starters

Our review of general IT controls highlighted that, for three out of 25 new starters tested, the correct process for requesting user access had not been followed. We understand that there were specific reasons for this. However, whilst we confirmed that the user access given to these staff members was appropriate to their role and as such there was no risk to our audit, non compliance with internal procedure was identified.

Our review of IT controls relating to the payroll system found there is no formal process for requesting access to the payroll system and the related level of access required. We also found that there were 23 system administrators in respect of payroll which is more than we would expect to see in this area. Of the total 23 system administrators one was found to have been granted access in error. This individual has subsequently been deleted from the system.

#### Recommendation

The Authority should address the weaknesses identified in relation to its general IT control environment by:

- Reviewing its policy for requesting user access to ensure that it covers any need for departures from the standard policy requirements; and
- ii. Implementing a formal process for requesting access to the payroll system over and above the basic self-service access levels that are given to all staff. In addition, a formal review of payroll system administrators (or all users with access above self-service) is undertaken on a sixmonthly or quarterly basis to ensure the individuals given additional access levels remain appropriate.

#### Management original response

The internal procedure for requesting user access to the network will be reviewed, ensuring that guidance on any non-standard requests is included.

The internal procedure for requesting user access to the payroll system will be reviewed, ensuring that any requests for super user access are documented. A review of the number of users with super access will also be carried out/

#### Owner

- i. Carl Render: and
- ii. Debbie Searles

Original deadline

31 October 2016

### Management's September 2017 response

The new starters guidance has been reviewed and updated by IT. This has now been fully implemented.

Fully implemented



### Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team from NLBC is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

#### Adjusted audit differences

Detailed below are the significant audit differences identified by our audit of North Lincolnshire Council's financial statements for the year ended 31 March 2017. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

There are no changes to the primary financial statements,

#### **Unadjusted audit differences**

There are no uncorrected audit differences identified.



## Materiality and reporting of audit differences

# The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for the Authority's accounts was set at £6 million which equates to around 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

#### **Reporting to the Audit Committee**

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £300k.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



## Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit and Governance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

#### **Auditor declaration**

In relation to the audit of the financial statements of North Lincolnshire Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and North Lincolnshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.



### Audit fees

#### **Audit fees**

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £104,138 plus VAT (£104,138 in 2015/16), which is the same as the prior year. Due to the issues identified in the PPE valuation work we are proposing an additional fee of £2,000 which is subject to PSAA approval, and there is likely to be an additional charge of £1,000 from the East Riding Pension Fund for audit work on the triennial pensions revaluation.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2017. The planned scale fee for this is £15,615 plus VAT. The planned fee for other grants and claims which do not fall under the PSAA arrangements is £3,500 plus VAT (£3,500 in 2015/16) - see further details below.

PSAA fee table					
Component of audit	<b>2016/17</b> (planned fee) £	<b>2015/16</b> (actual fee) £			
Accounts opinion and use of resources work					
PSAA scale fee set in 2014/15	104,138	104,138			
Additional work to conclude our opinions	2,000	0			
Subtotal	106,138	104,138			
Housing benefits (BEN01) certification work					
PSAA scale fee – work planned for October 2017	15,615	13,410			
Total fee for the Authority set by the PSAA	121,753	117,548			

All fees are quoted exclusive of VAT.

#### Non-audit work and independence

We have started work on the TPA return following the guidance provided by the Teachers Pensions Agency. The proposed fee is £3,500 (2015/16 £3,500). There are no threats to our independence from this work.





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Date: 26 September 2017

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Becky McIntyre, CPFA
Director Governance and Partnerships
Civic Centre
Ashby Road
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#### Dear John

This representation letter is provided in connection with your audit of the financial statements of North Lincolnshire Council ("the Authority"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended; and
- ii. whether 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.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, and the related notes (including the Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

#### Financial statements

- 1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

- 2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
- 3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

#### **Information provided**

- 4. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- 5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 6. The Authority confirms the following:
  - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. <u>Error! Reference</u> source not found.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

- 8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- 9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

#### 10. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
- 11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 26 September 2017.

Yours faithfully

### Appendix to the Authority Representation Letter of North Lincolnshire Council Authority: <u>Definitions</u>

#### **Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

#### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

#### IAS 1.7 and IAS 8.5 state that:

"Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

#### Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

#### Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

#### Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

#### **Related Party and Related Party Transaction**

#### Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

#### **Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.