



Draft  
Statement of Accounts  
2015 – 2016

Unaudited

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# Narrative Report

## 1. Introduction

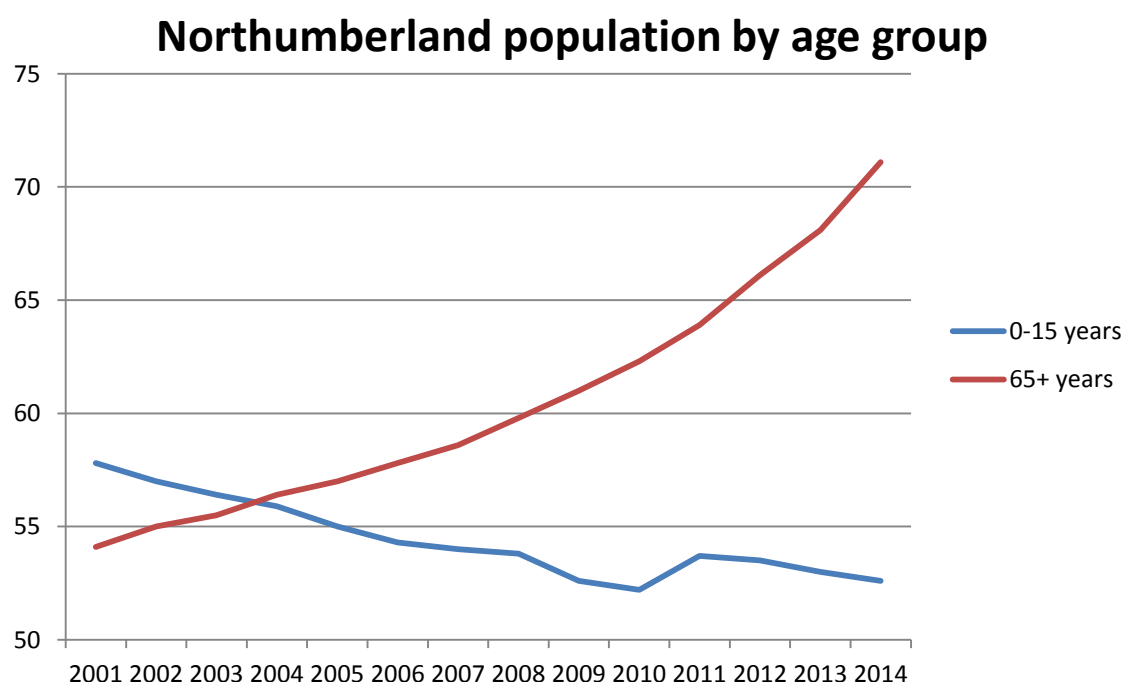
Northumberland is the northernmost county in England, bordering Cumbria to the west, County Durham and Tyne and Wear to the south and Scotland to the north. The county is home to 316,000 people and covers an area of 5,013 km<sup>2</sup>, of which 96.7% is classed as rural. The county is sparsely populated with 63 people per km<sup>2</sup> compared with 411 people per km<sup>2</sup> throughout England. 49.0% of the population live in rural areas, compared to a national figure of 18.9%, with the remaining 51.0% of the population living in the 3.3% of urban land based mainly in the south east of the county.

### Population

The 316,000 people living in Northumberland make it the second largest population by local authority in the North East. The proportion of the total population aged 16-64 is 60.8% compared with 63.5% throughout England. Northumberland has a higher proportion of 65+ year olds than England and a smaller proportion of those aged 0-15 years. The age profile of Northumberland compared to England is shown in the chart below.

Age Group	Northumberland	England
0-15 years	16.70%	19.00%
16-64 years	60.80%	63.50%
65 years +	22.50%	17.50%

Northumberland has an ageing population with the percentage of older residents increasing year on year, as demonstrated by the graph below.



The number of Northumberland residents aged 0-15 was 57,800 in 2001 compared to 52,600 in 2014. Looking at older residents, there were 54,100 aged 65 and over in 2001 and this has risen to 71,100 in 2014.

This ageing population has led to an increased demand for Council services, and, reflects the ongoing pressures within the Adult Services budget. It is expected that this trend will continue.

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### Economy

The weekly average (median) wage in the county is £487 which is lower than the national average of £523. The unemployment rate for Northumberland is 5.2% which is broadly in line with the England average and the employment rate in Northumberland is 72.9% compared to the national average of 72.5%.

13.2% of the population of Northumberland live in one of the 10% most deprived areas of England, with one in five (20.8%) of the population classed as income deprived, and, one in four (25.4%) employment deprived.

There are 149,750 dwellings in Northumberland with an average (mean) house price of £168,400; which is substantially lower than the average England figure of £246,800.

Gross Value Added (GVA) is much lower in Northumberland at £14,979 per head compared to £24,958 per head for England.

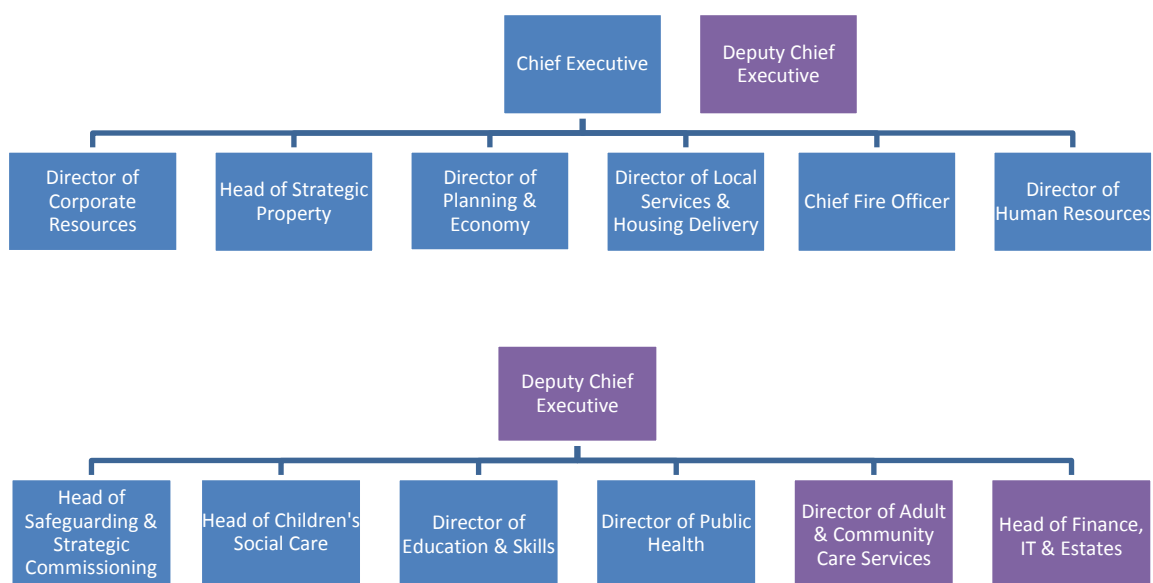
### Political Structure

Northumberland County Council is made up of 67 elected members, each representing constituents within an area of Northumberland. The political structure of the Council is shown below:

Labour	32
Conservative	20
Liberal Democrat	10
Non-aligned	3
Independent	2

### Management Structure

The management structure of the Council is shown below:



Note – The posts shown in purple are shared management posts part funded by the NHS.

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### Council Employees

The Council currently employs over nine thousand staff in full and part-time contracts (excluding casual employees) with five thousand of these being based in schools.

### Financial Picture

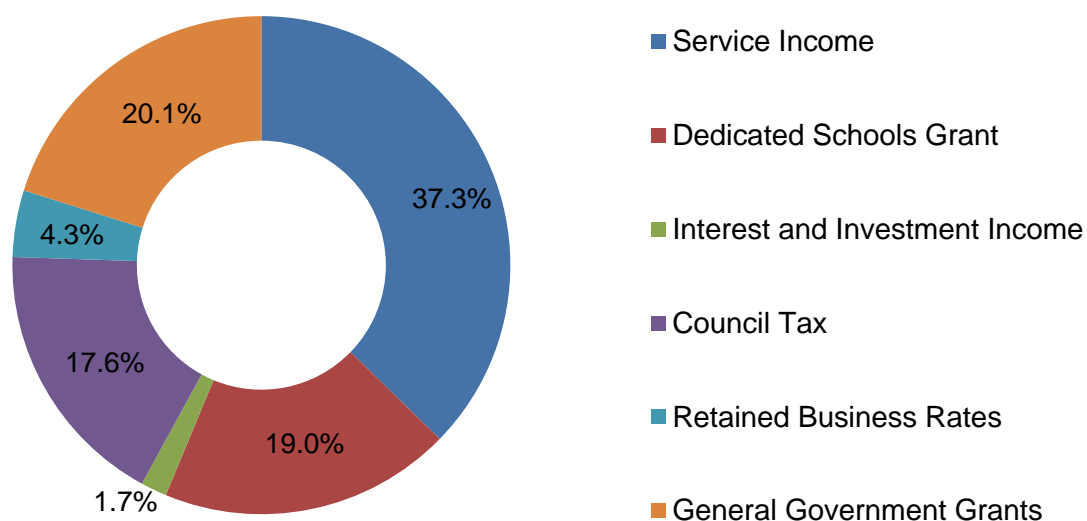
The Council has faced significant cuts in its funding in recent years resulting in revenue budget reductions of £191.50 million between 2009-2010 and 2015-2016. A further £11.93 million reduction has been approved for 2016-2017 with an additional £46.00 million reduction required to balance the budget up to 2019-2020.

In spite of the cuts the Council has continued to deliver excellent services for its residents. Protecting frontline services has been a key priority and in order to achieve this the Council has had to undergo a radical transformation in the way in which it operates and delivers services. Changing the way that services are delivered has enabled the Council to continue providing services; for example, some libraries have been relocated into leisure centres and the one-stop-shops have been developed. The Council is also reviewing its property portfolio in order to make best use of resources; relocating staff into central hubs, and, selling or leasing surplus properties in order to generate savings.

## 2. Income and Expenditure

### Where the money comes from

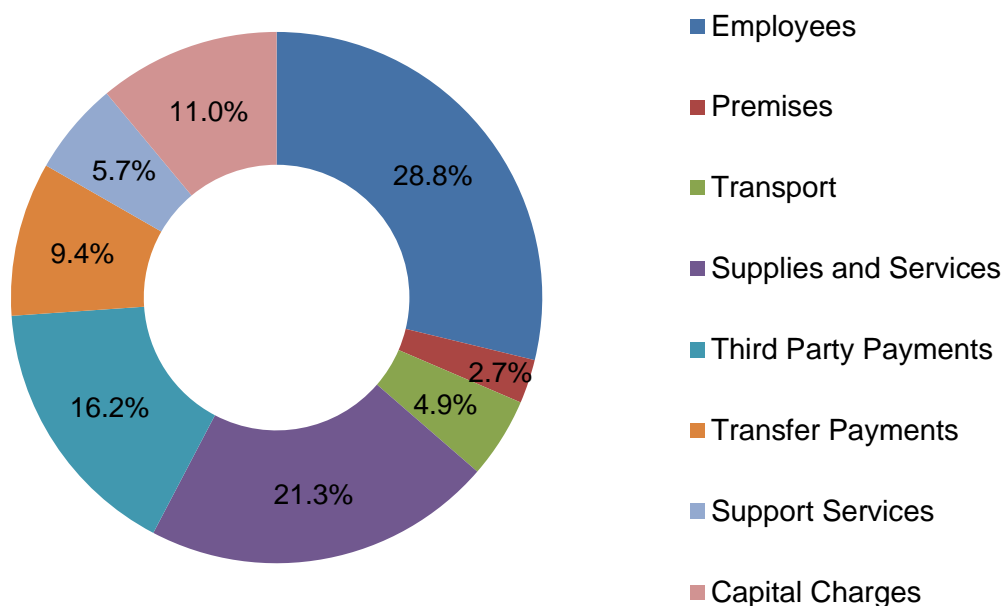
The Council relies in the main on service income, Dedicated Schools Grant, local taxation and Retained Business Rates to fund service provision. These sources of funding accounted for 78.2% of all income during the year with the remaining income being derived from other government grants and interest earned.



### What the money was spent on

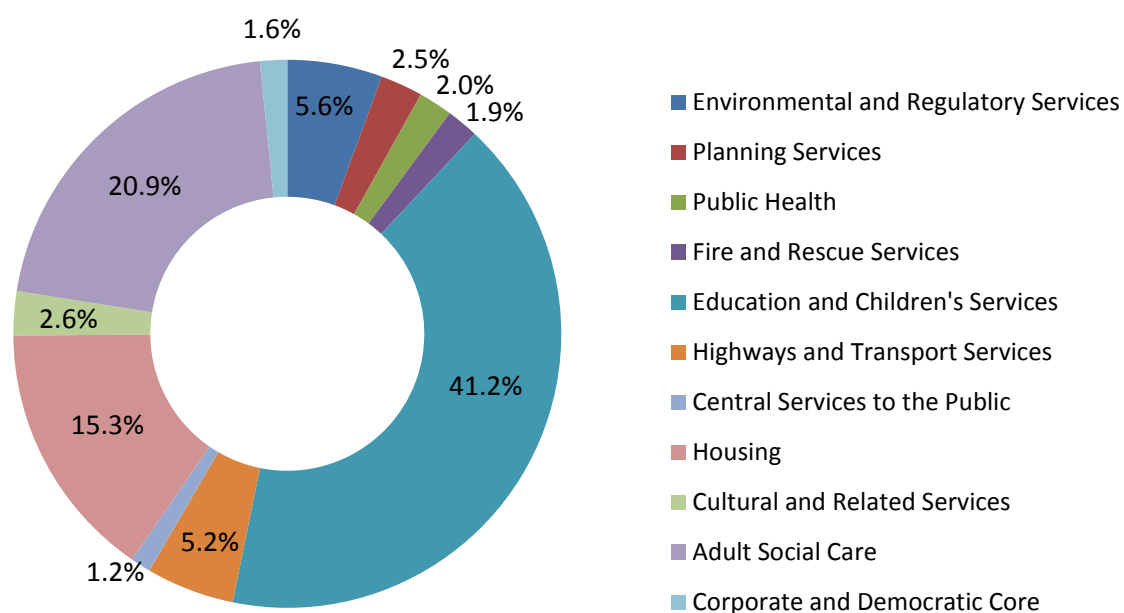
A large proportion of the Council's expenditure (28.8%) is staff-related, 21.3% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 25.6%. The balance is mainly related to central costs and capital charges for the use of assets (depreciation and minimum revenue provision).

## Narrative Report



### What services were provided?

Gross expenditure on the services provided by the Council is shown below. The service with the highest gross expenditure is Education and Children's Services, most of which is financed by the Dedicated Schools Grant. Adult Social Care has the second highest gross expenditure and the highest net expenditure. Housing Services has the third highest gross expenditure.



The Comprehensive Income and Expenditure Statement (page 19) and the Notes to the Financial Statements (pages 23 - 150) provide more detail regarding the charts above.

## Narrative Report

### 3. Out-turn Against Budget for 2015-16 – Revenue

#### Revenue Budget 2015-2016

The Council approved a net revenue budget of £264.00 million for 2015-2016 after taking account of Dedicated Schools Grant of £169.83 million, New Homes Bonus Grant of £5.02 million and Education Services Grant of £3.50 million. Efficiencies and other savings totalling £28.78 million were needed in order to arrive at a balanced position after assessing what was required in terms of spending capacity to maintain service provision and respond to essential growth pressures, and the consequent impact upon the increase in Council Tax levels. The budget was funded through:

	£'000
Revenue Support Grant	56,995
Council Tax	148,674
Retained Business Rates	63,890
Contribution to General Fund	(5,556)
	264,003

#### Medium Term Financial Plan and Future Financial Prospects

The Council approved the Medium Term Financial Plan for 2016-2017 to 2019-2020 in February 2016, with the main aims of protecting frontline services and promoting growth in the county whilst implementing efficiency savings of £57.92 million over the same period.

Core funding from Government by 2020 is expected to be cut by 82.4% with the expectation that the county will raise more money locally through increasing Council Tax, new homes being built and from Business Rates. However, the Council faces unfunded cost pressures including the National Living Wage, the Apprenticeship Levy and the change in National Insurance thresholds. These represent approximately £16.00 million in cost pressures over the next four years.

The Government recently announced a number of changes which will have an impact on the finances of the Council in the future. These include:

- Providing local authorities with the power to raise Council Tax by an additional 2% in the form of an Adult Social Care Precept outside of the normal referendum limits. The additional revenue raised from this precept is to be spent solely on adult social care;
- 100% Business Rates income retention for local authorities by the end of the current parliament;
- Greater flexibility for local authorities to use capital receipts to fund the revenue costs of transformation projects;
- A reduction in New Homes Bonus in order to make available further funding for adult social care in the form of the Improved Better Care Fund.

From 2016-2017 the Council has taken up the Government's offer to Adult Social Care authorities to raise an additional 2% Council Tax Precept in order to alleviate some of the pressures within Adult Services. Although this new power was welcomed it is worth noting that the additional revenue does not fully cover the new burden cost of increased social care contracts following the implementation of the National Living Wage.

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The Council's net revenue budget for 2016-2017 was set at £263.15 million after efficiency savings of £11.93 million in order to ensure a balanced position. In spite of the pressures, the Council aims to protect front line services, encourage investment in the local economy, improve education and provide affordable housing.

The Council has committed to investing £565.63 million in the county through the agreed three year capital programme, with funding from external grants, capital receipts, general fund and HRA contributions and borrowing.

The Medium Term Financial Plan was set to ensure that the Council continues to work towards meeting the following key priorities to benefit the residents of Northumberland:

- Economic growth: promote a more prosperous county that provides high wages, skilled jobs and opportunities to create thriving businesses.
- Places and environment: maintain and further improve the quality of our towns, villages and countryside, making it easier for residents to access services, high-quality and affordable homes, and to travel freely.
- Stronger communities and families: ensure all residents feel genuinely safe, belong and have a say in how the county is run. We aim to provide a range of quality community and cultural services, and facilities to inspire creativity and participation.
- Health and wellbeing: ensure everyone has the opportunity to lead healthy, independent lives for as long as possible and to safeguard our most vulnerable residents.
- Developing the organisation: grow a unified Council where all staff and elected members understand their role and are collectively motivated to deliver excellent services as effectively and efficiently as possible.

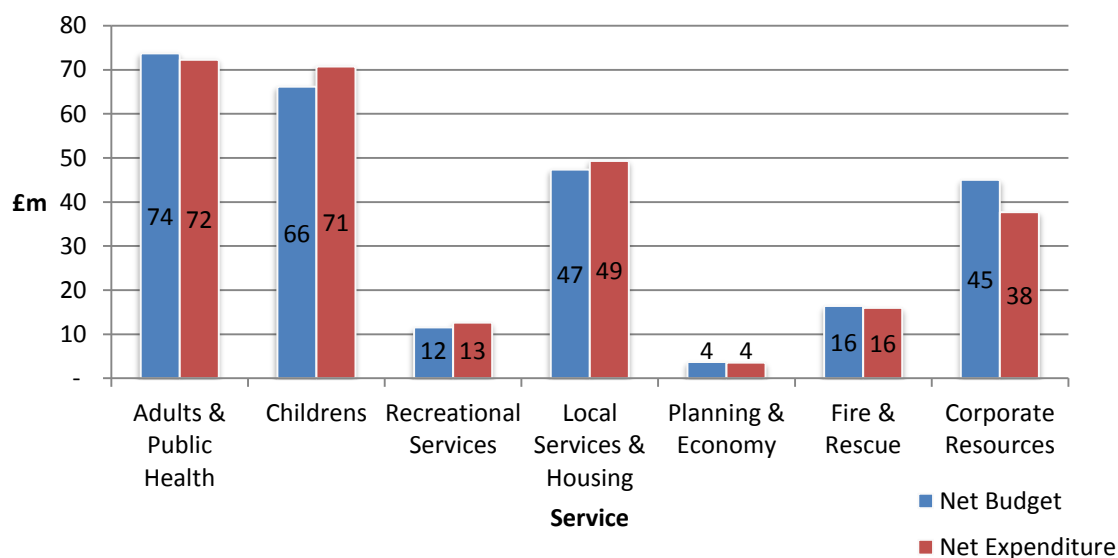
The Council's Corporate Plan can be accessed in full at <http://www.northumberland.gov.uk/About/Policy.aspx#corporateplan>

### Budget Monitoring

Revenue budget monitoring is reported to the Corporate Leadership Team on a monthly basis and to the Corporate Performance Overview and Scrutiny Committee every two months. The Council's revenue out-turn position is shown in the graph overleaf:



## Revenue Out-turn by Service



The final outturn is a net contribution to general reserves of £7.56 million comprising a planned contribution of £5.56 million and a general underspend against services of £2.00 million. The position shown for Adult Services is after a transfer of £3.32 million from earmarked reserves to meet recurrent pressures within the service. The combined budgeted position for Adult Services and Children's Services included £6.36 million unfunded recurrent pressures; after the transfer from earmarked reserves £3.52 million has been met from the General Fund in year. It is anticipated that the Adult Services' Reserve will be exhausted by the end of the 2016-2017 financial year.

The overspend within Local Services and Housing was mainly a result of isolated incidents. They related to the clean-up and repair operation required following the severe flooding event in December 2015; and, the loss of income following a fire at the Council's only crematorium which resulted in its closure for the majority of the year.

The underspend against services and the planned contribution to the General Fund are reflected within the General Fund balance shown below:

	£'000
Balance as at 1 April 2015	26,636
Balance as at 31 March 2016	36,852
Change in year	10,216

The other element which makes up the total movement in General Fund balances relates to the transfer of £2.66 million balances regarding Homes for Northumberland being brought back in house on 1 September 2015.

The overall net worth of the Council has increased by £84.21 million in the year. This is due to several factors including a decreased Pension Fund liability, an increase in property, plant and equipment and a decrease in long term borrowing.

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### Out-turn Against Budget for 2015-2016 – Capital

The table shows the net capital position by service area against the approved 2015-2016 Capital Programme:

	Budget £'000	Expenditure £'000	Variance £'000
Adult Services	1,200	1,085	(115)
Children's Services	16,087	15,815	(272)
Corporate Resources	23,966	21,764	(2,202)
Fire and Rescue Service	498	347	(151)
HRA	14,600	12,847	(1,753)
Local Services and Housing	62,337	63,954	1,617
Planning and Economy	26	18	(8)
Recreational Services	2,808	4,734	1,926
Total Services	121,522	120,564	(958)
Other Capital Items	-	26,370	26,370
Total Capital Expenditure	121,522	146,934	25,412

The following table shows how the capital position was financed in year:

	Financing £'000
Borrowing	56,744
Capital Receipts	10,098
Revenue Contributions to Capital Outlay	3,172
HRA Contribution	7,190
External Grants	69,730
Total Financing	146,934

### Three Year Capital Programme

The Council is embarking on a three year capital programme totalling £565.63 million to show its commitment to boosting the local economy, assist in the creation of employment opportunities and create new infrastructure, transport links, regeneration and a wider choice of housing.

Some examples of our major schemes are:

- Local Transport Plan £53.70 million. The Council continues to invest in the highways infrastructure through its local transport plan to maintain roads to a high and safe standard and address their structural decline.
- South East Northumberland Strategic Link Road £12.46 million. Due to be completed in March 2017 the South East Northumberland Strategic Link Road will open up a link with the south east sector of the county to aid economic regeneration and also alleviate traffic congestion issues within Morpeth.
- Fleet Replacement Programme £14.89 million. The Council will continue with its fleet replacement programme to ensure the fleet meets modern day service requirements. Where possible specifications will be harmonised to ensure value for money through

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effective procurement arrangements which in turn will minimise maintenance expenditure.

- Joint Schools and Leisure Hub (Morpeth and Ponteland) £70.18 million. The proposals for Ponteland involve significant new developments which will be subject to the planning process. They involve looking at a new school and leisure complex. Within Morpeth, the Council is considering opportunities for the provision of a new first school.
- Major Repairs Reserve £22.50 million. A continued programme of upgrading existing Council dwellings through a series of improvement projects that include kitchen and bathroom refurbishments, electrical rewiring, replacement of doors and windows, the installation of new heating systems and replacement of roofing.
- New HQ/County Hall £32.11 million. The existing County Hall is in need of significant investment to enable it to meet current required standards. The construction of a smaller headquarters in Ashington will reduce building running costs, and, assist the Council in meeting its required savings target and help protect the provision of services; whilst, the relocation of staff to town centre locations will bring economic benefits to those towns.
- Ashington, Blyth and Tyne Rail Line £59.48 million. The project is looking to provide passenger rail services on the current freight only line between Newcastle and Ashington. The scheme will provide improved connectivity between South East Northumberland and Tyne and Wear; increase capacity on the South East Northumberland transport network to assist with the facilitation of additional dwellings; and, improve the rail infrastructure along the line to assist key industry along the route.

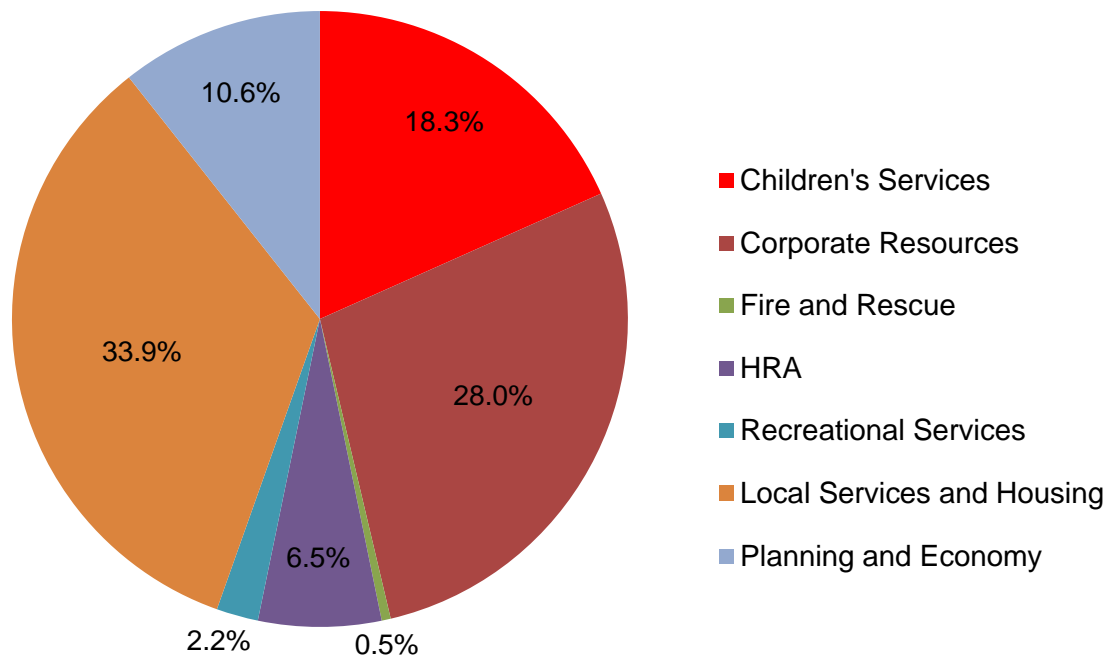
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### Capital Expenditure and Funding

The Council's three year capital programme and its funding can be summarised as follows:

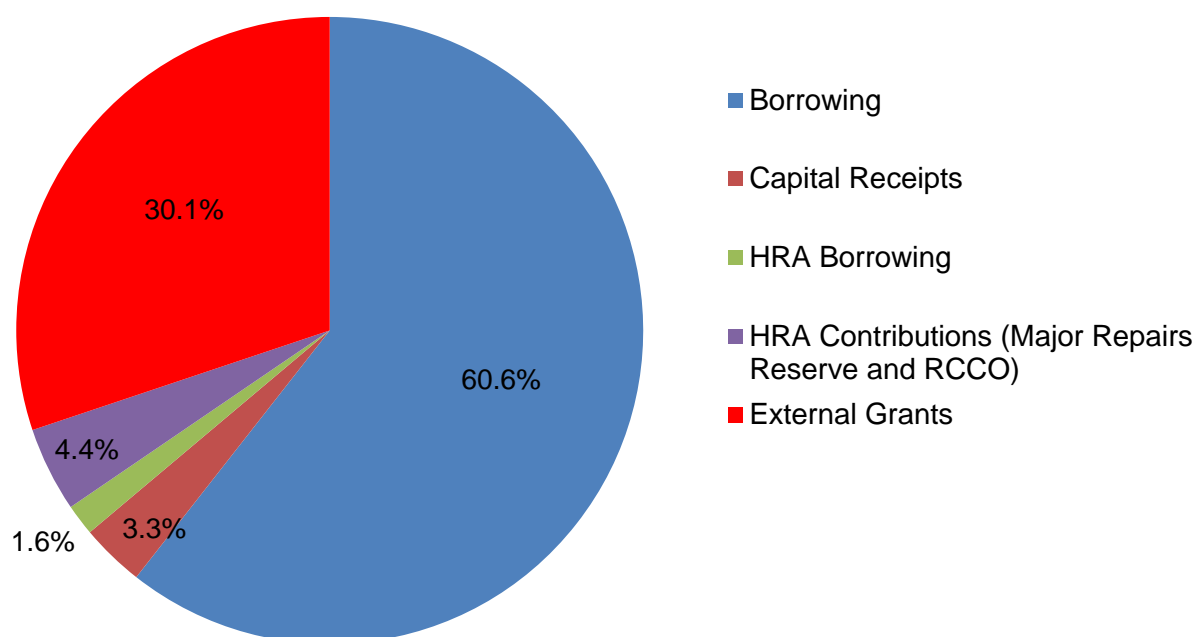
Service Area	2016-2017 £'000	2017-2018 £'000	2018-2019 £'000	Total £'000
Children's Services	13,568	35,422	54,650	103,640
Corporate Resources	33,957	92,744	31,570	158,271
Fire and Rescue Service	2,535	160	-	2,695
HRA	11,958	17,173	7,360	36,491
Local Services and Housing	73,077	77,277	41,528	191,882
Planning and Economy	1,650	28,571	30,000	60,221
Recreational Services	6,613	5,813	-	12,426
<b>Total Expenditure</b>	<b>143,358</b>	<b>257,160</b>	<b>165,108</b>	<b>565,626</b>
<b>Financed by:</b>				
Borrowing	71,827	153,547	117,697	343,071
Capital Receipts	10,596	4,729	3,220	18,545
Revenue Contributions to Capital Outlay	2,108	6,980	-	9,088
HRA Contribution	9,060	8,290	7,360	24,710
External Grants	49,767	83,614	36,831	170,212
<b>Total Financing</b>	<b>143,358</b>	<b>257,160</b>	<b>165,108</b>	<b>565,626</b>

### Capital Expenditure



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### Capital Funding



#### 4. Performance

The Council set five core priorities as part of the development of the Corporate Plan which includes Economic Growth, Places and Environment, Stronger Communities and Families, Health and Wellbeing and Developing the Organisation. During 2015-2016 there have been significant achievements against these priorities which the Council is proud of. These include:

##### Economic Growth

- The Council introduced free parking where requested by towns and parishes to encourage local shopping;
- The Local Sustainable Transport Fund programme reached out to 15,000 employees to encourage sustainable transport, and, supported 500 job seekers by providing personalised travel training;
- 91% of homes and businesses in Northumberland were connected to fibre broadband;
- Investment of £2.2 million was made to subsidise bus services as part of recognising the rural nature of the county;
- A total of 664 properties were let during the year and, on average, properties were re-let within 32.25 days; and,
- There was a reduction in the level of current tenant arrears by 8.8% compared with 2014-2015.

##### Places and Environment

- 'Bin it for Good', launched an anti-litter campaign and a 'Love Northumberland Hate Litter' campaign which has resulted in fixed penalties and prosecutions;
- Maintenance and protection resulted in 10 parks across the county being awarded the prestigious Green Flag status;

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- There was investment in new equipment to improve street cleansing and grass cutting services;
- 96.75% of hazardous potholes were made safe within 24 hours of identification; and,
- Performance targets were exceeded, with 95.5% of planning applications being determined under the scheme of delegation which demonstrates the success of the new delegation scheme.

### **Stronger Communities and Families**

- The Council worked with over 700 schools across the county to promote sustainable and healthy travel by encouraging more walking, cycling and scootering to school;
- Continued investment was made in Post-16 school transport and apprenticeships, traineeships, and, study programmes were provided through the Learning and Skills team;
- Schools achieved strong ratings with 88.2% of primary schools and 62.5% of secondary schools being judged as good or outstanding;
- The Council continued its commitment to reducing the number of cases per full time equivalent social worker to 24 compared with 32 in 2014-2015;
- Fire and Rescue emergency response equipment was improved with new vehicles and 9,442 homes were made safer through home safety check visits; and,
- The Council continued to ensure that there were no fire fatalities in 2015-2016.

### **Health and Wellbeing**

- Working with Northumbria Healthcare NHS Foundation Trust the Council has transformed care for patients and continues to build on its integrated health and social care work;
- There has been a reduction in the number of delayed transfers of care from hospital relating to social care;
- Over 90% of children aged 0 to 5 were registered with a Sure Start Children's Centre; and,
- The Council invested £1.5 million in building new children's homes and improving existing facilities.

### **Developing the Organisation**

- 1,400 County Council and school staff saw the benefits of the introduction of the Northumberland Living Wage in October 2015;
- The Council was recognised as one of the top 100 employers in Britain in Stonewall's 2016 Workplace Equality Index, coming third in the Local Government category;
- There continued to be a commitment to new employees, with 72% of induction programmes being completed;
- The introduction of mobile technology is helping staff to work in more flexible and efficient ways. This was enabled through 96% of IT incidents being resolved within agreed timescales and the Financial IT systems being available 99.5% of core hours.

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### 5. Treasury Management Activities

The Council's debt and investment position, excluding accrued interest, at the end of the period was as follows:

	31 March 2016	
	Principal £'000	Rate/Return %
Public Works Loans Board	287,440	3.34
Market LOBOs	260,600	4.10
Short Term Market Loan	90,196	1.72
Total Debt	638,236	3.29
Investments excluding Impaired Deposits and In-House Funds	192,330	1.58
Total Investments	192,330	1.58

During the year the Council repaid £102.74 million of maturing borrowing and took out replacement short-term borrowing of £75.00 million, along with £0.03 million of long term borrowing, in line with authorised limits. This resulted in a net decrease in total borrowing of £27.71 million.

Investment balances decreased during the year by £42.02 million, largely as result of covering the above difference between borrowing repaid and replacement borrowing taken out; as well as other cash flow movement. The Council manages its investments in-house and invests with the institutions listed in the Council's approved counterparty list. The Council's aim is to achieve the optimum return on its investments while remaining within the authorised levels of security and liquidity.

The Council invests for a range of periods from overnight to 12 months for banks and building societies, dependent on the Council's cash flows, the interest rates on offer, durational limits set out in the approved investment strategy and assumptions about future changes in interest rates. Funds are also placed with other local authorities for longer periods. Although market rates remain low, the Council has achieved higher than average interest rates on its investments during the period.

### 6. Pension Deficit

The accounts have been prepared incorporating the requirements of International Reporting Standard (IAS) 19 *Employee Benefits* for the treatment of pension costs. IAS 19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid.

At 31 March 2016 the County Council's net liability for future pension costs was £652.48 million. Sixty five percent of this net liability is attributable to the Local Government Pension Scheme (LGPS), which is a funded scheme, and the rest to unfunded schemes such as the Firefighters' Pension Scheme. For the LGPS, the Council pays an employer's contribution into the Northumberland County Council Pension Fund at a rate set by the Fund's actuary. The rate paid in 2015-2016 was set on the basis of the actuarial valuation of the Fund as at 31 March 2013. This set the rate payable for the three years ending 31 March 2017 with an aim to remove the LGPS funding shortfall by the end of 22 years.



## **Narrative Report**

### **7. Group Results**

The Group Accounts fully incorporate the results of Arch and Homes for Northumberland, both of which are wholly owned subsidiaries of the Council. Further details about these relationships can be found on page 166 of these accounts

The Group results revealed a surplus on the provision of service after taxation of £30.13 million (£29.62 million in 2014-2015), incorporating a net surplus for Arch of £3.01 million (£2.39 million in 2014-2015) and a net surplus for Homes for Northumberland of £0.67 million (£1.15 million surplus in 2014-2015). The net assets of the Group are £332.13 million at 31 March 2016 (£231.09 million at 31 March 2015).

### **8. Explanation of the Financial Statements**

The following Statement of Accounts for Northumberland County Council presents the overall financial performance and position of the Council for the year ended 31 March 2016 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand pounds unless otherwise stated.

The purpose of this foreword is to provide an easy to understand guide to the most significant matters reported in the accounts. The pages which follow cover:

- The Council's accounts for 2015-2016; and,
- The Group accounts which consolidate the results and balances of the Council with a number of subsidiary entities that it controls (Arch and Homes for Northumberland).

For the Council, the Statement of Accounts comprises:

#### **Movement in Reserves Statement**

This statement shows the movement in the year for different reserves held by the Council. These reserves are analysed into "usable" (i.e. those that represent resources that can be applied to fund expenditure) and "non-usable" other reserves. The surplus or deficit on the provision of services represents the true cost of the provision of the Council's services. This is shown in the Comprehensive Income and Expenditure Statement (see below). This true cost is different to the charge required to be made to the General Fund Balance and the Housing Revenue Account for council tax, business rates and rent setting purposes. The Movement in Reserves Statement sets out, in a single line, the adjustments made to reflect the differences between the accounting and regulatory basis of determining the Council's funding requirements. The Statement also shows transfers to or from earmarked reserves undertaken by the Council.

#### **Comprehensive Income and Expenditure Statement**

This reports the income and expenditure associated with the provision of Council services. It also discloses non-cash surpluses and deficits relating to the revaluation of Council assets, and, gains and losses on pension scheme assets and liabilities.

#### **Balance Sheet**

This is fundamental to the understanding of the Council's year end financial position. It shows the balances and reserves at the Council's disposal, its long term indebtedness and summarised information on the assets held.



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### **Cash Flow Statement**

This summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement as cash in hand; cash equivalents are deposits repayable on demand.

### **Pension Fund Financial Statements**

Financial Statements for the Northumberland County Council Pension Fund provide information about the financial position and performance of the Fund and are an extract from the Pension Fund Annual Report. A copy of the full report is available from the Chief Executive, County Hall, Morpeth, Northumberland, NE61 2EF.

### **Firefighters' Pension Fund Financial Statements**

The Firefighters' Pension Scheme statements provide information relating to the transactions in the year.

### **Housing Revenue Account (HRA) Income and Expenditure Account**

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to show that expenditure on managing tenancies and maintaining dwellings is met by rents charged to tenants. Consequently, the HRA is a statutory account, ring fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa). The movement on the HRA balance in the year is disclosed in the Movement in Reserves Statement (see above).

### **Collection Fund Account**

This account is maintained separately as a statutory requirement, to show the transactions of the Council as a billing authority in relation to Council Tax and Non-domestic Rates. It shows the way in which the income collected has been distributed to precepting authorities.

### **Annual Governance Statement**

The Annual Governance Statement identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for.

### **Group Accounts**

The Group Accounts include the results and balances for Northumberland County Council together with the following subsidiaries:

- The Arch Group of companies which include an economic development, regeneration and private rented housing company.
- Homes for Northumberland, an arm's length management organisation responsible for the administration of the Council's social housing portfolio.

### **Independent Auditor's Report**

This document presents the External Auditor's report and opinion on the Statement of Accounts.

## **9. Significant charges in the accounts**

There has been one new substantial item charged as an expense to the Comprehensive Income and Expenditure Statement in the year.

## **Narrative Report**

In order to allow increased flexibility to cope with future austerity, the Council amended both the existing and future years treasury management policies to include the capacity to, whenever resources are available and allow, set aside additional voluntary MRP. During 2015-2016 the Council made an additional voluntary MRP of £15.00 million.

## **Movement in Reserves Statement**

for the year ended 31 March 2016

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

The Surplus or Deficit on the Provision of Services shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/Decrease before the Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance; before any transfers to or from earmarked reserves undertaken by the Council.

## Movement in Reserves Statement

for the year ended 31 March 2016

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Balance brought forward 1 April 2014	(28,472)	(78,409)	(10,548)	(1,378)	(14,027)	(1,312)	(134,146)	(108,429)	(242,575)
<b>Movement in Reserves during 2014-2015:</b>									
(Surplus)/Deficit on the provision of services	(16,054)	-	(10,030)	-	-	-	(26,084)	-	(26,084)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	82,551	82,551
Total Comprehensive Income & Expenditure	(16,054)	-	(10,030)	-	-	-	(26,084)	82,551	56,467
Adjustments between accounting basis & funding basis under regulations (Note 9)	(2,958)	-	9,423	(896)	(1,595)	698	4,672	(4,672)	-
Net (Increase)/Decrease before T transfers to Earmarked Reserves	(19,012)	-	(607)	(896)	(1,595)	698	(21,412)	77,879	56,467
T transfers to/(from) Earmarked Reserves (Note 10)	20,848	(20,848)	-	-	-	-	-	-	-
(Increase)/Decrease in 2014-2015	1,836	(20,848)	(607)	(896)	(1,595)	698	(21,412)	77,879	56,467
Balance at 31 March 2015 carried forward	(26,636)	(99,257)	(11,155)	(2,274)	(15,622)	(614)	(155,558)	(30,550)	(186,108)
<b>Movement in Reserves during 2015-2016:</b>									
(Surplus)/Deficit on the provision of services	(18,535)	-	(7,917)	-	-	-	(26,452)	-	(26,452)
Other Comprehensive Income & Expenditure	(2,656)	-	-	-	-	-	(2,656)	(55,297)	(57,953)
Total Comprehensive Income & Expenditure	(21,191)	-	(7,917)	-	-	-	(29,108)	(55,297)	(84,405)
Adjustments between accounting basis & funding basis under regulations (Note 9)	12,269	-	1,663	1,937	(9,414)	(377)	6,078	(6,078)	-
Net (Increase)/Decrease before T transfers to Earmarked Reserves	(8,922)	-	(6,254)	1,937	(9,414)	(377)	(23,030)	(61,375)	(84,405)
T transfers to/(from) Earmarked Reserves (Note 10)	(1,294)	1,694	(400)	-	-	-	-	-	-
(Increase)/Decrease in 2015-2016	(10,216)	1,694	(6,654)	1,937	(9,414)	(377)	(23,030)	(61,375)	(84,405)
Balance at 31 March 2016 carried forward	(36,852)	(97,563)	(17,809)	(337)	(25,036)	(991)	(178,588)	(91,925)	(270,513)

## **Comprehensive Income and Expenditure Statement**

for the year ended 31 March 2016

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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement (page 17).

# Comprehensive Income and Expenditure Statement

for the year ended 31 March 2016

	Note	2014-2015			2015-2016		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
		£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care		160,695	(75,333)	85,362	157,361	(78,673)	78,688
Central Services to the Public		8,180	(4,036)	4,144	9,088	(3,065)	6,023
Corporate and Democratic Core		11,579	(2,521)	9,058	12,281	(1,409)	10,872
Cultural and Related Services		19,155	(2,103)	17,052	19,410	(444)	18,966
Education and Children's Services		292,107	(225,262)	66,845	309,997	(221,917)	88,080
Environmental and Regulatory Services		48,562	(8,689)	39,873	42,282	(9,975)	32,307
Exceptional Costs of Equal Pay	7	(4,186)	-	(4,186)	(892)	-	(892)
Fire and Rescue Services		14,931	(12,586)	2,345	14,158	(3,022)	11,136
Highways and Transport Services		39,805	(7,212)	32,593	39,030	(13,583)	25,447
Local Authority Housing (HRA)		19,716	(31,330)	(11,614)	21,486	(33,015)	(11,529)
Non Distributed Costs		6,969	(126)	6,843	10,120	(886)	9,234
Other Housing Services		96,331	(92,076)	4,255	93,618	(90,937)	2,681
Planning Services		16,484	(3,601)	12,883	18,658	(3,600)	15,058
Public Health		12,086	(13,412)	(1,326)	14,936	(14,923)	13
Cost of Services		742,414	(478,287)	264,127	761,533	(475,449)	286,084
Other Operating Expenditure	11	19,938	(3,125)	16,813	31,267	(15,416)	15,851
Financing and Investment Income and Expenditure	12	59,166	(21,884)	37,282	55,641	(22,841)	32,800
Taxation and Non-Specific Grant Income	13	-	(344,306)	(344,306)	-	(361,187)	(361,187)
(Surplus) or Deficit on Provision of Services		821,518	(847,602)	(26,084)	848,441	(874,893)	(26,452)
(Surplus) or Deficit on Revaluation of Non Current Assets	14	-	-	551	-	-	(19,580)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets	25	-	-	-	-	-	(167)
Remeasurement of the Net Defined Benefit Liability/(Asset)	44	-	-	82,000	-	-	(43,610)
Movement due to Acquisitions/Disposals on Pension Fund	44	-	-	-	-	-	8,060
Transfer of HfN Balances		-	-	-	-	-	(2,656)
Other Comprehensive Income and Expenditure				82,551			(57,953)
Total Comprehensive Income and Expenditure				56,467			(84,405)

## Balance Sheet

as at 31 March 2016

The Balance Sheet shows the value as at 31 March 2016 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserve includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note	31 March 2015 £'000	31 March 2016 £'000
Property, Plant and Equipment	14	1,173,920	1,204,806
Heritage Assets	15	8,210	8,210
Investment Property	16	3,543	1,723
Intangible Assets	17	4,065	3,245
Assets Held for Sale - non current	21	388	400
Long Term Investments	18	110,217	120,288
Long Term Debtors	18,19	207,956	225,738
<b>Long Term Assets</b>		<b>1,508,299</b>	<b>1,564,410</b>
Intangible Assets	17	462	373
Short Term Investments	18	102,414	62,868
Assets Held for Sale - current	21	2,752	9,117
Inventories		724	1,133
Short Term Debtors	18,19	76,988	91,943
Cash and Cash Equivalents	18,20	43,541	31,535
<b>Current Assets</b>		<b>226,881</b>	<b>196,969</b>
Bank Overdraft	18,20	(17,568)	(16,521)
Short Term Borrowing	18	(68,632)	(94,353)
Short Term Creditors	22	(55,950)	(67,668)
Short Term Provisions	23	(21,345)	(16,953)
Revenue Grants Receipts in Advance	37	(1,662)	(1,341)
<b>Current Liabilities</b>		<b>(165,157)</b>	<b>(196,836)</b>
Long Term Creditors - PFI	41	(81,720)	(80,009)
Long Term Borrowing	18,47	(601,400)	(547,825)
Other Long Term Liabilities	44	(677,560)	(652,480)
Long Term Provisions	23	(13,930)	(1,668)
Capital Grants Receipts in Advance	18,37	(9,305)	(12,048)
<b>Long Term Liabilities</b>		<b>(1,383,915)</b>	<b>(1,294,030)</b>
Net Assets		186,108	270,513
Usable Reserves	24	155,558	178,588
Unusable Reserves	25	30,550	91,925
Total Reserves		186,108	270,513

## Cash Flow Statement

as at 31 March 2016

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2016 by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

		2014-2015	2015-2016
	Note	£'000	£'000
Net surplus/(deficit) on the provision of services		26,084	<b>26,452</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements	29	(60,242)	<b>23,540</b>
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	30	(62,178)	<b>(87,886)</b>
<b>Net cash flows from Operating Activities</b>		<b>(96,336)</b>	<b>(37,894)</b>
Investing Activities	27	(24,957)	<b>55,227</b>
Financing Activities	28	126,213	<b>(28,292)</b>
<b>Net (increase)/decrease in cash and cash equivalents</b>		4,920	<b>(10,959)</b>
Cash and cash equivalents at the beginning of the reporting period		21,053	<b>25,973</b>
Cash and cash equivalents at the end of the reporting period	20	25,973	<b>15,014</b>



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# Notes to the Financial Statements

## 1. Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2015-2016 financial year and its position at the year-end of 31 March 2016. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015-2016 and the Service Reporting Code of Practice 2015-2016, 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. Other than the Cash Flow Statement, the core statements are prepared on an accruals basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred not as the cash is received or paid.

The Code requires that a Local Authority's Statement of Accounts are prepared on a Going Concern basis. This means that the accounts are prepared based on the assumption that the Authority will continue in operational existence for the foreseeable future.

### 1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including 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 are accounted for respectively 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.

## Notes to the Financial Statements

The only exception to the adoption of accruals relates to accounting for income and expenditure by those schools that do not use the full functionality of the Council's finance systems and therefore account on a cash basis. This exception does not have a material impact on the accounts.

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

In the preparation of these accounts, the following entry represents an exception to the statements made above: Housing rents – the Council operates a 49 week rent year for Council house rents. The average weekly rent receipt for 2015-2016 was £0.60 million over 52 weeks.

### 1.3 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements, depending on how significant the items are to aid an understanding of the Council's financial performance.

### 1.4 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 three months or less from the date of acquisition and 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.

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

Prior period adjustments may arise as a result of a change in accounting policy 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 by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

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

### 1.6 Charges to Revenue for Non-Current Assets

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

## Notes to the Financial Statements

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

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

### 1.7 Employee Benefits

#### Benefits Payable during Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following financial year. Any accrual made is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

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

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

## Notes to the Financial Statements

### Post-Employment Benefits

The Council operates eight pension schemes:

- **The Local Government Pension Scheme (LGPS)** administered by Northumberland County Council.
- **The LGPS Unfunded Scheme** administered by Northumberland County Council.
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council.
- **The Firefighters' Pension Scheme (FPS)** administered by Northumberland County Council.
- **The New Firefighters' Pension Scheme (NFPS)** administered by Northumberland County Council.
- **The 2015 Firefighters' Pension Scheme** administered by Northumberland County Council.
- **The Firefighters' Injury Pensions and non-scheme Ill-Health Pensions** administered by Northumberland County Council.
- **Teachers' Pension Scheme** administered by the Teachers' Pensions Agency.

All of the schemes provide members with defined benefits (retirement lump sums and pensions), earned as employees working for the Council.

However, the arrangements for the Teachers' Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The other seven schemes are accounted for as defined benefit schemes:

- The liabilities of these seven schemes attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, and former employees, based on assumptions about mortality rates, commutation rates, and projected earnings for current employees, etc.
- Liabilities are discounted to their current value, using the appropriate discount rate (based on the rate of return on high quality corporate bonds).
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities at current bid price
  - unquoted securities at professional estimate
  - unitised securities at current bid price
  - property at market value.

## Notes to the Financial Statements

- The change in the Net Pensions Liability is analysed into the following components:

Component	Description
<b>Service cost comprising:</b>	
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
Past service cost	The increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority	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.
<b>Remeasurement comprising:</b>	
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 of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve as Other Comprehensive income and Expenditure.
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities – not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year not the amount calculated in accordance with relevant accounting standards. There are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable in the year. 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.

### 1.8 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; and,



## Notes to the Financial Statements

- 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.

### 1.9 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 then 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/loss over either the term of the replacement loan or the remaining term 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.



## Notes to the Financial Statements

### Loans and Receivables

Loans and receivables are recognised in 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.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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 relevant 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/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### Available-for-Sale Assets

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

## Notes to the Financial Statements

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

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

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

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

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

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

### 1.10 Foreign Currency Translation

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

### 1.11 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.

## Notes to the Financial Statements

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-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 Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### 1.12 Heritage Assets

#### [Tangible and Intangible Heritage Assets \(described here as “Heritage Assets”\)](#)

The Council’s Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Council’s history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets 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.

#### [Museum, Art and Artefact Collection](#)

- The Council’s museum and art collections are reported on the Balance Sheet on the basis of their insurance valuations. These valuations are periodically reviewed.
- The Council does not consider it appropriate to charge depreciation on the assets as they have high residual values and indeterminate lives.
- The collection is relatively static and acquisitions and donations are rare. Where these do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

#### [Public Sculptures and Memorials](#)

- The Council considers that obtaining valuations for the vast majority of Public Sculptures & Memorials would involve a disproportionate cost in comparison to the benefits to the users of the Council’s financial statements. This is because of the nature of the assets held and the lack of comparable values. Other than the recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet.

## Notes to the Financial Statements

- These assets have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

### Historic Buildings

- Similar to community assets, the Council considers that obtaining valuations for this type of asset would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. The Council holds this class of asset at cost on the Balance Sheet.

### Archaeology

- The Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.
- The Council's acquisitions principally relate to previously donated assets. The Council does not make any purchases of archaeological items.

### 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. Heritage assets which have a doubtful provenance or are unsuitable for public display may be disposed of. 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.

## 1.13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) are 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 restricted to that incurred during the development phase (research expenditure is not capitalised).

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

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

## Notes to the Financial Statements

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.

### 1.14 Interests in Companies and Other Entities

The Council has material interests in companies that have the nature of subsidiaries and is required to prepare group accounts. In the Council's own single entity accounts the interests are recorded as financial assets at cost, less any provision for losses. In preparing the Group accounts, the following have been applied:

- All relationships within the scope of the Group accounts have been assessed;
- Transactions between the Council and its subsidiaries have been eliminated from the Group statement of accounts and accompanying notes; and,
- The financial statements of the subsidiaries are prepared under UK GAAP and this may give rise to difference in accounting treatment. Where material differences are identified, the subsidiary accounts are aligned to the accounting policy of the Council upon consolidation.

### 1.15 Inventories

Inventories are included in the Balance Sheet at current replacement cost.

### 1.16 Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, 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 and Expenditure 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.

## Notes to the Financial Statements

### 1.17 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 years in which they are incurred.

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (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 provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within 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).



## Notes to the Financial Statements

### The Council as Lessor

#### Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease 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 will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are 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 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.

### 1.18 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015-2016 (SeRCOP). The total absorption costing principle is used – the

## Notes to the Financial Statements

full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 1.19 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. For General Fund items of property, plant and equipment, a de minimis level of £10,000 is applied below which expenditure is charged directly to the Comprehensive Income and Expenditure Statement as it is incurred.

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

Donated assets are measured initially at current value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of



## Notes to the Financial Statements

the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- surplus assets - current value, determined using the fair value approach by the measurement of the highest and best use value.
- all other assets – current value, determined using 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 current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Where increases in value are identified, the increase is accounted for either by:

- Matching the increase with a credit to the Revaluation Reserve to recognise unrealised gains; or,
- where the increase reverses a revaluation decrease on the same asset that was charged to the Comprehensive Income and Expenditure Statement, the revaluation gain is credited to the Comprehensive Income and Expenditure Statement up to the amount of the previously recognised loss, net of depreciation that would have been charged had the loss not been recognised.

Where decreases in value are identified, the revaluation loss is accounted for by:

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance 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.

## Notes to the Financial Statements

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

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance 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.

### 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.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of either:

- their carrying amount before classification as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, or;
- their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are

## Notes to the Financial Statements

appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### 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).

It is the view of management that depreciation on Council dwellings within the Housing Revenue Account is equivalent to the Major Repairs Allowance received in year.

The depreciation charge is applied on a straight line basis over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	10 to 45 years (as determined by the valuation officers)
<b>Infrastructure:</b>	
Surface Dressing	10 years
Other	40 years
<b>Vehicles, Plant and Equipment:</b>	
Salt Barns	25 years
Solar Panels	25 years
CCTV equipment	3 to 30 years
Fire engines	10 to 15 years
Vehicles and equipment under finance lease	10 years
Other vehicles	5 to 10 years
Mobile Accommodation	10 years
Other Equipment	3 to 10 years
<b>PFI Assets:</b>	
Buildings and Infrastructure	25 to 40 years
Waste Plant Shell & Equipment	3 to 50 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components 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.

### 1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period),

## Notes to the Financial Statements

the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge applied to the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### 1.21 Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

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

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

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

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

## Notes to the Financial Statements

### 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.

## 1.22 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 against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

## 1.23 Revenue Expenditure Funded from Capital under Statute

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

## 1.24 Value Added Tax (VAT)

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

## 1.25 Accounting for the Costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the second year of its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon

## Notes to the Financial Statements

dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

### 1.26 Revenue Recognition

Revenue is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue is measured at the fair value of the consideration received or receivable. In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

Revenue relating to the sale of goods is recognised when the amount of revenue can be measured reliably, it is probable the revenue will be received by the Council and the risks and rewards of ownership have passed to the purchaser. Revenue relating to the provision of services is recognised when the amount of revenue can be measured reliably, it is probable the revenue will be received by the Council and the stage of completion of the service can be measured.

### 1.27 Tax Income

Tax Income (Council Tax, National Non Domestic Rates (NNDR) and Rates).

#### Non Domestic Rates (NNDR)

Retained Business Rates and Top-up income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

#### Council Tax

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

NNDR, Top-up and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a Billing Authority, the difference between the NNDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

NNDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and general rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.



## Notes to the Financial Statements

### 1.28 Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) are considered to be entities controlled by the Council and are recognised in the Council's single entity accounts. Therefore all schools' transactions, cash flows and balances are recognised in each of the financial statements.

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the schools non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy 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.

### 1.29 Fair Value

The Council measures some of its non-current assets such as Surplus assets and Investment Properties and some of its financial instruments such as equity share holdings at fair value at the 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 measurement 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 valuation of these assets and liabilities, use appropriate techniques for each circumstance, maximising the use, relevant known data, and minimising the use of estimates.

To increase consistency and comparability in fair value measurement and related disclosures, the inputs to valuation techniques used to measure fair value are categorised into three levels:

- **Level 1** inputs - unadjusted quoted prices in active markets for items identical to the asset being measured.

## Notes to the Financial Statements

- **Level 2** inputs – inputs other than those in level 1 that are directly or indirectly observable.
- **Level 3** inputs – unobservable inputs for the asset or liability.

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

For 2015-2016, the accounting standards that have been published but which have not yet been adopted by the Code relate to:

- IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016-2017. As well as the format changing, the standard will also introduce a new Expenditure and Funding Analysis.
- Other minor changes due to IAS 19 Employee Benefits, Annual Improvement to IFRS cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets. Changes to the format of the Pension Fund Account and the Net Assets Statement. These changes are not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2017 therefore there is no impact on the 2015-2016 Statement of Accounts. However, in 2016-2017 a comparator Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new format and reporting requirements.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from 1 April 2016. The Code confirms that the changes arising from the Infrastructure Code do not require retrospective adjustment to the accounts.

Under the Infrastructure Code, transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost; these are currently held at historic cost. The disclosure will require a transfer of assets between infrastructure and the new transport infrastructure asset category. This will result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. The NBV of Infrastructure assets as at 31 March 2016 is £309.09 million, based on the 2014-2015 Whole of Government Accounts Infrastructure Assets figure, (valued on a depreciated replacement cost basis). This is estimated to increase to approximately £11.06 billion. Depreciation on these assets will increase from approximately £11.00 million to £42.00 million next year.

### 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 critical judgements made in the Statement of Accounts are:

- There is 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.



## Notes to the Financial Statements

- The Council is deemed to control the services provided under the contracts for both waste management and fire and rescue accommodation. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the associated assets (valued at £71.00 million for Waste and £12.66 million for Fire and Rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.
- The Council currently has outstanding liabilities of £0.56 million resulting from equal pay claims brought by employees seeking compensation for lost back pay. Settlement of these claims is subject to negotiations and there may be other claims that the Council is currently unaware of that may be filed in the future. The provision that has been made in the accounts is based on current legal views and may therefore be subject to revision.
- When undertaking the valuation of the Council's assets the valuation firm DTZ has made a number of assumptions and has relied on certain sources of information. In the event that any of the assumptions used in valuing the assets prove to be incorrect, the valuation of the assets and hence the Balance Sheet figures could significantly change.
- The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet.

The Council has completed a school by school assessment across the different types of schools it controls within the County. The types of schools that have been assessed are shown below:

Type of School	Total No. of Schools £'000	No. of Primary Schools £'000	No. of Secondary Schools £'000	No. of Special Schools £'000	No. of All Through Schools £'000	No. of Pupil Referral Units £'000
Community	98	69	21	8	-	-
Foundation	7	4	3	-	-	-
Pupil Referral Unit	1	-	-	-	-	1
Voluntary Aided	36	30	6	-	-	-
Voluntary Controlled	12	12	-	-	-	-
<b>Total Maintained Schools</b>	<b>154</b>	<b>115</b>	<b>30</b>	<b>8</b>	<b>-</b>	<b>1</b>
Academies	18	6	10	-	2	-
Free Schools	1	1	-	-	-	-
<b>Total Schools</b>	<b>173</b>	<b>122</b>	<b>40</b>	<b>8</b>	<b>2</b>	<b>1</b>

All Community schools and the Pupil Referral Unit are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet. The Council has not recognised assets relating to Voluntary Aided, Voluntary Controlled, Foundation, Free schools or Academies.

## Notes to the Financial Statements

When a maintained school converts to an Academy, the schools non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy 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.

Prudhoe St. Matthew's Catholic Primary School converted to an Academy on 1 April 2015. The Property, Plant and Equipment line in the Balance Sheet contained valuations totalling £0.01 million for the school playing field which transferred out of Council ownership as the main school land and building was already owned by the Diocese.

### **4. Amounts Reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Council's Cabinet and full Council on the basis of budget reports analysed across Service Areas. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- the cost of retirement benefits are based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.
- expenditure on some support services is budgeted for centrally and not charged to Service Areas.

## Notes to the Financial Statements

The income and expenditure of the Council's principal Service Areas recorded in the budget reports for the year is as follows:

Income and Expenditure 2015-2016	Adult Services	Children's Services	Public Health	Corporate Resources	Fire and Rescue	Local Services	Planning and Economy	Recreational Services	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000
Fees, Charges and Other Service Income	(75,583)	(34,411)	-	(14,059)	(3,381)	(41,765)	(10,444)	-	(36,014)	(215,657)
Interest and Investment Income	-	(44)	-	(14,411)	-	-	(10)	-	(270)	(14,735)
Government Grants and Contributions	(3,216)	(199,293)	(14,923)	(88,782)	(2,306)	(5,608)	(969)	-	(5)	(315,102)
<b>Total Income</b>	<b>(78,799)</b>	<b>(233,748)</b>	<b>(14,923)</b>	<b>(117,252)</b>	<b>(5,687)</b>	<b>(47,373)</b>	<b>(11,423)</b>	<b>-</b>	<b>(36,289)</b>	<b>(545,494)</b>
Employee Expenses	27,577	173,442	735	32,699	15,350	31,575	4,986	7	4,617	290,988
Other Service Expenses	126,928	99,596	12,858	63,896	4,777	55,526	9,101	8,749	11,693	393,124
Support Service Recharges	3,722	11,438	1,352	9,436	1,223	9,789	1,235	1,087	1,608	40,890
Interest Payments	3	-	-	25,049	-	-	-	-	4,329	29,381
Precepts and Levies	-	-	-	14,544	-	-	-	-	-	14,544
<b>Total Expenditure</b>	<b>158,230</b>	<b>284,476</b>	<b>14,945</b>	<b>145,624</b>	<b>21,350</b>	<b>96,890</b>	<b>15,322</b>	<b>9,843</b>	<b>22,247</b>	<b>768,927</b>
<b>Net Expenditure</b>	<b>79,431</b>	<b>50,728</b>	<b>22</b>	<b>28,372</b>	<b>15,663</b>	<b>49,517</b>	<b>3,899</b>	<b>9,843</b>	<b>(14,042)</b>	<b>223,433</b>

## Notes to the Financial Statements

Income and Expenditure 2014-2015	Wellbeing and Community Health			Corporate Resources	Local Services			HRA	Total
	Adult Services	Children's Services	Public Health	Corporate Resources	Fire and Rescue	Local Services	Public Protection	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(74,763)	(36,757)	(3)	(25,339)	(10,842)	(33,765)	(2,659)	(31,330)	(215,458)
Interest and Investment Income	-	-	-	(11,762)	-	-	-	(252)	(12,014)
Government Grants and Contributions	(668)	(201,084)	(13,409)	(91,938)	(1,779)	(4,813)	(28)	-	(313,719)
<b>Total Income</b>	<b>(75,431)</b>	<b>(237,841)</b>	<b>(13,412)</b>	<b>(129,039)</b>	<b>(12,621)</b>	<b>(38,578)</b>	<b>(2,687)</b>	<b>(31,582)</b>	<b>(541,191)</b>
Employee Expenses	28,916	173,507	703	41,204	11,713	31,515	4,757	21	292,336
Other Service Expenses	129,135	99,019	10,858	79,386	4,318	66,406	1,406	13,690	404,218
Support Service Recharges	2,025	10,205	546	12,834	997	7,352	924	931	35,814
Interest Payments	1	-	-	23,236	-	-	-	4,342	27,579
Precepts and Levies	-	-	-	7,982	-	-	-	-	7,982
<b>Total Expenditure</b>	<b>160,077</b>	<b>282,731</b>	<b>12,107</b>	<b>164,642</b>	<b>17,028</b>	<b>105,273</b>	<b>7,087</b>	<b>18,984</b>	<b>767,929</b>
<b>Net Expenditure</b>	<b>84,646</b>	<b>44,890</b>	<b>(1,305)</b>	<b>35,603</b>	<b>4,407</b>	<b>66,695</b>	<b>4,400</b>	<b>(12,598)</b>	<b>226,738</b>

## Notes to the Financial Statements

### 5. Reconciliation of Service Area Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service Area income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2014-2015	2015-2016
	£'000	£'000
Net expenditure in the Service Area Analysis	226,738	<b>223,433</b>
Net expenditure of services and support services not included in the Analysis	2,658	<b>4,386</b>
Amounts in the Comprehensive Income and Expenditure Statement not reported to management for decision making	58,513	<b>89,075</b>
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	<b>(23,782)</b>	<b>(30,810)</b>
Cost of Services in Comprehensive Income and Expenditure Statement	264,127	<b>286,084</b>

## Notes to the Financial Statements

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Service Area income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015-2016	Service Area Analysis	Services and Support Services not in Analysis	Amounts not reported to managment for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(215,657)	7,257	-	51	47,204	(161,145)	(7,320)	(168,465)
Interest and investment income	(14,735)	-	-	14,735	-	-	(14,735)	(14,735)
Income from council tax	-	-	-	-	-	-	(150,878)	(150,878)
Government Grants and Contributions	(315,102)	798	-	-	-	(314,304)	(211,107)	(525,411)
Gain or loss on the Disposal of Non-Current Assets	-	-	-	-	-	-	(15,404)	(15,404)
<b>Total Income</b>	<b>(545,494)</b>	<b>8,055</b>	<b>-</b>	<b>14,786</b>	<b>47,204</b>	<b>(475,449)</b>	<b>(399,444)</b>	<b>(874,893)</b>
Employee expenses	290,988	(23,224)	(10,450)	-	-	257,314	44,144	301,458
Other service expenses	393,124	34,877	-	(1,671)	(47,204)	379,126	(33,193)	345,933
Support Service recharges	40,890	(8,623)	-	-	-	32,267	8,623	40,890
Depreciation, Revaluation, Amortisation & Impairment	-	(6,699)	99,525	-	-	92,826	6,686	99,512
Interest Payments	29,381	-	-	(29,381)	-	-	29,381	29,381
Precepts & Levies	14,544	-	-	(14,544)	-	-	14,544	14,544
Payments to the Housing Capital Receipts Pool	-	-	-	-	-	-	1,002	1,002
Gain or loss on the Disposal of Non-Current Assets	-	-	-	-	-	-	15,721	15,721
<b>Total Expenditure</b>	<b>768,927</b>	<b>(3,669)</b>	<b>89,075</b>	<b>(45,596)</b>	<b>(47,204)</b>	<b>761,533</b>	<b>86,908</b>	<b>848,441</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>223,433</b>	<b>4,386</b>	<b>89,075</b>	<b>(30,810)</b>	<b>-</b>	<b>286,084</b>	<b>(312,536)</b>	<b>(26,452)</b>

The approach to internal recharging adopted by the Council means that the cost of support services has been fully removed in the 'Other Service Expenses' line.

## Notes to the Financial Statements

2014-2015	Service Area Analysis  £'000	Services and Support Services not in Analysis £'000	Amounts not reported to managment for decision making £'000	Amounts not included in CIES £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(215,458)	9,082	-	99	41,021	(165,256)	(9,182)	(174,438)
Interest and investment income	(12,014)	140	-	12,014	-	140	(12,154)	(12,014)
Income from council tax	-	-	-	-	-	-	(145,743)	(145,743)
Government grants and contributions	(313,719)	549	-	-	-	(313,170)	(199,112)	(512,282)
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	(3,125)	(3,125)
<b>Total Income</b>	<b>(541,191)</b>	<b>9,771</b>	<b>-</b>	<b>12,113</b>	<b>41,021</b>	<b>(478,286)</b>	<b>(369,316)</b>	<b>(847,602)</b>
Employee expenses	292,336	(26,363)	(14,520)	-	-	251,453	50,504	301,957
Other service expenses	404,218	34,266	-	(334)	(41,021)	397,129	(33,932)	363,197
Support Service recharges	35,814	(8,748)	-	-	-	27,066	8,748	35,814
Depreciation, revaluation, amortisation and impairment	-	(6,268)	73,033	-	-	66,765	6,336	73,101
Interest Payments	27,579	-	-	(27,579)	-	-	27,579	27,579
Precepts & Levies	7,982	-	-	(7,982)	-	-	7,982	7,982
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	831	831
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	11,057	11,057
<b>Total Expenditure</b>	<b>767,929</b>	<b>(7,113)</b>	<b>58,513</b>	<b>(35,895)</b>	<b>(41,021)</b>	<b>742,413</b>	<b>79,105</b>	<b>821,518</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>226,738</b>	<b>2,658</b>	<b>58,513</b>	<b>(23,782)</b>	<b>-</b>	<b>264,127</b>	<b>(290,211)</b>	<b>(26,084)</b>

The approach to internal recharging adopted by the Council means that the cost of support services has been fully removed in the 'Other Service Expenses' line.

## Notes to the Financial Statements

### 6. 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 items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The balance of Property, Plant and Equipment held by the Council at 31 March 2016 was £1,204.81 million. Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Where an asset is considered specialised or there is no active market, it is valued by the depreciated replacement cost (DRC) method. This considers the costs to construct a modern equivalent asset (MEA) to deliver the same service. The Council's valuers estimate these values with reference to build costs published by the Royal Institute of Chartered Surveyors.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls.
Equal Pay Provision	The Council has decreased its equal pay provision by £1.15 million in 2015-2016 bringing the total amount provided for since 2008-2009 to £12.45 million. Of this, £0.56 million remains on the balance sheet as at 31 March 2016 for the settlement of claims for back pay arising from the Equal Pay initiative based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £1.24 million to the provision needed.
Pensions Liability	At 31 March 2016, the Council had a net pensions liability of £652.48 million. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £25.97



## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	million.  However, the assumptions interact in complex ways. During 2015-2016, the Council's actuary advised that the net pensions liability for funded LGPS benefits had decreased by £20.41 million due to changes in demographic assumptions and experience, and decreased by £57.74 million due to changes in actuarial assumptions.
Arrears	At 31 March 2016, the Council had a balance of sundry debtors of £7.00 million. A review of significant balances suggested that an impairment of doubtful debts of 13% (£0.91 million) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require £1.82 million to be set aside as an allowance.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

### 7. Material Items of Income and Expense

#### Exceptional Item Equal Pay

A reduction to the Provision has been made during 2015-2016 in relation to equal pay, the credit to the Comprehensive Income and Expenditure Statement is £0.89 million (£1.15 million in respect of a reduction to the provision and £0.26 million in relation to additional administration costs). In previous years the costs were deferred from being charged to the General Fund under Regulation 31A of the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2003/3146 by the creation of an Equal Pay Back Pay Account pending actual payment of the claims. This reduction has been met through a reversal of these entries. It is now anticipated that the total provision required as at 31 March 2016 will be £0.56 million based on the outstanding claims to date.

### 8. Events After the Reporting Period

The Statement of Accounts will be authorised for issue by the Chief Executive on 30 September 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date, provided information about conditions existed at 31 March 2016, the figures in the financial statements and notes will be adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2016:

#### Academy Conversions

There are currently four schools that are in the process of transferring to academy status. Hexham Middle School, Queen Elizabeth High School and Ponteland Middle School have all had academy orders approved by the Department of Education in May 2016 and are expected to transfer to converter academies with Haydon Bridge High School in the process of becoming a sponsored academy. All schools are expected to transfer on 1 September

## Notes to the Financial Statements

2016 with the exception of Ponteland Middle School which is expected to transfer on 1 October 2016.

### **Barclays Bank LOBO Loans**

The Council received a letter from Barclays Bank PLC on 23 June 2016 advising that the bank had taken a decision to waive its rights to change the rates on the lender option, borrower option ("LOBO") loans to the Council. This means that the facilities will effectively revert to fixed rate loans at their current interest rates, and therefore removes the risk of the interest rates being changed, or forced refinancing, in future.

### **9. Adjustments between Accounting Basis and Funding Basis under Regulations**

The following note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The year end balances are stated in the Movement in Reserves Statement on page 17.

## Notes to the Financial Statements

2015-2016

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	(35,264)	(7,568)	-	-	-	42,832
Revaluation (losses)/gains on Property Plant and Equipment	(33,241)	833	-	-	-	32,408
Movements in the fair value of Investment Properties	(1,652)	-	-	-	-	1,652
Amortisation of intangible assets	(1,105)	-	-	-	-	1,105
Capital grants and contributions applied	64,376	703	-	-	-	(65,079)
Revenue expenditure funded from capital under statute	(18,778)	-	-	-	-	18,778
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	(15,556)	-	-	-	-	15,556
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	31,488	-	-	-	-	(31,488)
Capital expenditure charged against the General Fund and HRA balances	2,772	400	-	-	-	(3,172)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	14,065	-	-	(14,065)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	4,651	-	(4,651)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	15,403	-	(15,403)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	10,098	-	-	(10,098)
Voluntary set aside of Capital Receipts to repay debt	-	-	6,621	-	-	(6,621)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(108)	-	108	-	-	-

## Notes to the Financial Statements

2015-2016

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1,002)	-	1,002	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(489)	-	-	489
<a href="#">Adjustments primarily involving the Deferred Capital Receipts Reserve:</a>						
Transfer to the Capital Receipts Reserve upon receipt of cash	(172)	-	-	-	-	172
<a href="#">Adjustment primarily involving the Major Repairs Reserve:</a>						
Reversal of Major Repairs Allowance credited to the HRA	-	7,567	-	-	(7,567)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	7,190	(7,190)
<a href="#">Adjustments primarily involving the Financial Instruments Adjustment Account:</a>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(785)	-	-	-	-	785
<a href="#">Adjustments primarily involving the Pensions Reserve:</a>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(49,357)	(743)	-	-	-	50,100
Employer's pensions contributions and direct payments to pensioners payable in the year	39,093	537	-	-	-	(39,630)
<a href="#">Adjustments primarily involving the Collection Fund Adjustment Account:</a>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	900	-	-	-	-	(900)
<a href="#">Adjustment primarily involving the Accumulated Absences Account:</a>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,192	(66)	-	-	-	(1,126)
Total Adjustments	12,269	1,663	1,937	(9,414)	(377)	(6,078)

## Notes to the Financial Statements

2014-2015

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	(33,634)	(7,194)	-	-	-	40,828
Revaluation (losses)/gains on Property Plant and Equipment	(2,914)	2,428	-	-	-	486
Movements in the market value of Investment Properties	(312)	-	-	-	-	312
Amortisation of intangible assets	(814)	-	-	-	-	814
Capital grants and contributions applied	41,218	2,542	-	-	-	(43,760)
Revenue expenditure funded from capital under statute	(17,047)	-	-	-	-	17,047
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	(21,271)	(103)	-	-	-	21,374
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	17,015	-	-	-	-	(17,015)
Capital expenditure charged against the General Fund and HRA balances	2,049	4,635	-	-	-	(6,684)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,126	-	-	(5,126)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	3,531	-	(3,531)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	11,042	-	(11,042)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	4,615	-	-	(4,615)
Voluntary set aside of Capital Receipts to repay debt	-	-	7,613	-	-	(7,613)

## Notes to the Financial Statements

2014-2015

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(97)	-	97	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(831)	-	831	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(3,010)	-	-	3,010
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	2,489	-	-	-	-	(2,489)
Transfer to the Capital Receipts Reserve upon receipt of cash	(41)	-	-	-	-	41
<b>Adjustment primarily involving the Major Repairs Reserve</b>						
Reversal of Major Repairs Allowance credited to the HRA	-	7,131	-	-	(7,131)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	7,829	(7,829)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(980)	-	-	-	-	980
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(48,277)	(73)	-	-	-	48,350
Employer's pensions contributions and direct payments to pensioners payable in the year	38,673	57	-	-	-	(38,730)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
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	4,301	-	-	-	-	(4,301)

## Notes to the Financial Statements

2014-2015

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Adjustment primarily involving the Accumulated Absences Account:</i>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,347	-	-	-	-	(1,347)
Total Adjustments	(2,958)	9,423	(896)	(1,595)	698	(4,672)

## Notes to the Financial Statements

### 10. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2015-2016.

	2014-2015			2015-2016			
	Balance as at 1 April 2014	Transfers Out	Transfers In	Balance as at 31 March 2015	Transfers Out	Transfers In	Balance as at 31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund Reserves:</b>							
Adults Services Reserve	9,710	(3,891)	-	5,819	(5,819)	-	-
Balances held by schools under a scheme of delegation	9,044	(760)	584	8,868	(813)	865	8,920
Contingency Reserve	20,541	-	-	20,541	(20,541)	-	-
Deprived Seaside Reserve	99	(99)	-	-	-	-	-
Estates Rationalisation	-	-	23,934	23,934	(8,286)	-	15,648
Homefinders	-	-	76	76	(36)	-	40
Insurance Reserve	8,954	(426)	-	8,528	(6,080)	3,388	5,836
Invest to Save	3,569	(375)	-	3,194	(571)	923	3,546
Local Authority Mortgage Scheme	206	-	85	291	-	85	376
Market Traders' Levy	5	(5)	6	6	(2)	3	7
NCC Economic Regeneration Reserve	164	-	-	164	(165)	83	82
NCC Fire and Rescue PFI Sinking Fund	914	-	-	914	(914)	-	-
NCC Waste PFI Sinking Fund Reserve	9,143	(2,598)	-	6,545	(6,545)	-	-
Neighbourhood Partnerships	-	-	76	76	(76)	-	-
Pension Cost Reserve	2,970	-	-	2,970	(2,970)	-	-
Planning Delivery Grant	552	-	-	552	-	60	612
Revenue Grants Reserve	9,157	(9,157)	11,276	11,276	(11,276)	9,508	9,508
Rural Growth Network	795	(461)	-	334	(272)	-	62



## Notes to the Financial Statements

	2014-2015			2015-2016			
	Balance as at 1 April 2014	Transfers Out	Transfers In	Balance as at 31 March 2015	Transfers Out	Transfers In	Balance as at 31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Section 106 Reserve	2,102	(438)	631	2,295	(780)	629	2,144
Severe Weather Reserve	-	-	2,500	2,500	-	-	2,500
Strategic Management Reserve	-	-	-	-	(85)	48,209	48,124
	77,925	(18,210)	39,168	98,883	(65,231)	63,753	97,405
Transferred from the Borough and District Councils:							
ADC Housing Capital	201	-	-	201	(201)	-	-
ADC Parks & Open Spaces	196	(110)	-	86	(11)	-	75
ADC Section 106 Monies	87	-	-	87	(9)	5	83
	484	(110)	-	374	(221)	5	158
Total General Fund Reserves	78,409	(18,320)	39,168	99,257	(65,452)	63,758	97,563
HRA Account:							
Major Repairs Reserve	1,312	(698)	-	614	-	377	991
Total Reserves	79,721	(19,018)	39,168	99,871	(65,452)	64,135	98,554

## Notes to the Financial Statements

### Adults Services Reserve

This reserve is funded from the Adult Services revenue budgets to support future service reconfiguration. During 2015-2016 the full £5.82 million was utilised to fund cost pressures within Adults' and Children's Services.

### Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £8.92 million includes school balances of £7.48 million (£7.30 million in 2014-2015), which are retained by schools under the Council's Local Management of Schools scheme and are not available for use by the County Council; and school-related balances totalling £1.44 million (£1.56 million in 2014-2015). The school balances are made up as follows:

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Unspent Balances	7,934	8,200
Overspent Balances	(592)	(711)
Loan Outstanding	(37)	(10)
	7,305	7,479

The Council has agreed a Loan Scheme to enable First, Middle, High and Special Schools to borrow money from the aggregate balances of the delegated budgets of schools. At 31 March 2016 there was one loan outstanding of £0.01 million for Morpeth Abbeyfields First School (2014-2015: £0.04 million).

Schools' balances are committed to be spent on the education service.

### Contingency Reserve

This reserve was established to cover future redundancy and restructuring costs. Following a review of reserves during 2015-2016 the balance of this reserve was transferred to the Strategic Management Reserve to be utilised over the period of the Medium Term Financial Plan.

### Deprived Seaside Reserve

This reserve has been created following the receipt of a revenue grant to support the twenty five most deprived seaside local authorities to boost action in tackling worklessness and drive regeneration in seaside towns. The reserve was fully expended in 2014-2015.

### Estates Rationalisation

This reserve has been reviewed by Estates Management and is required to cover the future costs arising from the Council's estates rationalisation programme.

### Homefinders

This balance was previously included within Adults' and Housing services but following the creation of the service 'Planning, Economy and Housing' this is now shown separately.

The balance was transferred from Homes for Northumberland when the Homefinder service came back into the Council and is to be used to contribute to the development of the Homefinder Service, including the management of the Housing Register and the Homelessness module.

## **Notes to the Financial Statements**

### **Insurance Reserve**

The insurance reserve was first established in 1974 and has accumulated over the years by charging services a higher premium than that paid to the Council's insurers. The additional premiums are used to cover those risks not insured externally. In any particular year, claim settlements resulting in payments out of the insurance fund can exceed or be less than premiums collected so that the level of the reserve may decrease or increase in year.

The balance on the reserve as at 31 March 2016 is £5.84 million (31 March 2015 £8.53 million) and is assessed as sufficient to cover unforeseen levels of claim settlements in future years.

The County Council pays the first £0.10 million of each building claim, apart from schools which are consortia constructed, in which case it is 20% of the claim. The County Council also pays the first £0.12 million of each public liability and employer's liability claim for all services. Motor vehicle claims are paid by the County Council in respect of its own damage and up to £0.12 million for third party claims.

Additional funds have been provided for in earmarked reserves since the 2010-2011 financial year to cover potential liabilities arising from the Council's exposure resulting from the deterioration in MMI's financial position. An initial payment was made in February 2014 for a levy notice fee of £0.75 million; this reserve is now £0.60 million at 31 March 2016. However, subsequent information from the MMI Scheme Administrator dated 14 April 2016 requests a further payment by 12 May 2016 for £0.52 million, an additional 10% Levy Balance based on claims paid.

### **Invest to Save**

This reserve was created as a source of funding for projects identified by officers that would, in the short to medium term, allow the Council to save money by investing in new technology or changing the way business is conducted. It has been agreed to utilise the funds to support the schools that have been included in the PFI Scheme.

### **Local Authority Mortgage Scheme**

Interest received on Local Authority Mortgage Schemes is set aside to meet any potential future mortgage defaults. Northumberland County Council has previously agreed to be part of Capita's Local Authority Mortgage Scheme. The scheme is designed to provide mortgages to first time buyers to help them onto the property ladder. The Council currently works in partnership with Lloyds Bank and provides a cash backed indemnity to Lloyds who in turn, subject to applicants meeting their lending criteria, award mortgages to first time buyers at a lower rate of interest. In return for the cash backed indemnity the Council receives interest payments from Lloyds. In 2015-2016 £0.08 million was received by the Council.

### **Market Traders' Levy**

Each week market traders pay an additional levy which will be used to fund future market-related expenditure.

### **NCC Economic Regeneration Reserve**

The reserve was established from the sale of the County Council's waste disposal company. It is used to lever other contributions and add to the Council's initial stake in four key areas within the Economic Regeneration Strategy: inward investment, support for

## Notes to the Financial Statements

existing companies, key projects in communities and development opportunities or major projects.

The reserve earned interest of five hundred pounds during the year.

### **NCC Fire and Rescue PFI Sinking Fund Reserve**

The Council has previously contributed to an earmarked reserve to compensate for any increased costs during the later years of the Fire PFI contract. This is not expected to be required, so during 2015-2016 the balance of £0.92 million was transferred to the Strategic Management Reserve.

### **NCC Waste PFI Sinking Fund Reserve**

The cost of the Waste PFI contract will increase significantly in later years. In order to smooth the impact on the Comprehensive Income and Expenditure Statement over the life of the contract, the Council has previously contributed to an earmarked reserve. This reserve was used to compensate for increased costs during the later years of the contract. During 2015-2016 £2.70 million was utilised to fund expenditure with the balance £3.85 million being transferred to the Strategic Management Reserve.

### **Neighbourhood Partnerships**

During the 2015-2016 financial year all unspent balances have been returned to the relevant Partners.

### **Pension Cost Reserve**

Previously this reserve was used to hold sums to offset the pension liabilities of staff transferring to Northumbria Healthcare NHS Foundation Trust. This reserve is now complete. The balance on the reserve was appropriated back into revenue.

### **Planning Delivery Grant**

This was created using the planning delivery grant received by the former District and Borough Councils and NCC prior to Local Government Reorganisation. This is used to contribute towards expenditure in the preparation of the Northumberland Local Plan, primarily the core strategy.

### **Revenue Grants Reserve**

Revenue government grants on occasion are paid to local authorities but have a number of conditions attached to them. The introduction of International Financial Reporting Standards (IFRS) has resulted in an amendment to the accounting treatment: where no grant conditions exist or conditions have been met the grant is transferred into the Comprehensive Income and Expenditure Statement. If, however expenditure has not yet been incurred the grants are transferred into an earmarked reserve and then subsequently released back into revenue once expenditure is incurred.

### **Rural Growth Network**

The Rural Growth Network (RGN) Programme is one of five national pilots being funded by The Department for Environment, Food and Rural Affairs (DEFRA). Northumberland County Council is undertaking the applicant and accountable body role for the programme which is being delivered across rural areas in Northumberland, Durham and Gateshead. Funding has been paid to Northumberland County Council under Section 31 of the Local Government Act 2003, and is being used for the development of Rural Business Hubs and business development and networking support as detailed in the annual delivery plans.

The scheme commenced on 1 October 2012 and completed in October 2015 with the

## Notes to the Financial Statements

balance of the funding being used for the Local Growth Fund (LGF) Programme which ends in 2018-2019.

### Section 106 Reserve

The reserve was created in 2011-2012 to hold Section 106 balances. Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as S106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development and are often referred to as 'developer contributions'. Common uses include Affordable Housing Schemes, Highway contributions or contributions to Sport and Play Provision. The monies are held until the particular provision is undertaken. During 2015-2016 £0.63 million was received from developers with £0.78 million used to fund schemes.

### Severe Weather Reserve

This reserve was created following the Department for Transport's recommendation that local highways authorities ensure they retain a contingency for repairing damage to local highways and associated assets caused by incidents such as extreme weather that may occur from time to time.

### Strategic Management Reserve

This reserve was established following a review of all usable reserves during 2015-2016 which enabled £48.12 million to be released to support the Medium Term Financial Plan.

### Alnwick District Council – Housing Capital

This reserve was established by Alnwick District Council to fund future Affordable Housing capital expenditure. This reserve was fully utilised in 2015-2016 to part fund the Affordable Housing Programme scheme at Whinstone View, Embleton. The development delivered sixteen new mixed tenure homes.

### Alnwick District Council – Parks & Open Spaces

This reserve was established by Alnwick District Council during 2005-2006 and 2006-2007 with total funding of £0.22 million from capital receipts. It was to be utilised in a similar way to Section 106 agreements, to fund work within the district's parks and open spaces. £0.01 million was utilised during 2015-2016.

### Alnwick District Council – Section 106 Monies

The reserve was established by Alnwick District Council from income received in relation to Section 106 agreements.

### Housing Revenue Account – Major Repairs Reserve

The Major Repairs Reserve shows the movement in the Major Repairs Allowance. The deficit for the year reflects the variance between depreciation contributions received and the amount used in financing capital expenditure.

Movements in the HRA Reserve are detailed in note 7 of the Notes to the Housing Revenue Account Income and Expenditure Statement on page 156.

## Notes to the Financial Statements

### 11. Other Operating Expenditure

	2014-2015	2015-2016
	£'000	£'000
Parish and other precepts	7,982	14,544
Payments to the Government Housing Capital Receipts Pool	831	1,003
Downward Valuation of Assets Held for Sale	68	(13)
Losses on the disposal of non-current assets	7,932	317
Total net operating expenditure	16,813	15,851

### 12. Financing and Investment Income and Expenditure

	2014-2015	2015-2016
	£'000	£'000
Interest payable and similar charges	27,579	29,381
Pensions interest cost and expected return on pensions assets	24,140	20,920
Interest receivable and similar income	(12,014)	(14,735)
(Surplus)/Deficit on trading undertakings	(2,658)	(4,387)
Income and expenditure in relation to investment properties and changes in fair value	235	1,621
Total Financing and Investment Income and Expenditure	37,282	32,800

### 13. Taxation and Non-Specific Grant Income

	2014-2015	2015-2016
	£'000	£'000
Council tax income	(145,743)	(150,878)
Non domestic rates	(37,349)	(37,217)
Non-ring fenced government grants	(112,328)	(93,948)
Capital grants and contributions	(48,886)	(79,144)
Total Taxation and Non Specific Grant Income	(344,306)	(361,187)

## Notes to the Financial Statements

### 14. Property, Plant and Equipment

<b>Movements in 2015-2016:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>									
At 1 April 2015	265,859	485,746	136,820	392,021	9,654	18,599	47,896	1,356,595	106,845
Transfer from HfN	-	-	268	-	-	-	-	268	-
Additions	8,717	16,989	7,547	22,145	183	471	45,229	101,281	804
Reclassifications	4,375	18,227	405	10,484	2	(194)	(33,267)	32	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	9,013	-	-	-	(907)	-	8,106	-
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(6,695)	(35,668)	-	-	-	(3,447)	-	(45,810)	-
De-recognition - Disposals	(1,746)	(1,007)	(3,365)	-	-	(807)	(580)	(7,505)	(1,325)
De-recognition - Other	-	(2,267)	(370)	-	-	-	-	(2,637)	-
Assets reclassified (to)/from Held for Sale	-	(5,800)	-	-	-	(1,550)	-	(7,350)	-
At 31 March 2016	270,510	485,233	141,305	424,650	9,839	12,165	59,278	1,402,980	106,324
<b>Accumulated Depreciation and Impairment:</b>									
At 1 April 2015	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859
Transfer from HfN	-	-	162	-	-	-	-	162	-
Depreciation/Impairment charge	7,528	14,041	9,314	11,487	128	334	-	42,832	4,141
Reclassifications	-	60	-	-	-	(60)	-	-	-



## Notes to the Financial Statements

<b>Movements in 2015-2016:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation written out to the Revaluation Reserve	-	(10,797)	-	-	-	(677)	-	(11,474)	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(7,528)	(5,205)	-	-	-	(742)	-	(13,475)	-
De-recognition - Disposals	-	(102)	(1,795)	-	-	(4)	-	(1,901)	(336)
De-recognition – Other	-	(308)	(337)	-	-	-	-	(645)	-
At 31 March 2016	-	34,292	46,898	115,564	1,420	-	-	198,174	22,664
Net Book Value:									
At 31 March 2016	270,510	450,941	94,407	309,086	8,419	12,165	59,278	1,204,806	83,660
At 31 March 2015	265,859	449,143	97,266	287,944	8,362	17,450	47,896	1,173,920	87,986

## Notes to the Financial Statements

<b>Movements in 2014-2015:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>									
At 1 April 2014	251,816	502,707	132,592	371,331	9,616	11,434	37,399	1,316,895	91,391
Additions	13,350	11,032	8,293	17,159	1	146	33,399	83,380	1,052
Reclassifications	6,757	1,195	1,013	3,531	37	7,593	(21,821)	(1,695)	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(12,031)	-	-	-	873	-	(11,158)	4,949
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(4,702)	(6,136)	-	-	-	(1,290)	-	(12,128)	9,453
De-recognition - Disposals	(1,258)	(2,078)	(5,078)	-	-	(95)	(1,081)	(9,590)	-
De-recognition - Other	(104)	(8,943)	-	-	-	-	-	(9,047)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(62)	-	(62)	-
At 31 March 2015	265,859	485,746	136,820	392,021	9,654	18,599	47,896	1,356,595	106,845
<b>Accumulated Depreciation and Impairment:</b>									
At 1 April 2014	-	39,180	34,675	93,356	1,168	475	-	168,854	16,604
Depreciation/Impairment charge	7,131	13,828	8,857	10,721	124	167	-	40,828	3,963
Reclassifications	-	(755)	-	-	-	755	-	-	-
Depreciation written out to the Revaluation Reserve	-	(10,446)	-	-	-	(161)	-	(10,607)	(1,455)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(7,131)	(4,273)	-	-	-	(87)	-	(11,491)	(253)
De-recognition - Disposals	-	(50)	(3,978)	-	-	-	-	(4,028)	-
De-recognition - Other	-	(881)	-	-	-	-	-	(881)	-
At 31 March 2014	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859

## Notes to the Financial Statements

<b>Movements in 2014-2015:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
Net Book Value:									
At 31 March 2015	265,859	449,143	97,266	287,944	8,362	17,450	47,896	1,173,920	87,986
At 31 March 2014	251,816	463,527	97,917	277,975	8,448	10,959	37,399	1,148,041	74,787

## Notes to the Financial Statements

### 15. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council:

	Museum, Art and Artefact Collection £'000	Public Sculptures and Memorials £'000	Historic Buildings £'000	Total £'000
<b>Cost or Valuation:</b>				
As at 1 April 2015	6,082	1,276	927	8,285
As at 31 March 2016	6,082	1,276	927	8,285
<b>Accumulated Depreciation and Impairment :</b>				
As at 1 April 2015	-	52	23	75
As at 31 March 2016	-	52	23	75
Net Book Value 31 March 2016	6,082	1,224	904	8,210
Net Book Value 31 March 2015	6,082	1,224	904	8,210

#### Museum, Art and Artefact Collection

The Council's museum and art collections are included in the Balance Sheet on the basis of their insurance valuation. These valuations are periodically reviewed.

The Art collection includes oil paintings by Oliver Kilbourn and Charles William Mitchell, which are on display in public libraries. These were valued by a firm of fine art auctioneers (Anderson & Garland) as at 1 April 2012.

#### Public Sculptures and Memorials

The Council's public sculptures and memorials are difficult to value and are therefore carried at cost on the Balance Sheet.

#### Historic Buildings

The historic buildings included within the Heritage Assets category are held principally for their contribution to knowledge or culture where they are not used for operational purposes and are carried at cost on the Balance Sheet. The majority of historic buildings owned by the Council are in operational use and are therefore included with the main Property Plant and Equipment section of the Balance Sheet.

### 16. Investment Property

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:

	2014-2015 £'000	2015-2016 £'000
Rental income from investment property	(99)	(51)
Direct operating expenses arising from investment property	15	20
Net Gain	(84)	(31)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds

## Notes to the Financial Statements

of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

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

	2014-2015	2015-2016
	£'000	£'000
Balance at the start of the year	3,861	3,543
Additions	-	-
Reclassifications	-	(50)
Assets reclassified (to)/from Held For Sale	-	-
Disposals	-	(145)
Net (losses)/gains from fair value adjustments	(318)	(1,625)
Balance at the end of the year	3,543	1,723

### Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 1 for explanation of fair value levels).

### Valuation techniques used to determine Level 2 fair values for investment properties

The fair value of investment property has been determined having regard to comparable evidence, applying a Rent and Yield or Capital Value Rate where appropriate.

### Highest and Best use of investment properties

In estimating the fair value of the Authority's investment properties, the highest and best use of the properties is deemed to be their current use.

### Valuers

The investment property portfolio has been valued as at 31 March 2016 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by DTZ Debenham Tie Leung Limited, the Council's valuing agents.

## 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.

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:

	Internally Generated Assets	Other Assets
5 years	None	BI Applications Software
5 years	None	Customer Relationship Management System
3 years	None	Vehicle Tracking System
3 years	None	IEG Software
5 years	None	Fire Service call taking and mobilising system

## Notes to the Financial Statements

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.11 million was charged to revenue in 2015-2016. £0.73 million of this was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is to each service heading, and £0.38 million was charged to the Fire & Rescue Service.

The movement on Intangible Asset balances during the year is as follows:

	Current		Long Term	
	2014-2015	2015-2016	2014-2015	2015-2016
	Total	Total	Total	Total
	Intangible	Intangible	Intangible	Intangible
	Assets	Assets	Assets	Assets
	(Other)*	(Other)*	(Other)*	(Other)*
	£'000	£'000	£'000	£'000
<b>Balance at start of year:</b>				
Gross carrying amounts	19	462	5,295	7,233
Accumulated amortisation	-	-	(2,354)	(3,168)
Net carrying amount at the start of year	19	462	2,941	4,065
<b>Additions:</b>				
- Purchases	462	334	243	220
Assets reclassified from PPE	-	-	1,695	18
Other Disposals	(19)	(423)	-	-
Amortisation for the period	-	-	(814)	(1,105)
HfN transfer	-	-	-	272
HfN transfer Amortisation	-	-	-	(225)
Net carrying amount at the end of year	462	373	4,065	3,245
<b>Comprising:</b>				
Gross carrying amounts	462	373	7,233	7,743
Accumulated amortisation	-	-	(3,168)	(4,498)
	462	373	4,065	3,245

Note \* The Council has no internally generated assets.

## Notes to the Financial Statements

### 18. Financial Instruments

#### Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
<b>Investments:</b>				
Loans and receivables (principal)	93,478	<b>93,250</b>	102,313	<b>62,240</b>
Add: Accrued Interest	-	-	101	<b>628</b>
Loans and receivables at amortised cost	93,478	<b>93,250</b>	102,414	<b>62,868</b>
RBS Certificate of Deposit	-	<b>10,299</b>	-	-
Available for sale financial assets	13,399	<b>13,399</b>	-	-
Unquoted equity investment at cost	3,340	<b>3,340</b>	-	-
Total Investments	110,217	<b>120,288</b>	102,414	<b>62,868</b>
<b>Debtors:</b>				
Loans and receivables *	207,956	<b>225,737</b>	71,791	<b>86,972</b>
Total Debtors	207,956	<b>225,737</b>	71,791	<b>86,972</b>
<b>Borrowings:</b>				
Financial liabilities at amortised cost	(603,201)	<b>(549,609)</b>	(62,741)	<b>(88,627)</b>
Add: Accrued Interest	-	-	(5,907)	<b>(5,743)</b>
Add : Amortised premiums/(discounts)	1,801	<b>1,784</b>	16	<b>17</b>
Total Borrowings	(601,400)	<b>(547,825)</b>	(68,632)	<b>(94,353)</b>
<b>Creditors:</b>				
Financial liabilities at amortised cost	(9,305)	<b>(12,048)</b>	(55,805)	<b>(67,254)</b>
Total Creditors	(9,305)	<b>(12,048)</b>	(55,805)	<b>(67,254)</b>

\* Note – The debtors figure quoted as at 31 March 2016 excludes amounts in respect of Council Tax, Non-Domestic Rates and general rates. These items are outside the scope of the accounting provisions as they are statutory debts and do not arise from contracts.



## Notes to the Financial Statements

### Material Soft Loans Made by the Council

The Council has made a number of soft loans to voluntary and other organisations at less than market rates (soft loans). Details of these advances are identified in the following table:

Loan Title	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Fair Value) 1 April 2015 £'000	New Advances in Year £'000	Fair Value adjustment on initial recognition £'000	Loans Repaid £'000	Increase in discounted amount £'000	Closing Balance (Fair Value) 31 March 2016 £'000	Closing Balance (Nominal) 31 March 2016 £'000
Homes for Northumberland - Allendale Properties	40	4.50%	6.00%	1,121	-	-	-	6	1,127	1,339
Homes for Northumberland - Redundancies	3	0.00%	2.79%	450	-	-	(462)	12	-	-
Northumberland Healthcare Trust - Local Government Pension Scheme	15	1.50%	5.00%	2,038	-	-	(432)	58	1,664	1,980
Persimmon Homes - Deferred Capital Receipt (Wellesley Site)	4	0.00%	5.25%	1,056	-	-	(570)	55	541	570
Loans to Adoptive Parents	10	0.00%	3.70%	5	-	-	(4)	-	1	1
Berwick Core - Solar Panels	9	4.00%	9.34%	50	-	-	(9)	2	43	49
Northumberland Aged Miners - Solar Panels	20	3.54%	5.87%	1,293	692	(104)	9	28	1,918	2,253
The Maltings - LED Technologies Investment	10	3.87%	5.85%	135	-	-	-	-	135	150

**Note:** On 01 September 2015 HFN and its activities were brought back into the Council.

### Valuation Assumptions

The interest rate at which the fair value of soft loans has been made is arrived at from either the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating or, where it is difficult to identify the prevailing rate of interest, by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid by the borrower.

## Notes to the Financial Statements

### Loans to Other Organisations

In addition to the above, the following loans were made to other organisations during the year. Taking into consideration the Council's prevailing cost of borrowing and adding an allowance for the risk that the loans might not be repaid, the Council does not consider that soft loan adjustments are appropriate for these loans, as the assessed fair value rate is lower than the contracted rate.

Not Considered as Soft Loans	Purpose of Loan	Contracted Rate	Assessed Fair Value Rate	New Advances in Year £'000
Arch Group	Property Purchases	5.75%	3.65%	15,616
Northumbria Healthcare NHS Foundation Trust	Berwick Hospital	3.16%	2.05%	10,000

## Notes to the Financial Statements

### Financial Instruments Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2014-2015					2015-2016				
	Financial Liabilities measured at Amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Assets and Liabilities at fair value through profit and loss	Total	Financial Liabilities measured at Amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Assets and Liabilities at fair value through profit and loss	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	(27,575)	-	-	-	(27,575)	(29,735)	-	-	-	(29,735)
Impairment losses	-	(84)	-	-	(84)	-	-	-	-	-
Fee Expense	(119)	-	-	-	(119)	(21)	-	-	-	(21)
Total expense in surplus or deficit on the provision of services	(27,694)	(84)	-	-	(27,778)	(29,756)	-	-	-	(29,756)
Interest income	-	13,157	-	-	13,157	-	15,727	132	-	15,859
Interest income accrued on impaired financial assets	-	15	-	-	15	-	-	-	-	-
Total income in surplus or deficit on the provision of services	-	13,172	-	-	13,172	-	15,727	132	-	15,859
Gain on Revaluation	-	-	-	-	-	-	-	167	-	167
Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	167	-	167
Net gain/(loss) for the year	(27,694)	13,088	-	-	(14,606)	(29,756)	15,727	299	-	(13,730)

## Notes to the Financial Statements

### Fair Value of Financial Assets

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation technique used to measure fair value	31 March 2015 Fair Value £'000	31 March 2016 Fair Value £'000
Equity shareholding in Newcastle Airport Local Authority Holding	Level 2	Unadjusted quoted prices in active markets for identical shares	13,399	<b>13,399</b>
Unquoted equity investment at cost ARCH	Level 3	Equity shares with no quoted market prices	3,340	<b>3,340</b>
Certificates of deposit with Royal Bank of Scotland	Level 2	Unadjusted quoted prices in active markets for identical shares	-	<b>10,298</b>
<b>Total Liabilities</b>			<b>16,739</b>	<b>27,037</b>

Through its shares and 15.42% holding in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) the Council has an effective shareholding of 7.86% in Newcastle International Airport Limited (NIAL) (and the group companies of NIAL Group Limited and NIAL Holdings Limited) - see Subsidiary and Associated Companies note 52, page 144. The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015-2016 the valuation has remained unchanged.

Arch (Corporate Holdings) Ltd was formed on the 1 April 2011 and is the economic development, regeneration and private rented housing arm of Northumberland County Council. Northumberland County Council owns 100% of the 3,340,102 called up shares of Arch (Corporate Holdings) Ltd with a nominal value of £1 each.

The Council held £10 million in certificates of deposit with the Royal Bank of Scotland.

There were no transfers between input levels during the financial year 2015-2016.

There has been no change in valuation technique used during the year for the financial instruments.

### The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

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

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;

## Notes to the Financial Statements

- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the 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.

The fair values are calculated as follows:

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB - Maturity	232,771	311,814	<b>231,774</b>	<b>317,520</b>
PWLB - Annuity	876	1,515	<b>744</b>	<b>1,351</b>
PWLB - EIP	64,939	68,778	<b>56,386</b>	<b>59,877</b>
LOBOs	262,616	320,694	<b>262,658</b>	<b>432,830</b>
Cash Overdrawn	17,568	17,568	<b>16,521</b>	<b>16,521</b>
Market Loans	108,830	109,144	<b>90,616</b>	<b>91,613</b>
Financial Liabilities	687,600	829,513	<b>658,699</b>	<b>919,712</b>
Long-Term Creditors	9,305	9,305	<b>12,048</b>	<b>12,048</b>
Total Liabilities	696,905	838,818	<b>670,747</b>	<b>931,760</b>

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions as at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Cash	43,541	43,541	<b>31,535</b>	<b>31,535</b>
Short Term Investments	102,414	102,414	<b>62,868</b>	<b>62,868</b>
Long Term Investments	110,217	115,778	<b>120,288</b>	<b>124,938</b>
Loans and Receivables	256,172	261,733	<b>214,691</b>	<b>219,341</b>
Long Term Debtors	207,956	207,956	<b>225,738</b>	<b>225,738</b>
Total Assets	464,128	469,689	<b>440,429</b>	<b>445,079</b>

The differences are attributable to fixed interest instruments receivable being held by the Council where the interest rate is higher than the prevailing rate estimated to be available at 31 March 2016. This increases the fair value of financial liabilities and raises the value of loans and receivables.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## Notes to the Financial Statements

### 19. Debtors

	31 March 2015 £'000	31 March 2016 £'000
<b>Short Term:</b>		
Central government bodies	16,205	20,066
NHS bodies	10,869	12,818
Other entities and individuals	41,829	46,798
Other local authorities	6,687	7,984
Public corporations and trading funds	1,398	4,277
<b>Total Short Term</b>	<b>76,988</b>	<b>91,943</b>
<b>Long Term:</b>		
Aged Miners Solar Panel Loan	1,196	1,720
ARCH Loan - Assets Tranche 1	9,857	9,657
ARCH Loan - Other Commercial Properties	25,484	34,205
ARCH Loan - Development Projects	2,900	5,535
ARCH Loan - Housing	15,365	18,320
Lloyds TSB Lend a Hand Scheme	2,000	2,000
NCC - Airport Loan Notes	11,916	11,916
NCC - Homes for Northumberland Redundancy Costs Loan	1,339	-
Northumberland College	2,040	1,852
Northumberland College Loan 2014	5,958	6,175
Northumbria Healthcare NHS Foundation Trust Berwick Hospital Loan	23,500	23,000
Northumbria Healthcare NHS Foundation Trust Cramlington Capital Equipment Loan	-	10,000
Northumbria Healthcare NHS Foundation Trust LGPS Loan	1,549	1,466
Northumbria Healthcare NHS Foundation Trust Loan	102,548	98,167
Other Loans	2,304	1,725
<b>Total Long Term</b>	<b>207,956</b>	<b>225,738</b>
<b>Total Debtors</b>	<b>284,944</b>	<b>317,681</b>

### 20. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2015 £'000	31 March 2016 £'000
Cash and Bank Balances	43,541	31,535
Bank overdraft	(17,568)	(16,521)
<b>Total Cash and Cash Equivalents</b>	<b>25,973</b>	<b>15,014</b>

## Notes to the Financial Statements

### 21. Assets Held for Sale

	Current		Non-Current	
	2014-2015	2015-2016	2014-2015	2015-2016
	£'000	£'000	£'000	£'000
Balance at 1 April	5,195	2,752	375	388
<i>Assets newly classified as held for sale:</i>				
Property, Plant and Equipment	500	7,350	-	-
Revaluation Losses	(80)	-	-	-
Revaluation gains	-	-	13	12
<i>Assets declassified as held for sale:</i>				
Property, Plant and Equipment	(438)	-	-	-
Assets sold	(2,425)	(985)	-	-
Other movements	-	-	-	-
Balance outstanding at year-end	2,752	9,117	388	400

### 22. Creditors

	31 March 2015	31 March 2016
	£'000	£'000
Central government bodies	(11,498)	(15,611)
NHS bodies	(1,034)	(1,003)
Other entities and individuals	(42,244)	(49,828)
Other local authorities	(1,140)	(1,225)
Public corporations and trading funds	(34)	(1)
Total	(55,950)	(67,668)



## Notes to the Financial Statements

### 23. Provisions

	Redundancy Costs	Unequal Pay Back Pay	Accumulated Absences	MMI Liability	Repairs & Maintenance	Leisure Management	Land Restoration	NNDR Appeals	Estates Rationalisation	Other	Total
Provisions	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2014	(2,573)	(7,000)	(6,860)	(600)	(11,978)	(1,781)	(9,000)	(2,633)	(6,000)	(848)	(49,273)
Amounts used in 2014-2015	1,723	-	6,860	-	297	1,161	-	893	1,086	782	12,802
Additional provisions made in 2014-2015	(2,934)	-	(5,512)	-	(577)	-	-	(1,712)	(3,237)	(1,141)	(15,113)
Unused amounts reversed in 2014-2015	850	4,471	-	-	-	620	5,454	-	4,914	-	16,309
Balance at 1 April 2015	(2,934)	(2,529)	(5,512)	(600)	(12,258)	-	(3,546)	(3,452)	(3,237)	(1,207)	(35,275)
Amounts used in 2015-2016	745	819	5,512	-	642	-	-	2,219	958	543	11,438
Additional provisions made in 2015-2016	(309)	-	(4,385)	-	-	-	-	(2,757)	-	-	(7,451)
Unused amounts reversed in 2015-2016	2,189	1,153	-	-	5,445	-	3,546	-	25	309	12,667
Balance at 31 March 2016	(309)	(557)	(4,385)	(600)	(6,171)	-	-	(3,990)	(2,254)	(355)	(18,621)
Comprising:											
Short Term	(309)	(557)	(4,385)	(600)	(6,171)	-	-	(3,990)	(586)	(355)	(16,953)
Long Term	-	-	-	-	-	-	-	-	(1,668)	-	(1,668)
Total Provisions	(309)	(557)	(4,385)	(600)	(6,171)	-	-	(3,990)	(2,254)	(355)	(18,621)

## Notes to the Financial Statements

### Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2015-2016 (and for comparative amounts during 2014-2015) and as such the Council has a constructive obligation to meet these costs. The amount included is the best estimate of the liability as at the Balance Sheet date.

### Unequal Pay Back Pay

This account represents the estimated liability resulting from equal pay claims brought by employees seeking compensation for lost back pay and has been charged to the Comprehensive Income and Expenditure Statement.

### Accumulated Absences

Accumulated absence refers to contractual benefits received by employees, entitlement to which is built up as they provide services to the Council. The most significant of these is holiday pay. The liability represented by this provision is the estimated cost to the Council of providing holidays that are untaken at the year-end.

The provision is included in the accounts on the basis of an estimate of the liability: thus there is a degree of uncertainty about the closing balance. All of the liability recognised at 31 March 2016 will be extinguished in 2016-2017 as the relevant leave is taken by employees.

### Municipal Mutual Insurance (MMI) Liability

In September 1992 Municipal Mutual Insurance (MMI), the County Council's former insurers, ceased accepting new business. MMI and its policyholders, including local authorities, have established a Scheme of Arrangement for the orderly run down of the company. MMI's future liabilities under its old policies cannot be fully quantified until the claims, current and yet to be made, have been settled. There is the possibility that, at some time in the future, MMI will not have enough assets to meet the claims and liabilities. The Scheme of Arrangement provides that, if there is a likelihood of a shortfall, MMI can reclaim from the major policy holders part of the claims paid from 1 October 1992. The County Council has a contingent liability in this respect. As at 31 March 2016, the total amount of the Council's claims to date subject to reclamation was £5.22 million (£5.02 million as at 31 March 2015). MMI's position deteriorated in 2011-2012 following a Supreme Court judgement on MMI's obligations related to asbestos and the asbestos-related disease of mesothelioma, and the Scheme of arrangement was triggered in November 2012.

In January 2014 Municipal Mutual issued Northumberland County Council with its initial levy payment due under the Scheme of Arrangement namely £0.75 million which was met from the contingent liability reserve.

This reserve is now £0.60 million at 31 March 2016. However, subsequent information from the MMI Scheme Administrator dated 14 April 2016 requests a further payment by 12 May 2016 of £0.52 million; representing an additional 10% Levy Balance based on claims paid.

### Repairs and Maintenance

A sum of £6.17 million has been set aside to provide for future repairs and maintenance liabilities.

## Notes to the Financial Statements

### Leisure Management

This provision was created to meet the costs associated with the review of the Leisure Management contracts.

### Land Restoration

The provision is now no longer required based on the latest information received from the contractor and therefore the unused amount has been reversed.

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

In addition to the local management of business rates authorities are expected to finance their proportion of appeals, made against the rateable valuation set by the Valuation Office, which are outstanding at 31 March 2016. The increase in the provision during 2015-2016 was largely due to the national decision regarding the rateable value of GPs' surgeries.

### Estates Rationalisation

This provision was maintained to cover anticipated costs in relation to rationalising the Council's estate following a review by Estates Management.

### Other Provisions

This provision represents amounts set aside to meet future liabilities and includes property snagging issues arising from GB Building Solutions administration £0.35 million.

## 24. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement on page 17 and in Note 10 on page 62.

## 25. Unusable Reserves

	31 March 2015 £'000	31 March 2016 £'000
Revaluation Reserve	143,333	158,042
Pensions Reserve	(677,560)	(652,480)
Capital Adjustment Account	552,769	573,609
Deferred Capital Receipts Reserve	1,482	821
Financial Instruments Adjustment Account	28	(758)
Collection Fund Adjustment Account	2,906	3,806
Available for Sale Financial Instruments Reserve	13,104	13,271
Accumulated Absences Adjustment Account	(5,512)	(4,386)
Total Unusable Reserves	30,550	91,925

### Revaluation Reserve

The balance on this reserve represents the accumulated gains on the re-valued fixed assets held by the Council since 1 April 2007 less that part of the depreciation charge that has been incurred only because the assets have been re-valued. Whilst these gains increase the net worth of the Council they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated. On disposal the Revaluation Reserve value for an asset is written to the Capital Adjustment Account.

## Notes to the Financial Statements

	2014-2015 £'000	2015-2016 £'000
Balance at 1 April	149,016	143,333
Upward revaluation of assets	17,744	40,321
Downward revaluation of assets and impairment losses not charged to the Surplus or (Deficit) on the Provision of Services in the Comprehensive Income and Expenditure Statement	(18,295)	(20,741)
Difference between fair value depreciation and historical cost depreciation	(3,070)	(3,567)
Accumulated gains on assets sold or scrapped	(2,062)	(1,304)
Balance at 31 March	143,333	158,042

### Pensions Reserve

Pension costs are recognised in the year in which the benefit entitlements are earned by employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pensions Reserve represents the net liability for future pension costs.

	2014-2015 £'000	2015-2016 £'000
Balance at 1 April	(585,940)	(677,560)
Net increase from acquisition/disposal*	-	(8,060)
Return on plan assets	61,270	(34,540)
Actuarial gains or (losses) arising on changes in financial assumptions	(152,590)	57,740
Actuarial gains or (losses) arising on changes in demographic assumptions	-	3,040
Other	9,320	17,370
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	(48,350)	(50,100)
Employer's pensions contributions and direct payments to pensioners payable in the year	38,730	39,630
Balance at 31 March	(677,560)	(652,480)

\* the disposal/acquisition figures comprise three items: the transfer to Active Northumberland at 1 April 2015, the transfer from Homes for Northumberland at 1 September 2015 and the subsumption of Northumberland County Blind Association on 30 June 2015.

## Notes to the Financial Statements

### Capital Adjustment Account

The balance on the account represents the timing difference between the amount of historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

	2014-2015 £'000	2015-2016 £'000
Balance at 1 April	537,451	552,769
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	(40,828)	(42,832)
Deficit on Available for Sale financial assets	(68)	13
Revaluation losses on Property, Plant and Equipment	(418)	(32,420)
Amortisation of intangible assets	(814)	(1,105)
Revenue expenditure funded from capital under statute *	(17,047)	(18,778)
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	(21,374)	(15,556)
Adjusting amounts written out of the Revaluation Reserve	5,132	4,871
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	4,615	10,098
Use of the Major Repairs Reserve to finance new capital expenditure	7,829	7,190
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	43,760	65,079
Application of grants to capital financing from the Capital Grants Unapplied Account	3,531	4,651
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	17,015	31,488
Voluntary set aside of capital receipts	7,613	6,621
Capital expenditure charged against the General Fund and HRA balance	6,684	3,172
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(312)	(1,652)
Balance at 31 March	552,769	573,609

\*Includes negative capitalisation of Icelandic Impairments

### 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 eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Under IFRS the balance of the principal element of Finance Lease Receivables is held in this account until the lease rental is received at which time the Finance Lease Receivables Debtor Account and the Deferred Capital Receipts Reserve are reduced.

## Notes to the Financial Statements

	2014-2015	2015-2016
	£'000	£'000
Balance at 1 April	2,044	1,482
Finance Lease receivables principal	(41)	(172)
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	2,489	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(3,010)	(489)
Balance at 31 March	1,482	821

### Financial Instruments Adjustment Account

This represents the difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the net charge required against the General Fund Balance in respect of Financial Assets and Financial Liabilities in the Movement in Reserves Statement. The adjustment to the General Fund Balance is required by statutory regulations whereas the Comprehensive Income and Expenditure Statement needs to meet the requirements of the Code.

	2014-2015	2015-2016
	£'000	£'000
Balance at 1 April	1,008	28
Proportion of premiums/(discounts) incurred in previous financial years to be charged/(credited) against the General Fund Balance in accordance with statutory requirements	(771)	(772)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(209)	(14)
Balance at 31 March	28	(758)

### 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 payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2014-2015	2015-2016
	£'000	£'000
Balance at 1 April	(1,395)	2,906
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	4,301	900
Balance at 31 March	2,906	3,806

## Notes to the Financial Statements

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Disposed of and the gains are realised.

The overall value of the Council's shareholding in the airport is £13.27 million at 31 March 2016 (£13.10 million at 31 March 2015) and is reflected in the Available for Sale Financial Instruments Reserve. The Council also has two Royal Bank of Scotland Certificates of deposit (totalling £10.00 million) which were required in 2015-2016. The unrealised gain on these instruments during 2015-2016 was £0.17 million;

	2014-2015 £'000	2015-2016 £'000
Balance at 1 April	13,104	13,104
Upward Revaluation of Investment	-	167
Balance at 31 March	13,104	13,271

### Accumulated Absences Adjustment Account

The Accumulated 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.

	2014-2015 £'000	2014-2015 £'000	2015-2016 £'000	2015-2016 £'000
Balance at 1 April		(6,859)		(5,512)
Settlement or cancellation of accrual made at the end of the preceding year	6,859		5,512	
Amounts accrued at the end of the current year	(5,512)		(4,386)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable		1,347		1,126
Balance at 31 March		(5,512)		(4,386)

## 26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2014-2015 £'000	2015-2016 £'000
Interest received	(11,900)	(14,741)
Interest paid	25,816	29,784



## Notes to the Financial Statements

### 27. Cash Flow Statement – Investing Activities

	2014-2015 £'000	2015-2016 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(79,114)	(105,102)
Purchase of short term and long term investments	(275,092)	(110,132)
Other payments for investing activities	(59,564)	(26,569)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,393	8,502
Proceeds from short term and long term investments	200,289	140,000
Other receipts from investing activities	175,131	148,528
Net cash flows from investing activities	(24,957)	55,227

### 28. Cash Flow Statement – Financing Activities

	2014-2015 £'000	2015-2016 £'000
Cash receipts of short term and long term borrowing	208,602	75,051
Other receipts from financing activities	3,159	294
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,067)	(896)
Repayments of short and long term borrowing	(84,481)	(102,741)
Net cash flows from financing activities	126,213	(28,292)

## Notes to the Financial Statements

### 29. Cash Flow Statement – Net Deficit on the Provision of Services for Non-Cash Movements

	2014-2015 £'000	2015-2016 £'000
Depreciation	40,828	42,832
Impairment and downward valuations	486	32,408
Amortisation	814	1,105
Reduction in fair value of Soft Loans (non-subsidiary) made in year	148	(29)
Soft Loans (non-subsidiary) - Interest adjustment credited to the Comprehensive Income and Expenditure Statement during the year	(43)	(6)
Increase/(Decrease) in Interest Creditors	1,662	(163)
Increase/(Decrease) in Creditors	(5,133)	12,962
(Increase)/Decrease in Interest and Dividend Debtors	(70)	12
(Increase)/Decrease in Debtors	(116,003)	(76,299)
(Increase)/Decrease in Inventories	352	15
Increase/(Decrease) in Receipts in Advance	(591)	(321)
Increase/(Decrease) in Pension Liability	9,620	10,470
Contributions to/(from) Provisions	(13,998)	(16,654)
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	21,374	15,556
Movement in Investment Property Values	312	1,652
Net Deficit on the Provision of Services for Non-Cash Movements	(60,242)	23,540

### 30. Cash Flow Statement – Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities

	2014-2015 £'000	2015-2016 £'000
Capital grants credited to the surplus or deficit on the provision of services	(48,886)	(79,144)
Material impairment losses on investments debited to the surplus or deficit on the provision of services in year	101	-
Foreign exchange gain on investments debited to the surplus or deficit on the provision of services in year	-	(240)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(13,393)	(8,502)
Items included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities	(62,178)	(87,886)

### 31. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2015-2016.

### 32. Trading Operations

The Council has established trading units where the service manager is required to operate in a commercial environment and generate income from other parts of the Council or other organisations. The turnover and expenditure of the trading units is shown in the following table.

## Notes to the Financial Statements

	2014-2015			2015-2016		
	Income	Cost	(Surplus) / Deficit	Income	Cost	(Surplus) / Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
Building, Pest Control and Land Charges	(1,373)	1,633	260	(1,460)	843	(617)
Catering	(2,728)	2,778	50	-	-	-
Cemeteries and Crematorium	(1,420)	2,166	746	(1,105)	793	(312)
Central and Other Services	(36,861)	32,071	(4,790)	(38,138)	34,736	(3,402)
Cleaning and Caretaking	(8,750)	10,187	1,437	(4,646)	860	(3,786)
Highways Maintenance	(2,688)	2,730	42	(3,268)	3,134	(134)
Markets	(167)	342	175	(152)	106	(46)
Property	(4,741)	4,163	(578)	(5,482)	9,392	3,910
Total Trading Operations	(58,728)	56,070	(2,658)	(54,251)	49,864	(4,387)

### Buildings, Pest Control and Land Charges

These services deal with dangerous structures, planning applications, they support high quality housing development and provide value for money pest control services.

### Catering

The Council is no longer responsible for the management of catering services within county schools, previously the full service was provided centrally and recharged to individual schools.

### Cemeteries and Crematorium

The service manages 15 cemeteries and one crematorium in Blyth. The service employs 16 FTE staff.

### Central and Other Services

The Council operates several central services and SLAs with a financial break even objective or achievement of agreed budgets.

### Cleaning and Caretaking

Trading includes building cleaning and caretaking at schools and other establishments, as well as facilities management at County Hall and other council buildings. A reduction in the level of reserves relating to buildings (£5.45 million) has resulted in a large surplus in the 2015-2016 financial year.

### Highways Maintenance

The service maintains highways and structures, has responsibility for land drainage and new street works and also provides professional highways and engineering services.

### Markets

The Council operates markets in locations throughout the county.

### Property

Services include comprehensive architectural design, property maintenance, consultancy advice service and management of the estates portfolio. Expenditure of £4.72 million on estates rationalisation and building improvements has been incurred in the 2015-2016 financial year.

## Notes to the Financial Statements

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. refuse collection), whilst others are support services to the Council's services to the public (e.g. schools' catering). Other areas including Trade Waste and Fleet Services are undertaken on a partial trading basis, with income of £1.23 million (Trade Waste) and £0.63 million (Fleet Services) being generated. It is not possible to identify the expenditure associated with the trading element of these services therefore these areas are not included above and remain within their respective service areas. The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 12).

	2014-2015 £'000	2015-2016 £'000
Net (surplus)/deficit on trading operations	(2,658)	(4,387)
Support services recharged to Expenditure of Continuing Operations	-	-
Net (surplus)/deficit credited to Other Operating Expenditure	(2,658)	(4,387)

### 33. Members' Allowances

The Council paid the following amounts to members of the Council during the year:

	2014-2015 £'000	2015-2016 £'000
Salaries	153	167
Allowances	1,235	1,314
Expenses	57	47
Total	1,445	1,528

## Notes to the Financial Statements

### 34. Officers' Remuneration

The Accounts and Audit Regulations 2015 require authorities to disclose the number of employees whose remuneration in the year was £50,000 and above, shown in bands of £5,000. Remuneration is defined as all amounts paid to or receivable by an employee, expense allowances chargeable to tax and the money value of benefits.

Remuneration Band	2014-2015 All Employees	2015-2016 All Employees
£50,000 to £54,999	98	91
£55,000 to £59,999	76	67
£60,000 to £64,999	29	29
£65,000 to £69,999	20	19
£70,000 to £74,999	15	12
£75,000 to £79,999	7	13
£80,000 to £84,999	9	5
£85,000 to £89,999	4	2
£90,000 to £94,999	2	4
£95,000 to £99,999	1	3
£100,000 to £104,999	6	2
£105,000 to £109,999	1	1
£110,000 to £114,999	2	1
£115,000 to £119,999	1	1
£120,000 to £124,999	-	-
£125,000 to £129,999	-	-
£130,000 to £134,999	-	1
£135,000 to £139,999	1	-
£140,000 to £144,999	1	-
£155,000 to £159,999	-	1
£170,000 to £174,999	1	-
£175,000 to £179,999	-	1
£195,000 to £199,999	-	1
<b>Total</b>	<b>274</b>	<b>254</b>

The change in the profile of number of employees within each band reflects salary increments and pay awards, early retirements and part-year effects of staff joining or leaving the County Council within the year.

## Notes to the Financial Statements

The Accounts and Regulations 2015 require authorities to disclose the remuneration of Senior Officers. These officers are also included in the table on page 95. There have been no bonuses paid to any of the senior officers in 2014-2015 or 2015-2016.

<b>2015-2016</b>	Salary	Expense Allowances	Compensation for loss of office	Benefits in kind*	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
Post Holder Information	£	£	£	£	£	£	£
<b>Senior Officers emoluments – salary is £150,000 or more per year</b>							
Chief Executive - Steven Mason ①	143,937	-	-	55,010	<b>198,947</b>	22,643	<b>221,590</b>
Deputy Chief Executive - Daljit Lally ②	146,226	-	-	9,100	<b>155,326</b>	21,202	<b>176,528</b>
<b>Senior Officers emoluments – salary is between £50,000 and £150,000 per year</b>							
Executive Director Local Services ③	50,893	-	128,254	-	<b>179,147</b>	-	<b>179,147</b>
Director of Planning and Economy ④	98,701	-	-	19,300	<b>118,001</b>	15,636	<b>133,637</b>
Director of Corporate Resources ⑤	96,227	-	-	7,100	<b>103,327</b>	15,204	<b>118,531</b>
Director of Education and Skills	111,010	-	-	1,904	<b>112,914</b>	17,540	<b>130,454</b>
Director of Public Health	97,618	-	-	-	<b>97,618</b>	13,285	<b>110,903</b>
Director of Local Services and Housing Delivery ⑥	90,947	-	-	-	<b>90,947</b>	14,370	<b>105,317</b>
Director of Local Services and Housing Delivery ⑦	72,255	-	-	-	<b>72,255</b>	-	<b>72,255</b>
Associate Director (Head of Safeguarding & Strategic Commissioning)	90,319	-	-	-	<b>90,319</b>	14,270	<b>104,589</b>
Head of Children's Social Care ⑧	83,769	-	-	-	<b>83,769</b>	13,235	<b>97,004</b>
Head of Financial and Customer Services ⑨	82,578	-	-	-	<b>82,578</b>	13,047	<b>95,625</b>
Head of Public Protection ⑩	77,417	-	-	-	<b>77,417</b>	12,232	<b>89,649</b>
Director of Human Resources ⑪	96,599	-	-	-	<b>96,599</b>	13,814	<b>110,413</b>
Director of Adult and Community Care Services ⑫	56,722	-	-	-	<b>56,722</b>	8,111	<b>64,833</b>
Head of Finance, IT and Estates ⑬	41,217	-	-	-	<b>41,217</b>	5,894	<b>47,111</b>
Chief Fire Officer	107,160	-	-	-	<b>107,160</b>	22,854	<b>130,014</b>

\* The amounts included within this column include both the salary sacrifice and the HMRC recognised P11D benefit in kind values.

## Notes to the Financial Statements

### Notes:

- ① Lead Executive Director up to 30 June 2015. Chief Executive from 1 July 2015.
- ② Executive Director - Wellbeing & Community Health Services up to 7 October 2015. Deputy Chief Executive from 8 October 2015. Joint post with Northumbria Healthcare Foundation Trust. Costs are shared between the two organisations.
- ③ Executive Director Local Services leaving date 7 August 2015.
- ④ Director of Planning, Housing and Economy up to 7 October 2015. Director of Planning and Economy from 8 October 2015.
- ⑤ Head of Corporate Services up to 7 October 2015. Director of Corporate Resources from 8 October 2015.
- ⑥ Head of Neighbourhood Services up to 14 January 2016 at which point the post holder transitioned into the role of Director of Local Services and Housing Delivery from 15 January 2016.
- ⑦ Managing Director HFN, TUPE Transfer into NCC 1 September to 7 October 2015. Director of Local Services and Housing Delivery from 8 October 2015 until 31 March 2016.
- ⑧ Employee left on 31 March 2016.
- ⑨ Employee left on 31 March 2016.
- ⑩ Employee left on 31 March 2016.
- ⑪ Director of Human Resources from 8 October 2015, seconded from Northumbria Healthcare Foundation Trust. Salary recharged 100% to Northumberland County Council.
- ⑫ Director of Adult and Community Care Services from 8 October 2015. Shared role between Northumberland County Council and Northumbria Healthcare Foundation Trust. Figures represent 50% of the total salary costs.
- ⑬ Head of Finance, IT and Estates. Shared role between Northumberland County Council and Northumbria Healthcare Foundation Trust. Figures represent 50% of the total salary costs.



## Notes to the Financial Statements

2014-2015	Salary	Expense Allowances	Compensation for loss of office	Benefits in kind*	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
Post Holder Information	£	£	£	£	£	£	£
<b>Senior Officers emoluments – salary is £150,000 or more per year</b>							
Lead Executive Director - Steven Mason ①	143,281	-	-	29,998	<b>173,279</b>	22,580	<b>195,859</b>
<b>Senior Officers emoluments – salary is between £50,000 and £150,000 per year</b>							
Executive Director: Local Services - Barry Rowland	142,188	-	-	-	<b>142,188</b>	-	<b>142,188</b>
Executive Director: Wellbeing and Community Health Services - Daljit Lally ②	129,978	-	-	6,081	<b>136,059</b>	20,333	<b>156,392</b>
Director of Planning, Economy and Housing - Geoff Paul ③	89,073	-	-	14,114	<b>103,187</b>	14,131	<b>117,318</b>
Chief Fire Officer - Alex Bennett	104,270	-	-	-	<b>104,270</b>	22,210	<b>126,480</b>

\* The amounts included within this column include both the salary sacrifice and the HMRC recognised P11D benefit in kind values.

### Notes:

- ① Now Chief Executive.
- ② Jointly funded post with the Northumbria Healthcare NHS Foundation Trust, each organisation pays 50% of costs.
- ③ Part year, joined May 2014.

## Notes to the Financial Statements

The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit package cost band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by cost band		Total Cost of Exit Packages in each band	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
							£	£
£0 - £20,000	66	<b>42</b>	62	<b>50</b>	128	<b>92</b>	790,206	<b>707,099</b>
£20,001 - £40,000	11	<b>6</b>	14	<b>9</b>	25	<b>15</b>	688,605	<b>404,867</b>
£40,001 - £60,000	2	<b>2</b>	7	<b>4</b>	9	<b>6</b>	408,080	<b>270,642</b>
£60,001 - £80,000	2	<b>1</b>	3	<b>1</b>	5	<b>2</b>	333,691	<b>148,888</b>
£80,001 - £100,000	1	-	6	<b>2</b>	7	<b>2</b>	631,419	<b>176,835</b>
£100,001 - £150,000	-	<b>1</b>	1	-	1	<b>1</b>	144,630	<b>148,456</b>
£150,001 - £200,000	-	-	-	<b>1</b>	-	<b>1</b>	-	<b>179,188</b>
£200,001 - £250,000	-	-	-	-	-	-	-	-
	<b>82</b>	<b>52</b>	<b>93</b>	<b>67</b>	<b>175</b>	<b>119</b>	<b>2,996,631</b>	<b>2,035,975</b>
Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings	-	-	164	<b>78</b>	-	<b>78</b>	2,934,068	<b>309,000</b>
Total cost included in Comprehensive Income and Expenditure Statement	<b>82</b>	<b>52</b>	<b>257</b>	<b>145</b>	<b>175</b>	<b>197</b>	<b>5,930,699</b>	<b>2,344,975</b>

The Council's Comprehensive Income and Expenditure Statement includes a provision for £0.31 million which has been agreed and is payable to 78 officers. These costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement.

## Notes to the Financial Statements

### 35. External Audit Costs

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

	2014-2015 £'000	2015-2016 £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	254	191
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	13	22
Fees payable in respect of any other services provided by the appointed auditor during the year	18	6
<b>Total</b>	<b>285</b>	<b>219</b>

Notes:

Fees payable with regard to audit and grant work are based on estimates in respect of work done and still to be completed relating to 2015-2016.

Fees payable in respect of other services provided by the appointed auditor are in relation to fees paid relating to grant services outside of the Audit Commission work.

### 36. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the Schools Finance and Early Years (England) Regulations 2014. The Schools' Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2015-2016 are as follows:

	Schools' Budget Funded by DSG		
	Central Expenditure £'000	Individual Schools' Budget £'000	Total £'000
Final DSG for 2015-2016			219,543
Academy figure recouped for 2015-2016			(56,545)
Total DSG after Academy Recoupment			162,998
Brought forward from 2014-2015			2,502
Agreed budgeted distribution in 2015-2016	35,126	130,374	165,500
In Year Adjustments *	(476)	568	92
Final Budget Distribution for 2015-2016	34,650	130,942	165,592
Actual Central Expenditure	(33,294)	-	(33,294)
Actual ISB deployed to Schools	-	(130,942)	(130,942)
Carried forward to 2016-2017	1,356	-	1,356

\*Note – Includes £0.09 million in relation to the 2014-2015 final early years block entitlement

## Notes to the Financial Statements

### 37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015-2016:

	2014-2015 £'000	2015-2016 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Revenue</b>		
Central New Homes Bonus Grant	3,872	5,016
Central Services Education Grant	4,728	3,574
Other	551	489
Revenue Support Grant	76,539	56,995
Small Business Rates Relief Grant	3,226	4,015
Top Up Grant	23,412	23,859
<b>Total Revenue</b>	<b>112,328</b>	<b>93,948</b>
<b>Capital</b>		
Department for Communities and Local Government - Broadband Delivery UK	2,832	4,856
Department for Communities and Local Government - Coastal Communities Fund	1,429	96
Department for Communities and Local Government - Disabled Facilities Grant	1,111	(2,004)
Department for Communities and Local Government - Fire Brigade Modernisation Fund	670	-
Department for Culture, Media and Sport	-	4,856
Department for Education - Basic Needs	419	3,102
Department for Education - Devolved Formula Capital	961	1,207
Department for Education - Other	476	58
Department for Education - Schools Capital Maintenance Grant	4,217	10,095
Department for Energy and Climate Change	-	164
Department for Environment, Food and Rural Affairs - Broadband	390	-
Department for Environment, Food and Rural Affairs - Rural Growth Network	379	204
Department for Transport - Local Sustainable Transport	257	33
Department for Transport - Local Transport Plan	17,907	17,443
Department for Transport - Morpeth Northern Bypass	3,960	15,075
Department for Transport - OLEV Vehicle Charge Point	480	4
Department for Transport - Other	94	15,597
Department for Transport - Pinch Point	3,015	3,438
Department for Transport - Pot Hole Grant	2,902	-
Department of Health	725	737
Energy Companies Obligation (ECO) - British Gas	(12)	-
English Heritage	(1)	-
Environment Agency	19	60
European Regional Development Fund	4,123	71
Football Foundation	308	20
Homes and Communities Agency	2,542	703
National Lottery	208	33
North East Combined Authority	-	1,661
Northumbria Healthcare NHS Foundation Trust	(2,052)	-

## Notes to the Financial Statements

	2014-2015	2015-2016
	£'000	£'000
Other	190	597
Sport England	1,162	138
Sustrans	175	-
Zurich Insurance Ltd	-	900
<b>Total Capital</b>	<b>48,886</b>	<b>79,144</b>
<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>161,214</b>	<b>173,092</b>
<b>Grants Credited to Services:</b>		
<b>Revenue :</b>		
Council Tax / Housing Benefit Subsidy Grants	90,325	88,583
Dedicated Schools Grant (DSG)	162,475	163,090
Deferred Payments Grant	-	504
Early Assessment Grant	-	958
Education Funding Agency	12,775	10,922
European Regional Development Fund	1,632	356
Flooding Grant	-	911
Grants in Support of Individual School Budgets	12,425	13,216
Independent Living Grant	-	731
North East Combined Authority Grant	-	5,996
Other Grants	5,440	5,954
Private Finance Initiative (PFI)	4,760	4,760
Public Health Grant	13,408	14,923
Severe Weather Recovery Scheme	898	834
Skills Funding Agency (SFA)	2,610	2,182
Social Fund Grant	1,039	-
Supporting Families Grant	1,043	650
Sustainable Transport Fund	666	686
Youth Justice Board	706	621
<b>Total Revenue Grants</b>	<b>310,202</b>	<b>315,877</b>
<b>Donations and Contributions</b>		
Contributions to Shared Schemes	179	656
Contributions Towards Music	862	641
Contribution from Other Local Authorities	724	3,970
European Elections	578	632
Health Service	7,201	7,323
Other Donations and Contributions	4,326	4,763
Parental Contributions	525	474
S117 Health Contribution	3,138	4,321
<b>Total Donations and Contributions</b>	<b>17,533</b>	<b>22,780</b>
<b>Total Credited to Services</b>	<b>327,735</b>	<b>338,657</b>

## Notes to the Financial Statements

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

	31 March 2015 £'000	31 March 2016 £'000
<b>Capital Grant Receipts in Advance:</b>		
Department for Communities and Local Government	-	879
Department for Education	2,559	1,936
Department for Energy and Climate Change	-	6,405
Department for Rural Affairs	135	-
Department for Transport	4,156	1,120
Environment Agency	344	455
Football Foundation	-	8
Homes and Communities Agency	1,410	502
National Lottery	6	-
North East Combined Authority	-	34
Northumbria Healthcare NHS Foundation Trust	648	648
Other	47	61
<b>Total Capital Grant Receipts in Advance</b>	<b>9,305</b>	<b>12,048</b>
<b>Revenue Grant Receipts in Advance:</b>		
DEFRA Lead Local Food Authorities Grant	106	91
Department for Transport Total Transport Pilot Fund	250	200
Department of Communities and Local Government - Flooding Grant	-	313
Department for Work and Pensions	-	76
Environment Agency Coast Protection Grant	386	504
European Commission	-	21
European Marine Site Project	41	-
Forestry Commission	-	13
Homes and Development Agency	-	80
Improvement and Development Agency	-	25
National Children's Bureau	21	-
Severe Weather Recovery Scheme	834	-
SITA Trust	24	18
<b>Total Revenue Grant Receipts in Advance</b>	<b>1,662</b>	<b>1,341</b>
<b>Total Receipts in Advance</b>	<b>10,967</b>	<b>13,389</b>

### 38. Related Parties

Information in respect of material transactions with related parties not disclosed elsewhere within the Statement of Accounts is presented below.

Related parties of a Local Authority include Central Government, Other Local Authorities and Precepting Bodies, Subsidiary and Associated Companies, Joint Ventures, Pension Funds, Members and Chief Officers.

## Notes to the Financial Statements

### Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.

### Subsidiaries

The Council had two subsidiary companies in 2015-2016 that are considered to be related parties:

- Arch Group
- Homes for Northumberland

Arch Group owed £70.22 million to Northumberland County Council (the ultimate holding company) primarily in respect of principal and interest due on a commercial loan facility. Expenditure by Northumberland County Council to Arch Group was £0.69 million. Income to Northumberland County Council from Arch Group was £3.39 million.

Transactions and balances with Homes for Northumberland were as follows:

	£'000
Expenditure made by the Council to Homes for Northumberland in 2015-2016	8,961
Income to the Council from Homes for Northumberland in 2015-2016	1,143
Amounts due to the Council from Homes for Northumberland at 31 March 2016	1,355
Amounts owed by the Council to Homes for Northumberland at 31 March 2016	0

Homes for Northumberland acts as agent for Northumberland County Council in respect of certain elements of the capital programme spend. Costs reclaimed from Northumberland County Council were £0.72 million. On 1 September 2015 the organisation was brought back in house.

### Associate

Active Northumberland is considered to be a related party; the Council is one of five organisations with equal representation on the board. On 1 April 2015, Culture, Libraries and Tourism transferred from the Council under a management agreement to the company. During 2015-2016 the Council paid a management fee of £6.80 million and an additional grant of £1.0 million for the provision of Leisure, Libraries, Culture, and Tourism Services. During 2014-2015 the management fee paid (£3.28 million) was for the provision of Leisure Services only. From 1 April 2015 Active Northumberland has used the Council's Enterprise Resource Planning system, Oracle e-Business for all expenditure transactions. At the end of 2015-2016 the company owed the Council £8.64 million due to timing delays in the transfer of banked income.

### Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2015-16 the Pension Fund had an average balance of £3.73 million borrowed from the Council for which it paid interest of £19,169 (and an average balance of £4.88 million borrowed from the Council during 2014-2015 for which it paid interest of £23,679). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2015-2016 these costs amounted to £0.64 million (£0.58 million in 2014-

## Notes to the Financial Statements

2015). £6.00 million was due to the Council at 31 March 2016 (£3.99 million at 31 March 2015).

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2015-2016 goods and services were commissioned from organisations in which Members had an interest. Also funding consists of other grants paid to organisations in which Members had an interest. All interests were declared by the appropriate Members. Members had interests in one hundred and eight organisations with transactions totalling £131.28 million in respect of goods or services provided to the Council.

During 2015-2016 goods and services amounting to £4.24 million were provided by the Council to eighty-four organisations in which Members had an interest.

Included in the above sums are amounts due from the Council of £10.63 million and due to the Council of £1.20 million as at 31 March 2016.

### Officers

During 2015-2016 goods and services were provided to or commissioned from organisations in which officers had an interest. All interests were declared by the appropriate officers. Officers had interests in 9 organisations with transactions totalling £38.79 million in respect of goods or services provided to the Council.

During 2015-2016 goods and services amounting to £1.94 million were provided by the Council to four organisations in which officers had an interest.

Included in the above sums are amounts due from the Council of £0.79 million and due to the Council of £0.77 million as at 31 March 2016.

Schedules of related party transactions are available to inspect upon request.



## Notes to the Financial Statements

### 39. Capital Expenditure and Capital Financing

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

	2014-2015 £'000	2015-2016 £'000
Opening Capital Financing Requirement	643,506	712,179
<b>Capital Investment:</b>		
Property, Plant and Equipment	82,571	100,696
Capital Long Term Debtors	59,275	26,307
Addition of HFN Assets	-	153
PFI / Finance Lease Additions	1,052	804
Revenue Expenditure Funded From Capital under Statute (REFCUS)	21,437	19,931
Reversal of Capitalisation (REFCUS)	(4,390)	(1,153)
HRA Downward Revaluation (non-dwelling assets)	(225)	112
<b>Sources of Finance:</b>		
Capital receipts	(4,615)	(10,098)
Government grants and other contributions	(47,291)	(69,730)
<b>Sums set aside from revenue/Major Repairs Reserve:</b>		
Major Repairs Reserve	(7,829)	(7,190)
Direct revenue contributions	(6,684)	(3,172)
Capital Long Term Debtors Amortisation	(7,613)	(6,621)
Minimum Revenue Provision	(17,015)	(31,488)
Closing Capital Financing Requirement	712,179	730,730
<b>Explanation of movements in year:</b>		
Increase in underlying need to borrowing (unsupported by government financial assistance)	92,474	55,591
Minimum Revenue Provision	(24,628)	(38,109)
Assets acquired under PFI / PPP contracts	1,052	804
Addition of HFN Assets	-	153
HRA Downward Revaluation (non-dwelling assets)	(225)	112
Increase/(Decrease) in Capital Financing Requirement	68,673	18,551

### 40. Leases

#### Council as Lessee

#### Finance Leases

The Council has a number of vehicles and fire fighting equipment under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

## Notes to the Financial Statements

	31 March 2015 £'000	31 March 2016 £'000
Vehicles, Plant, Furniture and Equipment	281	189

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the asset acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2015 £'000	31 March 2016 £'000
<b>Finance lease liabilities (net present value of minimum lease payments):</b>		
Current	135	96
Non Current	146	93
Finance costs payable in future years	74	45
Minimum lease payments	355	234

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	164	119	135	96
Later than one year and not later than five years	191	115	146	93
Later than five years	-	-	-	-
	355	234	281	189

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

### Operating Leases

The Council uses cars, commercial vehicles, refuse vehicles, fire equipment and appliances and information technology equipment financed by entering into operating leases, with typical lives of six years.

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

	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	2,013	1,433
Later than one year and not later than five years	3,728	4,361
Later than five years	2,654	2,250
	8,395	8,044

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

## Notes to the Financial Statements

	31 March 2015 £'000	31 March 2016 £'000
Minimum lease payments	2,457	2,416

### Council as Lessor

#### Finance Leases

The Council has the following leased out properties which are categorised as Finance Leases under the IFRS code:

Name	Term (Years)	Commencement Date	End Date	Rent Amount £'000
Bell View, Belford	999	06.10.2003	06.10.3002	-
Church Point, Newbiggin by the Sea	99	09.01.2013	08.01.2112	-
Croft Park, Plessey Road, Blyth	99	15.10.2014	14.10.2113	-
Dr Pitt Park - Bedlington Terriers Football Ground	99	26.02.2013	01.07.2111	-
Haltwhistle Integrated Care Hospital Floor	99	11.09.2012	10.09.2111	-
Merley Croft, Morpeth	25	01.02.1999	31.01.2024	62
Pegswood Former Depot	99	18.12.2013	17.12.2112	-

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

	31 March 2015 £'000	31 March 2016 £'000
<b>Finance lease debtor (net present value of minimum lease payments):</b>		
Current	45	35
Non Current	482	320
Unearned finance income	229	131
Gross investment in the lease	756	486

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

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	88	62	88	62
Later than one year and not later than five years	352	248	352	248
Later than five years	316	176	316	176
	756	486	756	486

## Notes to the Financial Statements

### Operating Leases

The Council leases out property under operating leases for the following purposes:

- For provision of community services, such as sports facilities and playgroups
- For economic development purposes to provide suitable affordable accommodation for local businesses

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

	31 March 2015 £'000	31 March 2016 £'000
Not later than one year	534	545
Later than one year and not later than five years	643	489
Later than five years	315	387
	1,492	1,421

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

### 41. Private Finance Initiatives and Similar Contracts

The following table shows the reconciliation of long term creditors to the PFI and other finance lease liabilities:

	31 March 2015 £'000	31 March 2016 £'000
<b>Long term finance lease liability:</b>		
Waste PFI	(56,728)	(55,979)
Fire PFI	(12,171)	(11,929)
Other finance leases (Note 40)	(146)	(93)
<b>Total Finance Lease Liability</b>	<b>(69,045)</b>	<b>(68,001)</b>
<b>Long term deferred credits:</b>		
Waste PFI	(12,675)	(12,008)
<b>Total Deferred Credits</b>	<b>(12,675)</b>	<b>(12,008)</b>
<b>Total Long Term Creditors</b>	<b>(81,720)</b>	<b>(80,009)</b>

The Council has entered into two PFI schemes as detailed below:

#### Waste PFI

2015-2016 was the ninth year of a twenty-eight year integrated Waste PFI contract covering the construction, maintenance and operation of a range of waste treatment facilities and reception, storage, transport, recycling, composting, energy recovery and landfill disposal of household and commercial wastes collected by the County Council. The Council has the rights under the agreement to use the various waste facilities for the provision of Waste Services.

The contract specifies a minimum standard for the services to be provided by the contractor. In the event of a service performance shortfall or if facilities become unavailable deductions will be made to the Unitary Charge payable. The contractor took on the

## Notes to the Financial Statements

obligation to ensure at all times that the Services at each centre meet all the requirements of the Agreement, the Services Specification, the Service Delivery Proposals, Good Industry Practice, Guidance and all applicable Authorities' Policies and Legislation.

The buildings and any plant and equipment at the end of the Agreement will be transferred to the Council for nil consideration, with the exception of an extension to an existing Energy from Waste facility located outside of the Council's administrative area that will revert to the Contractor as it will be at the end of its useful operational life.

The Council has the right to terminate the Agreement by giving the agreed notice period and paying the Authority Default Termination Sum, as detailed in the Agreement.

Payments to the service provider under this scheme depend upon a number of factors, including the performance of the contract.

The figures below provide information on the movement of the Waste PFI assets held on the Council's Balance Sheet during 2015-2016:

	2014-2015	2015-2016	2015-2016	2015-2016
		Plant Shell	Project Assets	
	£'000	£'000	£'000	£'000
Cost brought forward 1 April	89,389	15,291	77,999	<b>93,290</b>
Disposals in year	-	-	(1,324)	<b>(1,324)</b>
Additions in year	1,052	-	804	<b>804</b>
Revaluation Gain	2,849	-	-	-
Cost carried forward 31 March	93,290	15,291	77,479	<b>92,770</b>
Accumulated depreciation brought forward 1 April	(16,310)	(3,164)	(15,246)	<b>(18,410)</b>
Revaluation in year	1,414	-	-	-
Disposal in year	-	-	335	<b>335</b>
Depreciation charge for year	(3,514)	(658)	(3,034)	<b>(3,692)</b>
Depreciation at 31 March	(18,410)	(3,822)	(17,945)	<b>(21,767)</b>
Net book value carried forward 31 March	74,880	11,469	59,534	<b>71,003</b>

The following table provides information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2015-2016:

	2014-2015	2015-2016	2015-2016	2015-2016
		Plant Shell	Project Assets	
	£'000	£'000	£'000	£'000
Lease liability brought forward 1 April	57,984	11,517	45,793	<b>57,310</b>
Payments made in year	(674)	(128)	(454)	<b>(582)</b>
Liability carried forward 31 March	57,310	11,389	45,339	<b>56,728</b>

The following table provides the best estimates of payments in future periods, on the assumption that the contractor provides a reliable service. Variable elements of the charge have been inflated in line with predicted RPI increases.

## Notes to the Financial Statements

	Total as at 31 March 2015 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	Total as at 31 March 2016 £'000
Within one year	21,978	1,134	749	7,302	13,069	<b>22,254</b>
Within two to five years	93,027	4,471	3,771	29,927	55,895	<b>94,064</b>
Within six to ten years	130,876	6,521	9,137	38,557	79,040	<b>133,255</b>
Within eleven to fifteen years	150,759	7,200	18,193	37,681	90,489	<b>153,563</b>
Within sixteen to twenty years	173,545	6,296	24,878	26,393	81,780	<b>139,347</b>
	<b>570,185</b>	<b>25,622</b>	<b>56,728</b>	<b>139,860</b>	<b>320,273</b>	<b>542,483</b>

### Fire & Rescue PFI

2015-2016 was the sixth year of a 25 year PFI contract for the construction, maintenance and operation of two Fire Stations, in Pegswood and West Hartford. The Council has the rights under the Agreement to use the stations for the provision of the Fire and Rescue Services.

The contract specifies a minimum standard for the services to be provided by the contractor. In the event of a service performance shortfall or if the facilities become unavailable, deductions will be made to the Unitary Charge payable. The contractor took on the obligation to ensure at all times the services at each station meet all the requirements of the Agreement, the Services Specification, the Service Delivery Proposals, Good Industry Practice, Guidance and all applicable Authorities' Policies and Legislation.

The buildings and any plant and equipment at the end of the Agreement will be transferred to the Council for nil consideration.

The Council has the right to terminate the Agreement by giving the agreed notice period and paying the Default Termination Sum, as detailed in the Agreement.

Payments to the service provider under this scheme depend upon a number of factors, including the performance of the contract. Changes to Works, the Services or the Stations agreed, in accordance with the Change Protocol detailed in the Agreement, will result in an adjustment to the annual payments to the service provider.

The figures below provide information on the movement of the Fire and Rescue PFI assets held on the Council's Balance Sheet during 2015-2016:

	2014-2015 £'000	2015-2016 £'000
Cost brought forward 1 April	2,002	<b>13,555</b>
Revaluation Gain	11,553	-
Cost carried forward 31 March	<b>13,555</b>	<b>13,555</b>
Restated depreciation brought forward 1 April	(294)	<b>(449)</b>
Revaluations in year	294	-
Depreciation charge for year	(449)	<b>(449)</b>
Depreciation at 31 March	<b>(449)</b>	<b>(898)</b>
Net book value carried forward 31 March	<b>13,106</b>	<b>12,657</b>

## Notes to the Financial Statements

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2015-2016:

	2014-2015	2015-2016
	£'000	£'000
Lease liability brought forward 1 April	12,598	12,394
Payments made in year	(204)	(223)
Liability carried forward 31 March	12,394	12,171

The following table provides the best estimates of payments in future periods, on the assumption that the contractor provides a reliable service. The amounts include the adjustment to the payments, agreed during 2013-2014, relating to changes to Works, the Services or the Stations. The adjustments affect the Lifecycle Maintenance and the Service Charges elements of the Unitary Charge. Variable elements of the charge have been inflated in line with predicted RPI increases.

	Total as at 31 March 2015 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	Total as at 31 March 2016 £'000
Within one year	2,465	203	242	1,312	720	2,477
Within two to five years	10,151	862	1,216	4,995	3,127	10,200
Within six to ten years	13,400	1,204	2,306	5,424	4,534	13,468
Within eleven to fifteen years	14,290	1,363	3,720	3,936	5,348	14,367
Within sixteen to twenty years	15,300	1,395	4,687	1,330	5,365	12,777
Within twenty to twenty-five years	560	-	-	-	-	-
	56,166	5,027	12,171	16,997	19,094	53,289

### 42. Impairment Losses

There has been no new impairment losses in 2015-2016. The impairment loss of £0.31 million recognised in 2014-2015 for the Cowpen Cremators following a fire has been reversed following repair works. Other losses are through downward revaluations in relation to Property, Plant and Equipment balances in 2015-2016 and 2014-2015.



## Notes to the Financial Statements

### 43. Pension Schemes Accounted for as Defined Contribution Schemes

#### Teachers' Pensions Scheme

Teachers employed by the Council are offered membership of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2015-2016 the County Council paid £10.69 million (£10.18 million in 2014-2015) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay for the period 1 April 2015 to 31 August 2015 and then 16.48% of teachers' pensionable pay for the period 1 September 2015 to 31 March 2016.

The Scheme is a defined benefit final salary scheme. It is not possible for the Council to identify its share of the underlying liabilities in the scheme and it is therefore classified as a defined contribution scheme for the purposes of the accounting requirements of IAS 19 and does not form part of the pensions' deficit described in note 44.

The Council is responsible for the costs of any early retirement (the Teachers' unfunded scheme) and this is included in the pension deficit described in note 44.

### 44. Defined Benefit Pension Schemes

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

The Council participates in eight post-employment schemes. Seven of these are treated as defined benefit schemes as outlined below, the other scheme, the Teachers' Pension Scheme, is included in note 43.

**The Local Government Pension Scheme (LGPS)** for employees other than teachers and firefighters is administered by Northumberland County Council. This is a funded defined benefit final salary and career average revalued earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

**The LGPS Unfunded Scheme** for employees other than teachers and firefighters is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. The LGPS unfunded scheme provides enhanced pensions for certain former employees who have been granted early retirement by the Council. No enhanced LGPS pensions have been granted since November 2003.

**The Teachers' Unfunded Scheme** for teachers only is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. The Teachers' Unfunded Scheme provides enhanced pensions for certain former employees who have been granted early retirement by the Council. No enhanced Teachers' pensions have been granted since January 2004.



## Notes to the Financial Statements

**The Firefighters' Pension Scheme (FPS)**, also known as the 1992 Scheme, is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. Under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 the Council and employees pay contributions into a notional fund. The fund is topped up by Government grant if the receipts into it are insufficient to meet the cost of pension and other payments. Any surplus in the fund is recouped by Government in the year.

**The New Firefighters' Pension Scheme (NFPS)**, also known as the 2006 Scheme, is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS.

**The 2015 Firefighters' Pension Scheme** is administered by Northumberland County Council. This is an unfunded defined benefit career average revalued earnings scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS.

**The Firefighters' Injury Pensions and non-scheme Ill-Health Pensions** are administered by Northumberland County Council. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. These pensions are not covered by the funding arrangements as described above for the FPS and are paid for by the Council on a pay-as-you-go basis.

The Northumberland County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and ensuring the appropriate management of investments is the responsibility of the Northumberland County Council Pension Fund Panel. Policy is determined in accordance with the LGPS regulations.

The principal risks to the authority of the post-employment schemes are the longevity assumptions, statutory changes to the schemes, structural changes to the membership of the schemes (i.e. large-scale withdrawals from the schemes), changes to inflation, and, performance of the investments held by the Northumberland County Council Pension Fund. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

## Notes to the Financial Statements

### Transactions Relating to Post-employment Benefits

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

2015-2016	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
<b>Actuarial gains and losses arising on changes in demographic assumptions</b>					
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services:</b>					
Current service cost	(25.43)	(2.25)	-	-	(27.68)
Past service cost	(0.84)	(0.66)	-	-	(1.50)
<b>Financing and Investment Income and Expenditure:</b>					
Net interest expense	(13.38)	(5.24)	(1.11)	(1.19)	(20.92)
<b>Total post employment benefit charged to the deficit on the provision of services</b>	<b>(39.65)</b>	<b>(8.15)</b>	<b>(1.11)</b>	<b>(1.19)</b>	<b>(50.10)</b>
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Remeasurement of the net defined liability comprising:</b>					
Return on plan assets (excluding the amount included in the net interest expense)	(34.54)	-	-	-	(34.54)
Actuarial gains and losses arising on changes in financial assumptions	46.95	8.86	0.98	0.95	57.74
Actuarial gains and losses arising on changes in demographic assumptions	-	3.04	-	-	3.04
Other	13.15	2.92	0.63	0.67	17.37
<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>25.56</b>	<b>14.82</b>	<b>1.61</b>	<b>1.62</b>	<b>43.61</b>
<b>Movement in Reserves - General Fund Balance:</b>					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	39.65	8.15	1.11	1.19	50.10
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
Employer's contributions payable to the scheme	(28.07)	-	-	-	(28.07)
Net retirement benefits payable to pensioners	-	(6.40)	(2.38)	(2.78)	(11.56)

## Notes to the Financial Statements

2014-2015	LGPS	Firefighters'	LGPS	Teachers'	Total
		Schemes	unfunded	unfunded	
	£m	£m	Scheme	Scheme	£m
	£m	£m	£m	£m	£m
Actuarial gains and losses arising on changes in demographic assumptions					
Comprehensive Income and Expenditure Statement					
Cost of Services:					
Current service cost	(21.02)	(2.34)	-	-	(23.36)
Past service cost	(0.85)	-	-	-	(0.85)
Financing and Investment Income and Expenditure:					
Net interest expense	(14.75)	(6.34)	(1.48)	(1.57)	(24.14)
Total post employment benefit charged to the deficit on the provision of services	(36.62)	(8.68)	(1.48)	(1.57)	(48.35)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement					
Remeasurement of the net defined liability comprising:					
Return on plan assets (excluding the amount included in the net interest expense)	61.27	-	-	-	61.27
Actuarial gains and losses arising on changes in financial assumptions	(130.90)	(16.54)	(2.56)	(2.59)	(152.59)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-
Other	7.15	0.86	0.90	0.41	9.32
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(62.48)	(15.68)	(1.66)	(2.18)	(82.00)
Movement in Reserves - General Fund Balance:					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	36.62	8.68	1.48	1.57	48.35
Actual amount charged against the General Fund Balance for pensions in the year:					
Employer's contributions payable to the scheme	(27.86)	-	-	-	(27.86)
Net retirement benefits payable to pensioners	-	(5.67)	(2.41)	(2.79)	(10.87)

## Notes to the Financial Statements

Note: the Firefighters' schemes' details are shown below:

2015-2016	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Injury and non scheme III Health £m	Total £m
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services:</b>					
Current service cost	(1.30)	(0.07)	(0.81)	(0.07)	(2.25)
Past service cost	-	-	-	(0.66)	(0.66)
<b>Financing and Investment Income and Expenditure:</b>					
Net interest expense	(4.90)	(0.17)	-	(0.17)	(5.24)
Total post employment benefit charged to the deficit on the provision of services	(6.20)	(0.24)	(0.81)	(0.90)	(8.15)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Remeasurement of the net defined liability comprising:</b>					
Return on plan assets (excluding the amount included in the net interest expense)	-	-	-	-	-
Actuarial gains and losses arising on changes in financial assumptions	7.94	0.48	0.10	0.34	8.86
Actuarial gains and losses arising on changes in demographic assumptions	3.05	(0.11)	-	0.10	3.04
Other	1.15	0.20	-	1.57	2.92
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	12.14	0.57	0.10	2.01	14.82
<b>Movement in Reserves - General Fund Balance:</b>					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	6.20	0.24	0.81	0.90	8.15
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
Net retirement benefits payable to pensioners	(6.45)	(0.07)	0.34	(0.22)	(6.40)

## Notes to the Financial Statements

2014-2015	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Injury and non scheme III Health £m	Total £m
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services:</b>					
Current service cost	(1.81)	(0.41)	-	(0.12)	(2.34)
Past service cost	-	-	-	-	-
<b>Financing and Investment Income and Expenditure:</b>					
Net interest expense	(5.96)	(0.17)	-	(0.21)	(6.34)
Total post employment benefit charged to the deficit on the provision of services	(7.77)	(0.58)	-	(0.33)	(8.68)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Remeasurement of the net defined liability comprising:</b>					
Return on plan assets (excluding the amount included in the net interest expense)	-	-	-	-	-
Actuarial gains and losses arising on changes in financial assumptions	(15.20)	(0.82)	-	(0.52)	(16.54)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-
Other	0.82	0.01	-	0.03	0.86
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(14.38)	(0.81)	-	(0.49)	(15.68)
<b>Movement in Reserves - General Fund Balance:</b>					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	7.77	0.58	-	0.33	8.68
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
Net retirement benefits payable to pensioners	(5.64)	0.13	-	(0.16)	(5.67)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2015-2016 is a gain of £43.61 million (£82.00 million loss in 2014-2015).

## Notes to the Financial Statements

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

The amount arising in the Balance Sheet as a result of the Council's obligation in respect of its defined benefit plan is as follows:

2015-2016	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Present value of the defined benefit obligation	(1,303.04)	(159.46)	(34.26)	(36.51)	(1,533.27)
Fair value of plan assets	880.79	-	-	-	880.79
Net liability arising from defined benefit obligation	(422.25)	(159.46)	(34.26)	(36.51)	(652.48)

2014-2015	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Present value of the defined benefit obligation	(1,297.55)	(172.53)	(37.14)	(39.72)	(1,546.94)
Fair value of plan assets	869.38	-	-	-	869.38
Net liability arising from defined benefit obligation	(428.17)	(172.53)	(37.14)	(39.72)	(677.56)

## Notes to the Financial Statements

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

	LGPS	Firefighters'	New	2015	Firefighters'	LGPS	Teachers'	Total
		Pension	Firefighters'	Firefighters	Injury & non	unfunded	unfunded	
		Scheme	Pension	Pension	scheme III	Scheme	Scheme	
	£m	£m	£m	£m	Health	£m	£m	£m
Opening balance as at 1 April 2015	(1,297.55)	(161.25)	(5.60)	-	(5.68)	(37.14)	(39.72)	(1,546.94)
Increase from acquisition/disposal*	(27.47)	-	-	-	-	-	-	(27.47)
Current service cost	(25.43)	(1.30)	(0.07)	(0.81)	(0.07)	-	-	(27.68)
Interest cost	(41.43)	(4.90)	(0.17)	-	(0.17)	(1.11)	(1.19)	(48.97)
Contributions from scheme participants	(6.44)	(0.44)	(0.03)	(0.34)	-	-	-	(7.25)
Remeasurement (gains)/losses:								
Actuarial (gains)/losses arising from changes in financial assumptions	46.95	7.94	0.48	0.10	0.34	0.98	0.95	57.74
Actuarial (gains)/losses arising from changes in demographic assumptions	-	3.05	(0.11)	-	0.10	-	-	3.04
Other	13.15	1.15	0.20	-	1.57	0.63	0.67	17.37
Past service cost	(0.84)	-	-	-	(0.66)	-	-	(1.50)
Benefits paid	36.02	6.89	0.10	-	0.22	2.38	2.78	48.39
Closing balance as at 31 March 2016	(1,303.04)	(148.86)	(5.20)	(1.05)	(4.35)	(34.26)	(36.51)	(1,533.27)
Opening balance as at 1 April 2014	(1,132.99)	(144.74)	(4.08)	-	(5.02)	(36.41)	(38.76)	(1,362.00)
Current service cost	(21.02)	(1.81)	(0.41)	-	(0.12)	-	-	(23.36)
Interest cost	(48.11)	(5.96)	(0.17)	-	(0.21)	(1.48)	(1.57)	(57.50)
Contributions from scheme participants	(6.42)	(0.67)	(0.16)	-	-	-	-	(7.25)
Remeasurement (gains)/losses:								
Actuarial (gains)/losses arising from changes in financial assumptions	(130.90)	(15.20)	(0.82)	-	(0.52)	(2.56)	(2.59)	(152.59)
Other	7.15	0.82	0.01	-	0.03	0.90	0.41	9.32
Past service cost	(0.85)	-	-	-	-	-	-	(0.85)
Benefits paid	35.59	6.31	0.03	-	0.16	2.41	2.79	47.29
Closing balance as at 31 March 2015	(1,297.55)	(161.25)	(5.60)	-	(5.68)	(37.14)	(39.72)	(1,546.94)

\* the acquisition/disposal figures comprise three items: the transfer to Active Northumberland at 1 April 2015, the transfer from Homes for Northumberland at 1 September 2015 and the subsumption of Northumberland County Blind Association on 30 June 2015.

## Notes to the Financial Statements

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

	Local Government Pension Scheme	
	2014-2015	2015-2016
	£m	£m
Opening fair value of scheme assets	776.06	<b>869.38</b>
Increase from acquisition/disposal*	-	<b>19.41</b>
Interest income	33.36	<b>28.05</b>
<b>Remeasurement gain/(loss):</b>		
The return on plan assets, excluding the amount included in the net interest expense	61.27	<b>(34.54)</b>
Contributions by the employer	27.86	<b>28.07</b>
Contributions by participants	6.42	<b>6.44</b>
Benefits paid	<b>(35.59)</b>	<b>(36.02)</b>
Closing balance of scheme assets	869.38	<b>880.79</b>



## Notes to the Financial Statements

### Local Government Pension Scheme assets comprised:

LGPS assets comprised:	Fair Value of Scheme Assets			
	2014-2015		2015-2016	
	£m	%	£m	%
UK and overseas equities	536.49	61.71	<b>554.70</b>	<b>62.98</b>
Fixed interest and index linked	232.67	26.76	<b>213.00</b>	<b>24.18</b>
Property unit trusts	37.73	4.34	<b>41.23</b>	<b>4.68</b>
Ventures and partnerships	61.36	7.06	<b>73.61</b>	<b>8.36</b>
Other net current (liabilities)/assets	1.13	0.13	<b>(1.75)</b>	<b>(0.20)</b>
	869.38	100.00	<b>880.79</b>	<b>100.00</b>

All scheme assets have quoted prices in active markets except ventures and partnerships and other net current assets/liabilities.

UK and overseas equities by geographical area:	Fair Value of Scheme Assets			
	2014-2015		2015-2016	
	£m	%	£m	%
United Kingdom	301.89	56.27	<b>311.24</b>	<b>56.11</b>
Europe	59.19	11.03	<b>58.76</b>	<b>10.59</b>
North America	58.00	10.81	<b>60.01</b>	<b>10.82</b>
Japan	28.90	5.39	<b>28.29</b>	<b>5.10</b>
Pacific	29.47	5.49	<b>31.30</b>	<b>5.64</b>
Other	59.04	11.01	<b>65.10</b>	<b>11.74</b>
	536.49	100.00	<b>554.70</b>	<b>100.00</b>

## Notes to the Financial Statements

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Aon Hewitt Limited, an independent firm of actuaries, has assessed all of the liabilities for the pension schemes shown in the accounts, the figures being based on the latest full valuations of the schemes. For the Local Government Pension Scheme the latest full actuarial valuation of the Fund took place as at 31 March 2013. For the Firefighters' Pension Scheme, New Firefighters' Pension Scheme and 2015 Firefighters Pension Scheme the latest full actuarial valuation took place as at 31 March 2015. For the Injury Pensions and non-scheme Ill-Health Pensions the latest full actuarial valuation took place as at 31 March 2015 and for the Local Government Pension Scheme Unfunded Scheme and the Teachers' Unfunded Scheme, the latest full actuarial valuation took place as at 31 March 2015.

The significant assumptions used by the actuary have been:

## Notes to the Financial Statements

	LGPS	Firefighters'	LGPS	Teachers'
		Schemes	unfunded	unfunded
			scheme	scheme
As at 31 March 2016				
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	23.1	22.0	23.1	23.1
Women	25.6	24.5	25.6	25.6
Longevity at age 65 for future pensioners:				
Men	25.3	24.1	-	-
Women	28.0	26.8	-	-
Inflation - CPI	1.8%	1.8%	1.8%	1.8%
Salary increases	3.3%	3.3%	-	-
Pension increases	1.8%	1.8%	1.8%	1.8%
Pension accounts revaluation rate	1.8%	1.8%	-	-
Discount rate	3.4%	3.4%	3.4%	3.4%
As at 31 March 2015				
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	23.0	23.0	23.0	23.0
Women	25.5	25.5	25.5	25.5
Longevity at age 65 for future pensioners:				
Men	25.2	25.2	-	-
Women	27.8	27.8	-	-
Inflation - CPI	1.8%	1.8%	1.8%	1.8%
Salary increases	3.3%	3.3%	-	-
Pension increases	1.8%	1.8%	1.8%	1.8%
Pension accounts revaluation rate	1.8%	-	-	-
Discount rate	3.2%	3.1%	3.1%	3.1%

The Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate

## Notes to the Financial Statements

of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2016.

The Firefighters' Pension Schemes, LGPS unfunded scheme and the Teachers' unfunded scheme have no assets to cover their liabilities.

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

## Notes to the Financial Statements

	Impact on the Defined Benefit Obligation in the Scheme			
	Local Government Pension Scheme			
	Increase in assumption	Decrease in assumption		
	£m	%	£m	%
<b>Local Government Pension Scheme (LGPS Funded)</b>				
Longevity (increase or decrease in 1 year)	33.38	2.6	(33.44)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	4.66	0.4	(4.61)	(0.4)
Rate of increase in pensions (increase or decrease by 0.1%)	0.43	1.4	(18.15)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(22.72)	(1.7)	23.12	1.8
<b>Firefighters' Pension Scheme</b>				
Longevity (increase or decrease in 1 year)	3.95	2.7	(3.96)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.37	0.2	(0.30)	(0.2)
Rate of increase in pensions (increase or decrease by 0.1%)	1.95	1.3	(1.93)	(1.3)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.29)	(1.5)	2.33	1.6
<b>New Firefighters' Pension Scheme</b>				
Longevity (increase or decrease in 1 year)	0.14	2.7	(0.14)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.07	1.3	(0.07)	(0.3)
Rate of increase in pensions (increase or decrease by 0.1%)	0.09	1.7	(0.09)	(1.7)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.16)	(3.1)	0.17	(3.3)

Sensitivity analysis on the LGPS Unfunded Scheme, The Teachers' Unfunded Scheme, 2015 Firefighters' Pension Scheme and the Firefighters' Injury Pensions and non-scheme Ill-Health Pensions scheme has not been included on materiality grounds.

### Asset Liability Matching (ALM) Strategy

Northumberland County Council's Pension Fund Panel (i.e. the pension committee) is responsible for setting and reviewing the asset allocation for Northumberland County Council Pension Fund investments, held for payment of LGPS liabilities. The investment objective of the Fund is to achieve a long term return on the Fund's assets which:

- ensures that the Fund can meet its long term liabilities while minimising the long term cost to participating employers (including Northumberland County Council);

## Notes to the Financial Statements

- recognises the advantages of maintaining the stability of contribution rates;
- does not subject the Fund to undue risk.

The primary risk upon which the Panel focuses is that arising through a mismatch between the Fund's assets and its liabilities. The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields. The Panel takes advice on the matter at each quarterly meeting, and every three years (or more often, if necessary) considers the implications of adopting different levels of risk. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure the asset allocation policy results in an adequately diversified portfolio across a number of managers and asset classes.

## Notes to the Financial Statements

### Impact on the Council's Cash Flows

The Council anticipates paying the following amounts in 2016-2017 in relation to the seven post-employment schemes covered by this note:

	LGPS £m	LGPS Unfunded £m	Teachers' Unfunded £m	FPS £m	NFPS £m	2015 FPS £m	Firefighters' Injury £m	Total £m
Regular employer contributions payable to Northumberland County Council Pension Fund	27.71							27.71
Payments to beneficiaries		2.38	2.78					5.16
Payments to beneficiaries net of member contributions receivable, where contributions include the Government Grant				6.56	0.07	(0.35)	0.22	6.50
<b>Total</b>	<b>27.71</b>	<b>2.38</b>	<b>2.78</b>	<b>6.56</b>	<b>0.07</b>	<b>(0.35)</b>	<b>0.22</b>	<b>39.37</b>

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2016-2017 includes a fixed monetary lump sum of £10.90 million which is intended to amortise the deficit attributable to the Council over a period of 22 years.

Additional employer contributions will also be payable by the Council to Northumberland County Council Pension Fund for strain on the fund, for example, where an employee is made redundant and his/her LGPS pension becomes payable before his/her normal retirement date.

### Duration of the defined benefit obligations

The duration of the Council's liabilities is the average period, expressed in number of years, between the calculation date and the date on which the scheme benefit falls due. Duration for the six post-employment schemes covered by this note is as follows:

	31 March 2015 No. of years	31 March 2016 No. of years
Local Government Pension Scheme	17.60	-
LGPS Unfunded	10.30	-
Teachers' Unfunded	9.70	-
Weighted average duration for LGPS, LGPS Unfunded and Teachers' Unfunded	-	17.20
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	15.40	17.60

## Notes to the Financial Statements

### Split of the defined benefit obligations

The split of the defined benefit obligations at the last valuation date between the categories of members was as follows:

	Active Members %	Deferred Members %	Pensioners %
Local Government Pension Scheme	32.00	15.00	53.00
Local Government Pension Scheme Unfunded	-	-	100.00
Teachers' Unfunded	-	-	100.00
Firefighters' Pension Scheme	34.00	3.00	63.00
New Firefighters' Pension Scheme	72.00	16.00	12.00
2015 Firefighters' Pension Scheme	100.00	-	-
Firefighters' Injury and non-scheme III- Health Pensions	31.00	-	69.00



## Notes to the Financial Statements

### 45. Contingent Liabilities

#### Denwick Quarry

The Environment Agency required a Performance Deed to be agreed as a condition of the Waste Management Licence being granted for the Denwick Quarry Landfill Site. The Performance Deed was set at £0.21 million and is payable if the Council defaults on the duties and liabilities set out in the Licence. The landfill formally closed on 8 November 2004 but the contingent liability will remain until the Environment Agency issues a formal Site Closed Notice and environmental monitoring ends after a period of at least 5 years and possibly up to 10 years until it is agreed the site is stable. The likelihood of the County Council having to make this payment is rated as extremely low as the costs of restoring the site have been fully provided for in the operational costs of the site. The physical restoration works were substantially completed in July 2005. At a meeting in November 2005 with the Environment Agency and DEFRA the final restoration works were accepted as satisfactory and the 5 year formal aftercare programme has also been successfully completed. The site has therefore been fully restored and undergoing routine pollution monitoring and aftercare for a period of over 10 years, during which time no issues of concern have been identified. Given the usage of the site for the landfill disposal of construction and demolition wastes (which have a relatively low pollution risk), the significant period that has now elapsed following completion of the site restoration works and there being no issues of concern identified through routine pollution control monitoring activity, it is considered highly unlikely that any issues would arise that would result in a significant financial liability for the Council. The Council has deferred surrendering the waste management licence for the site due to other work priorities, but will now progress the formal surrender of the licence during 2016-2017.

#### Property Searches

A group of Property Search Companies sought to claim refunds of fees paid to the Council to access land charges data. The parties have reached agreement on the claims. The Council has agreed to pay the Property Search Companies legal costs to be subject to detailed assessment by way of costs only proceedings if not agreed. The Council is in discussions with the claimants about the costs aspect of the claim. At present it is not possible to put a final value on these potential liabilities and so the Council has instead recognised a contingent liability.

#### Equal Pay

Following the Abdullah case brought against Birmingham City Council, the Council is aware that there may, in the future, be similar claims against Northumberland County Council. However, given the nature of the case, the liability is not quantifiable at this time and the Council has not yet received any such claims.

#### Guarantee Home Housing Association

In May 1987 former Blyth Valley Council entered into an agreement with Home Housing Association, a subsidiary of Home Group Limited, whereby the Association provided approximately 100 properties in the Borough, using private finance. These properties are to be let on assured tenancies for which the Council has 50% nomination rights.

The Association has issued loan stock to the value of £84 million to finance developments nationally and the Council has agreed to secure that proportion of the loan, which is equivalent to the total programmed expenditure in its area i.e. 3.24%. The guarantee will

## Notes to the Financial Statements

only be called upon in the event of certain legislative changes, which would make the Association unable to meet its obligations under the loan from its own resources.

The Council's guarantee may be expressed in terms of interest due on £2.72 million.

### Holiday Pay

The Council is currently subject to two employment tribunal cases relating to unlawful deduction of wages in relation to holiday pay. Following the Bear Scotland case, which decided that regular overtime payments should be included for holiday pay purposes, the Council is aware that there may, in the future, be similar claims against the Council. The amount being claimed will be quantified and agreed with Trade Unions in 2016-2017.

### National Non-Domestic Rates Appeals

From 1 April 2013 new arrangements for the retention of business rates came into effect. Local Authorities in general will be allowed to retain a proportion of the business rates collected within their area. For Northumberland this will generally be 50%. In addition, from 1 April 2013 Local Authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government under the old business rates scheme in respect of 2012-2013 and prior years. A provision of £7.98 million has been created within the 2015-2016 accounts based on the best estimate of the actual liability to meet the cost of known appeals. This has been allocated 50% to Northumberland County Council and 50% to Central Government. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

### Water Rates Collection – Alnwick Area

Following a court case brought to Southwark Council, it was ruled that they had been overcharging tenants for Water charges which they were collecting on behalf of Thames Water. The court case ruled that the council had acted as a water seller and, as such, had overcharged tenants. The Council is now in the process of making arrangements to reimburse tenants, and to identify former tenants who may be eligible.

The current arrangement that Northumberland County Council has in place with Northumbria Water, was novated from Alnwick District Council following Local Government Review in 2009.

Although no one has come forward with a claim from within the Northumberland region, local authorities within the North East are seeking legal advice to ensure that the correct approach is taken going forward.

### iNorthumberland, Digital Economy and Growth

The project commenced in April 2013 and delivered superfast broadband infrastructure to small and medium sized enterprises (SMEs) across Northumberland.

A change to the project was agreed by the Department for Communities and Local Government (DCLG) on 7 April 2014 and this increased the European Regional Development Fund (ERDF) capital grant by £2.20 million to £4.20 million. The change was on the basis that the timescale for the capital roll out programme needed to be extended to December 2015. In order to achieve the project objectives and as a result of detailed survey work, the number of cabinets required to connect eligible SMEs would also need to

## Notes to the Financial Statements

increase. ERDF eligible expenditure increased from £3.90 million to £8.30 million as a result with a grant intervention rate of 50%.

In November 2015, Government Internal Audit Agency (GIAA) undertook an audit of the project and concluded that the additional £2.20 million capital funding was ineligible for ERDF funding and highlighted that this amount therefore may be subject to clawback. The Council are currently in discussion with Government and no formal decision has yet been made in respect of any potential clawback.

### 46. Contingent Assets

During 2011-2012, the Council filed a claim with the High Court to reclaim from HMRC a proportion of Landfill Tax that the Council had suffered from 1996 to 2012. The claim is based on an argument that some of the material sent to landfill was used for engineering purposes and should not have attracted the tax. The Council's advisors have indicated that the claim has a high likelihood of success but the current position is that it has been successfully 'stayed' by the High Court behind a lead case. It is not possible to quantify the level of any recovery of tax at this point.

### 47. Nature and Extent of Risks Arising from Financial Instruments Risk Management

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

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

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on the risk implications for the organisation.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure from the Council's customers. The Council's Counterparty Policy, outlined below, sets out the limits for investments. From 2015-2016 the Council's policy continued to be the security of principal.

#### Specified Investments

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities	N/A	N/A	Unlimited	15 years (with annual calls)
DMO	N/A	N/A	Unlimited	6 months
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 months
Nationalised and Semi-Nationalised	N/A	N/A	£35m (Group Limit £70m)	12 months

## Notes to the Financial Statements

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
Banks				
Money Market Funds	AAA	Aaa	£25m (Group Limit £150m)	Instant access
<b>Deposits and Certificates of Deposit with approved eligible financial institutions which meet the following criteria</b>				
Very High Grade UK Clearing Banks/ Building Societies	ST:F1+ LT:AA-	ST:P-1 LT:Aa2	£25m (Group Limit £50m)	12 months
High Upper Medium Grade UK Clearing Banks/ Building Societies	ST:F1 LT:A-	ST:P-1 LT:A3	£15m (Group Limit £30m)	12 months
High Grade Foreign Banks	ST:F1 LT:A-	ST:P-1 LT:A3	£10m (Group Limit £30m)	6 months

### Non-specified Investments

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities	N/A	N/A	Unlimited	15 years
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	15 years
Enhanced Cash Funds (Variable net asset value)	AAA	Aaa	£15m per fund (£60m in total)	30 (1) days notice
Deposits or Corporate Bonds with institutions which meet the rating criteria	ST:F1 LT:A-	ST:P-1 LT:A3	£10m per institution	5 Years
Deposits or Corporate Bonds with institutions which meet the rating criteria	ST:F2 LT:A-	ST:P-1 LT:A3	£5m per institution	12 months
Good, Medium Grade UK Clearing Banks/ Building Societies	ST:F2 LT:BBB-	ST:P-2 LT:Baa2	£10m per banking Group	6 months
Building Societies which have assets in excess of £10,000m	N/A	N/A	£12m per Building Society	12 months
Building Societies which have assets in excess of £5,000m	N/A	N/A	£10m per Building Society	6 months
Building Societies which have assets in excess of £1,000m	N/A	N/A	£5m per Building Society	3 months
Foreign Banks (only for repayment of Icelandic Investment)	N/A	N/A	Currency equivalent to £5m (Country limit £10m)	No limit

The only non-specified investments made in 2015-2016 were: £10 million 2 year Certificate of Deposit with Royal Bank of Scotland; a £5 million deposit for 3 months with Leeds Building Society and a £5 million deposit for 6 months with Coventry Building Society (the latter two have since been repaid).

No Treasury Management Strategy limits were exceeded during the reporting period.

## Notes to the Financial Statements

### Customer Debt

The Council has £3.49 million (2014-2015 £6.04 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Less than three months	2,644	1,356
Three to six months	619	444
Six months to one year	954	501
More than one year	1,823	1,188
Total	6,040	3,489

At 31 March 2016 the Council held a provision of £0.91 million (2014-2015: £1.01 million) for doubtful debts against the risk of non-payment.

### Financial Guarantees

The Council has reviewed its exposure to financial guarantees provided in the event of default by other organisations. The only area of risk identified is in relation to guarantees provided to two external employers participating in the Local Government Pension Scheme. Two formal agreements are in place in respect of Queens Hall Arts and The Association of North East Councils, but the risk of either guarantee being called upon is assessed as low.

### Liquidity Risk

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

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

The Council's long term borrowing can be analysed as follows:

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	As at 31 March 2015 £'000	As at 31 March 2016 £'000
<b>Analysis by Loan Type</b>		
Public Works Loans Board	285,639	<b>267,135</b>
Other Market Loans	55,161	<b>20,090</b>
LOBO (Market Loans)	260,600	<b>260,600</b>
	601,400	<b>547,825</b>
<b>Analysis of Loans by Maturity</b>		
Less than 1 year	-	-
Between 1 and 2 years	53,605	<b>33,527</b>
Between 2 and 5 years	95,558	<b>70,566</b>
Between 5 and 10 years	22,336	<b>14,852</b>
Between 10 and 20 years	24,118	<b>23,053</b>
Between 20 and 30 years	9,698	<b>9,670</b>
Between 30 and 40 years	75,485	<b>88,557</b>
Between 40 and 50 years	149,000	<b>153,600</b>
Between 50 and 60 years	40,600	<b>23,000</b>
In excess of 60 years	131,000	<b>131,000</b>
	601,400	<b>547,825</b>

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

### Market Risk – Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. 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 charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the liabilities associated with borrowings will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- Investments at fixed rates – the fair value of the assets will fall.

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 included in the Comprehensive Income and Expenditure Statement and impact upon the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate



## Notes to the Financial Statements

movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If interest rates had been 1% higher as at 31 March 2016 with all other variables held constant, the effect would have been:

	As at 31 March 2016 £'000
Increase in Interest Payable on Variable Rate Borrowings	1,776
Increase in Interest Receivable on Variable Rate Investments	(873)
Increase in Government Grant receivable for financing costs	(5,620)
Impact on (Surplus) or Deficit on the Provision of Services	(4,717)
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	153,950

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

The increase in interest payable on borrowings is largely due to the fact that the Council has £84.60 million of LOBO borrowing which has now gone past its initial fixed interest period and is subject to the potential to be called by the lender at specific intervals ranging from 2 years to 5 years. If a loan were called, the Council would be exposed to a potential change in interest rate. The Council also had £93.00 million of short term borrowing.

### Market Risk – Price Risk

The Council does not invest in equity shares but does have shareholdings in Newcastle Airport Local Authority Holding Company, and Arch (Corporate Holdings) Ltd. Further information on these shareholdings is contained in Note 52 Subsidiary or Associated Companies on page 142.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares in Newcastle Airport Local Authority Holding Company are classified as “available for sale” and are included at fair value. The shares in Arch (Corporate Holdings) Ltd are included at historic cost.

### Foreign exchange risk in relation to Icelandic Deposits

The Council has foreign exchange exposure resulting from an element of the settlement received from Glitnir/Landsbanki. This is being held in Icelandic kroner in an escrow account due to the current imposition of currency controls imposed by the Icelandic Government and Central Bank. The value of the deposits at 31 March 2016, based on exchange rates at the time was £2.01 million (£1.70 million at 31 March 2015.)

## Notes to the Financial Statements

### 48. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2016:

	Total Cost	Future Payments
	£'000	£'000
Crag End Landslip	10,231	558
Fire and Rescue Emergency Control Centre	1,943	72
Fire and Rescue Hexham Community Fire Station	2,516	2,482
Hexham Bus Station	2,153	1,395
HRA Affordable Housing Scheme	29,317	3,246
Morpeth Northern Bypass	32,042	13,007
Streetlighting Replacement and Modernisation	23,338	13,639

### 49. Revenue Provision

The Council is required by statute to set aside a minimum revenue provision for the redemption of debt. Accounting regulations allow authorities to make a 'prudent' provision, based on guidance issued by the Government. The total provision for 2015-2016 of £38.33 million was calculated using both the 'regulatory' (£9.00 million) and 'asset life' (£14.33 million) methods from the guidance, as well as a voluntary set aside of £15.00 million. (The 2014-2015 provision of £24.63 million was based on a regulatory element of £8.86 million and asset life element of £15.77 million).

### 50. Valuation of Fixed Assets

Land and buildings are revalued according to a five year rolling program unless the Council is made aware of any material change. Assets subject to additions in excess of £0.10 million with an Existing Use valuation basis, in excess of £1.00 million with a Depreciated Replacement Cost (DRC) basis and new assets in excess of £2.50 million are revalued as at the date of scheme financial closure.

Material change is defined as an alteration to the physical attributes of an individual property or the nature of its location.

Those properties which have not been valued in this financial year were valued as at the date of the last valuation reported.

The work has been undertaken by DTZ, a UGL Limited company, Central Square South, Orchard Street, Newcastle upon Tyne, NE1 3AZ. As at September 2015 DTZ and Cushman & Wakefield combined under a new common brand, but the underlying legal entities have not changed, including their names.

Of the Property, Plant and Equipment not held at cost on the Balance Sheet, 61% was valued in year. In addition, 100% of the Investment Assets and Assets Held for Sale remaining at 31 March 2016 were revalued by DTZ.

In addition to carrying out valuations on the selected properties, DTZ assessed the general property market conditions within Northumberland. They have expressed an opinion that there have been no major market events to significantly impact upon assets not valued during financial year 2015-2016.



## Notes to the Financial Statements

Leasehold properties at rack rent or with a short unexpired term have not been valued on the grounds that their values are not material. Values of £0.01 million or less are considered to be de minimis and have not been reported.

Actual valuations are as shown on the individual reports. The valuations are on the under-mentioned basis in accordance with the RICS Valuation - Professional Standards 2014, (the "Red Book").

- a) All properties were inspected externally by MRICS surveyors, but internal access was not provided to all properties.
- b) No structural/building survey or survey of possible contamination of the properties has been undertaken.
- c) There has been no inspection or testing of any electrical, heating or other building services apparatus.
- d) In undertaking the valuations a number of assumptions were made and relied on certain sources of information. The significant assumptions applied in estimating the valuations are:
  - The Council possesses good and marketable freehold/leasehold titles and the properties are free from mortgages, charges or other encumbrances;
  - The properties are free from any rot, infestation, adverse toxic chemical treatments and structural or design defects other than those mentioned in the body of the valuation report.
  - All services are provided and functioning satisfactorily, and no account has been taken of any business goodwill.
  - Building insurance is in place regarding flooding and available to be renewed.
  - The buildings have been constructed in full compliance with valid town planning and building regulations.

The report does not purport to express an opinion about or advise upon the condition of uninspected parts of the asset and should not be taken as making any implied representation or statement about such parts.

Unless otherwise stated in the Valuation Report, fixed Plant and Machinery is included in the valuation of any buildings.

Opinions of the current value/fair value of each property have been primarily derived using comparable recent market transactions on arm's length terms.

The depreciated replacement cost approach (DRC) has been adopted in cases where there was a lack of market transactions as the properties were primarily of a specialist nature and not generally traded freely on the open market. For properties valued on a DRC basis, valuers have considered the modern equivalent site and building areas and where appropriate instant build considerations were adopted. Adopted build costs were sourced from BCIS. Obsolescence allowances were assessed in line with relevant parts of the current RICS Valuation Professional Standards 2014 UK Edition (VPS), allowing for physical, functional and external/economic factors.

## Notes to the Financial Statements

The Market Value of properties has been assessed in accordance with VPS 4.1.2. under which "Market Value" means "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The Fair Value of properties has been assessed in accordance with VPS 4.1.5. under which Fair Value is defined as "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 Current Value/Existing Use Value of properties in owner occupation has been assessed in accordance with UKVS 1.3. under which "Existing Use" means "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost".

In the case of operational buildings an assessment of the remaining useful life has been provided assuming prudent continuing maintenance.

The sources of information and assumptions made in producing the various valuations are set out in the Valuation Report.

### **Valuation of Fixed Assets Carried at Current Value**

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by MRICS qualified Surveyors. The basis of valuation is set out above.

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	Council Dwellings	Other Land and Buildings	Vehicles, Infrastructure Plant, Furniture and Equipment	Assets	Community Assets *	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost	-	16,718	94,407	309,086	8,419	-	59,278	487,908
Valued at Current Value in:								
2011-2012	-	125,524	-	-	-	-	-	125,524
2012-2013	-	13,858	-	-	-	-	-	13,858
2013-2014	-	16,143	-	-	-	-	-	16,143
2014-2015		126,540	-	-	-	-	-	126,540
2015-2016	270,510	152,158	-	-	-	12,165	-	434,833
Total	270,510	450,941	94,407	309,086	8,419	12,165	59,278	1,204,806

\* Due to the re-categorisation of assets, an approximation to historical cost has been made in some cases.

### 51. Heritage Assets: Further Information Museum, Art and Artefact Collection

The Woodhorn Museum collection is on permanent loan to the Woodhorn Trust from the County Council and comprises some two thousand items relating to coal mining heritage and social history. It includes a Fine Art collection based around the work of the Ashington group of Pitmen Painters and other local mining artists. The museum is open all year.

The Berwick Museum and Art Gallery collection is located in the Berwick-Upon-Tweed Barracks (operated by English Heritage), which is on long term loan to the Woodhorn Trust from the County Council, the Freemen of Berwick and Berwick Town Council. It comprises the Burrell Collection of fine art which includes; paintings by Degas and Boudin; a collection of oriental porcelain, natural history, social history, archaeology; and works by local artists. The museum is open between April and September.

The Hexham Old Gaol collection, which is on loan to the Woodhorn Trust from the County Council, relates to the medieval border history of Northumberland and the history of the building itself, which is the oldest purpose-built prison in England. The museum is open from April to November, also by appointment.

#### Archive Collection

The Archive collection is split between two offices – Woodhorn and the Berwick-upon – Tweed Record Office. The latter holds records relating to the geographical area held by Berwick-upon-Tweed Borough Council which extends from Berwick, south to Ellingham and across to the Cheviots. Records relating to the remainder of the present County of Northumberland are held at Woodhorn. The collection ensures the preservation of historic artefacts, records and local studies material relating to the County of Northumberland and makes these available. The Archive holds in excess of four linear miles of records related to almost all aspects of the history of Northumberland. There are also around eight

## Notes to the Financial Statements

thousand 3-D objects and the Local Studies Reference and Master Collections. All of the holdings are kept in a secure, environmentally controlled strong room to ensure their long term preservation.

The collections are available to view in public search rooms unless they are subject to statutory closure periods or restrictions imposed by the owners. For researchers unable to visit the offices personally there is a Postal Research Service.

Further details can be found on the Woodhorn Museum website [www.experiencewoodhorn.com](http://www.experiencewoodhorn.com).

### Public Sculptures and Memorials

Much of the Public Art is a result of the Inspire Initiative established in 2003 with the aim to change perceptions, make a contemporary environment and raise aspirations for the future, in the priority regeneration areas in Northumberland.

The Council is also custodian or has a duty of care for a variety of monuments and memorials throughout the County, details of which can be found from the Public Monuments and Sculpture Association Nation recording project ([www.pmsa.org.uk](http://www.pmsa.org.uk)) and the North East War Memorial Project ([www.newmp.org.uk](http://www.newmp.org.uk)).

### Historic Buildings

The Heritage assets category includes historic buildings held principally for their contribution to knowledge or culture where they are not used for operational purposes.

The Heritage Assets historic buildings include the Blyth Battery, a coastal defence artillery battery, built in 1916 to defend the port of Blyth and the submarine base there during World War I, and upgraded for re-use during World War II. It is the most intact, accessible and intelligible coast defence battery on the North East and Yorkshire coast, with individual buildings and features of considerable rarity. In 2008 conservation work restored the historic fabric of the buildings, created useable visitor space in the Magazine and Shelter buildings, and provided interpretation such as a waymarked trail around the site. Blyth Battery Volunteers open the Battery to the public, put on events and look after the site.

Also included is the Morpeth Clock Tower, constructed some time between 1604 and 1634, which is made out of recycled medieval stone. It is one of only eight remaining examples of its kind in England. The clock tower is open to visitors all year round.

The County Historic Environment Record detailed below holds records of all of the historic buildings within the County.

### Historic Environment Records

The County Council owns the County Historic Environment Record (HER) which is a database, and associated GIS data sets, recording all known archaeological sites and historic buildings within the County, as well as the Northumberland National Park. The coastal limit of the Record is presently the low water mark. It contains summary information gathered from a variety of sources since the mid-20<sup>th</sup> Century and acts as a signpost to more detailed records held in other collections. The HER collects information about archaeological and historic sites and landscapes from the earliest period of human activity to the later 20<sup>th</sup> Century. In addition to the digital data, the HER is supplemented by photographic and aerial photographic collections, GIS historic mapping and an extensive grey literature library.

## Notes to the Financial Statements

The HER is a public information service available to everyone. The HER is based at County Hall in Morpeth. Information is available from the HER in a number of different ways, such as by letter, email ([archaeology@northumberland.gov.uk](mailto:archaeology@northumberland.gov.uk)), fax or telephone, or by appointment to visit in person. Alternatively, a shortened version of the HER is available on the Keys to the Past website ([www.keystothepast.info](http://www.keystothepast.info)), or in full on the Archaeology Data Service website (<http://ads.ahds.ac.uk/catalogue>).

### Preservation Management

Northumberland County Council has a statutory responsibility to provide an Archive Service and, under the terms of a Service Level Agreement, the Woodhorn Trust is engaged by Northumberland County Council to manage this service and the museums.

Woodhorn Charitable Trust is an independent charity which manages Woodhorn as a museum and visitor attraction and houses the Northumberland Archives. The Trust also manages the Berwick-upon-Tweed Record Office – a branch of the County Archives Service, Berwick Museum and Art Gallery, and Hexham Old Gaol.

## 52. Subsidiary or Associated Companies

### Newcastle International Airport Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company.

On 4 May 2001, the seven local authority shareholders of NIAL (the “LA7”) created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities.

NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 15.42% interest in NALAHCL, valued at £13.40 million. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015-2016 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 7.86% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2015 (nil for the year ended 31 December 2014).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012-2013, issuing £67.67 million shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £2.30 million and a profit after tax of £4.56 million for the year ended 31 December 2015. In the previous year, the Group made a profit before tax of £0.50 million and a loss after tax of £0.28 million.

## Notes to the Financial Statements

### Arch (Corporate Holdings) Ltd

Arch (Corporate Holdings) Ltd was formed on the 1 April 2011 and is the economic development, regeneration and private rented housing arm of Northumberland County Council. Arch (Corporate Holdings) Ltd is 100% owned by Northumberland County Council and in turn it owns 100% of the share capital of:

- Arch (Commercial Enterprise) Limited (formerly Wansbeck Life Ltd)
- Arch (Housing) Limited (formerly Northern Coalfields Property Company)
- Arch (Development Projects) Limited (formed 1 April 2011)
- Arch (Financial Services) Ltd (formed 1 April 2011)
- Arch (Corporate Holdings) Ltd
- Arch (DigEco) Ltd

In addition, the group hold a joint venture agreement with the Duke of Northumberland with both holding a 50% ownership in Prudhoe Estate LLP, which is a property development company.

Following Local Government Re-organisation, which occurred on 1 April 2009, the Council took possession of the investments and holdings of Wansbeck District Council. Included within these holdings was an investment in Wansbeck Life Limited which comprised 100% of the ordinary share capital and 50% of the voting share capital. Following changes during 2010-2011 to the composition of the Board of Directors of Wansbeck Life Limited it was confirmed that Northumberland County Council, by virtue of these shareholdings and its control of members of the Board, was in a position to exert control over this entity and its wholly owned subsidiary Northern Coalfields Property Company Limited. Wansbeck Life Limited changed its name to Arch (Commercial Enterprises) Ltd as of the 1 April 2011 and is now wholly owned by Arch (Corporate Holdings) Limited, likewise Northern Coalfields Property Company also changed its name to Arch (Housing) Limited with effect from 1 April 2011. Trading has occurred within Arch (Commercial Enterprise) Limited, Arch (Housing) Limited, Arch (Development Projects) Limited and Arch (DigEco) Limited, whilst Arch (Financial Services) Limited has remained dormant for the majority of 2015-2016 with only minimal transactions flowing through the accounts. Those transactions that have been processed throughout 2015-2016 relate to historic repayments on loans that were previously granted by Northumberland County Council.

Group accounts have been prepared for 2015-2016. These statements incorporate the unaudited year end position for Arch (Commercial Enterprise) Limited, Arch (Housing) Limited and Arch (Development Projects) Limited, Arch (Financial Services) Limited, Arch (DigEco) Limited and Prudhoe LLP Estates Ltd.

Arch (DigEco) Limited carried out the revenue related projects of digital business support and the development of community digital champions, this revenue element is financially accounted for within Arch (DigEco) Limited and is therefore represented within the Financial Statements herewith. This scheme completed with effect of 31 December 2015, with no trade having subsequently taken place.

The latest financial results are summarised below:



## Notes to the Financial Statements

Arch (Corporate Holdings) Limited	2014-2015	2015-2016
	£'000	£'000
Profit/(Loss) on ordinary activities before taxation	470	(1,448)
Profit/(Loss) on ordinary activities after taxation	(76)	(1,448)

### Homes for Northumberland

Homes for Northumberland is a subsidiary of Northumberland County Council which was created following Local Government Reorganisation, and, is the Council's Arms Length Management Organisation with responsibility for the management and maintenance of the Housing Revenue Dwelling stock. From 1 September 2015 the organisation was brought back in-house and the management fee was only payable for the period 1 April 2015 to 31 August 2015.

Financial results are as follows:

Homes for Northumberland	2014-2015	2015-2016
	£'000	£'000
Profit/(Loss) on ordinary activities before taxation	1,712	781
Profit/(Loss) on ordinary activities after taxation	1,712	781

## 53. Trust Funds

### Choppington Schools Educational Fund

The County Council is responsible for looking after one small charitable fund that has been set aside for specific educational aid (Choppington Schools Educational Fund). This fund is not included in the County Council's Balance Sheet. The fund is invested in Equities Investment Fund for Charities, Charishare Common Investment Funds and with the County Council. The value of the trust shares as at 31 March 2016 was £7,537 (£7,582 as at 31 March 2015). Income received during 2015-2016 through dividends was £274 (£270 in 2014-2015). There was no expenditure incurred during 2015-2016 or during 2014-2015. The decrease in the value of the fund was due to an decrease in the value of the equities held. Funds held by the Council total £2,746.

### Thropton First School

The Council held £0.01 million of funds at 31 March 2016 (£0.02 million at 31 March 2015) for Thropton First School (which is a foundation school).

### Trust Schools

The Council also held funds for the following Trust schools:

## Notes to the Financial Statements

	31 March 2015 £'000	31 March 2016 £'000
<b>Ashington Partnership:</b>		
Ashington Central First School	31	81
Ashington Community High School	226	654
Ashington Hirst Park Middle School	20	(61)
Ashington Wansbeck First School	62	205
Bothal Middle School	(3)	(78)
<b>Total Ashington Partnership</b>	<b>336</b>	<b>801</b>
<b>West Partnership:</b>		
Bellingham First School	72	88
Bellingham Middle School	80	32
Haydon Bridge High School	(142)	(321)
<b>Total West Partnership</b>	<b>10</b>	<b>(201)</b>

### Academies/Agencies

The Council acted as the Payroll provider for eight Academies and one Agency during the 2015-2016 financial year, namely:

- The Northumberland Church of England Academy (NCEA - since 1 September 2009)
- Cramlington Learning Village Academy (since 1 September 2011)
- Berwick Academy (since 1 November 2011)
- The Three Rivers Academy (since 1 December 2011)
- Meadowdale Academy (since 1 April 2012)
- Blyth Quays Trust Academy (since 1 June 2013)
- Haltwhistle Community Academy (since 1 September 2013)
- Pax Christi Academy (since 1 March 2015)
- Active Northumberland (since 1 September 2015 with regards to Teachers Pensions)

As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2015-2016, £5.54 million (2014-2015 £3.02 million) employers' contributions for the Academies (14.1% of pensionable pay 1 March 2015 to 31 August 2015, 16.48% of pensionable pay 1 September 2015 to 31 March 2016) and £3.31 million (2014-2015 £2.07 million) employees' contributions for the Academies, at rates ranging from 7.4% to 11.7% of pensionable pay, were paid over to the Teachers' Pensions Agency.

For 2015-2016 for the Agency, £0.04 million employers' contributions (16.48% of pensionable pay 1 September 2015 to 31 March 2016) and £0.02 million employees' contributions, at rates ranging from 7.4% to 11.7% of pensionable pay, were paid over to the Teachers' Pensions Agency.



## **Notes to the Financial Statements**

### **Bank Accounts for Adult Clients in Care**

The Council administers individual bank accounts for those people in the care of the County Council. At 31 March 2016 the balance on these accounts was £3.94 million (£3.87 million at 31 March 2015) and has been excluded from the Council's Balance Sheet.

### **Non-County Bodies**

The Council controls income received from non-County bodies for particular clients and client groups. At the end of 2015-2016 this income totalled £0.06 million (£0.05 million at 31 March 2015) and has been excluded from the Council's Balance Sheet.

### **Armed Forces Community Covenant Schemes**

The Council holds funding on behalf of other bodies awarded by the Ministry of Defence for projects funded through the Armed Forces Community Covenant Scheme. At the end of 2015-2016 this totalled £0.01 million (£0.00 million 2014-2015) and has been excluded from the Council's Balance Sheet.

### **Adult Personal Allowances**

The Council holds personal allowance money paid to clients in residential care. At the end of 2015-2016 this totalled £0.05 million (£0.01 million at 31 March 2015) and has been excluded from the Council's Balance Sheet.

### **Adult Amenity Funds**

The Council controls funds which may have been donated or are the result of fund-raising efforts and are to be used for named children or activities and are classed as Amenity Funds. At the end of 2015-2016 these funds totalled £0.25 million (£0.20 million at the end of 2014-2015) and have been excluded from the Council's Balance Sheet.

### **Disability Living Allowances**

The Council held Disability Living Allowance money of £0.03 million at the end of 2015-2016 (£0.02 million at the end of 2014-2015) paid to children in its care. This money is held until it is spent on the children and is not included in the Balance Sheet.

The Council also holds funds on behalf of the following organisations. The balances have been excluded from the Balance Sheet:

## Notes to the Financial Statements

	31 March 2015 £'000	31 March 2016 £'000
Blaeberry Hill	8	8
Broadband Loan Briskona	9	9
Butterwell OCCS	-	950
Choppington Educational Foundation	2	3
Corbridge Road, Hexham	-	5
Eland Homes Delaval House	16	-
Meg Burdon Library Legacy Fund	5	5
Middlemoor Windfarm	-	77
Network Rail Hexham Goods Yard	8	8
New Ridley Road Stocksfield	13	13
Northsteads Windfarm	-	144
North Stobswood Open Cast Coal Site	274	24
Potland Burn Surface	-	970
R. Bell Bequest	1	-
Rural Growth Fund Income in Advance	2,959	136
Sisters Windfarm	-	108
Southlane SJ Williams	40	40
The Northumberland Children's Fund	46	35
Twickenham Court	-	16
Wandylaw Wind Farm	54	54
	3,435	2,605

### **Blaeberry Hill**

S38 Bond from Kowalczyk & Rugman for Highway works at Blaeberry, Rothbury.

### **Broadband Loan Briskona**

It is a loan condition that three months repayments be held for each loan in case of default.

### **Butterwell OCCS**

Funds held in respect of a restoration guarantee for the Butterwell surface coal mine. The balance is to be repaid in instalments where this reflects the level and costs of outstanding restoration required at the site.

### **Choppington Education Foundation**

This is a Charitable Trust attached to Choppington First School. The Trust awards small grants to children resident in Choppington.

### **Corbridge Road, Hexham**

Section S278 Agreement for residential development at Corbridge Road, Hexham. The balance is to be repaid to the developer upon completion.

### **Eland Homes Delaval House**

Eland Homes S38 Bond for highway improvements at Delaval House which was completed in 2015-2016 and the balance repaid.

## Notes to the Financial Statements

### **Meg Burdon Library Legacy Fund**

The late Meg Burdon worked for many years at Morpeth Library. £0.01 million has been left in her will to provide children's activities at Morpeth Library for a period of ten years.

### **Middlemoor Windfarm**

Section S278 Agreement for Middlemoor Windfarm. The balance is to be repaid to the developer upon completion.

### **Network Rail Hexham Goods Yard**

Network Rail Section S278 Agreement for Hexham Station Yard. The balance is to be repaid to the developer upon completion.

### **New Ridley Road Stocksfield**

This is a Section 38 Agreement. The Bond will be held until work on the surface water sewer is complete.

### **Northsteads Windfarm**

Section S278 Agreement for Northsteads Windfarm. The balance is to be repaid to the developer upon completion.

### **North Stobswood Open Cast Coal Site**

Northumberland County Council is holding this money received from the developer in advance of the required restoration bond being put in place. Once the bond is in place the money will be returned to the developer.

### **Potland Burn Surface**

Funds held in respect of a restoration guarantee for the Potalnd Burn surface coal mine. The balance is to be repaid in instalments where this reflects the level and costs of outstanding restoration required at the site.

### **R. Bell Bequest**

This money is for the future benefit of the clients residing in Tynedale House. The management committee of the home decided how it should be used. The balance has been spent in 2015-2016.

### **Rural Growth Fund Income in Advance**

Department for Communities and Local Government (DCLG) pay funding up front based on the quarterly forecast of payments due to be made to businesses which is submitted by Northumberland County Council. Claims are processed by the Corporate Programmes and External Funding Team. Payment of grant and spend is reconciled quarterly and reflected in the next claim to DCLG, the RGF scheme has now ended with approval for the remaining funds to be allocated to Local Growth Fund scheme which ends in 2018-2019.

### **Sisters Windfarm**

Section S278 Agreement for Sisters Windfarm, Widdrington. The balance is to be repaid to the developer upon completion.

### **Southlane SJ Williams**

S38 Bond from Mr S Williams for Highway works at Southlane, Rothbury.

### **The Northumberland Children's Fund**

This money is made available for the benefit of young people in Northumberland by way of a grant. Grants totalling £0.01 million have been paid to organisations in 2015-2016.

## Notes to the Financial Statements

### Twickenham Court

S38 Bond from Adams Development for works at Twickenham Court, Seghill.

### Wandylaw Wind Farm

Section S59/278 Agreement. Most of the Bond has been repaid, however, work is still outstanding on this project, therefore this Bond will be held until all works are complete.

#### 54. Better Care Fund

Northumberland County Council and Northumberland Clinical Commissioning Group (CCG) entered into a Better Care Fund (BCF) arrangement in line with Department of Health objectives for greater partnership working between Local Authorities and the Health Service. Joint arrangements of this type are set up under Section 75 of the NHS Act 2006.

The key objectives of Northumberland's BCF are:

- Whole population commissioning across the Northumberland system;
- High quality care provided in the most appropriate setting;
- Blur the boundaries between secondary and primary care/ physical and mental health/ social care and health care;
- Reduce health and social inequalities and prevent ill health;
- Transform primary and community care;
- Development of high quality, at scale pathways of care commencing with the complex elderly population;
- Drive innovation and reduce variation;
- Localised community services where possible, centralised where necessary; and,
- Skilled workforce delivering the right care in the right place at the right time.

The aim was also that the BCF contributed to the Health and Wellbeing Boards of objectives which included:

- Supporting people with long term conditions to be independent and have control; and,
- Making sure that all public services support the independence and social inclusion of disabled people and people with long term health conditions.

The vision is to use the BCF to accelerate a cultural shift which is already taking place in Northumberland towards a coherent system wide approach that supports growing numbers of people with long term conditions to live independently, in control of their lives, and able to participate fully in the wider life of the community.

From a Local Authority perspective the services provided under the BCF arrangement include:

- Preventative Services;
- Short Term Support Service;
- Long Term Homecare;
- Admission Avoidance and Discharge Support;
- Mental Health Services; and

## Notes to the Financial Statements

- Social Care Capital and Disabled Facility Grants

	2014-2015 £'000	2015-2016 £'000
<b>Funding Provided to the pooled budget:</b>		
Northumberland County Council	-	(2,256)
Northumberland Clinical Commissioning Group	-	(22,267)
	-	(24,523)
<b>Expenditure met from the pooled budget:</b>		
Northumberland County Council	-	11,662
Northumberland Clinical Commissioning Group	-	12,598
	-	24,260
Net surplus to be carried forward	-	(263)

## Housing Revenue Account (HRA) Income and Expenditure Statement for the year ended 31 March 2016

This account reflects the statutory obligation to “ring-fence” and show separately the financial transactions relating to the provision of housing. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

	Note	2014-2015 £'000	2015-2016 £'000
<b>Expenditure:</b>			
Repairs and maintenance		4,868	<b>6,041</b>
Supervision and management		8,154	<b>7,116</b>
Rents, rates, taxes and other charges		775	<b>880</b>
Depreciation and impairment of Fixed Assets		5,088	<b>6,622</b>
Debt management costs		22	<b>16</b>
Movement in the allowance for Bad Debt (not specified by the Code)	12	270	<b>249</b>
<b>Total Expenditure</b>		<b>19,177</b>	<b>20,924</b>
<b>Income:</b>			
Dwelling rents (gross)		(29,550)	<b>(30,639)</b>
Non dwelling rents (gross)	4	(347)	<b>(342)</b>
Charges for services and facilities		(1,433)	<b>(1,502)</b>
Contributions towards expenditure		-	<b>(527)</b>
HRA Subsidy Receivable		-	<b>(5)</b>
<b>Total Income</b>		<b>(31,330)</b>	<b>(33,015)</b>
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		(12,153)	<b>(12,091)</b>
HRA services' share of Corporate and Democratic Core Costs		539	<b>562</b>
<b>Net cost for HRA Services</b>		<b>(11,614)</b>	<b>(11,529)</b>
<b>HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:</b>			
Capital Grants and Contributions Receivable	1	(2,542)	<b>(703)</b>
Interest payable and similar charges		4,342	<b>4,329</b>
Interest and investment income		(246)	<b>(270)</b>
Pensions net interest expense		30	<b>256</b>
<b>Surplus for the year on HRA Services</b>		<b>(10,030)</b>	<b>(7,917)</b>

## Movement on the Housing Revenue Account Statement for the year ended 31 March 2016

This statement shows how the HRA Income and Expenditure Statement deficit reconciles to the movement in the HRA balance for the year.

	Note	2014-2015 £'000	2015-2016 £'000
Balance on the HRA at the end of the previous year		(10,548)	(11,155)
Surplus for the year on the HRA Income and Expenditure Statement		(10,030)	(7,917)
Adjustments between accounting basis and funding basis under Statute	1	9,423	1,663
Net increase before transfers to or from reserves		(607)	(6,254)
Transfer to or from earmarked reserves		-	(400)
Increase in year on the HRA		-	(6,654)
Balance on the HRA at the end of the current year		(11,155)	(17,809)

# Notes to the HRA Income and Expenditure Statement

## 1. Note to the Movement on the Housing Revenue Account Statement

	Note	2014-2015	2015-2016
		£'000	£'000
Analysis of adjustments between accounting basis and funding basis			
Transfers to the Capital Adjustment Account		2,262	833
Capital grants and contributions applied		2,542	703
HRA share of contributions to the Pensions Reserve		(16)	(206)
Accumulated Absences		-	(67)
Capital expenditure funded by the HRA	8	4,635	400
		9,423	1,663

## 2. Capital Charges (Item 8 Debit and Credit)

The cost of the capital asset charge to the HRA is prescribed via the Item 8 debit and credit calculations. Depreciation and impairment of fixed assets together with debt management expenses are included in Net Cost of Services to reflect the true cost of the use of assets. Interest payable and similar charges are charged after Net Cost of Services.

With effect from 2012-2013 depreciation and impairment charges, other than valuation reductions on non-dwelling assets, are reversed through the Statement of Movement on the HRA Balance.

## 3. Gross Rent Income

Gross rent income is the total rent income due for the year after allowance is made for voids and irrecoverables. Average rents increased by 2.2% in 2015-2016 compared to 6.74% in 2014-2015.

## 4. Other Rent Income

The other rent income attributable to the Housing Revenue Account is as follows:

	2014-2015	2015-2016
	£'000	£'000
Garages	(283)	(277)
Shops	(42)	(42)
Miscellaneous	(22)	(23)
Total	(347)	(342)



## Notes to the HRA Income and Expenditure Statement

### 5. Housing Stock

	2014-2015	2015-2016
	No.	No.
Houses and Bungalows	7,254	7,224
Flats	1,332	1,343
Houses in Multiple Occupation	10	10
Total	8,596	8,577

Council Stock decreased by nineteen dwellings in 2015-2016. There were fifty three sales under the 'Right to Buy Scheme' and thirty four dwellings were added to the dwelling stock in year. The Council's Affordable Housing Programme delivered thirty two new homes. Dandsfield completed in year delivering the remaining twelve flats, Whinestone View at Embleton delivered sixteen mixed tenure properties and the scheme at Shilbottle, which was partially complete, delivered four bungalows. A further two bungalows were acquired in year and added to the Council stock.

## Notes to the HRA Income and Expenditure Statement

### 6. Housing Revenue Account Fixed Assets

	Council Dwellings	Other Land and Buildings	Surplus Asset	Investment Properties	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross book value 1 April 2015	265,859	2,112	90	627	4,949	273,637
Reclassifications	4,375	250	-	-	(4,125)	500
Additions	8,717	-	-	-	4,118	12,835
Disposals	(1,746)	-	-	-	-	(1,746)
Revaluations	(6,695)	(27)	232	28	-	(6,462)
Gross book value 31 March 2016	<b>270,510</b>	<b>2,335</b>	<b>322</b>	<b>655</b>	<b>4,942</b>	<b>278,764</b>
Depreciation at 1 April 2015	-	290	-	-	-	290
Charged in year	7,528	40	-	-	-	7,568
Revaluations	-	(264)	-	-	-	(264)
Depreciation written out	(7,528)	-	-	-	-	(7,528)
Depreciation at 31 March 2016	-	<b>66</b>	-	-	-	<b>66</b>
Net book value at 1 April 2015	265,859	1,822	90	627	4,949	273,347
Net book value at 31 March 2016	<b>270,510</b>	<b>2,269</b>	<b>322</b>	<b>655</b>	<b>4,942</b>	<b>278,698</b>

The value of Council dwellings at 31 March 2016 of £270.51 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £730.11 million. This shows that the economic cost to government of providing Council housing at less than open market value is £459.60 million.

The value of land has not been valued separately from the buildings and has only been split on subsequent revaluations. Therefore, the value of the land within 'other land and buildings' is £0.82 million. Surplus Assets consists of land valued at £0.32 million, and investment properties include £0.01 million worth of land.

## Notes to the HRA Income and Expenditure Statement

### 7. Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve with the main credit to the reserve being an amount equivalent to the total depreciation charges for all HRA assets. Until 2011-2012, under Item 8 of Part 6 of the Local Government and Housing Act 1989, Councils were able to transfer the difference between the depreciation credit to the reserve and the Major Reserves Allowance (MRA) back to the HRA. From 2012-2013, however, Councils are no longer allowed to reverse non-dwelling depreciation and are only allowed to reverse dwelling depreciation on a transitional basis.

The Council is able to fund HRA related capital expenditure directly from the reserve, along with any voluntary set aside to repay debt. The movement in the Major Repairs Reserve is shown below:

	2014-2015 £'000	2015-2016 £'000
<b>Income:</b>		
Depreciation on Fixed Assets	(7,131)	(7,568)
	(7,131)	(7,568)
Appropriations transfer from the HRA	-	-
	(7,131)	(7,568)
<b>Expenditure:</b>		
Capital expenditure funded from the Reserve		
Houses	7,829	7,190
	7,829	7,190
Surplus/(Deficit) for the year	698	(378)
Balance brought forward 1 April	(1,312)	(614)
Balance carried forward 31 March	(614)	(992)

### 8. HRA Capital Expenditure and Financing

	2014-2015 £'000	2015-2016 £'000
<b>Capital Expenditure:</b>		
Houses	18,130	12,831
	18,130	12,831
<b>Financing:</b>		
Borrowing	3,435	1,334
Government Grants	2,231	703
Capital Receipts	-	3,204
Direct Revenue Financing	4,635	400
Major Repairs Reserve	7,829	7,190
<b>Total</b>	<b>18,130</b>	<b>12,831</b>

## Notes to the HRA Income and Expenditure Statement

### 9. Capital Receipts

The Local Government Act 2003 stipulates that income from the disposal of assets must be split into usable and reserved elements. The reserved element is paid over to the national pool and the usable element can be used to fund capital expenditure. A summary of receipts for the year is included below:

	Gross Receipt £'000	Usable Element £'000	Reserved Element £'000
Houses	2,041	1,038	1,003

### 10. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a debit of £0.21 million representing the excess of current service cost over pension contributions, as a result of implementing IAS 19.

The net charge resulting from implementing IAS 19 is reversed within the HRA meaning there is no effect on the amount to be met from rents.

### 11. Tenant Arrears

At the end of the last collection week, tenant arrears were as follows:

	As at 31 March 2015		As at 31 March 2016	
	£'000	%	£'000	%
<b>Rents:</b>				
Current tenants	829	2.81	<b>736</b>	<b>2.40</b>
Former tenants	618	2.09	<b>864</b>	<b>2.82</b>
Balance at 31 March	1,447	4.90	<b>1,600</b>	<b>5.22</b>

### 12. Provision for Impairment of Debt

The actual charge to the HRA in respect of bad debts provision and debts written off in 2015-2016 was £0.25 million. This charge relates to an increase in the bad debt provision for Council dwelling rents and charges of £0.25 million. There were no additional contributions to meet the costs of doubtful debts relating to shops and miscellaneous garage sites.

In 2014-2015 the actual charge to the HRA was £0.27 million. Of this, £0.27 million related to the write off of rents and charges. There was also a slight reduction in the contribution to meet doubtful debts relating to shops and miscellaneous garage sites.

The provision for bad debts at 31 March 2016 is:

	2014-2015 £'000	2015-2016 £'000
Balance at 1 April	560	<b>833</b>
Increase in provision	273	<b>249</b>
Balance at 31 March	833	<b>1,082</b>

## Notes to the HRA Income and Expenditure Statement

### 13. Homes for Northumberland

Homes for Northumberland is an Arms Length Management Organisation (ALMO) that is paid a management fee by the Council to carry out many of the activities previously performed by HRA employees in the former Alnwick and Blyth authorities. From the 1st September 2015 the organisation was brought back in-house and the management fee was only payable for the period 1 April 2015 to 31 August 2015. In 2015-2016 the Management Fee payable to Homes for Northumberland for the 5 month period was £4.84 million (£11.68 million in 2014-2015).

### 14. Contingent Liabilities

#### Water Rates Collection – Alnwick Area

Following a court case brought to Southwark Council, it was ruled that they had been overcharging tenants for water charges which they were collecting on behalf of Thames Water. The court case ruled that the Council had acted as a water seller and as such had overcharged tenants. The Council is now in the process of making arrangements to reimburse tenants, and to identify former tenants who may be eligible.

The current arrangement that Northumberland County Council has in place with Northumbria Water was novated from Alnwick District Council following Local Government Reorganisation in 2009.

Although no one has come forward with a claim from within the Northumberland region, local authorities within the North East are seeking legal advice to ensure that the correct approach is taken going forward.

## **Collection Fund Account**

### **for the year ended 31 March 2016**

The Collection Fund reflects the statutory obligation of billing authorities to maintain a separate Collection Fund, distinct from the General Fund of the County Council. The Collection fund accounts independently for income relating to Council Tax and National Non Domestic Rates (NNDR) on behalf of those bodies (including the County Council) for whom the income has been raised.

Collection Fund surpluses or deficits declared by the billing authority relating to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. For Northumberland, the Council Tax precepting body is the Police and Crime Commissioner for Northumbria.

In 2013-2014 the local government finance regime was revised with the introduction of the retained business rates scheme. The aim of the scheme is to give councils a greater incentive to grow businesses within their area. It does, however, also increase the financial risk due to the non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. Northumberland's share is 50% with 50% paid to the Council's precepting body - Central Government.

NNDR surpluses or deficits declared by the billing authority are apportioned to the relevant precepting bodies in the subsequent financial year.

## Collection Fund Account

### for the year ended 31 March 2016

	Note	2014-2015 Total £'000	2015-2016 Council Tax £'000	NNDR £'000	Total £'000
<b>Income:</b>					
Council Tax Payers	1	(154,777)	(160,017)	-	(160,017)
Income collectable from Business Ratepayers	2	(76,231)	-	(75,447)	(75,447)
<b>Total Income</b>		<b>(231,008)</b>	<b>(160,017)</b>	<b>(75,447)</b>	<b>(235,464)</b>
<b>Expenditure:</b>					
<b>Apportionment of previous year's surplus:</b>					
Northumberland County Council	3	(1,921)	1,800	(368)	1,432
Police and Crime Commissioner for Northumbria	3	40	114	-	114
Central Government - Share		(2,671)	-	(368)	(368)
<b>Precepts, demands and shares:</b>					
Northumberland County Council		173,017	139,528	37,650	177,178
Parish and Town Councils		7,031	7,346	-	7,346
Police and Crime Commissioner for Northumbria		8,384	8,633	-	8,633
Central Government - Share	2	37,516	-	37,650	37,650
<b>Charges to Collection Fund:</b>					
Costs of collection		471	-	474	474
Interest payments		-	-	14	14
Provision for bad debts	4	1,036	-	586	586
Provision for appeals	4	1,638	254	1,076	1,330
Disregarded amounts - renewable energy		1,085	-	1,255	1,255
<b>Total Expenditure</b>		<b>225,626</b>	<b>157,675</b>	<b>77,969</b>	<b>235,644</b>
<b>(Surplus)/Deficit for year</b>		<b>(5,382)</b>	<b>(2,342)</b>	<b>2,522</b>	<b>180</b>
<b>Opening fund balance</b>		<b>3,101</b>	<b>(3,842)</b>	<b>1,502</b>	<b>(2,340)</b>
<b>Closing fund balance</b>		<b>(2,340)</b>	<b>(6,184)</b>	<b>4,024</b>	<b>(2,160)</b>
<b>Allocated to:</b>					
Northumberland County Council		(2,867)	(5,822)	2,012	(3,810)
Police and Crime Commissioner for Northumbria		(224)	(362)	-	(362)
Central Government		751	-	2,012	2,012
		(2,340)	(6,184)	4,024	(2,160)

## Notes to the Collection Fund Account

### 1. Council Tax

Council Tax is broadly based on the capital value of domestic property as estimated at 1 April 1991 and classified into 8 bands. Charges are calculated by dividing the preceptor's income requirements by the council tax base (the total number of properties in each band, adjusted for discounts and expressed as an equivalent number of Band D dwellings). This gives the basic amount of council tax for a band D property, which when multiplied by the specified proportion (as follows) will give the individual amount due.

The net Council Tax liability in 2015-2016 was £160.02 million (£154.78 million in 2014-2015).

In 2013-2014 the local government finance regime was revised and Council Tax Benefit is no longer received by the Council. This has been replaced by a Council Tax Reduction Scheme which is administered by each authority.

	2014-2015	2015-2016
Council tax base (Band D equivalent @ 98.2% of collection rate)	96,802	<b>97,734</b>
Council tax (Band D property)	£1,486.22	<b>£1,515.88</b>

Council Tax Band	Proportion	2015-2016		Council Tax Charge £
		No. of Properties	No of Band D equivalent Properties	
		No.	No.	
A(Disabled)	5/9	-	66	842.16
A	6/9	70,189	28,959	1010.59
B	7/9	23,218	14,821	1,179.02
C	8/9	18,911	14,601	1,347.45
D	9/9	15,246	13,917	1,515.88
E	11/9	10,044	11,308	1,852.74
F	13/9	6,379	8,664	2,189.60
G	15/9	3,916	6,139	2,526.47
H	18/9	511	857	3,031.76
Total		148,414	99,332	



## Notes to the Collection Fund Account

Council Tax Band	Proportion	2014-2015		Council Tax Charge £
		No. of Properties	No of Band Equivalent Properties	
		No.	No.	
A(Disabled)	5/9	-	69	825.68
A	6/9	69,959	28,761	990.81
B	7/9	23,068	14,661	1,155.95
C	8/9	18,794	14,469	1,321.08
D	9/9	15,124	13,865	1,486.22
E	11/9	9,947	11,197	1,816.49
F	13/9	6,349	8,609	2,146.76
G	15/9	3,893	6,100	2,477.03
H	18/9	505	842	2,972.44
Total		147,639	98,573	

### 2. National Non-Domestic Rates (NNDR)

Local businesses are required to pay, subject to transitional arrangements, an amount calculated by applying a uniform business rate multiplier set nationally by Central Government (expressed as a rate in the pound) to the rateable value of their property. Rateable values are provided by the Valuation Office Agency (VOA). In previous years the amount collected by the Council was paid to a central pool (the NNDR pool) administered by Central Government. The Government in turn paid Local Authorities their share of the pool based on a fixed amount per head of population.

In 2013-2014 the administration of NNDR changed following the introduction of the business rates retention scheme. Instead of paying NNDR to a central pool, local authorities now retain a proportion of the total collectable rates due (local share). In the case of Northumberland the local share is 50%. The remainder is distributed to preceptors, and in the case of Northumberland, the preceptor is Central Government (50%).

The NNDR shares payable for 2015-2016 were estimated before the start of the financial year as £37.65 million to Central Government and £37.65 million retained by Northumberland County Council. These sums have been paid to the General Fund and Central Government in 2015-2016 and charged to the Collection Fund in year.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups paid by Central Government to those authorities who do not achieve their targeted baseline funding. In this respect Northumberland County Council received a top up grant to the General Fund in 2015-2016 of £23.86 million.

The total income from business ratepayers in 2015-2016 was £75.48 million (£76.29 million in 2014-2015). This sum includes £0.27 million of transitional protection payments from ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum is reimbursed to Central Government by the Council.

## Notes to the Collection Fund Account

In addition to the top up, a 'safety net' figure is calculated at 92.5% of the baseline amount which ensures that authorities are protected to this level of Business Rates income. For Northumberland the value of the safety net figure in 2015-2016 was £57.86 million. The comparison of NNDR income to the safety net uses the total income collected from business ratepayers and adjusts for losses on collection, losses on appeal, transitional protection payments, the cost of collection and the revision to the small Business Rate Relief. The Council does not qualify for a safety net payment in 2015-2016.

For 2015-2016 the total non-domestic rateable value at year end is £204.30 million (£206.69 million in 2014-2015). The national multipliers for 2015-2016 were 48.0p for qualifying Small Businesses, and the standard multiplier being 49.3p for all other businesses (47.1p and 48.2p respectively for 2014-2015).

### 3. Apportionment of Previous Year's Surplus

The Council has a statutory requirement to prepare an estimate each January of the surplus or deficit expected to arise at the end of the financial year. In January 2015 the estimated surplus and amounts due to preceptors were:

	Council Tax £'000	NNDR £'000	Total £'000
Estimated Surplus/(Deficit) 2014-2015 (January 2015)	1,914	(736)	1,178
Allocated to:			
Northumberland County Council	1,800	(368)	1,432
Police and Crime Commissioner for Northumbria	114	-	114
Central Government	-	(368)	(368)
Total	1,914	(736)	1,178

	Council Tax £'000	NNDR £'000	Total £'000
Estimated Surplus/(Deficit) 2013-2014 (January 2014)	790	(5,342)	(4,552)
Allocated to:			
Northumberland County Council	750	(2,671)	(1,921)
Police and Crime Commissioner for Northumbria	40	-	40
Central Government	-	(2,671)	(2,671)
Total	790	(5,342)	(4,552)

### 4. Council Tax/NNDR Bad Debt Provision and NNDR appeals provision Bad Debt Provision

The Collection Fund account provides for bad debts on arrears based on a detailed analysis of collection rates. From 2009-2010 to 2012-2013 collection rates increased year on year. In 2013-2014, however, due to the effects of new legislation collection rates fell for the first time. Collection rates have since improved in both 2014-2015 and 2015-2016.

## Notes to the Collection Fund Account

	2014-2015			2015-2016		
	Council	NNDR	Total	Council	NNDR	Total
	Tax £'000	£'000	£'000	Tax £'000	£'000	£'000
Balance as at 1 April	6,052	1,526	7,578	5,591	1,246	6,837
Write offs	(919)	(858)	(1,777)	(527)	(626)	(1,153)
Increase in provision	458	578	1,036	254	586	840
Balance at 31 March	5,591	1,246	6,837	5,318	1,206	6,524
Northumberland County Council	5,265	623	5,888	5,003	603	5,606
Police and Crime	326	-	326	315	-	315
Commissioner for Northumbria	-	623	623	-	603	603
Central Government	-	623	623	-	603	603
	5,591	1,246	6,837	5,318	1,206	6,524

### Appeals Provision

In addition to the local management of Business Rates authorities are expected to finance their proportion of appeals made against the rateable valuation set by the Valuation Office, which are outstanding as at 31 March 2016. The increase in the provision during 2015-2016 was due largely to the national decision regarding the rateable value of doctors surgeries.

	2014-2015	2015-2016
	£'000	£'000
Balance at 1 April	5,266	6,904
Use of Provision - settled cases <u>2014-2015</u>	(1,786)	(4,438)
Increase in provision	3,424	5,514
Balance at 31 March	6,904	7,980
<b>Allocated to:</b>		
Northumberland County Council	3,452	3,990
Central Government	3,452	3,990
Total	6,904	7,980

## Group Accounts Explanatory Foreword

These group accounts consolidate the results and balances of the Council with those of its wholly owned subsidiaries for the year ended 31 March 2016:

- Arch Group
- Homes for Northumberland

The purpose of the foreword is to provide an easy to understand guide to the most significant matters reported in the accounts and information relating to the Council's subsidiaries.

### Arch Group

Following the restructuring which occurred on 1 April 2009 as part of Local Government Reorganisation the Council took possession of the investments and holdings of Wansbeck District Council. Included within these holdings was an investment in Wansbeck Life Limited (now Arch (Commercial Enterprise) Limited) which comprised 100% of the ordinary share capital and 50% of the voting share capital. Following changes to the composition of the Board of Directors during 2010-2011 it was confirmed that Northumberland County Council, by virtue of these shareholdings and its control of the Board, was in a position to exert control over the entity and its wholly owned subsidiary Northern Coalfields Property Company (now Arch (Housing) Limited).

The Arch Group brings together services in housing, commercial property, physical regeneration and business growth. The Arch Group consists of six wholly owned companies and one joint venture and its principal activities are as follows:

**Arch (Corporate Holdings) Ltd:** The company acts as a holding entity for the companies that comprise the Arch Group. Arch (Corporate Holdings) Ltd conducts no business in its own right.

The activities of the company group are:

- Strategic Management overview.
- Financial Control and Monitoring.
- Human Resource services.
- Corporate Policy monitoring and creation.
- Secretarial Services.
- Tax Advice.
- Company Secretary role.
- Strategic Corporate Objectives.

**Arch (Commercial Enterprise) Ltd:** The principal activities of the company are:

- to further the needs of the community within the boundaries of the area currently known as Wansbeck (the "Community") and the wider area of Northumberland.
- to protect restore and enhance the environment of the Community through the purchase, lease and management of land in the Community.
- to provide land, commercial accommodation and services to the Community and Businesses.
- to promote economic regeneration in the community through the provision of light industrial, retail and office accommodation to small businesses.

## Group Accounts Explanatory Foreword

- to provide business advice and support to businesses through Inward Investment initiatives and the administration of the Regional Growth Fund.

Arch (Commercial Enterprise) Ltd will optimise the performance of the property portfolio by driving down the number and duration of voids, reducing debt and ensuring prompt payment.

**Arch (Housing) Ltd:** The principal activity of the company during the year was the provision of rented residential accommodation in South East Northumberland.

**Arch (Development Projects) Ltd:** The principal activities of the company are to provide project management services in connection with capital developments undertaken by the Arch Group and Northumberland County Council. In addition, the launch of the Ascent Homes brand will provide new homes for sale throughout Northumberland.

**Arch (Financial Services) Ltd:** There have been minimal transactions for 2015-2016 which relate to historic repayments on loans that were previously granted by Northumberland County Council.

**Arch (DigEco) Ltd:** The principal activities of the company are:

- the project management of the superfast broadband roll-out programme, this is purely a management function for Arch DigEco Ltd and therefore the capital cost incurred on this element of the programme is within Northumberland County Council's Accounts.
- to carry out the revenue related projects of digital business support and the development of community digital champions. This revenue element is accounted for within Arch DigEco Ltd and is therefore represented within the accounts.

This scheme completed with effect of 31 December 2015, with no trade having subsequently taken place.

### Prudhoe (LLP) Estates Ltd

The group holds a joint venture agreement with the Duke of Northumberland with both holding a 50% ownership in Prudhoe Estate LLP, which is a property development company.

### Homes for Northumberland

Homes for Northumberland was an Arms Length Management Organisation which delivered Northumberland County Council's Landlord Services. Homes for Northumberland was established in April 2009 when the in-house managed stock from the former Alnwick District was brought under the umbrella of Blyth Valley Housing following full S105 Tenant Consultation. Blyth Valley Housing was an Arms Length Management Organisation established by Blyth Valley Borough Council to access Decent Homes Grant to enable it to bring its council housing stock up to standard by the Government's target of 2010. This has now been achieved. On 1 September 2015 the organisation was brought back in house.

Homes for Northumberland was a company limited by guarantee. The Council was the single shareholder of this company. The relationship between the Council and Homes for Northumberland was stipulated by a management agreement. The activities were funded via an Annual Management Fee from the Council's Housing Revenue Account. The management fee for 2015-2016 was only payable for the period 1 April 2015 to 31 August 2015. In 2015-2016 the management fee payable for the 5 month period was £4.84 million (£11.68 million in 2014-2015).

The key services Homes for Northumberland provided for the Council were:

- Housing and Estate Management.

## **Group Accounts Explanatory Foreword**

- Rent Collection and Arrears Management.
- Responsive Repairs and Maintenance.
- Planned Repairs and Major Works (including Decent Homes).
- Leasehold Management.
- Resident Participation.
- Resolving Anti-Social Behaviour.

### **Active Northumberland**

An assessment of the Council's relationship with Active Northumberland concluded that there was no requirement to consolidate their financial position within the group position. The assessment concluded that the Council did not have significant control over Active Northumberland and the traded position was not material to the overall group position. The Council paid Active Northumberland a management fee of £6.80 million in 2015-2016.

### **For the Group, the Statement of Accounts Comprises:**

#### **Statement of Accounting Policies**

This explains the basis of the figures in the accounts.

#### **Group Movement in Reserves Statement**

This shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and non-usable reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax, business rates and dwellings rent setting purposes. The statement also shows transfers to, or from, Earmarked Reserves undertaken by the Group. The movement in reserves statement sets out in a single line the adjustments to reflect the difference between the accounting and regulatory basis of determining the Group's funding requirements.

#### **Group Comprehensive Income and Expenditure Statement**

This reports the income and expenditure for the year for all Group functions. It also discloses non cash surpluses and deficits relating to the revaluation of Group assets and gains and losses on pension scheme assets and liabilities.

#### **Group Balance Sheet**

This is fundamental to the understanding of the Group's year end financial position. It shows the balances and reserves at the Group's disposal and its long term indebtedness, the net current assets employed in its operations, and summarised information on the fixed assets held.

#### **Group Cash Flow Statement**

This summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement as cash in hand and cash equivalents are deposits repayable on demand.

## **Group Movement in Reserves Statement**

for the year ended 31 March 2016

The following statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus)/Deficit on the Provision of Services line shows the true economic cost of providing the Group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. In preparing the Group accounts all statutory main Group statements have been incorporated, along with specific notes where balances are materially different from those within the Council's accounts.



## Group Movement in Reserves Statement

for the year ended 31 March 2016

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Council's share of usable reserve of subsidiaries	Council's share of unusable reserve of subsidiaries	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1 April 2015	(26,636)	(99,257)	(11,155)	(2,274)	(15,622)	(614)	(155,558)	(30,550)	(5,407)	(39,576)	(231,091)
<b>Movement in Reserves during 2015-2016:</b>											
(Surplus)/Deficit on the provision of services	(18,535)	-	(7,917)	-	-	-	(26,452)	-	(3,681)	-	(30,133)
Other Comprehensive Income and Expenditure	(2,656)	-	-	-	-	-	(2,656)	(55,297)	2,657	(15,605)	(70,901)
Total Comprehensive Income and Expenditure	(21,191)	-	(7,917)	-	-	-	(29,108)	(55,297)	(1,024)	(15,605)	(101,034)
Adjustments between accounting basis & funding basis under regulations	12,269	-	1,663	1,937	(9,414)	(377)	6,078	(6,078)	2,490	(2,490)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(8,922)	-	(6,254)	1,937	(9,414)	(377)	(23,030)	(61,375)	1,466	(18,095)	(101,034)
Transfers (to)/from Earmarked Reserves	(1,294)	1,694	(400)	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2015-2016	(10,216)	1,694	(6,654)	1,937	(9,414)	(377)	(23,030)	(61,375)	1,466	(18,095)	(101,034)
Balance at 31 March 2016 carried forward	(36,852)	(97,563)	(17,809)	(337)	(25,036)	(991)	(178,588)	(91,925)	(3,941)	(57,671)	(332,125)



## Group Movement in Reserves Statement

for the year ended 31 March 2015

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Council's share of usable reserve of subsidiaries	Council's share of unusable reserve of subsidiaries	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1 April 2014	(28,472)	(78,409)	(10,548)	(1,378)	(14,027)	(1,312)	(134,146)	(108,429)	(1,635)	(34,482)	(278,692)
Movement in Reserves during 2014-2015:											
(Surplus)/Deficit on the provision of services	(16,054)	-	(10,030)	-	-	-	(26,084)	-	(3,537)	-	(29,621)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	82,551	-	(5,329)	77,222
Total Comprehensive Income and Expenditure	(16,054)	-	(10,030)	-	-	-	(26,084)	82,551	(3,537)	(5,329)	47,601
Adjustments between accounting basis & funding basis under regulations	(2,958)	-	9,423	(896)	(1,595)	698	4,672	(4,672)	(235)	235	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(19,012)	-	(607)	(896)	(1,595)	698	(21,412)	77,879	(3,772)	(5,094)	47,601
Transfers (to)/from Earmarked Reserves	20,848	(20,848)	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2014-2015	1,836	(20,848)	(607)	(896)	(1,595)	698	(21,412)	77,879	(3,772)	(5,094)	47,601
Balance at 31 March 2015 carried forward	(26,636)	(99,257)	(11,155)	(2,274)	(15,622)	(614)	(155,558)	(30,550)	(5,407)	(39,576)	(231,091)

## **Group Comprehensive Income and Expenditure Statement**

for the year ended 31 March 2016

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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

# Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2016

2015-2016 Group		Council Only				Group	
	Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Adult Social Care		157,361	(78,673)	78,688	157,348	(78,674)	78,674
Central Services to the Public		9,088	(3,065)	6,023	9,088	(3,065)	6,023
Corporate and Democratic Core		12,281	(1,409)	10,872	11,854	(1,339)	10,515
Culture and Related Services		19,410	(444)	18,966	19,410	639	20,049
Education and Children's Services		309,997	(221,917)	88,080	309,914	(221,917)	87,997
Environmental and Regulatory Services		42,282	(9,975)	32,307	57,962	(29,726)	28,236
Exceptional costs of Equal Pay		(892)	-	(892)	(892)	-	(892)
Fire and Rescue Services		14,158	(3,022)	11,136	14,158	(3,021)	11,137
Highways and Transport Services		39,030	(13,583)	25,447	39,029	(13,582)	25,447
Local Authority Housing (HRA)		21,486	(33,015)	(11,529)	20,267	(33,284)	(13,017)
Non Distributed costs		10,120	(886)	9,234	10,120	(886)	9,234
Other Housing Services		93,618	(90,937)	2,681	95,716	(95,208)	508
Planning Services		18,658	(3,600)	15,058	18,647	(3,600)	15,047
Public Health		14,936	(14,923)	13	14,936	(14,923)	13
Cost Of Services		761,533	(475,449)	286,084	777,557	(498,586)	278,971
Other Operating Expenditure		31,267	(15,416)	15,851	31,122	(15,244)	15,878
Financing and Investment Income and Expenditure	18	55,641	(22,841)	32,800	55,884	(19,679)	36,205
Taxation and Non-Specific Grant Incomes	19	-	(361,187)	(361,187)	-	(361,187)	(361,187)
Group (Surplus)/Deficit		848,441	(874,893)	(26,452)	864,563	(894,696)	(30,133)
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				(19,580)			(27,794)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				(167)			(167)
Movement due to Acquisitions/Disposals on Pension Fund				8,060			(1,000)
Transfer of HfN Balances				(2,656)			-
Remeasurement of the Net Defined Benefit Liability (Asset)				(43,610)			(41,940)
Other Comprehensive Income and Expenditure				(57,953)			(70,901)
Total Comprehensive Income and Expenditure				(84,405)			(101,034)

# Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2015

2014-2015 Group	Note	Council Only			Group	
		Gross	Gross	Net	Gross	Net
		Expenditure £'000	Income £'000	Expenditure £'000	Expenditure £'000	Income £'000
Adult Social Care		160,695	(75,333)	85,362	160,695	(75,333)
Central Services to the Public		8,180	(4,036)	4,144	8,180	(4,036)
Corporate and Democratic Core		11,579	(2,521)	9,058	11,194	(2,521)
Culture and Related Services		19,155	(2,103)	17,052	19,155	(149)
Education and Children's Services		292,107	(225,262)	66,845	292,107	(225,262)
Environmental and Regulatory Services		48,562	(8,689)	39,873	53,758	(16,242)
Exceptional costs of Equal Pay		(4,186)	-	(4,186)	(4,186)	-
Fire and Rescue Services		14,931	(12,586)	2,345	14,931	(12,586)
Highways and Transport Services		39,805	(7,212)	32,593	39,805	(7,212)
Local Authority Housing (HRA)		19,716	(31,330)	(11,614)	18,166	(32,362)
Non Distributed costs		6,969	(126)	6,843	6,989	(126)
Other Housing Services		96,331	(92,076)	4,255	96,862	(95,693)
Planning Services		16,484	(3,601)	12,883	16,484	(3,601)
Public Health		12,086	(13,412)	(1,326)	12,086	(13,411)
Cost Of Services		742,414	(478,287)	264,127	746,226	(488,534)
Other Operating Expenditure		19,938	(3,125)	16,813	19,938	(3,125)
Financing and Investment Income and Expenditure	18	59,166	(21,884)	37,282	59,423	(19,789)
Taxation and Non-Specific Grant Incomes	19	-	(344,306)	(344,306)	546	(344,306)
Group (Surplus)/Deficit		821,518	(847,602)	(26,084)	826,133	(855,754)
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				551		(6,128)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				-		-
Remeasurement of the Net Defined Benefit Liability (Asset)				82,000		83,350
Other Comprehensive Income and Expenditure				82,551		77,222
Total Comprehensive Income and Expenditure				56,467		47,601

## Group Balance Sheet

as at 31 March 2016

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

## Group Balance Sheet

as at 31 March 2016

	Note	31 March 2015		31 March 2016	
		Council Only £'000	Group £'000	Council Only £'000	Group £'000
Property, Plant & Equipment	1, 12	1,173,920	1,193,677	1,204,806	1,225,499
Heritage Assets		8,210	8,210	8,210	8,210
Investment Property	2	3,543	100,423	1,723	121,314
Intangible Assets		4,065	4,065	3,245	3,245
Assets Held for Sale - non current		388	388	400	400
Long-Term Investments		110,217	107,560	120,288	117,856
Long-Term Debtors		207,956	153,237	225,738	155,648
<b>Long-Term Assets</b>		<b>1,508,299</b>	<b>1,567,560</b>	<b>1,564,410</b>	<b>1,632,172</b>
Intangible Assets		462	462	373	373
Short Term Investments		102,414	102,395	62,868	62,641
Assets Held for Sale - current		2,752	2,752	9,117	9,116
Inventories		724	1,108	1,133	1,133
Short-Term Debtors	7	76,988	75,623	91,943	91,783
Cash and Cash Equivalents	3	43,541	49,721	31,535	35,493
<b>Current Assets</b>		<b>226,881</b>	<b>232,061</b>	<b>196,969</b>	<b>200,539</b>
Bank Overdraft	3	(17,568)	(17,568)	(16,521)	(16,521)
Short Term Borrowing	16	(68,632)	(68,928)	(94,353)	(94,651)
Short Term Creditors	8	(55,950)	(60,010)	(67,668)	(74,890)
Provisions		(21,345)	(21,345)	(16,953)	(17,004)
Revenue Grants Receipts in Advance		(1,662)	(1,662)	(1,341)	(1,341)
Corporation tax liability		-	(496)	-	-
<b>Current Liabilities</b>		<b>(165,157)</b>	<b>(170,009)</b>	<b>(196,836)</b>	<b>(204,407)</b>
Long Term Creditors - PFI		(81,720)	(83,075)	(80,009)	(80,136)
Long Term Borrowing	17	(601,400)	(603,772)	(547,825)	(549,847)
Long Term Provisions		(13,930)	(13,930)	(1,668)	(1,668)
Other Long Term Liabilities	9, 15	(677,560)	(684,640)	(652,480)	(652,480)
Capital Grants Receipts in Advance		(9,305)	(13,104)	(12,048)	(12,048)
<b>Long-Term Liabilities</b>		<b>(1,383,915)</b>	<b>(1,398,521)</b>	<b>(1,294,030)</b>	<b>(1,296,179)</b>
<b>Net Assets</b>		<b>186,108</b>	<b>231,091</b>	<b>270,513</b>	<b>332,125</b>
Usable Reserves		155,558	160,965	178,588	182,529
Unusable Reserves	9	30,550	70,126	91,925	149,596
<b>Total Reserves</b>		<b>186,108</b>	<b>231,091</b>	<b>270,513</b>	<b>332,125</b>

## Group Cash Flow Statement

as at 31 March 2016

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

	Note	2014-2015		2015-2016	
		Council Only £'000	Group £'000	Council Only £'000	Group £'000
Net surplus / (deficit) on the provision of services		26,084	29,621	26,452	30,133
Adjustments to net surplus or deficit on the provision of services for non-cash movements		(60,242)	(60,254)	23,540	11,407
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(62,178)	(62,178)	(87,886)	(87,886)
<b>Net cash flows from Operating Activities</b>		<b>(96,336)</b>	<b>(92,811)</b>	<b>(37,894)</b>	<b>(46,346)</b>
Investing Activities	5	(24,957)	(26,845)	55,227	61,457
Financing Activities	6	126,213	126,213	(28,292)	(28,292)
<b>Net (increase) / decrease in cash and cash equivalents</b>		<b>4,920</b>	<b>6,557</b>	<b>(10,959)</b>	<b>(13,181)</b>
Cash and cash equivalents at the beginning of the reporting period		21,053	25,596	25,973	32,153
Cash and cash equivalents at the end of the reporting period	3	25,973	32,153	15,014	18,972

## Notes to the Group Financial Statements

### Accounting Policies

The financial results of the Council and its subsidiaries as of 31 March 2016 have been consolidated in accordance with IFRS 10. All entities within the group have a reporting date of 31 March. All transactions and balances between the group companies have been eliminated on consolidation.

The Group accounting policies are specified within the Council only statement. There are some slight divergences from these policies within the Group as stated below:

### Capital Expenditure

There is no de-minimis level for capital expenditure for the Arch Group.

### Depreciation

Depreciation is charged on the following basis:

Asset	Depreciation Period
Arch (Commercial Enterprise) Limited;	
Leasehold Property	Straight line over lease period (30/50 years)
Plant and Machinery	10% per annum reducing balance
Plant and Machinery	33% per annum straight line
Arch (Corporate Holdings);	
Plant and Machinery	25% per annum reducing balance
Arch (Development Projects);	
Plant and Machinery	20 years 5% Straight line
Arch (Housing) Limited:	
Leasehold Property	2% Straight line
Plant and Machinery	15%-33% reducing balance

### Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### 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 Group when there is reasonable assurance that:

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



## Notes to the Group Financial Statements

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

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

# Notes to the Group Financial Statements

## 1. Group Property, Plant and Equipment - Movements on Balances

Movements in 2015-2016	Council Only						Subsidiaries			Group	
	Council	Other	Vehicles, Infrastructure	Community	Surplus	Assets	Total	PFI Assets	Other	Vehicles, Plant, &	Total
	Dwellings	Land and Buildings	Plant, Furniture & Equipment	Assets	Assets	Assets	Under Construction	Property, Plant and Equipment	Land and Buildings	Equipment	Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>											
At 1 April 2015	265,859	485,746	136,820	392,021	9,654	18,599	47,896	1,356,595	106,845	17,659	3,127 1,377,381
Transfers from HfN	-	-	268	-	-	-	-	268	-	-	(268) -
Additions	8,717	16,989	7,547	22,145	183	471	45,229	101,281	804	8,809	484 110,574
Reclassifications	4,375	18,227	405	10,484	2	(194)	(33,267)	32	-	(1,176)	- (1,144)
Revaluation											
Increases/(Decreases) recognised in the											
Revaluation Reserve	-	9,013	-	-	-	(907)	-	8,106	-	-	- 8,106
Revaluation											
Increases/(Decreases) recognised in the											
Surplus/(Deficit) on the											
Provision of Services	(6,695)	(35,668)	-	-	-	(3,447)	-	(45,810)	-	(4,448)	- (50,258)
De-recognition - Disposals	(1,746)	(1,007)	(3,365)	-	-	(807)	(580)	(7,505)	(1,325)	(2,310)	(272) (10,087)
De-recognition - Other	-	(2,267)	(370)	-	-	-	-	(2,637)	-	-	- (2,637)
Assets reclassified											
(to)/from Held for Sale	-	(5,800)	-	-	-	(1,550)	-	(7,350)	-	-	- (7,350)
At 31 March 2016	270,510	485,233	141,305	424,650	9,839	12,165	59,278	1,402,980	106,324	18,534	3,071 1,424,585

## Notes to the Group Financial Statements

Movements in 2015-2016	Council Only									Subsidiaries		Group
	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment	Other Land and Buildings	Vehicles, Plant, & Equipment	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Accumulated Depreciation and Impairment:												
At 1 April 2015	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859	410	619	183,704
T transfer from HfN	-	-	162	-	-	-	-	162	-	-	(162)	-
Depreciation charge	7,528	14,041	9,314	11,487	128	334	-	42,832	4,141	141	175	43,148
Reclassifications	-	60	-	-	-	(60)	-	-	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	(10,797)	-	-	-	(677)	-	(11,474)	-	-	-	(11,474)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(7,528)	(5,205)	-	-	-	(742)	-	(13,475)	-	(45)	-	(13,520)
De-recognition - Disposals	-	(102)	(1,795)	-	-	(4)	-	(1,901)	(336)	-	(226)	(2,127)
De-recognition – Other	-	(308)	(337)	-	-	-	-	(645)	-	-	-	(645)
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2016	-	34,292	46,898	115,564	1,420	-	-	198,174	22,664	506	406	199,086
Net Book Value:												
At 31 March 2016	270,510	450,941	94,407	309,086	8,419	12,165	59,278	1,204,806	83,660	18,028	2,665	1,225,499
At 31 March 2015	265,859	449,143	97,266	287,944	8,362	17,450	47,896	1,173,920	87,986	17,249	2,508	1,193,677

## Notes to the Group Financial Statements

Movements in 2014-2015	Council Only							Subsidiaries			Group	
	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment	Other Land and Buildings	Vehicles, Plant, & Equipment	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>												
At 1 April 2014	251,816	502,707	132,592	371,331	9,616	11,434	37,399	1,316,895	91,391	38,222	918	1,356,035
Additions	13,350	11,032	8,293	17,159	1	146	33,399	83,380	1,052	4,758	2,233	90,371
Reclassifications	6,757	1,195	1,013	3,531	37	7,593	(21,821)	(1,695)	-	(25,321)	-	(27,016)
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(12,031)	-	-	-	873	-	(11,158)	4,949	-	-	(11,158)
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(4,702)	(6,136)	-	-	-	(1,290)	-	(12,128)	9,453	-	-	(12,128)
De-recognition - Disposals	(1,258)	(2,078)	(5,078)	-	-	(95)	(1,081)	(9,590)	-	-	(24)	(9,614)
De-recognition - Other Assets reclassified (to)/from Held for Sale	(104)	(8,943)	-	-	-	-	-	(9,047)	-	-	-	(9,047)
	-	-	-	-	-	(62)	-	(62)	-	-	-	(62)
At 31 March 2014	265,859	485,746	136,820	392,021	9,654	18,599	47,896	1,356,595	106,845	17,659	3,127	1,377,381

## Notes to the Group Financial Statements

Movements in 2014-2015	Council Only							Subsidiaries			Group	
	Council	Other	Vehicles,	Infrastructure	Community	Surplus	Assets	Total	PFI Assets	Other	Vehicles,	Total
	Dwellings	Land and	Plant,	Assets	Assets	Assets	Under	Property,	Included in	Land and	Plant, &	Assets
	£'000	£'000	£'000	£'000	£'000	£'000	Construction	Plant and	Property,	Buildings	Equipment	£'000
			Furniture & Equipment					Equipment	Plant and Equipment			
<b>Accumulated Depreciation and Impairment:</b>												
At 1 April 2014	-	39,180	34,675	93,356	1,168	475	-	168,854	16,604	234	535	169,623
Depreciation charge	7,131	13,828	8,857	10,721	124	167	-	40,828	3,963	135	105	41,068
Reclassifications	-	(755)	-	-	-	755	-	-	-	27	-	27
Depreciation written out to the Revaluation Reserve	-	(10,446)	-	-	-	(161)	-	(10,607)	(1,455)	-	-	(10,607)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(7,131)	(4,273)	-	-	-	(87)	-	(11,491)	(253)	-	(21)	(11,512)
De-recognition - Disposals	-	(50)	(3,978)	-	-	-	-	(4,028)	-	-	-	(4,028)
De-recognition – Other	-	(881)	-	-	-	-	-	(881)	-	-	-	(881)
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-	14	-	14
At 31 March 2015	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859	410	619	183,704
<b>Net Book Value:</b>												
At 31 March 2015	265,859	449,143	97,266	287,944	8,362	17,450	47,896	1,173,920	87,986	17,249	2,508	1,193,677
At 31 March 2014	251,816	463,527	97,917	277,975	8,448	10,959	37,399	1,148,041	74,787	37,988	383	1,186,412

## Notes to the Group Financial Statements

### 2. Investment Property

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

	2014-2015		2015-2016	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Balance at start of the year	3,861	46,220	3,543	100,423
Additions	-	22,229	-	13,904
Reclassifications	-	25,321	(50)	1,126
Disposals	-	(2,209)	(145)	(940)
Net (losses)/gains from fair value adjustments	(318)	8,862	(1,625)	6,801
Balance at end of the year	3,543	100,423	1,723	121,314

#### Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes. Within Arch investment properties £70.52 million have been valued at level 1 and the remainder at level 2.

#### Valuation techniques used to determine Level 2 fair values for investment properties

The fair value of investment property has been determined having regard to comparable evidence, applying a Rent and Yield or Capital Value Rate where appropriate.

#### Highest and Best use of investment properties

In estimating the fair value of the Arch Group's investment properties, the highest and best use of the properties is deemed to be their current use.

#### Valuers

The investment property portfolio has been valued as at 31 March 2016 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by Bradley Hall, the Arch Group's valuing agents for financial year 2015/16.

Dwelling stock within Arch (Housing) Limited (formerly Northern Coalfields Property Company) has been classified as investment property as the rental charges are in excess of 80% of the rent levels charged within privately rented accommodation.

### 3. Group Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	2014-2015		2015-2016	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Cash held by the Council	43,541	43,541	31,535	31,535
Cash overdrawn within the Council	(17,568)	(17,087)	(16,521)	(16,521)
Cash overdrawn by Homes for Northumberland held by the Council	-	(481)	-	-
Cash Held by Homes for Northumberland	-	1,666	-	30
Cash Held by Arch	-	4,514	-	3,928
Total Cash and Cash Equivalents	25,973	32,153	15,014	18,972

## Notes to the Group Financial Statements

### 4. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Interest received	(11,900)	(13,995)	(14,741)	(17,904)
Interest paid	25,816	25,559	29,784	29,540

### 5. Group Cash Flow Statement – Investing Activities

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(79,114)	(107,102)	(105,102)	(120,904)
Purchase of short term and long term investments	(275,092)	(276,005)	(110,132)	(110,132)
Other payments for investing activities	(59,564)	(34,788)	(26,569)	(7,636)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,393	15,630	8,502	11,601
Proceeds from short term and long term investments	200,289	200,289	140,000	140,000
Other receipts from investing activities	175,131	175,131	148,528	148,528
Net cash flows from investing activities	(24,957)	(26,845)	55,227	61,457

### 6. Group Cash Flow Statement – Financing Activities

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Cash receipts of short term and long term borrowing	208,602	208,602	75,051	75,051
Other receipts from financing activities	3,159	3,159	294	294
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,067)	(1,067)	(896)	(896)
Repayments of short and long term borrowing	(84,481)	(84,481)	(102,741)	(102,741)
Net cash flows from financing activities	126,213	126,213	(28,292)	(28,292)

## Notes to the Group Financial Statements

### 7. Group Short Term Debtors

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Central government bodies	16,205	16,205	20,066	20,066
NHS bodies	10,869	10,869	12,818	12,818
Other entities and individuals	41,829	40,464	46,798	46,638
Other local authorities	6,687	6,687	7,984	7,984
Public corporations and trading funds	1,398	1,398	4,277	4,277
<b>Total Short Term Debtors</b>	<b>76,988</b>	<b>75,623</b>	<b>91,943</b>	<b>91,783</b>

### 8. Group Short Term Creditors

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Central government bodies	(11,498)	(11,498)	(15,611)	(15,611)
NHS bodies	(1,034)	(1,034)	(1,003)	(1,003)
Other entities and individuals	(42,244)	(46,304)	(49,828)	(57,050)
Other local authorities	(1,140)	(1,140)	(1,225)	(1,225)
Public corporations and trading funds	(34)	(34)	(1)	(1)
<b>Total Short Term Creditors</b>	<b>(55,950)</b>	<b>(60,010)</b>	<b>(67,668)</b>	<b>(74,890)</b>

### 9. Group Unusable Reserves

Unusable reserves reflect the balances included within the parent company of Northumberland County Council with the exception of the Revaluation and Pensions Reserves, the introduction of the called up share capital reserve and the capital adjustment account with the differences detailed below:

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Revaluation Reserve	143,333	182,796	158,042	205,718
Pensions Reserve	(677,560)	(684,640)	(652,480)	(652,480)
Capital Adjustment Account	552,769	559,962	573,609	583,603
Share Capital	-	-	-	1
Deferred Capital Receipts Reserve*	1,482	1,482	821	821
Financial Instruments Adjustment Account*	28	28	(758)	(758)
Collection Fund Adjustment Account*	2,906	2,906	3,806	3,806
Available-for-Sale Financial Instruments Account*	13,104	13,104	13,271	13,271
Accumulated Absences Adjustment Account*	(5,512)	(5,512)	(4,386)	(4,386)
	<b>30,550</b>	<b>70,126</b>	<b>91,925</b>	<b>149,596</b>

\* Separate disclosure notes have not been reproduced for these accounts as the Group balances are the same as those quoted within the main set of accounts.



## Notes to the Group Financial Statements

### Revaluation Reserve

The balance on this reserve represents the accumulated gains on the re-valued fixed assets held by the Group since 1 April 2007 less that part of the depreciation charge that has been incurred only because the assets have been re-valued. Whilst these gains increase the net worth of the Group they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated. On disposal the Revaluation Reserve value for an asset is written to the Capital Adjustment Account.

	2014-2015		2015-2016	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	149,016	149,016	143,333	143,333
Amounts held in Subsidiaries	-	32,785	-	39,463
Restated balance 1 April	149,016	181,801	143,333	182,796
Upward revaluation of assets	17,744	17,745	40,321	40,321
Downward revaluation of assets and impairment losses not charged to the Surplus or (Deficit) on the Provision of Services in the Comprehensive Income and Expenditure Statement	(18,295)	(11,617)	(20,741)	(12,528)
Difference between fair value depreciation and historical cost depreciation	(3,070)	(3,070)	(3,567)	(3,567)
Accumulated gains on assets sold or scrapped	(2,062)	(2,063)	(1,304)	(1,304)
Balance at 31 March	143,333	182,796	158,042	205,718

## Notes to the Group Financial Statements

### Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS 19 Retirement Benefits for the treatment of pension costs. IAS 19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pensions Reserve represents the net liability for future pension costs.

	2014-2015		2015-2016	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	(585,940)	(591,140)	(677,560)	(684,640)
Restatement: (Increase)/Decrease from Acquisition and Disposal	-	-	(8,060)	1,000
Return on plan assets	61,270	63,270	(34,540)	(36,210)
Actuarial gains or (losses) arising on changes in financial assumptions	(152,590)	(156,060)	57,740	57,740
Actuarial gains or (losses) arising on changes in demographic assumptions	-	-	3,040	3,040
Other	9,320	9,440	17,370	17,370
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	(48,350)	(49,790)	(50,100)	(50,810)
Employer's pensions contributions and direct payments to pensioners payable in the year	38,730	39,640	39,630	40,030
Balance at 31 March	(677,560)	(684,640)	(652,480)	(652,480)

### Share Capital

Share capital is classified into two categories; authorised to be issued and the amount issued (allotted, called up and fully paid). The amount represented within the unusable reserves is the issued amount.

	2014-2015		2015-2016	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
<b>Authorised:</b>				
3,340,702 ordinary shares	-	3,341	-	3,341
Total authorised share capital	-	3,341	-	3,341
<b>Allotted, called up and fully paid:</b>				
3,340,702 ordinary £1 shares	-	1	-	1
Total allotted, called up and fully paid	-	1	-	1

Ordinary shares bear a right to income and capital as provided in the articles of association of the company. Holders of ordinary shares are not entitled to vote at general meetings of the company except on a resolution to wind up the company.

## **Notes to the Group Financial Statements**

Voting shares do not bear a right to income and capital, save, in the case of capital, to the nominal amount paid up on the shares. Holders of voting shares are entitled to vote at general meetings of the company.

### **Group Capital Adjustment Account**

The balance on the Group Capital Adjustment Account represents the timing difference between the amount of historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

## Notes to the Group Financial Statements

	2014-2015		2015-2016	
	Council Only £	Group £	Council Only £	Group £
Balance at 1 April	537,451	544,348	552,769	559,962
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non current assets	(40,828)	(40,828)	(42,832)	(42,832)
Deficit on Available-for-Sale financial assets	(68)	(68)	13	13
Revaluation losses on Property, Plant and Equipment	(418)	(418)	(32,420)	(32,420)
Amortisation of intangible assets	(814)	(814)	(1,105)	(1,105)
Revenue expenditure funded from capital under statute	(17,047)	(16,751)	(18,778)	(15,977)
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	(21,374)	(21,374)	(15,556)	(15,556)
Adjusting amounts written out of the Revaluation Reserve	5,132	5,132	4,871	4,871
<b>Capital financing applied in the year:</b>				0
Use of the Capital Receipts Reserve to finance new capital expenditure	4,615	4,615	10,098	10,098
Use of the Major Repairs Reserve to finance new capital expenditure	7,829	7,829	7,190	7,190
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	43,760	43,760	65,079	65,079
Application of grants to capital financing from the Capital Grants Unapplied Account	3,531	3,531	4,651	4,651
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	17,015	17,015	31,488	31,488
Voluntary set aside of capital receipts	7,613	7,613	6,621	6,621
Capital expenditure charged against the General Fund and HRA balance	6,684	6,684	3,172	3,172
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(312)	(312)	(1,652)	(1,652)
Balance at 31 March	552,769	559,962	573,609	583,603

### 10. Pension Schemes Accounted for as Defined Contribution Schemes Northern Coalfields Property Company

One of the County Council's subsidiaries, Northern Coalfields Property Company Limited (now Arch (Housing) Limited), operates a defined contribution scheme for the benefit of all employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

### 11. Group Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments across the Group are not materially different from those within the Council only statements.

## Notes to the Group Financial Statements

### 12. Group Valuation of Fixed Assets

#### Valuation of Fixed Assets Carried at Current Value

The following statement shows the progress of the Group's rolling five year programme for the revaluation of fixed assets. The valuations for Northumberland County Council are carried out by Chartered Surveyors (DTZ). The valuations for ARCH are carried out by Chartered Surveyors (Bradley Hall).

## Notes to the Group Financial Statements

	Council							Subsidiaries			Group
	Council Dwellings	Other Land and Buildings	Vehicles, plant, furniture and equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Council Total	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	16,718	94,407	309,086	8,419	-	59,278	487,908	12,746	2,664	503,318
Valued at Current Value in:											
2011-2012	-	125,524	-	-	-	-	-	125,524	-	-	125,524
2012-2013	-	13,858	-	-	-	-	-	13,858	-	-	13,858
2013-2014	-	16,143	-	-	-	-	-	16,143	-	-	16,143
2014-2015	-	126,540	-	-	-	-	-	126,540	5,283	-	131,823
2015-2016	270,510	152,158	-	-	-	12,165	-	434,833	-	-	434,833
Total	270,510	450,941	94,407	309,086	8,419	12,165	59,278	1,204,806	18,029	2,664	1,225,499

## Notes to the Group Financial Statements

### 13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Provision brought Forward	-	13	-	114
Adjustment in respect of previous year	-	44	-	-
Profit and Loss account movement arising during the year	-	57	-	-
Provision to Carry forward	-	114	-	114

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Excess of taxation allowances over depreciation on fixed assets	-	114	-	114

### 14. The Nature and Extent of Significant Restrictions within the Group

Prior to the creation of the Arch Group, the payment of dividend has historically been restricted between Northern Coalfields Property Company Ltd (now Arch (Housing) Limited) and Wansbeck Life (now Arch (Commercial Enterprises) Limited). In future, should any such payment occur, the dividends will be paid from any of the subsidiaries to Arch Corporate Holdings Ltd; during 2015-2016 Arch Housing Ltd paid dividend of £0.75 million to Arch Corporate Holdings Ltd.

### 15. Defined Benefit Pension Schemes

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

The Council participates in eight post-employment schemes, seven of these are treated as defined benefits schemes. In addition Homes for Northumberland, which transferred back to the Council in September 2016, participates in the Local Government Pension Scheme (LGPS). This has increased the liability, the disclosures below show a comparison between the parent authority's LGPS scheme with that of Homes for Northumberland.

**The Local Government Pension Scheme** for employees other than teachers and firefighters is administered by Northumberland County Council. This is a funded, defined benefit final salary and career average revalued earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

**The LGPS Unfunded Scheme** for employees other than teachers and firefighters is administered by Northumberland County Council. This is an unfunded, defined benefit final

## Notes to the Group Financial Statements

salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. The LGPS unfunded scheme provides enhanced pensions for certain former employees who have been granted early retirement by the Council. No enhanced LGPS pensions have been granted since November 2003.

**The 2015 Firefighters' Pension Scheme** is administered by Northumberland County Council. This is an unfunded, defined benefit career average revalued earnings scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS.

**The Teachers' Unfunded Scheme** for teachers only is administered by Northumberland County Council. This is an unfunded, defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. The Teachers' Unfunded Scheme provides enhanced pensions for certain former employees who have been granted early retirement by the Council. No enhanced Teachers' pensions have been granted since January 2004.

**The Firefighters' Pension Scheme (FPS)**, also known as the 1992 Scheme, is administered by Northumberland County Council. This is an unfunded, defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. Under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 the Council and employees pay contributions into a notional fund. The fund is topped up by Government grant if the receipts into it are insufficient to meet the cost of pension and other payments. Any surplus in the fund is recouped by Government in the year.

**The New Firefighters' Pension Scheme (NFPS)**, also known as the 2006 Scheme, is administered by Northumberland County Council. This is an unfunded, defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS.

**The 2015 Firefighters' Pension Scheme** is administered by Northumberland County Council. This is an unfunded, defined benefit career average revalued earnings scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS.

**The Firefighters' Injury Pensions and non-scheme Ill-Health Pensions** are administered by Northumberland County Council. These are unfunded, defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. These pensions are not covered by the funding arrangements as described above for the FPS and are paid for by the Council on a pay-as-you-go basis.

The Northumberland County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Fund is the responsibility of the Northumberland County Council Pension Fund Panel. Policy is determined in accordance with the LGPS regulations. The investment managers of the Fund are appointed and monitored by the Pension Fund Panel.

The principal risks to the authority of the post-employment schemes are the longevity assumptions, statutory changes to the schemes, structural changes to the schemes (i.e.



## Notes to the Group Financial Statements

large-scale withdrawals from the schemes), changes to inflation, and the performance of the investments held by the Northumberland County Council Pension Fund. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund, Housing Revenue Account and Homes for Northumberland Profit and Loss Account the amounts required by statute as described in Northumberland County Council's accounting policies note.

### Transactions Relating to Post-employment Benefits

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

2015-2016	Council Only	Homes for N'land	Group Total
	£m	£m	£m
<b>Actuarial gains and losses arising on changes in demographic assumptions</b>			
<b>Comprehensive Income and Expenditure Statement:</b>			
<b>Cost of Services:</b>			
Current service cost	(27.68)	(0.62)	(28.30)
Past service cost	(1.50)	-	(1.50)
<b>Financing and Investment Income and Expenditure:</b>			-
Net interest expense	(20.92)	(0.09)	(21.01)
<b>Total post employment benefit charged to the deficit on the provision of services</b>	<b>(50.10)</b>	<b>(0.71)</b>	<b>(50.81)</b>
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:</b>			
<b>Remeasurement of the net defined liability comprising:</b>			
Return on plan assets (excluding the amount included in the net interest expense)	(34.54)	(1.67)	(36.21)
Actuarial gains and losses arising on changes in financial assumptions	57.74	-	57.74
Actuarial gains and losses arising on changes in demographic	3.04	-	3.04
Other	17.37	-	17.37
<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>43.61</b>	<b>(1.67)</b>	<b>41.94</b>
<b>Movement in Reserves - General Fund Balance:</b>			
Reversal of net charges made to the deficit for the provision of services for post employment benefit	50.10	0.71	50.81
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
Employer's contributions payable to the scheme	(28.07)	(0.40)	(28.47)
Net retirement benefits payable to pensioners	(11.56)	-	(11.56)

## Notes to the Group Financial Statements

2014-2015	Council Only £m	Homes for N'land £m	Group Total £m
Actuarial gains and losses arising on changes in demographic assumptions			
Comprehensive Income and Expenditure Statement:			
Cost of Services:			
Current service cost	(23.36)	(1.22)	(24.58)
Past service cost	(0.85)	(0.02)	(0.87)
Financing and Investment Income and Expenditure:			
Net interest expense	(24.14)	(0.20)	(24.34)
Total post employment benefit charged to the deficit on the provision of services	(48.35)	(1.44)	(49.79)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
Remeasurement of the net defined liability comprising:			
Return on plan assets (excluding the amount included in the net interest expense)	61.27	2.00	63.27
Actuarial gains and losses arising on changes in financial assumptions	(152.59)	(3.47)	(156.06)
Other	9.32	0.12	9.44
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(82.00)	(1.35)	(83.35)
Movement in Reserves - General Fund Balance:			
Reversal of net charges made to the deficit for the provision of services for post employment benefit	48.35	1.44	49.79
Actual amount charged against the General Fund Balance for pensions in the year:			
Employer's contributions payable to the scheme	(27.86)	(0.91)	(28.77)
Net retirement benefits payable to pensioners	(10.87)	-	(10.87)

The amount of actuarial gains and losses for the Group recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2015-2016 is a gain of £41.94 million (£83.35 million loss in 2014-2015).

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

The amount arising in the Balance Sheet as a result of the Group's obligation in respect of its defined benefit plan is as follows:

2015-2016	Council Only £m	Homes for N'land £m	Group Total £m
Present value of the defined benefit obligation	(1,533.27)	-	(1,533.27)
Fair value of plan assets	880.79	-	880.79
Net liability arising from defined benefit obligation	(652.48)	-	(652.48)

## Notes to the Group Financial Statements

2014-2015	Council Only £m	Homes for N'land £m	Group Total £m
Present value of the defined benefit obligation	(1,546.94)	(35.91)	(1,582.85)
Fair value of plan assets	869.38	28.83	898.21
Sub-total	(677.56)	(7.08)	(684.64)
Net liability arising from defined benefit obligation	(677.56)	(7.08)	(684.64)

### Reconciliation of Present Value of the Schemes' Liabilities (Defined Benefit Obligation):

	Council Only £m	Homes for N'land £m	Group Total £m
Opening balance as at 1 April 2015	(1,546.94)	(35.91)	(1,582.85)
Increase/(Decrease) from Acquisition/Disposal	(27.47)	37.04	9.57
Current service cost	(27.68)	(0.62)	(28.30)
Interest cost	(48.97)	(0.49)	(49.46)
Contributions from scheme participants	(7.25)	(0.16)	(7.41)
<b>Remeasurement (gains)/losses:</b>			
Actuarial (gains) / losses arising from changes in financial assumptions	57.74	-	57.74
Actuarial (gains) / losses arising from changes in demographic assumptions	3.04	-	3.04
Other	17.37	-	17.37
Past service cost	(1.50)	-	(1.50)
Benefits paid	48.39	0.14	48.53
Closing balance as at 31 March 2016	(1,533.27)	0.00	(1,533.27)
Opening balance as at 1 April 2014	(1,362.00)	(30.02)	(1,392.02)
Current service cost	(23.36)	(1.22)	(24.58)
Interest cost	(57.50)	(1.29)	(58.79)
Contributions from scheme participants	(7.25)	(0.36)	(7.61)
<b>Remeasurement (gains)/losses:</b>			
Actuarial (gains) / losses arising from changes in financial assumptions	(152.59)	(3.47)	(156.06)
Other	9.32	0.12	9.44
Past service cost	(0.85)	(0.02)	(0.87)
Benefits paid	47.29	0.35	47.64
Closing balance as at 31 March 2015	(1,546.94)	(35.91)	(1,582.85)

## Notes to the Group Financial Statements

### Reconciliation of the movement in the fair value of the scheme (plan) assets:

	2014-2015			2015-2016		
	Council Only £m	Homes for N'land £m	Group Total £m	Council Only £m	Homes for N'land £m	Group Total £m
Opening fair value of scheme assets	776.06	24.82	800.88	869.38	28.83	898.21
Increase/(Decrease) from Acquisition/Disposal	-	-	-	19.41	(27.98)	(8.57)
Interest income	33.36	1.09	34.45	28.05	0.40	28.45
<b>Remeasurement gain/(loss):</b>						
The return on plan assets, excluding the amount included in the net interest expense	61.27	2.00	63.27	(34.54)	(1.67)	(36.21)
Contributions by the employer	27.86	0.91	28.77	28.07	0.40	28.47
Contributions by participants	6.42	0.36	6.78	6.44	0.16	6.60
Benefits paid	(35.59)	(0.35)	(35.94)	(36.02)	(0.14)	(36.16)
Closing balance as at 31 March	869.38	28.83	898.21	880.79	0.00	880.79

## Notes to the Group Financial Statements

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets							
	2014-2015				2015-2016			
	Council Only £m	Homes for N'land £m	Group Total £m	Total Assets %	Council Only £m	Homes for N'land £m	Group Total £m	Total Assets %
UK and Overseas Equities	536.49	17.79	554.28	61.71	<b>554.70</b>	-	<b>554.70</b>	<b>62.98</b>
Fixed Interest and Index Linked	232.67	7.72	240.39	26.76	<b>213.00</b>	-	<b>213.00</b>	<b>24.18</b>
Property Unit Trust	37.73	1.25	38.98	4.34	<b>41.23</b>	-	<b>41.23</b>	<b>4.68</b>
Ventures and Partnerships	61.36	2.03	63.39	7.06	<b>73.61</b>	-	<b>73.61</b>	<b>8.36</b>
Net Current (Liabilities)/Assets	1.13	0.04	1.17	0.13	<b>(1.75)</b>	-	<b>(1.75)</b>	<b>(0.20)</b>
Total assets	869.38	28.83	898.21	100.00	<b>880.79</b>	-	<b>880.79</b>	<b>100.00</b>
Equity instruments (by geographical area):								
United Kingdom	301.89	10.01	311.90	56.27	<b>311.24</b>	-	<b>311.24</b>	<b>56.11</b>
Europe	59.19	1.96	61.15	11.03	<b>58.76</b>	-	<b>58.76</b>	<b>10.59</b>
North Americas	58.00	1.92	59.92	10.81	<b>60.01</b>	-	<b>60.01</b>	<b>10.82</b>
Japan	28.90	0.96	29.86	5.39	<b>28.29</b>	-	<b>28.29</b>	<b>5.10</b>
Pacific	29.47	0.98	30.45	5.49	<b>31.30</b>	-	<b>31.30</b>	<b>5.64</b>
Other	59.04	1.96	61.00	11.01	<b>65.10</b>	-	<b>65.10</b>	<b>11.74</b>
Total equity	536.49	17.79	554.28	100.00	<b>554.70</b>	-	<b>554.70</b>	<b>100.00</b>

All scheme assets have quoted prices in active markets except ventures and partnerships and other net current assets/liabilities.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Aon Hewitt Limited, an independent firm of actuaries, has assessed all of the liabilities for the pension schemes shown in the accounts, the figures being based on the latest full valuations of the schemes. For the LGPS the latest full actuarial valuation of the Fund took place as at 31 March 2013.

## Notes to the Group Financial Statements

The principal assumptions used by the actuary have been:

	Council Only			Homes for	
	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme	N'land
As at 31 March 2016					
Mortality assumptions:					
Longevity at age 65 for current pensioners:					
Men	23.1	22.0	23.1	23.1	23.1
Women	25.6	24.5	25.6	25.6	25.6
Longevity at age 65 for future pensioners:					
Men	25.3	24.1	-	-	25.3
Women	28.0	26.8	-	-	28.0
Inflation - CPI	1.8%	1.8%	1.8%	1.8%	1.8%
Salary increases	3.3%	3.3%	-	-	3.3%
Pension increases	1.8%	1.8%	1.8%	1.8%	1.8%
Pension accounts revaluation rate	1.8%	1.8%	-	-	1.8%
Discount rate	3.4%	3.4%	3.4%	3.4%	3.5%
As at 31 March 2015					
Mortality assumptions:					
Longevity at age 65 for current pensioners:					
Men	23.0	23.0	23.0	23.0	23.0
Women	25.5	25.5	25.5	25.5	25.5
Longevity at age 65 for future pensioners:					
Men	25.2	25.2	-	-	25.2
Women	27.8	27.8	-	-	27.8
Rate of inflation - CPI	1.8%	1.8%	1.8%	1.8%	1.8%
Salary increases	3.3%	3.3%	-	-	3.4%
Pension increases	1.8%	1.8%	1.8%	1.8%	1.9%
Pension accounts revaluation rate	1.8%	-	-	-	1.9%
Discount rate	3.2%	3.1%	3.1%	3.1%	3.3%

### Asset Liability Matching (ALM) Strategy

Northumberland County Council's Pension Fund Panel (i.e. the Pension Committee) is responsible for setting and reviewing the asset allocation for the Group's Pension Fund investments, held for payment of the Group's liabilities. The investment objective of the Fund is to achieve a long term return on the Fund's assets which:

- ensures that the Fund can meet its long term liabilities while minimising the long term cost to participating employers;
- recognises the advantages of maintaining the stability of contribution rates; and,
- does not subject the Fund to undue risk.

The primary risk upon which the Panel focuses is that arising through a mismatch between the Fund's assets and its liabilities. The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields. The Panel takes advice on the matter at each quarterly meeting, and every

## Notes to the Group Financial Statements

three years, or more often if necessary, considers the implications of adopting different levels of risk. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure the asset allocation policy results in an adequately diversified portfolio across a number of managers and asset classes.

### Impact on the Group's Cash Flows

The Group anticipates paying the following amounts in 2016-2017 in relation to the eight post-employment schemes covered by this note:

	Council Only £m	Homes for N'land £m	Group Total £m
Regular employer contributions payable to Northumberland County Council Pension Fund for funded LGPS members	27.71	-	27.71
Payments to beneficiaries	5.16	-	5.16
Payments to beneficiaries net of members' contributions receivable, where contributions include Government Grant	6.50	-	6.50
<b>Total</b>	<b>39.37</b>	<b>-</b>	<b>39.37</b>

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2016-2017 includes a fixed monetary lump sum of £10.90 million which is intended to amortise the deficit attributable to the Council over a period of 22 years. No equivalent amount was payable by Homes for Northumberland.

Additional employer contributions will also be payable by the Council and Homes for Northumberland to Northumberland County Council Pension Fund for strain on the fund, for example, where an employee is made redundant and his/her LGPS pension becomes payable before his/her normal retirement date.

### Duration of the defined benefit obligations

The duration of the Group's liabilities is the average period, expressed in number of years, between the calculation date and the date on which the scheme benefit falls due. Duration for the six post-employment schemes covered by this note is as follows:

	31 March 2015 No of years	31 March 2016 No of years
Council only:		
Local Government Pension Scheme	17.60	-
LGPS Unfunded	10.30	-
Teachers' Unfunded	9.70	-
Weighted average duration for LGPS, LGPS Unfunded and Teachers' Unfunded	-	17.20
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	15.40	17.60
Homes for Northumberland	20.90	-

### Split of the defined benefit obligations

The split of the defined benefit obligations at the last valuation date between the categories of members was as follows:

## Notes to the Group Financial Statements

	Active Members %	Deferred Members %	Pensioners %
Council only:			
Local Government Pension Scheme	32.00	15.00	53.00
Local Government Pension Scheme Unfunded	-	-	100.00
Teachers' Unfunded	-	-	100.00
Firefighters' Pension Scheme	34.00	3.00	63.00
New Firefighters' Pension Scheme	72.00	16.00	12.00
2015 Firefighters' Pension Scheme	100.00	-	-
Firefighters' Injury and non-scheme Ill Health Pensions	31.00	-	69.00
Homes for Northumberland	62.00	15.00	23.00

### 16. Group Short Term Borrowing

The Group's short term borrowing can be analysed as follows:

	2014-2015		2015-2016	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
<b>Borrowings:</b>				
Financial liabilities at amortised cost	(62,741)	(63,037)	(88,627)	(88,925)
Add: Accrued Interest	(5,907)	(5,907)	(5,743)	(5,743)
Add: Amortised premiums/(discounts)	16	16	17	17
<b>Total Borrowings</b>	<b>(68,632)</b>	<b>(68,928)</b>	<b>(94,353)</b>	<b>(94,651)</b>



## Notes to the Group Financial Statements

### 17. Group Long Term Borrowing

The Group's long term borrowing can be analysed as follows:

	As at 31 March 2015		As at 31 March 2016	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
<b>Analysis by Loan Type:</b>				
Public Works Loans Board	285,639	285,639	267,135	267,135
Other Market Loans	55,161	57,533	20,090	22,112
LOBO (Market Loans)	260,600	260,600	260,600	260,600
	601,400	603,772	547,825	549,847
<b>Analysis of Loans by Maturity:</b>				
Less than 1 year	-	-	-	-
Between 1 and 2 years	53,605	53,605	33,527	33,527
Between 2 and 5 years	95,558	95,558	70,566	70,566
Between 5 and 10 years	22,336	22,336	14,852	14,852
Between 10 and 20 years	24,118	26,490	23,053	25,075
Between 20 and 30 years	9,698	9,698	9,670	9,670
Between 30 and 40 years	75,485	75,485	88,557	88,557
Between 40 and 50 years	149,000	149,000	153,600	153,600
Between 50 and 60 years	40,600	40,600	23,000	23,000
In excess of 60 years	131,000	131,000	131,000	131,000
	601,400	603,772	547,825	549,847

### 18. Finance and Investment Income and Expenditure

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Interest payable and similar charges	27,579	27,629	29,381	29,527
Pensions net interest expense	24,140	24,340	20,920	21,010
Interest receivable and similar income	(12,014)	(9,912)	(14,735)	(11,566)
(Surplus)/Deficit on trading undertakings	(2,658)	(2,658)	(4,387)	(4,387)
Income and expenditure in relation to investment properties and changes in their fair value	235	235	1,621	1,621
Total Financing and Investment Income and Expenditure	37,282	39,634	32,800	36,205

## Notes to the Group Financial Statements

### 19. Taxation and Non-Specific Grant Income

	2014-2015		2015-2016	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Council tax income	(145,743)	(145,743)	(150,878)	(150,878)
Non domestic rates	(37,349)	(37,349)	(37,217)	(37,217)
Non-ring fenced government grants	(112,328)	(112,328)	(93,948)	(93,948)
Capital grants and contributions	(48,886)	(48,886)	(79,144)	(79,144)
Tax on profit on ordinary activities	-	546	-	-
<b>Total Taxation and Non-Specific Grant Income</b>	<b>(344,306)</b>	<b>(343,760)</b>	<b>(361,187)</b>	<b>(361,187)</b>

### 20. Officers' Remuneration

The Accounts and Audit Regulations 2015 require authorities to disclose the number of employees whose remuneration in the year was £50,000 and above, shown in bands of £5,000. Remuneration is defined as all amounts paid to or receivable by an employee, expense allowances chargeable to tax and the money value of benefits.

Remuneration Band	2014-2015		2015-2016	
	NCC		NCC	
	Employees	All Employees	Employees	All Employees
£50,000 to £54,999	98	99	91	92
£55,000 to £59,999	76	76	67	68
£60,000 to £64,999	29	30	29	30
£65,000 to £69,999	20	20	19	19
£70,000 to £74,999	15	17	12	13
£75,000 to £79,999	7	7	13	15
£80,000 to £84,999	9	9	5	5
£85,000 to £89,999	4	4	2	2
£90,000 to £94,999	2	2	4	5
£95,000 to £99,999	1	1	3	3
£100,000 to £104,999	6	6	2	2
£105,000 to £109,999	1	1	1	1
£110,000 to £114,999	2	2	1	1
£115,000 to £119,999	1	2	1	1
£120,000 to £124,999	-	-	-	1
£125,000 to £129,999	-	-	-	-
£130,000 to £134,999	-	-	1	1
£135,000 to £139,999	1	1	-	-
£140,000 to £144,999	1	1	-	-
£155,000 to £159,999	-	-	1	1
£170,000 to £174,999	1	1	-	-
£175,000 to £179,999	-	-	1	1
£195,000 to £199,999	-	-	1	1
<b>Total</b>	<b>274</b>	<b>279</b>	<b>254</b>	<b>262</b>

## Notes to the Group Financial Statements

The change in the profile of number of employees within each band reflects salary increments and pay awards, early retirements and part-year effects of staff joining or leaving the County Council within the year.

### 21. External Audit Costs

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

	2014-2015		2015-2016	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	254	286	191	226
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	13	13	22	22
Fees payable in respect of any other services provided by the appointed auditor during the year	18	50	6	100
<b>Total</b>	<b>285</b>	<b>349</b>	<b>219</b>	<b>348</b>

Notes:

Fees payable with regard to audit and grant work are based on estimates in respect of work done and still to be completed relating to 2015-2016.

Fees payable in respect of other services provided by the appointed auditor are in relation to fees relating to grant services outside of the Audit Commission work.

## Pension Fund Accounts

# Northumberland County Council Pension Fund Financial Statements for the year ended 31 March 2016

### Introduction

Northumberland County Council is the statutory administering authority for the Northumberland County Council Pension Fund ("the Fund"). The Council administers the Fund for its own employees and about forty other approved employers. The Fund excludes provision for teachers and fire fighters for whom separate arrangements exist. A full list of employers participating in the Fund is shown in note 24 to these accounts.

Responsibility for the Fund rests with the County Council. The County Council has delegated its responsibility for determining investment policy to the Pension Fund Panel. The Chief Executive has lead officer responsibility for the Fund. Day to day management of the Fund's investments is delegated to the external investment managers.

Matters relating to benefit administration are largely governed by the Local Government Pension Scheme regulations.

The total market value of the Fund, net of liabilities, has decreased from £1.07 million to £1.06 million as the payments made from the Fund have exceeded the annual return on the Fund (comprising income and realised/unrealised gains/losses on investments) together with receipts to the Fund in the year.

The most significant change in the Fund Account was net withdrawal from dealings with members of £10.26 million in 2015-2016 (£6.97 million in 2014-2015) reflecting increasing payments to pensioners and leavers as the Fund matures, partially offset by increasing contributions (in aggregate) from members and employers. The net negative return on investments experienced during 2015-2016 of £1.60 million reflects the flat returns experienced by funds generally over that period and follows the high positive returns experienced during 2014-2015.

The overall annual return on the Fund was -0.7% for the year (13.4% in 2014-2015), which compares favourably with the Fund specific benchmark annual return of -1.2%.

The degree of long term growth of the Pension Fund is seen as a more reliable indicator of performance, as short term fluctuations are evened out. In this context the overall annualised return on the Fund for the ten years to 31 March 2016 was 5.5%, which compares with the benchmark annualised return of 5.7%. Fund returns for the ten year period were higher than the growth in average earnings of 2.3% and inflation (RPI) increases of 3.0%.

Membership of the Fund at 31 March 2016 is summarised below:

	31 March 2015	31 March 2016
Active members	8,525	8,515
Pensioner members	7,789	8,047
Deferred members	8,239	8,616
	24,553	25,178

The County Council also publishes a separate Annual Report for the Northumberland County Council Pension Fund giving more detailed information on the Fund and its accounts for the year to 31 March 2016.

# Pension Fund Accounts

## Fund Account

for the year ended 31 March 2016

	Note	2014-2015 As Restated £'000	2015-2016 £'000
<b>Dealing with members, employees and others directly involved with the Fund</b>			
Contributions	5	43,406	<b>43,633</b>
Transfers in from other pension funds	6	1,019	<b>1,331</b>
		44,425	<b>44,964</b>
Benefits	7	(49,130)	<b>(48,889)</b>
Payments to and on account of leavers	8	(1,275)	<b>(5,160)</b>
Administrative expenses	9	(989)	<b>(1,175)</b>
		(51,394)	<b>(55,224)</b>
Net (withdrawals) from dealings with members		(6,969)	<b>(10,260)</b>
<b>Returns on investments</b>			
Investment income	10	4,750	<b>5,032</b>
Taxes on income		(1,954)	-
Profit and losses on disposal of investments and changes in the market value of investments	11	131,029	<b>(2,395)</b>
Investment management expenses	12	(3,956)	<b>(4,236)</b>
Net returns on investments		129,869	<b>(1,599)</b>
Net (decrease)/increase in net assets available for benefits during the year		122,900	<b>(11,859)</b>
Net assets of the Fund at 1 April		944,221	<b>1,067,121</b>
At 31 March		1,067,121	<b>1,055,262</b>

Investment management expenses and investment income for 2014-2015 have been restated in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs, increasing both by £1.92 million to include fees and other expenses that have been deducted at source.

# Pension Fund Accounts

## Net Assets Statement

as at 31 March 2016

	Note	31 March 2015 £'000	31 March 2016 £'000
UK Investments			
Pooled Investment Vehicles - Quoted			
- Property		46,310	49,398
- Equity		370,550	372,881
- Index Linked		191,732	161,615
Ventures and Partnerships - Unquoted		7	-
Overseas Investments			
Pooled Investment Vehicles - Quoted			
- Equity		287,964	291,742
- Other Fixed Interest		93,857	93,609
Ventures and Partnerships - Unquoted		75,316	88,183
	11	1,065,736	1,057,428
Other Investment Balances	11	2,097	246
	11	1,067,833	1,057,674
Cash Deposits		3,451	4,076
Current Assets	13	310	323
Current Liabilities	14	(4,473)	(6,811)
Net Assets of the Fund at 31 March	15	1,067,121	1,055,262

The accounts summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS26 (also prepared by the actuary) shown on page 233 and at Appendix 2 and these accounts should be read in conjunction with that.

# Notes to the Pension Fund Financial Statements

## 1. Basis of preparation

The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and comply with the provisions of Chapter 2 of the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007), except if reference to the contrary is made.

## 2. Accounting policies

The accounts have been prepared on an accruals basis, except for transfers of benefits to and from other schemes which are accounted for on a receipts and payments basis, and except that the net asset statement does not include liabilities to pay pensions after the end of the Fund year.

The principal accounting policies are as follows:

### Investments

- *Valuation of investments*

Investments are shown at their market value which has been determined as follows:

- (1) Quoted securities are valued at the bid price quotations at close of business on 31 March 2016;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2016;
- (3) Other unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships;
- (4) Overseas securities and cash are translated into sterling at the rate ruling at the net assets statement date.

- *Investment income*

Dividends and interest on stocks are credited to the Fund in the year in which they become ex-dividend. Interest receivable on loans and deposits is accounted for on an accruals basis. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31 March 2016 where amounts were still outstanding at the year end.

- *Investment gains and losses*

Realised and unrealised gains and losses on investments arising in the year to 31 March 2016 are credited to the Fund.

- *Investment transactions*

Investment transactions arising up to 31 March 2016 but not settled until later are accrued in the accounts.

### Cash and cash equivalents

Cash comprises cash at bank and amounts held by the Fund's custodian. Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimal risk of changes in value.

## Notes to the Pension Fund Financial Statements

### Contributions

Contributions represent the total amounts receivable from the employers participating in the Fund in respect of their own contributions and those of their pensionable employees. The employers' contributions are made at rates determined by the Fund's actuary which include deficit funding contributions for some employers.

Employers' contributions for strain on the Fund following early retirements are accounted for in the period in which the liability arises.

Contributions due at 31 March 2016 are accrued in the accounts but no provision is made for employees' and employers' contributions relating to sums due on pay awards not yet settled.

Amounts due in year but unpaid are classed as a current financial asset.

### Benefits and refunds

Benefits and refunds are accounted for in the year in which they become due for payment. Amounts due in year but unpaid are classed as a current financial liability.

### Transfer values

Transfer values are those sums paid to or received from other pension schemes for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

### Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### Administrative expenses

Direct and indirect staff costs for the pension team, together with apportioned costs for the use of Northumberland County Council's premises, systems and services are charged to the Fund.

### Investment management expenses

Investment management expenses are accounted for in the year in which they become due for payment. Amounts due in year but unpaid are classed as a current financial liability.

### Events after the reporting period

Events that occurred after 31 March 2016 which provide evidence of conditions that existed as at 31 March 2016 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2016 are not included, except for events with material effect which are disclosed in the notes to the accounts.

### Financial instruments

All of the Fund's assets and liabilities, as shown in the net asset statement, are classified as financial instruments, and the principal accounting policies applied in accounting for them are described elsewhere in this note.



## Notes to the Pension Fund Financial Statements

### Obligations to pay promised retirement benefits

The actuarial present value of promised retirement benefits is shown in a separate actuarial report accompanying the accounts, entitled “Whole of Pension Fund Disclosures under IAS 26” and shown as Appendix 2 to the Annual Report. This treatment follows “Option C”, as set out in IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

### 3. Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

#### Unquoted private equity and infrastructure investments

Private equity and infrastructure investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in.

#### Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in Appendix 2, is prepared by the Fund actuary adopting “Option C” of IAS 26. Option C requires actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2013. The liability disclosed in Appendix 2 is subject to significant variances depending on the assumptions adopted.

### 4. Assumptions made about the future and other major sources of estimation uncertainty

The items in the Net Assets Statement as at 31 March 2016 and Appendix 2 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

Uncertainties		Effect if actual results differ from assumptions
Unquoted private equity and infrastructure investments	There are no publicly listed prices for the Fund's investments in private equity and infrastructure and therefore there is a degree of estimation and judgement involved in the valuations used.	Total private equity and infrastructure investments disclosed in the accounts amount to £88.18 million. The Fund's performance measurement service provider, GS Performance Services, estimates potential volatility consistent with one standard deviation movement in the change in value of private equity as an asset class over the latest three years of 7.9%. This equates to a tolerance of +/- £6.98 million.
Actuarial present value of promised retirement benefits	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The Fund actuary provides advice about	An increase of 0.5% in the discount rate assumption would decrease the pension liability by approximately £110.00 million at 31 March 2013. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately

## Notes to the Pension Fund Financial Statements

Uncertainties	Effect if actual results differ from assumptions
the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured.	£14.00 million at 31 March 2013. A one year increase in assumed life expectancy would increase the pension liability by approximately £31.00 million at 31 March 2013.

There are no new relevant accounting standards which have been issued but not yet adopted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### 5. Contributions

	2104-2015 £'000	2015-2016 £'000
<b>Employers' normal contributions</b>		
Administering authority	15,992	16,272
Scheduled bodies	3,619	3,424
Admitted bodies	2,245	2,410
<b>Employers' other contributions</b>		
Deficit funding	12,146	12,174
Strain on the Fund following early retirement	928	903
<b>Members</b>		
Normal	8,476	8,450
	43,406	43,633

### 6. Transfers in from other pension funds

	2014-2015 £'000	2015-2016 £'000
Individual transfers in from other schemes	1,019	1,331
	1,019	1,331

### 7. Benefits

	2014-2015 £'000	2015-2016 £'000
<b>Pensions</b>		
Administering authority	(36,020)	(37,322)
Scheduled bodies	(2,174)	(1,961)
Admitted bodies	(1,361)	(1,495)
Commutation of pensions and lump sum retirement benefits	(8,834)	(7,056)
Lump sum death benefits	(741)	(1,055)
	(49,130)	(48,889)

## Notes to the Pension Fund Financial Statements

### 8. Payments to and on account of leavers

	2014-2015 £'000	2015-2016 £'000
Refunds to members leaving service	(24)	(81)
Group transfer to other scheme	-	(959)
Individual transfers to other schemes	(1,238)	(4,090)
Payments for members joining state scheme	(13)	(30)
	(1,275)	(5,160)

### 9. Administrative expenses

	2014-2015 £'000	2015-2016 £'000
Administrative costs	(597)	(739)
Oversight and governance costs	(392)	(436)
	(989)	(1,175)

Administrative expenses are analysed between administrative costs and oversight and governance costs in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

### 10. Investment income

	2014-2015 As restated £'000	2015-2016 £'000
Income from pooled investment vehicles	3,534	3,563
Income from ventures and partnerships	1,240	1,488
Net interest on cash deposits	(24)	(19)
	4,750	5,032

Investment income for 2014-2015 has been restated in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. Therefore, income from pooled investment vehicles and ventures and partnerships has been restated, increasing total investment income by £1.92 million from £2.83 million to £4.75 million to gross up income for previously netted off fees and other expenses deducted at source.

### 11. Investments

Fund investments as at 31 March 2016 (and as at 31 March 2015) were all externally managed in pooled investment vehicles which can be analysed as follows:

## Notes to the Pension Fund Financial Statements

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
<b>Actively managed investments</b>		
Unitised insurance policies (equity) quoted	120,829	116,769
Unit trusts (property) quoted	46,310	49,398
Other managed funds		
- (other fixed interest) quoted	93,857	93,609
- (ventures and partnerships) unquoted	75,323	88,183
	336,319	347,959
<b>Passively managed investments</b>		
Unitised insurance policies (equity and index linked) quoted	729,417	709,469
	1,065,736	1,057,428
Other investment balances	2,097	246
<b>Total</b>	<b>1,067,833</b>	<b>1,057,674</b>

	Value at 1 April 2015 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2016 £'000
Actively managed investments	336,319	17,463	(15,979)	10,156	347,959
Passively managed investments	729,417	68,610	(75,900)	(12,658)	709,469
	1,065,736	86,073	(91,879)	(2,502)	1,057,428
Other investment balances	2,097	-	-	107	246
<b>Total</b>	<b>1,067,833</b>	<b>-</b>	<b>-</b>	<b>(2,395)</b>	<b>1,057,674</b>

	Value at 1 April 2014 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2015 £'000
Actively managed investments	305,734	14,111	(20,353)	36,827	336,319
Passively managed investments	644,029	57,580	(66,411)	94,219	729,417
	949,763	71,691	(86,764)	131,046	1,065,736
Other investment balances	2,082	-	-	(17)	2,097
<b>Total</b>	<b>951,845</b>	<b>-</b>	<b>-</b>	<b>131,029</b>	<b>1,067,833</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, and stamp duty, and indirect costs incurred through the bid-offer spread on investments within pooled

## Notes to the Pension Fund Financial Statements

investment vehicles. Transaction costs incurred in the year amounted to £0.19 million (£0.16 million in 2014-2015).

### Other investment balances

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Outstanding dividends, tax and other investment income	35	69
Cash deposits	2,062	177
	2,097	246

### 12. Investment management expenses

The Fund Account shows investment management fees and custody charges charged to the Fund. Investment management fees are calculated as a percentage of the market value of the portfolio managed. For one fund manager there is an adjustment for under or over performance compared to the appropriate index. Custody is charged for separately.

	2014-2015 As Restated £'000	2015-2016 £'000
<b>Contributions due from employers in respect of</b>		
Management fees	(3,920)	(4,201)
Custody fees	(36)	(35)
	(3,956)	(4,236)

Indirect management fees charged within pooled investment vehicles and partnerships have been included in investment management expenses, in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs. Therefore, management fees for 2014-2015 have been restated, increasing by £1.92 million from £2.00 million to £3.92 million to include fees and other expenses that have been deducted at source.

# Notes to the Pension Fund Financial Statements

## 13. Current assets

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Contributions due from employers in respect of		
Employers	174	156
Members	42	37
Retirement grants prepaid	94	120
Other	-	10
	310	323

These can be further analysed as follows:

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Central government bodies	57	46
Other local authorities	1	1
NHS bodies	47	44
Bodies external to general government	205	232
	310	323

## 14. Current Liabilities

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Due to Northumberland County Council	(3,990)	(6,001)
Retirement/death grants due	(169)	(219)
Investment management and custodial fees due	(211)	(312)
Other	(103)	(279)
	(4,473)	(6,811)

These can be further analysed as follows:

	As at 31 March 2015 £'000	As at 31 March 2016 £'000
Central government bodies	(5)	(27)
Other local authorities	(3,990)	(6,001)
Bodies external to general government	(478)	(783)
	(4,473)	(6,811)

## 15. Analysis of Investments

The total market value of the Fund as at 31 March 2016 was £1,055.26 million (£1,067.12 million as at 31 March 2015), which can be analysed as follows:

## Notes to the Pension Fund Financial Statements

	As at 31 March 2015 £m	%	As at 31 March 2016 £m
UK and overseas equities	658.51	63.0	664.62
Fixed interest and index linked	285.59	24.2	255.22
Property unit trusts	46.31	4.7	49.40
Ventures and partnerships	75.32	8.3	88.18
Other investment balances	2.10	0.0	0.25
Cash deposits and net current (liabilities)	(0.71)	(0.2)	(2.41)
	1,067.12	100.0	1,055.26

The majority of the Fund's value is held in equities. Analysis by geographical area is as follows:

	As at 31 March 2015 £m	%	As at 31 March 2016 £m
United Kingdom	370.55	56.1	372.88
Europe	72.65	10.6	70.43
North America	71.19	10.8	71.89
Japan	35.47	5.1	33.94
Pacific	36.18	5.6	37.53
Other	72.47	11.8	77.95
	658.51	100.0	664.62

Analysis of UK equity investments by industry sector is as follows:

	As at 31 March 2015 £m	%	As at 31 March 2016 £m
Basic materials	4.86	1.3	4.89
Consumer staples	1.98	1.4	5.38
Consumer discretions	17.62	6.2	23.17
Financials	20.75	3.8	14.10
Health care	22.54	5.1	18.94
Industrials	15.94	2.9	10.89
Energy	7.56	1.2	4.38
Information Technology	26.15	9.3	34.64
Other (including managed funds)	253.15	68.8	256.49
	370.55	100.0	372.88

## Notes to the Pension Fund Financial Statements

### Fund Value and Proportions

The values and proportions of the Fund's assets managed externally are as follows:

	As at 31 March 2015 £m	%	As at 31 March 2016 £m
Legal & General Investment Management	729.42	67.1	709.47
M&G Investment Management	120.83	11.0	116.77
Wellington Management International	93.86	8.9	93.61
Morgan Stanley (private equity)	46.22	3.6	38.59
NB Alternatives (private equity)	15.83	1.6	16.53
Schroder Investment Management	23.33	2.4	24.94
BlackRock Investment Management (UK)	23.35	2.3	24.59
GIP (infrastructure)	8.89	1.9	19.97
Antin (infrastructure)	6.10	1.2	13.20
	1,067.83	100.0	1,057.67

Net current liabilities (net of cash deposits) of £2.41 million are not externally managed and therefore not shown in the analysis above.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

### 16. Significant Holdings

As at 31 March 2016, the Fund had holdings in certain pooled investment vehicles which individually represented more than 5% of the total value of Fund net assets. These holdings were:

- £128.08 million (12.1%) in the UK Equity Index Fund managed by Legal & General Investment Management, and a further £124.03 million (12.1%) also in the UK Equity Index Fund managed by Legal & General Investment Management, each in a separate insurance contract.
- £80.78 million (7.7%) in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, and a further £80.83 million (7.7%) also in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, each in a separate insurance contract.
- £116.77 million (11.1%) in the Global Leaders Fund managed by M&G Investment Management.
- £59.46 million (5.6%) in the Multi Sector Credit Portfolio managed by Wellington Management International.

### 17. Additional voluntary contributions (AVCs)

Scheme members may make AVCs that are invested with the Fund's nominated AVC provider. A wide range of investment types is offered to members and benefits obtained are on a money purchase basis. These contributions are not included in these accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which prohibits administering authorities from crediting AVCs to the Pension Fund.



## Notes to the Pension Fund Financial Statements

During 2015-2016 members were able to invest in an AVC plan with Prudential. Prudential was engaged as AVC provider to the Fund in February 2001 to replace Equitable Life, and all new AVCs taken out after that date were with Prudential. Equitable Life replaced Phoenix Life Limited and some members have continued to contribute to existing AVC investments with both Equitable Life and Phoenix Life Limited.

Aggregate contributions paid by members during 2015-2016 to AVC investments were £0.29 million (£0.33 million in 2014-2015) to Prudential, £87 (£97 in 2014-2015) to Equitable Life, and £2,134 (£3,712 in 2014-2015) to Phoenix Life Limited.

As at 31 March 2016, the aggregate value of the AVC investments with Prudential was £1.82 million (£1.83 million as at 31 March 2015), with Equitable Life was £0.05 million (£0.05 million as at 31 March 2015), and with Phoenix Life Limited was £0.03 million (£0.03 million as at 31 March 2015).

### 18. Related party transactions

Northumberland County Council administers the Pension Fund. During 2015-16 the Pension Fund had an average balance of £3.73 million borrowed from the Council for which it paid interest of £19,169 (and an average balance of £4.88 million borrowed from the Council during 2014-2015 for which it paid interest of £23,679). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2015-2016 these costs amounted to £0.64 million (£0.58 million in 2014-2015). £6.00 million was due to the Council at 31 March 2016 (£3.99 million at 31 March 2015).

Employer contributions for Pension Fund Panel members and senior management who are members of the Scheme are paid in accordance with the rates set by the actuary in the Rates and Adjustments Certificate, and active member contributions are paid in accordance with rates set in the Local Government Pension Scheme Regulations. The terms and conditions which apply to Panel members and senior managers are the same as those which apply to all other Scheme members. Four voting Panel members were members of the Scheme as at 31 March 2016 (four as at 31 March 2015).

### 19. Fund's operations, funding and membership

Northumberland County Council Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The benefits of the Scheme are defined and guaranteed in law.

The LGPS was contracted out of the State Second Pension (S2P) as at 31 March 2016 and provides benefits that are broadly equivalent to or better than members would have received had they been members of S2P. Benefits provided include a tax-free lump sum, with the option to commute pension for lump sum, and a guaranteed annual pension.

Local authority employees other than those aged over 75, teachers and fire-fighters, are automatically admitted to the LGPS, unless they opt out. Automatic enrolment legislation also applies to all eligible workers. The list of all participating employers in the Northumberland County Council Pension Fund as at 31 March 2016 is shown in Note 24.

The LGPS changed with effect from 1 April 2014 to a career average scheme for service accrued on and after 1 April 2014; service accrued prior to 31 March 2013 remains linked to final salary.

## Notes to the Pension Fund Financial Statements

Northumberland County Council Pension Fund collects contributions from active members of the LGPS and their employers. It pays pensions and related expenses, and reimburses Northumberland County Council for the costs incurred in administering the LGPS. Surplus funds, not needed for the day-to-day expenses, are invested with external fund managers for long term growth.

As a funded scheme, contributions received from employers and employees and transfer values received are invested in the Fund to meet the benefits when they fall due. Future returns on investments and future benefits payable are not known in advance, therefore the employer contributions payable are regularly reviewed (every three years) by the Fund actuary to ensure their adequacy for the Fund's long term solvency. The last statutory actuarial valuation of the Fund was carried out as at 31 March 2013. Investment, inflation and longevity risks are carried by the employers and not by the individual Scheme members.

Northumberland County Council is the administering authority for Northumberland County Council Pension Fund under the LGPS Regulations, and has delegated its responsibility for determining investment policy and monitoring performance to the Pension Fund Panel.

The Pension Fund Panel comprises six County Council representatives, one non-voting employer representative, one non-voting Scheme member representative and two non-voting Trade Union representatives.

External fund managers have been appointed to make the day-to-day investment decisions.

As at 31 March 2016 there were five external investment managers, namely Legal & General Investment Management, M&G Investment Management, Wellington Management International, BlackRock Investment Management (UK), and Schroder Investment Management.

As at 31 March 2016 the Fund also had private equity investments with Morgan Stanley, and NB Alternatives, and infrastructure investment with Global Infrastructure Partners and Antin Infrastructure Partners.

The Northern Trust Company provides custodial services for the Fund.

### **20. Statement of Investment Principles (SIP)**

The Northumberland County Council Pension Fund's SIP is maintained as a separate document. A copy can be obtained from the Chief Executive.

## Notes to the Pension Fund Financial Statements

### 21. Outstanding commitments

As at 31 March 2016 the Fund had outstanding commitments to six investments.

	Year of commitment	Initial commitment m	Capital payments made m	Outstanding commitment as at 31 March 2016 m	£m
Morgan Stanley Private Markets III	2005	\$50.00	\$47.59	\$2.41	1.68
Morgan Stanley GDO Fund	2006	\$10.00	\$9.62	\$0.38	0.26
Morgan Stanley Private Markets IV	2007	\$30.00	\$28.58	\$1.42	0.99
Global Infrastructure Partners II-C	2011	\$43.00	\$27.27	\$15.73	10.94
Antin Infrastructure Partners II	2013	€24.00	€15.20	€8.80	6.98
NB Crossroads Fund XX	2014	\$26.00	\$10.53	\$15.47	10.76
Total outstanding commitments					31.61

Outstanding capital commitments totalled £31.61 million as at 31 March 2016 (£50.17 million as at 31 March 2015). Capital is payable by the Fund to these private equity and infrastructure investments when called. Amounts called are irregular in value and timing, and are typically spread over a period of ten years.

### 22. Financial instruments

The value of financial instruments, classified into one of three levels according to the quality and reliability of information used to determine values, is as follows:

	As at 31 March 2016		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial assets at fair value through profit and loss	969,245	88,183	1,057,428
Loans and receivables	4,645	-	4,645
Financial liabilities at amortised cost	(6,811)	-	(6,811)
Net financial assets	967,079	88,183	1,055,262

	As at 31 March 2015		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial assets at fair value through profit and loss	990,413	75,323	1,065,736
Loans and receivables	5,858	-	5,858
Financial liabilities at amortised cost	(4,473)	-	(4,473)
Net financial assets	991,798	75,323	1,067,121

Level 1 means financial instruments valued using unadjusted quoted prices in active markets for identical assets or liabilities; level 2 means financial instruments valued using mainly observable market data and level 3 means financial instruments valued using unobservable inputs.

The majority of the Fund assets are valued based on quoted prices and are classified as level 1. The Fund has no financial instruments classified as level 2 and has private equity and infrastructure investments classified as level 3 which are based on the valuations

## Notes to the Pension Fund Financial Statements

provided by the general partners to the funds invested in. Private equity and infrastructure investments are categorised as “ventures and partnerships” in the Net Assets Statement.

Net gains and losses on financial instruments can be analysed as follows:

	2014-2015	2015-2016
	£'000	£'000
Financial assets at fair value through profit and loss	131,046	(2,502)
Loans and receivables	(17)	107
Total net gains on financial instruments	131,029	(2,395)

### 23. Nature and extent of risk arising from financial instruments

#### Overall Fund risk

All Fund assets and liabilities, as disclosed in the Net Assets Statement, are classified as financial instruments. However, as stated at the foot of the Net Assets Statement, it excludes the most significant Fund liability, namely the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which values such pension obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS 26 shown on page 233 and Appendix 2 to this report.

The sole purpose of holding Fund assets is to invest contributions received from employees and employers, together with transfer values received and investment income, so that there are sufficient funds available to pay pensions when the active and deferred members become pensioner members.

The primary risk for the Fund is the risk that Fund assets do not match the liabilities over the long term. It is the gap between the assets and liabilities, known as the funding deficit (or surplus), which is most relevant to the Fund's participating employers, who are responsible for meeting the funding deficit. Focussing on the risks surrounding the assets alone therefore gives only a partial picture. For example, should UK gilt yields increase this would reduce the value of the Fund's holdings in UK gilts, but it may also reduce the actuarial value placed on the liabilities to pay pensions by considerably more, and therefore reduce any funding deficit.

Overall Fund risk and the actions taken to manage that risk are described in the Fund's Statement of Investment Principles and in the Funding Strategy Statement, both maintained as separate documents which can be obtained from the Chief Executive.

The key controls are:

- the actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates;
- the asset liability modelling study which is carried out every three years or more frequently if necessary, to consider alternative asset allocations for the Fund and the long term impact on employer contribution rates; and
- quarterly monitoring by the Pension Fund Panel of the Fund investments and of the updated estimated funding position.

The remainder of this note only considers risk in relation to the financial instruments disclosed on the Net Assets Statement.

## Notes to the Pension Fund Financial Statements

### Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk on its externally managed investment portfolio, on cash deposits managed in-house, and on the contributions receivable from the Fund's participating employers.

The market values of investments usually reflect an assessment of credit risk in their pricing and as a result the risk of loss is implicitly provided for in the fair value of the Fund's investments. Credit risk is also managed through the selection and monitoring of the Fund's custodian and investment managers, and via their contracts with the Fund. All investment managers and the custodian are required to provide the Fund with an up to date AAF06/01 report, or equivalent, annually. The Fund's active bond manager, Wellington Management International, considers credit risk as part of its portfolio construction.

Credit risk on cash deposits managed in-house is managed by Northumberland County Council's Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Note 47 to the Council's Financial Statements.

Credit risk on contributions receivable from employers is minimised by regular monitoring of the monthly receipt of payments from employers. There is no provision for doubtful debts against the amounts due from employers as at 31 March 2016. The LGPS Regulations require that a risk assessment of any new transferee admitted body is carried out, and that a bond or guarantee is obtained where necessary. The Pension Fund Panel must approve the admission of any new community admission body. Bonds or guarantees have been obtained for the Fund's admitted employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

None of the Fund's financial assets are past due or impaired.

### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The Fund holds in-house cash resources to meet day-to-day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, units in the Fund's holdings with Legal & General Investment Management, which totalled £709.47 million as at 31 March 2016, can be realised at short notice and at minimal cost. In seven out of the last ten years the Fund has experienced net withdrawals from dealings with members, with the maximum withdrawal in a single year being £10.26 million.

With the exception of investments in private equity and infrastructure, there are no commitments to contribute further capital to any of the existing Fund investments. When private equity/infrastructure capital calls are received, payment is made out of in-house cash surpluses, or, if there are insufficient funds available, units held with Legal & General are realised. Note 21 to the accounts shows further information about outstanding commitments to private equity and infrastructure investments.

## Notes to the Pension Fund Financial Statements

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements, and the asset mix.

Market risk is inherent in the investments that the Fund holds. To mitigate market risk, the Fund invests in a diversified portfolio, to include a variety of asset classes, geographical regions and industrial sectors. The Fund is also managed by five different investment managers, each with different investment styles and strategies, and different benchmarks and performance targets. The LGPS Regulations contain prescribed limits to prevent overconcentration in certain asset classes and encourage diversification. Full details of asset allocation and management structure are described in the Fund's Statement of Investment Principles maintained as a separate document which can be obtained from the Chief Executive.

The purpose of diversifying the portfolio of assets in the Fund is to reduce the impact of price movements, because it is unlikely that all asset classes will move in the same direction at the same time.

To manage market risk, the Pension Fund Panel and its adviser regularly review the Fund's asset allocation and management structure, and monitor investment managers' performance on a quarterly basis.

Market risk can be divided into three elements, namely other price risk, interest rate risk and currency risk. These are considered further below.

### Market risk - other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Fund is exposed to other price risk on all of its investment assets. This risk is mitigated by asset and manager diversification. Price risk can be quantified as follows:

	As at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	372,881	10.6	412,396	333,393
Overseas equities	291,742	10.3	321,908	261,576
Index linked	161,615	9.5	176,904	146,326
Other fixed interest	93,609	3.6	96,979	90,239
Property	49,398	1.9	50,322	48,474
Ventures and partnerships	88,183	7.9	95,167	81,199
Other investment balances	246	-	246	246
Total investment assets	1,057,674	7.0	1,131,500	983,848



## Notes to the Pension Fund Financial Statements

	As at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	370,550	10.3	408,717	332,383
Overseas equities	287,964	9.6	315,609	260,319
Index linked	191,732	9.7	210,292	173,172
Other fixed interest	93,857	3.4	97,048	90,666
Property	46,310	2.3	47,394	45,226
Ventures and partnerships	75,323	7.9	81,304	69,342
Other investment balances	2,097	-	2,097	2,097
<b>Total investment assets</b>	<b>1,067,833</b>	<b>6.4</b>	<b>1,135,961</b>	<b>999,705</b>

The percentage change for total investment assets as at 31 March 2016 and as at 31 March 2015 includes the impact of correlation across asset classes, so the value on increase/decrease amounts do not sum to the total investment assets shown above.

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. The analysis shown above assumes all other potential variables remain the same. The price risk shown above includes interest rate risk and currency risk as they cannot be separated out of market price movements.

### Market risk - interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of interest rate changes. The Fund is exposed to interest rate risk on its bond investment assets. This risk is mitigated by asset and manager diversification. Interest rate risk can be quantified as follows:

	As at 31 March 2016 £'000	Value following 1% decrease in interest rates £'000	Value following 1% increase in interest rates £'000
Index linked	161,615	200,451	122,779
Other fixed interest	93,609	96,483	90,735
<b>Total fixed interest investments</b>	<b>255,224</b>	<b>296,934</b>	<b>213,514</b>

	As at 31 March 2015 £'000	Value following 1% decrease in interest rates £'000	Value following 1% increase in interest rates £'000
Index linked	191,732	235,792	147,672
Other fixed interest	93,857	98,123	89,530
<b>Total fixed interest investments</b>	<b>285,589</b>	<b>333,915</b>	<b>237,202</b>

Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The analysis above shows the likely effect of a 1% increase or decrease

## Notes to the Pension Fund Financial Statements

in interest rates on the value of the bond instruments held by the Fund. It assumes all other potential variables remain the same, and ignores the effect a change in interest rates might have on the value of other investments held.



## Notes to the Pension Fund Financial Statements

### Market risk - currency risk

Currency risk is the risk of the value of a financial instrument changing as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that were purchased in any currency other than sterling. This risk is mitigated by asset and manager diversification. Currency risk can be quantified as follows:

	As at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Equities</b>				
Europe	70,429	6.5	74,981	65,877
North America	71,888	7.8	77,483	66,293
Japan	33,938	11.7	37,901	29,975
Pacific	37,537	6.5	39,986	35,088
Other	77,950	6.8	83,244	72,656
Other fixed interest	93,609	6.0	99,219	87,999
Ventures and partnerships	88,183	7.0	94,338	82,028
<b>Total overseas investments</b>	<b>473,534</b>	<b>6.1</b>	<b>502,526</b>	<b>444,542</b>

	As at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
<b>Equities</b>				
Europe	72,657	3.8	75,401	69,913
North America	71,187	7.4	76,464	65,910
Japan	35,469	11.0	39,379	31,559
Pacific	36,182	6.4	38,512	33,852
Other	72,469	6.8	77,394	67,544
Other fixed interest	93,857	5.6	99,121	88,593
Ventures and partnerships	75,316	7.6	81,077	69,555
<b>Total overseas investments</b>	<b>457,137</b>	<b>5.6</b>	<b>482,920</b>	<b>431,354</b>

The percentage change for total overseas investments as at 31 March 2016 and as at 31 March 2015 includes the impact of correlation across currencies, so the value on increase/decrease amounts do not sum to the total overseas investments shown above.

Potential value changes are determined based on the observed historical volatility of currency movements relative to sterling. The potential volatilities are consistent with a one standard deviation movement in currencies relative to sterling over the latest three years. The analysis shown above assumes all other potential variables remain the same.

# Notes to the Pension Fund Financial Statements

## 24. Fund membership as at 31 March 2016

	Active members	Pensioner members	Deferred members
<b>Northumberland County Council</b>			
Employees	6,537	7,353	7,709
Councillors	20	12	11
<b>Local Government Pension Scheme Employers (known as "Scheduled Bodies")</b>			
Ashington Town Council	2	-	-
Bede Academy	103	15	47
Berwick Academy	45	8	8
Blyth Academy (formerly Blyth Community College)	72	13	16
Blyth Quays Academy	138	9	30
Choppington Parish Council	2	-	-
Corbridge Parish Council	2	-	-
Cramlington Learning Village Academy	90	11	24
Cramlington Primary School (free school)	12	1	1
Haltwhistle Community Campus Academy	42	3	10
Hexham Town Council	6	5	-
Meadowdale Academy	31	2	13
Morpeth Town Council	6	4	-
Northumberland College	209	147	251
Northumberland Church of England Academy	294	38	110
Northumberland Inshore Fisheries and Conservation Authority	17	5	3
Northumberland National Park Authority	58	31	91
Northumbria Magistrates Courts Committee	-	83	58
Pax Christi Academy	91	5	8
Ponteland Town Council	1	1	-
St. Matthew's Roman Catholic Academy	3	-	-
Seaton Valley Council	-	-	1
Three Rivers Learning Trust Academy	164	6	54
West Bedlington Town Council	1	-	1
<b>Admitted Bodies</b>			
Action for Children	14	1	12
Active Northumberland	307	24	24
Age UK Northumberland	2	13	16
Barnado's Services Ltd	10	1	11
Berwick Borough Housing Ltd	7	12	4
Bullough Cleaning Services Ltd	8	1	1
Feversham School	-	25	14
Isos Housing Ltd	21	57	19
Northumberland Aged Mineworkers Homes Association	8	6	-
Northumbrian Healthcare NHS Foundation Trust	51	78	42
Queens Hall Arts Centre	3	2	2

## Notes to the Pension Fund Financial Statements

	Active members	Pensioner members	Deferred members
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	2
Wansbeck Homes	108	52	13
Woodhorn Charitable Trust	28	5	7
Other Bodies pre 1974	-	14	-
	8,515	8,047	8,616

## Pension Fund Performance

### Annual returns

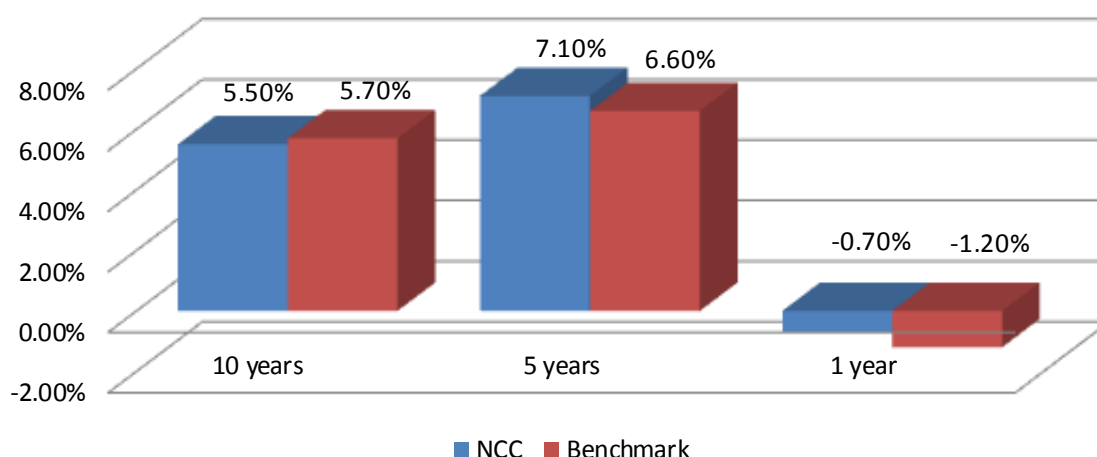
Over the year to 31 March 2016, the Northumberland County Council Pension Fund's return was -0.7%, outperforming its benchmark of -1.2%.

Year ending 31 March	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)
Fund performance	5.6	13.8	4.0	13.4	<b>-0.7</b>
Benchmark	4.0	14.0	3.7	13.4	<b>-1.2</b>

### Annualised returns

The following shows the Northumberland County Council Pension Fund's longer-term returns compared with the Fund specific benchmark.

Comparison of Annualised Returns



### Analysis of returns

Investment category	Returns for year ended 31 March 2016	
	Fund	Benchmark
	%	%
Legal & General (Index tracker)	<b>-1.8</b>	<b>-2.1</b>
M&G Investments (Global equities)	<b>-3.5</b>	<b>-0.6</b>
Wellington (Bonds)	<b>-0.4</b>	0.8
BlackRock (Property)	10.7	10.6
Schroder (Property)	12.0	10.6
Morgan Stanley (private equity)	10.0	0.0
NB Alternatives (private equity)	7.1	0.0
Combined Fund	<b>-0.7</b>	<b>-1.2</b>

All returns are shown net of fees.

## Pension Fund Performance

### Market Commentary

The average local authority pension fund return was just positive in 2015-2016, the return being less than the income generated.

All equity markets, with the exception of North America, produced negative returns over the year. In spite of a surprise outright majority being returned in the May 2015 UK general election, domestic equities lost ground in the early part of the period. After rebounding to some extent in the December 2015 quarter, they ended the period down 4%, reflecting the high exposure to large oil companies and commodities, which continued to suffer as oil prices fell.

In sterling terms, North America was the strongest performing of the major overseas markets returning 3%. In contrast the poorest performing areas were the emerging and some Asia Pacific markets which reduced in value by between 7% and 8%. Elsewhere, Europe lost 3% and Japan 4%. Currency had a major influence on international equity returns with the weakness of sterling insulating UK investors against much lower base currency returns.

After the double digit returns of the previous year, bond performance was much more subdued with an aggregate return in low single figures. Yields fell at the outset of the year and by Christmas, returns were looking quite negative. Central government comments and risk aversion generally in the closing quarter however saw yields pick up. Long dated bonds produced the best of the returns whilst corporate issues were marginally down over the period. Index linked gilts returned 2% and overseas bonds 4%.

Alternative investments in aggregate enjoyed a good year, however fortune was mixed. Private equity returned 14%, whilst hedge fund performance was flat. Pooled multi-asset (diversified growth) investments had a disappointing year, returning -3%. Property continued its strong run, returning 11%.

## Pension Fund Performance

### The Fund's returns

The Northumberland County Council Pension Fund produced a return of -0.7% in 2015-2016 which was below the growth in average earnings of 1.9% for the same period.

The Fund return of -0.7% was 0.5% above its benchmark. Asset allocation had no impact overall. Stock selection added 0.5% due to Private Equity performance.

Manager performance was mixed. Schroder and Legal & General beat their respective benchmarks, but this was offset by M&G and Wellington underperforming their benchmarks.

The WM Local Authority Pension Fund Universe for 2015-2016 produced an average return of 0.2% in the period. The range of returns was 2.3% for the 5<sup>th</sup> ranked to -2.6% for the 95<sup>th</sup> ranked fund. Northumberland County Council Pension Fund ranked 67<sup>th</sup> in 2015-2016 (46<sup>th</sup> in 2014-2015).

Over five years the Fund returned 7.1% p.a. which was 0.4% p.a. above the benchmark return of 6.6% p.a. and ranks 53<sup>rd</sup> in the Local Authority Universe.

Over ten years the Fund achieved a return of 5.5% p.a. This compares with the RPI return of 3.0% p.a. and the average earnings index return of 2.3% p.a., and ranks 50<sup>th</sup> in the Local Authority Universe and marginally below the Fund's benchmark return of 5.7% p.a. for the same period.

## Pension Fund Accounts

### Statement of the Actuary for the year ended 31 March 2016

#### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Northumberland County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £914.4 million) covering 81% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 was:
  - 16.4% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2014, amounting to £11.4 million in 2014-2015, and increasing by 3.9% p.a. thereafter.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
  4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.
  5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

## Pension Fund Accounts

### Statement of the Actuary for the year ended 31 March 2016

Discount rate for periods in service	
Scheduled Bodies	5.3% per annum
Orphan Bodies	5.2% per annum
Discount rate for periods after leaving service	
Scheduled Bodies	5.3% per annum
Orphan Bodies	3.7% per annum
Rate of pay increases (additional allowance made for promotional increases)	3.9% per annum
Rate of increase to pension accounts	2.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4% per annum

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme regulations 2013.

The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Northumberland County Council, the Administering Authority of the Fund, in respect of this Statement.

Aon Hewitt Limited

**26 May 2016**



## Firefighters' Pension Fund

Fund Account		2014-2015 £'000	2015-2016 £'000
Contributions			
	From employer - normal	1,258	1,062
	From employer – ill health	57	61
	From members	832	985
		2,147	2,108
Transfers in			
	Individual transfers from other schemes	-	31
		2,147	2,139
Benefits			
	Pensions	(4,610)	(5,027)
	Commutations and lump sum retirement benefits	(1,864)	(1,753)
	Lump sum death benefits	(64)	(12)
		(6,538)	(6,792)
Payments to and on account of leavers			
	Individual transfers to other schemes	(274)	(273)
Net amount payable before top-up grant		4,665	4,926
	Top-up grant payable by central Government	(4,665)	(4,926)
Net Amount Payable for the year		-	-
Net Assets Statement		As at 31 March 2015 £'000	As at 31 March 2016 £'000
Current assets			
	Transfer Values Received - Debtor	-	-
	Top-up grant receivable from central Government	1,605	1,063
	Amount receivable from the General Fund	-	-
Current liabilities			
	Top-up grant payable to the Government	-	-
	Provision for Pensions payable	(475)	-
	Amount payable to the General Fund	(1,130)	(1,063)
		-	-

# Notes to the Firefighters' Pension Fund Financial Statements

## 1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the Firefighters' Pension Schemes and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the Balance Sheet date.

Note 44 to the Council's Financial Statements shows the liability to pay pensions and benefits which fall due after the Balance Sheet date, in accordance with IAS 19 *Retirement benefits*.

## 2. Accounting Policies

The principal accounting policies are as follows:

### Contributions

Contributions represent the total amounts receivable from the Council and the pensionable employees. The employer's contributions are made at rates determined by the Government Actuary's Department, at a nationally applied rate of 21.3% (of pensionable pay) for the 1992 Firefighters' Pension Scheme, 11.0% for the 2006 Firefighters' Pension Scheme and 14.3% for the 2015 Firefighters' Pension Scheme. Also, the Council is required to make payments into the pension fund in respect of ill-health retirements, when they are granted.

No provision is made in the accounts for employees' and employer's contributions relating to sums due on pay awards not yet settled.

### Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

No provision is made in the accounts for the liability to pay pensions and other benefits after the net assets statement date.

### Transfer Values

Transfer values are those sums paid to or received from other pension schemes and the Firefighters' Pension Scheme outside England for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

## 3. Fund's Operations

New financial arrangements came into effect from 1 April 2006 for both the 1992 and the 2006 Firefighters' Pension Schemes under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The financial arrangements have no impact on the terms and conditions of each scheme.

The Firefighters' schemes are statutory unfunded pension schemes, administered by the Council. The benefits for both schemes are defined and guaranteed in law. The schemes are contracted out of the State Second Pension (S2P) and must provide benefits that are broadly equivalent to or better than the benefits members would have received had they been members of S2P. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

## Notes to the Firefighters' Pension Fund Financial Statements

Prior to 1 April 2006, the Council administered and paid firefighters' pensions on a 'pay-as-you-go' basis, which meant that employees' contributions were paid into the Council's operating account from which pension awards were made and no employer contributions were made. Following the change in financial arrangements on 1 April 2006, the Council has continued to administer and pay firefighters' pensions, but this is now from a separate local firefighters' pension fund. Employee contributions, employer contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by Government. Therefore the fund is balanced to nil each year by receipt of pension top-up grant or by paying the surplus back to the Government.

The Schemes are unfunded and therefore the fund has no investment assets.

## **Statement of Responsibilities**

### **The County Council's Responsibilities**

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

### **The Chief Executive's Responsibilities**

The Chief Executive is responsible for the preparation of the County Council's Statement of Accounts in accordance with proper practices as set out in the IFRS-based CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this statement of accounts the Chief Executive has:

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

The Chief Executive has also:

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

### **Issue Date**

The date that these financial statements are authorised for issue is 30 June 2016. All known material events that have occurred up to and including 30 September which relate to 2015-2016 or before have been reflected in the accounts.

### **Chief Executive Certificate**

I certify that the Statement of Accounts presents fairly the financial position of the County Council and the Northumberland Pension Fund as at 31 March 2016 and their income and expenditure for the year ended 31 March 2016.

**Steven Mason**

**Chief Executive**

**30 June 2016**

# Annual Governance Statement

## 1. Standards of Governance

The Annual Governance Statement is approved by the Audit Committee and is signed by the Leader of the Council; the Chief Executive; and the Director of Corporate Resources who is the Deputy Section 151 Officer.

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”.

The approach used to compile the Annual Governance Statement is as follows:

- Directors and Heads of Service complete returns and provide assurance in the returns on their areas with supporting evidence and identify areas for improvement.
- From the information contained within the returns the Deputy Section 151 Officer prepares the Annual Governance Statement.
- Internal Audit reviews the Annual Governance Statement to provide assurance on its accuracy and completeness.

The Council expects all of its members, officers and contractors to adhere to the highest standards of public service with particular reference to the adopted Codes of Conduct, the Constitution and policies of the Council as well as the applicable statutory requirements.

This Annual Governance Statement explains how the Council has complied with the Code, and also how it meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement. This document is reviewed by the Corporate Leadership Team, Audit Committee, Arch, and Homes for Northumberland.

This Statement also applies to the Council's wholly owned subsidiaries:

- The Arch Group – an arms-length company which acts as the development arm of the Council dedicated to economic development, regeneration and housing market renewal throughout Northumberland; and,
- Homes for Northumberland – an arm's length management organisation that managed the Council's housing stock in Blyth and Alnwick; and,
- Building for Northumberland – a company established by Homes for Northumberland in 2014-2015 to build social housing.

The Council ended its management agreement with Homes for Northumberland on 31 August 2015 although the company and board are still in place managing 22 houses in Allendale. Building for Northumberland's assets were transferred to the County Council at the same time and it is anticipated that both subsidiaries will be dissolved during 2016-2017.

The Council works in close partnership with a number of other bodies such as Active Northumberland, a registered charity delivering Northumberland's leisure and cultural services. Social Care support for ill or disabled adults in Northumberland is operated by Northumbria Healthcare NHS Foundation Trust; and, support for working age adults with mental health problems is operated by the Northumberland, Tyne and Wear NHS Foundation Trust. The role of Town and Parish Councils continues to become increasingly important both in sharing information and in carrying out complementary services. A

## Annual Governance Statement

number of shared services are in place including audit and risk management (with North Tyneside Council); procurement (with Northumbria NHS Foundation Trust and North Cumbria University Hospitals NHS Trust) and Occupational Health (with Northumbria NHS Foundation Trust). The Council is also examining the potential for sharing further services with other authorities.

The Council is working collaboratively with other authorities in the region in a number of ways and is a member of the North East Combined Authority.

### Scope of Responsibility

Northumberland County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and is used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the ways in which its functions are exercised; having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for ensuring that there is a sound system of governance in place. Governance incorporates the system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council continues to review its arrangements against best practice and implement changes to improve overall governance arrangements. In order to assist in this process the Council participates in a number of benchmarking clubs and the information is made available to the service areas for utilisation.

## 2. The Purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The current governance framework for the Council and the wider Group has been in place since 1 April 2011.

## 3. The Governance Framework

Northumberland County Council's Governance Framework encompasses all systems, processes and procedures covering a wide range of services to the public. The key elements of systems and processes which comprise the Council's governance arrangements include the areas set out below. These areas are based on the six dimensions of governance defined by the Audit Commission.

## Annual Governance Statement

A review of the governance arrangements for the Council's subsidiaries, Arch and Homes for Northumberland took place during 2012-2013 and the outcomes of this review were reported to and monitored by the Audit Committee. All recommendations were agreed for implementation via the appropriate decision-making processes of the respective organisations. In evaluating the changes which have now taken place within Homes for Northumberland, the impact on the control environment within the Authority will continue to be assessed by Internal Audit and reflected as appropriate in our assessments of risk and in the assurance coverage proposed for the County Council each year.

### ***Focussing on the Council's purpose and better outcomes for citizens***

The Council's Corporate Plan was adopted in November 2013 focusing on four outward facing priorities – Economic Growth; Places and Environment; Stronger Communities and Families; and Health and Well Being – complemented by an internal priority of Developing the Organisation and covers the period up to 2017. The Plan is supported by the Council's vision and values statement. Each service prepares a Service Statement annually setting out its priorities in delivering the Council's Corporate Plan together with a performance framework identifying key measures of performance, current performance levels and targeted performance levels. Measures of performance are captured in the Council's web-enabled performance management system which is regularly updated with current performance so that performance is readily accessible to Members, managers, staff, the public, partners and other stakeholders. The Council's performance is regularly monitored by the Corporate Leadership Team and by the Corporate Performance Overview and Scrutiny Committee. In addition, an annual report is prepared for the Council on the State of Northumberland which compares Northumberland's position and progress on a number of measures aligned to the themes of the Corporate Plan with the performance and progress of the region and England as a whole. An annual report is also provided on physical progress in delivering the Corporate Plan.

The emerging Core Strategy sets out the long term spatial vision and strategic planning policies of the Council. It identifies the scale and distribution of new development which is required to deliver the Council's economic growth ambitions. It also provides the strategic planning principles that will be used to inform Neighbourhood Development Plans across Northumberland. The Core Strategy will be submitted to the Secretary of State for approval in December 2016 and, following examination in public, is expected to be adopted in Summer 2017.

The Arch Group's first Corporate Strategy covering the period up to 31 March 2015 was published during 2012-2013 and set the scene on its contribution towards the Council's vision. "Arch is the Northumberland Development Company, it is a private sector business dedicated to economic development, regeneration and housing market renewal throughout the county. Arch has been set up as an arms-length company, designed to bring a new, more enterprising and business-like approach to development and regeneration in the county". The second Arch Corporate Strategy covering the period to 2018 was endorsed by the Cabinet in June 2015 setting out Arch's role in the delivery of Northumberland County Council's Economic Strategy. As with every UK local authority, the Council is faced with ongoing change as it seeks to deliver customer focused public services in a variety of increasingly innovative and more cost effective ways. By developing a clear consistency of purpose between the Council, its subsidiaries and wider, sector-led partnerships, services



## Annual Governance Statement

can more readily align resources to key priorities and ensure services to customers are flexible, joined up and user-friendly.

At service level there have continued to be regular regulatory inspections of adult and children's services:

- In 2015-2016, all Adult Services continued to be registered without condition against the Care Quality Commission (CQC) standards. All local authority controlled residential provision and short term support services continue to be rated by CQC as compliant. Six monthly reports are provided to the Audit Committee to provide assurance of how the actions resulting from inspections are implemented and monitored.
- Ofsted inspected all of the Council's residential homes for children during 2015-2016. All were judged to be good or better, (Barndale and Thorndale children's homes were judged to be outstanding and Kylvoe Secure Unit, Coanwood and Phoenix were judged to be Good).
- In addition, school inspection outcomes are reported regularly to the Family and Children's Services Overview and Scrutiny Committee. Of the 119 primary and first schools, 105 were judged to be Good or Outstanding as at March 2016, which is better than the national average. However, that means that 1,948 children are in schools that are not yet good enough. Of the 40 secondary schools, 25 were judged to be Good or Outstanding as at March 2016, which is significantly worse than the national average. This means that 11,367 children are in schools that are not yet good enough.
- As part of the Ofsted Single Inspection Framework (SIF), adoption services were judged to be Good in February 2016 and support for care leavers was judged to Require Improvement; as were those to support help and protection, looked after children and permanence and leadership and management. Progress will be monitored through the inspection improvement plan and reported quarterly to the Council's Family and Children's Services Overview and Scrutiny Committee and the Local Safeguarding Children's Board.

Not all adult and children's services were inspected in 2015-2016. Of these, Fostering services have both previously been judged as Good; ten out of eleven Children's Centres inspections have been judged as Good or Outstanding, with one, (Blyth Valley) judged Inadequate; and Youth Offending is judged as Green (Good) by the Youth Justice Board; and, the Adult Learning Service was judged to be Good. The principal objective in dealing with the current budget preparation has been to achieve a balanced budget for 2016-2017. The Medium Term Financial Plan identifies the need for further efficiencies and savings to be delivered in the period to 2020.

### ***Operating effectively in clearly defined roles***

Roles and responsibilities of executive, non-executive, scrutiny and officer functions are clearly defined through terms of reference and job descriptions, ensuring effective leadership. Regular appraisals for staff ensure an awareness of the requirements and expectations of each role.

Terms of reference for all Committees can be found on the Council's website. Clear delegation arrangements are set out in the Finance and Contract Rules, which form part of



## Annual Governance Statement

the Council's Constitution. The Council's Constitution was last updated in October 2014 following changes to the senior management structure. The Finance and Contract Rules were last updated in 2011-2012 and a review has commenced during financial year 2015-2016.

In relation to finance, the Council's management arrangements conform to the requirements of CIPFA's "Statement on the role of the Chief Financial Officer in Local Government".

A constructive working relationship exists between officers and elected members, which ensures that both are able to operate to optimal effect.

### ***Promoting and demonstrating values of good governance through behaviour***

A framework of policy and procedures is in place, as set out in the Finance and Contract rules. These rules were last updated during 2011-2012 and a review is currently underway. This framework is supported by codes of conduct for members and officers, along with a Code of Corporate Governance. The role of the Standards Committee includes determining compliance with the Code of Conduct for Elected Members, and investigating any complaints of breaches.

The Council's Monitoring Officer has responsibility for ensuring that the Council acts within its legal powers at all times, and the Section 151 Officer is responsible for ensuring the proper administration of the Council's financial affairs. Within their respective roles, both have a duty to report formally any adverse matters, a requirement which is set out in the Constitution.

The Council operates a whistleblowing policy, and has a robust complaints process, designed to ensure that all issues are properly investigated. Both processes are now handled corporately within the Corporate Resources Directorate, maintaining consistency across the organisation.

A dedicated resource is available within the Corporate Fraud Team to lead investigations into breaches of policy and suspected irregularities, with an element of the role being dedicated to pro-active work, and developing an anti-fraud culture. The Audit Committee receives regular updates on all fraud investigations.

There are also Employee Codes of Conduct in place at Arch and Homes for Northumberland.

### ***Taking proper decisions and managing risk***

All strategic decisions being presented to the Cabinet must be supported by the relevant level of risk analysis, determined by the degree of risk inherent within the proposal. This risk assessment is recorded within the standard report template, to ensure that the responsible officer's view is formally recorded. Schemes involving a significant level of risk must be subject to a detailed review. The process is set out in greater detail in the Council's risk management framework, a document which is reviewed and approved annually by officers and members, and which is available to the public via the internet.

The Council's Constitution describes how decisions are to be made, and the processes which must be followed to ensure efficiency, transparency and accountability. Decisions are made by the Cabinet, working within the agreed budget and policy framework. The Cabinet is held to account by the Council's Overview and Scrutiny Committees. Notice of forthcoming decisions to be taken by the Cabinet is published via the forward plan.

## Annual Governance Statement

Meetings are generally held in the public domain, although of necessity a small number of items may be considered in private. Regulatory matters are normally dealt with by specific committees established for the purpose.

To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior officers, in line with powers set out in the Constitution.

The Arch Group has continued to develop its risk management process with high level risks being reported to both the Arch Board and Arch Group Audit Committee at each meeting. The Group also strengthened its risk management processes and reporting during 2014-2015 by rolling out and creating risk registers for each programme delivery area and this reporting procedure continued in 2015-2016. The operational risks are discussed at programme meetings which then determine whether any of the operational risks need to be escalated to the High Level Risk Register.

Additionally, the Group has benefited from a Risk Management Audit by Northumberland County Council's Internal Audit Team with a "Moderate Assurance" being achieved during 2014-2015. Arch's management team has been working on implementing the recommendations from this process during 2015-2016.

### ***Developing the capacity and capability of senior officers and Councillors***

Development needs of senior officers are identified through a collective needs analysis process managed through and emerging from both the Corporate Leadership Team and Business Leadership Team meeting structure and work programme. Outcomes from discussions with senior officers have led to the development and delivery of numerous leadership briefings and management development sessions. In addition a continued and varied programme of provision including briefing sessions, master class workshops and taught delivery sessions have been delivered ensuring learning and development outcomes are appropriate, aligned to the core competency framework and help to develop the key skills and attributes required by all officers. Senior officers have also been afforded the opportunity to engage with experiential peer to peer learning, stretch and challenge activities as part of the Business Leadership Team and previous Head of Service group. A new Organisational Development strategy will help to shape and deliver the required workforce planning and development requirements over the next 12 months and beyond.

An annual personal development process (PDP) and six monthly review process exists for all members. An online learning management system provides electronic records of individual learning plans and member development activity. The outcome of PDP's and development needs arising from various political committee and meeting structures inform the annual member development programme and member briefing sessions. The Chairmen's Group and Member Service Working Group contribute to the identification, monitoring and management of member capacity and capability.

All officers and members are enrolled onto statutory and mandatory required learning plans when a corporate need is identified. Regular Workforce Committee reporting provides a baseline for organisational compliance and the level of capacity and capability across the organisation.

# Annual Governance Statement

## *Engaging with Stakeholders*

An engagement strategy has been developed for the authority, to ensure that services are developed and delivered in an appropriate manner.

With regard to public engagement, the Council has produced a consultation toolkit for officers, and the Economic and Inclusion Policy Team offer support with regard to compiling questionnaires, identifying appropriate sample sizes, and evaluating feedback.

The Economic and Inclusion Policy Team also co-ordinate the Council's People's Panel. Each year a standard survey is conducted as to how the participating residents feel about their area and their general satisfaction with the Council. The People's Panel can also be used to seek views on one or two particular strategic issues in a year – the most notable of these in the past has been consultation on the emerging budget and seeking views on the Devolution Agreement for the North East.

The Council last carried out an extensive Resident Perception Survey of 8,000 residents in 2015 which provided a range of quality of life perception data statistically valid at Area Committee level. It clearly demonstrated that overall resident satisfaction with their local areas as a place to live had increased since the last survey undertaken in 2012. In addition, more residents are satisfied with the way the Council runs things and more believe the Council provides value for money.

The results of the Employee Survey conducted during 2013-2014 were used to inform a review and restructure of the Communications function in 2014-2015. Central to this was the re-design of communications to staff, an increased focus on gauging employee opinion via short general surveys, ('temperature checks'), increased use of direct contact with senior officers, and a focus on supporting the development of a coaching culture. In 2015 pilots of a new communications tool for managers and team leaders designed to orient team briefings towards corporate challenges and innovation will commence, designed to embody 360 degree feedback into all informal and formal communications. Feedback from these projects will be used during 2015 to support a new Employee Engagement strategy that reflects the challenges posed by new working practices in support of the Accommodation Project.

The Council engages and consults with its stakeholders to ensure that their needs are best reflected in any plans for service development and appropriate governance arrangements ensure that the Council's commitments are met.

## **4. Review of Effectiveness of the Governance Framework**

Northumberland County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. It discharges this responsibility through the Audit Committee, which is tasked with considering the framework. During 2011-2012, the Chief Internal Auditor fully documented the complete assurance framework, to ensure that all components are properly considered. This document has formed the basis of the Audit Committee's review.

The review of effectiveness is informed by the work of the senior managers within the authority, who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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Every year, Directors and Heads of Service provide evidence-based assurance statements setting out how their areas have complied with principles of good governance and highlight any areas that need to be addressed.

There are a number of bodies involved in the process to maintain and review the effectiveness of the governance framework, as follows:

### ***Full Council***

The Council as a whole is responsible for agreeing the Constitution, which underpins the governance arrangements. Through appropriate appointments to its committees, the Council can ensure that governance is in place throughout the organisation, and is operating effectively. The setting of high standards of self-governance provides a clear and demonstrable lead to partners and the public.

### ***The Cabinet***

The Cabinet has responsibility for making decisions within the policy and budget framework as agreed by the Council. It monitors and scrutinises progress against targets and performance. The risk management framework is reviewed and updated annually. Where changes to the framework are minor, approval is delegated to the Chief Executive in consultation with the Deputy Leader, as the relevant Portfolio Holder. Cabinet are involved in the review of the key strategic risks on an annual basis.

### ***The Audit Committee***

The Audit Committee plays a key role in the assurance process, advising on the adequacy and effectiveness of the authority's risk management arrangements, the control environment, corporate governance and associated anti-fraud and anti-corruption arrangements; and seeking assurances that action is being taken on risk-related issues identified.

The Committee considers the scope and remit of external audit, and internal audit and risk management and receives regular reports from each throughout the year. It also considers and advises upon any significant reports of inspection agencies where these have not been referred to a more relevant Scrutiny Committee. Audit Committee monitors management actions in response to the issues raised and recommendations made.

The role of Audit Committee includes being satisfied that the authority's assurance statements properly reflect the risk environment and any actions required to improve it. Annually, it receives a report from the Chief Internal Auditor, assessing the adequacy and effectiveness of the framework of governance, risk management and control; and provides an assurance to the County Council that its systems of governance are operating effectively through approval of the Annual Governance Statement.

The Committee meets at least six times per annum, with additional ad hoc meetings as required. The work programme for the Committee is reviewed annually to ensure compliance with all professional guidance.

### ***Scrutiny Committees***

During 2015-2016 six overview and scrutiny committees were in operation – Economic Growth and Corporate Services; Care and Well-Being, Communities and Local Services; Family and Children's Services; Arts, Leisure and Culture; and Corporate Performance - supporting the work of the Cabinet and the Council as a whole. (This was amended to seven committees in May 2016 with the work of the Economic Growth and Corporate

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Services Committee reallocated as Economic Growth and Strategic Transport; and Corporate Resources and Regional Affairs). They allow citizens to have a greater say in Council matters by holding inquiries into matters of local concern. Overview and scrutiny committees also monitor the decisions of the Cabinet. The scrutiny process allows for a decision made by the Cabinet, but not yet implemented, to be 'called in'. This enables them to consider whether the decision is appropriate. Members may recommend the Cabinet reconsider the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy.

### **Standards Committee**

The Standards Committee has responsibility for ensuring adherence to the Code of Conduct for Members. During July 2012, the membership of the Standards Committee was revised to meet the requirements of the Localism Act 2011 and comprises eight County Councillors, three town and parish councillors and an Independent Chairman. In addition to the membership of the Committee the Council has appointed one independent person in accordance with the requirements of the Localism Act 2011.

### **Internal Audit**

The Council's Internal Audit Service plays a key role in the assessment of the control environment, and will make suggestions for improvement where necessary.

The Service operates in accordance with the Accounts and Audit (England) Regulations 2015, the Public Sector Internal Audit Standards (revised 1 April 2016) and the related Local Government Application Note published jointly by the Chartered Institute of Public Finance and Accountancy and Institute of Internal Auditors (April 2013). Following wide consultation with stakeholders and assessment of risk, a Strategic Audit Plan is presented annually to the Audit Committee to consider and review the planned work and proposed coverage of Internal Audit. From 2016-2017, an increased focus on 'assurance mapping' – using the Authority's own assessment of risks, and focusing assurance on the effectiveness of the controls in place – has been reflected in our audit planning.

The internal audit service has been engaged by other entities and partners with which the Council works, such as Arch and Northumberland Inshore Fisheries and Conservation Authority (NIFCA). Internal Audit's assurance activity in respect of Homes for Northumberland will be reviewed and revised as appropriate, following changes in the way that the Authority's housing operations are delivered.

During 2012-2013, the Council established a shared arrangement with North Tyneside Council for Internal Audit and Risk Management Services. The Shared Service Management Board which includes the respective Chief Executive and Deputy Leader/Finance and Resources Portfolio Holder of Northumberland County Council and North Tyneside Council respectively oversees the arrangements across the two councils.

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### ***Service Arrangements***

Each Service is responsible for maintaining effective governance arrangements for its operations. Directors and Heads of Service sign a Statement of Assurance annually, confirming the governance arrangements that are in place and identifying any areas requiring additional controls.

### ***Head of Paid Service***

The Head of Paid Service is responsible for the corporate and overall strategic management of the Council's staff in accordance with Section 4 of the Local Government and Housing Act 1989.

### ***Chief Finance Officer***

The Chief Finance Officer (CFO) has statutory responsibility in relation to the financial administration and stewardship of the Council arising from Section 151 of the Local Government Act 1972.

The Chief Executive holds both statutory positions of Head of Paid Service and Chief Finance Officer. In order to provide additional assurance the Director of Corporate Resources was appointed as the Deputy Section 151 Officer. This officer has direct access to the Leader, Deputy Leader and Chair of the Audit Committee.

### ***Monitoring Officer***

The Monitoring Officer has responsibility for promoting and maintaining high standards of conduct and reporting any actual or potential breaches of the law or administration to the full Council and/or to the Cabinet as set out in Section 5 (1) of the Local Government and Housing Act 1989. This statutory position is held by the Legal Services Manager.



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## 5. Significant Governance Issues

### Issues identified in 2012-2013

Issues Identified	Current Position
<p><b>Child Care Proceedings</b></p> <p>There was a significant increase in the number of child care proceedings in 2012-2013 – 21% when compared to the 2011-2012 numbers. The financial implications will not only be an increase in legal fees but there will be additional pressure on the Children's Services budgets.</p> <p>The numbers did not reduce but appeared to plateau during 2013-2014. However, a direct comparison was difficult due to new timescales.</p> <p>The number of care proceedings increased significantly during the period 2014-2015 with the highest volume of cases being conducted in any year to date.</p> <p>In common with national trends the number of new care proceedings continues to rise year by year with a significant increase of 33% in the number of cases in the last year.</p> <p>This is linked to earlier intervention being shown to give children a better chance if they are to be placed in alternative long term care settings.</p> <p>In November 2015 there was also a decided case which required local authorities to review cases of long term voluntary accommodation. The view being that voluntary accommodation is generally only appropriate for short term break care situations.</p> <p>Most long term cases involving placements for more than 6 weeks have now to be put before the Court to enable the child to access the supportive statutory framework this provides. In common with other authorities Northumberland has a number of such cases. This has contributed to the significant increase in proceedings. It will take some time to work through such cases and the level of new proceedings will in all probability remain high.</p>	<p>Further resources have been provided with an additional locum solicitor having been appointed. The position will continue to be closely monitored, however, in light of the continuing high level of proceedings.</p> <p>This issue can now be closed.</p>
<p><b>Property Services Information System</b></p> <p>Property Services overspent significantly in 2012-2013. As a result of the budget monitoring and year end processes it was recognised that the information system K2, which was implemented in 2010-2011 was not being utilised correctly and reliance could not be placed on the financial information within this system.</p>	<p>Internal Audit reviewed the system and a report was issued which made a number of recommendations that were agreed for implementation by the relevant managers. The recommendations from the Internal Audit review were put in place during 2015 and further system changes have been made as a result of bringing the maintenance provision fully in-house effective from 1 April 2016 to ensure that K2 is robust for order commitment purposes.</p> <p>This issue can now be closed.</p>

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Section 106 Agreements</b></p> <p>Internal Audit issued a no assurance report in September 2012 in relation to Section 106 (S106) agreements. The objective of the audit was to provide assurance around the Council's arrangements for enforcing Section 106 Agreements and ensuring monies are spent within the agreed timescales.</p> <p>Significant work has been carried out by Development Services following LGR including exercises to ensure all new S106 Agreements are captured by the monitoring and enforcement process and an attempt to capture all agreements prior to LGR. However, the audit review has shown that this latter exercise is not comprehensive and there is an element of the unknown regarding the potential financial impact of unidentified S106 Agreements entered into pre-LGR. The monitoring and enforcement arrangements in place are much improved from those in operation prior to LGR, however, there are further improvements that need to be made before these can be considered adequate.</p>	<p>A new post was created in 2014 dedicated to the management and monitoring of S106 agreements. The 'S106 Officer' has been in post since October 2014 and works closely with planning and legal officers and other officers across the Council. The proposed IT module has been fully developed and implemented. It contains accurate information concerning over 1,000 S106 agreements. The service purchased an Obligation Tracker IT system that works alongside the module and this has been uploaded with details of all S106 agreements since Local Government Review including details of their obligations and trigger points. This tracker system provides information to produce various reports including a monthly report showing all new agreements; a report showing all signed agreements by Parish; and, a report on income received. All reports are published on the Council's website for Member and public viewing. Further investment in an advanced S106 obligation monitoring system called Exacom is currently planned for 2016-2017 and this will ensure that an even more robust electronic monitoring system is put in place.</p> <p>Procedures have been developed further to ensure effective monitoring which is aided by the ability of the Obligation Tracker system to notify the S106 officer and compliance officers with a weekly email of forthcoming and pending obligation requirements. The proposed investment in Exacom will further strengthen the monitoring and enforcing of S106 agreements by officers.</p> <p>Financial reconciliation is undertaken monthly to ensure the financial management of S106 contributions. All S106 agreements are available to view on-line and a direct e-mail address has been developed for any feedback, enquiries or comments relating to S106 agreements.</p> <p>New protocols on the use of S106 obligations have been prepared and these were introduced in November 2015. These outline the Council's commitment to encouraging developers to discuss S106 requirements with ward members and local communities before and during the planning process and set out how local members, town and parish councils and local communities can more easily get involved in negotiations on S106 agreements. An ongoing management review of the effectiveness and success of the S106 Protocols is intended to take place during the latter part of 2016.</p> <p>The action plan agreed with Internal Audit has been completed and a follow up review has taken place which concluded that significant improvements have been made.</p> <p>This issue can now be closed.</p>



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## Issues identified in 2013-2014

Issues Identified	Current Position
<p><b>Accommodation Review/Sale of County Hall</b></p> <p>During 2013-2014 there was an announcement that County Hall would be sold.</p>	<p>The proposal for the relocation of the Council's corporate headquarters to Ashington was accepted by full council in February 2016. As a result it is confirmed that County Hall will be vacated and it is the Council's intention to proceed with the sale of the site.</p> <p>The Council is also implementing an accommodation review programme in town centres across Northumberland.</p>
<p><b>Single Fraud Investigation Service (SFIS)</b></p> <p>As part of Welfare Reform the DWP have create a SFIS which will bring together Council, Department of Work and Pensions (DWP) and HMRC investigation services under one umbrella, to investigate all benefit and tax credit fraud and to conduct a single investigation covering the totality of the fraud. SFIS will not investigate non-benefit and local taxation fraud such as local council tax support, single persons discount and tenancy fraud. The creation of the SFIS and the potential transfer of resources to that service mean that the Council may not have capacity to deliver against its commitment to zero tolerance of fraud, corruption, bribery and/or money laundering within or against the organisation, public money, its partners, contractors and also the community it serves.</p>	<p>With effect from 1 April 2014 the Council created a Corporate Fraud Team to investigate all fraud and take a proactive approach to fraud prevention.</p> <p>Initially the team was split into two distinct teams, one looking at benefit fraud and the other looking at other areas of potential fraud, for example council tax support, single person discounts, right to buy applications, housing tenancy, procurement, grants and personal payments and internal employee fraud.</p> <p>On 1 July 2015 the team which concentrated entirely on benefit fraud comprising of two investigators and one administrative assistant, were transferred under SFIS to the Department of Work and Pensions.</p> <p>During 2015-2016 the Corporate Fraud Team received a total of 1,785 referrals in relation to potential fraud which resulted in 558 investigations.</p> <p>The investigations lead to 26 criminal prosecutions, 36 Formal Cautions and 15 Administrative Penalties amounting to £12,314. All of the cases approved for prosecution were successfully prosecuted and these resulted in:</p> <ul style="list-style-type: none"> <li>• 2 immediate custodial sentences of 18 weeks.</li> <li>• 7 suspended custodial sentences ranging from 8 to 26 weeks with an additional requirement of unpaid work or a curfew.</li> <li>• 9 Community Orders with the requirement of either unpaid work or a curfew.</li> <li>• 4 financial penalties ranging from £172 to £980</li> <li>• 4 Conditional Discharges of varying lengths.</li> </ul> <p>As a direct result of the work undertaken by the Corporate Fraud Team fraudulent overpayments of housing benefit of £53,851 have been recovered together with identifying overpayments of £53,144 in respect of Council Tax Benefit, £50,710 Council Tax Reduction and £6,903 in relation to Single Person Discounts.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Single Fraud Investigation Service (SFIS) (continued)</i></b></p>	<p>The team's work has also led to the withdrawal of 31 right to buy applications that would have allowed a discount to the property purchase price saving £1,223,100. A further initiative in relation to tenancy fraud in conjunction with Homes for Northumberland has resulted in five properties being recovered which generated savings totalling £750,000.</p> <p>There were also 18 investigations in relation to the potential misuse of Blue Badges as a result of which 3 badges were seized saving the Council £1,500.</p> <p>In summary, during the period 1 April 2015 to 31 March 2016 the Corporate Fraud Team has generated total gross savings of £2,314,807 for the Council. (Net £1,996,995 after staff costs.).</p> <p>The decision to expand the counter fraud activities in the Council to take account of the implications of SFIS has therefore been extremely cost effective.</p> <p>The Audit Committee will continue to receive regular reports regarding the work of the Corporate Fraud Team.</p> <p>This issue can now be closed.</p>

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## Issues Identified in 2014-2015

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>School Inspections</b></p> <p>The Council is acting on the challenging issues that have arisen from the round of Focused school inspections.</p>	<p>There have been some significant improvements in Northumberland in the last year specifically in relation to the recommendations made in the focused inspection of October 2013. Ofsted has continued to monitor progress and although there have been some disappointing individual inspection results in some schools and academies, there have also been many reports containing positive feedback and outcomes. Not only are these schools praised for the improvements they have made, but also the Authority has been congratulated for the changes made to the quality of support and challenge it now offers. Evidence shows that senior officers and elected members now provide stronger leadership and used the support and challenge from Her Majesty's Inspectors more effectively in 2014-2015. Elected members and the School's Forum are better informed by more accurate briefings regarding outcomes for children and young people.</p> <p>Leaders from schools and academies share more accurate evaluations of pupils' outcomes with the local authority. The refreshed school improvement service provides additional intelligence. A key mechanism in this drive for improvement has been the introduction of the Northumberland Learning Partnerships (NLP), which are alliances of schools and academies across geographical areas. Their aim is to improve standards by sharing good practice in teaching and leadership. There is strong support for this approach from schools and recognition that the Local Authority has a key role to play in system leadership in Northumberland.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<i>School Inspections (continued)</i>	<p>Ultimately it is the responsibility of governing bodies of schools and academies to provide a good quality of education to children and young people. It is the responsibility of the Local Authority to ensure this is happening and if not to hold them to account. In the last year the authority has served six warning letters and established two Interim Executive Boards in schools where governance has not worked. In many schools excellent governance is driving forward school leadership but we need to build on this so that it becomes the norm across all schools. The local authority has prioritised improvement work on the weaker outcomes at the end of Key Stage 4. Four school commissioners lead a team of partnership coordinators and school improvement partners.</p> <p>Despite the action in 2015, the impact of some of this work has yet to be seen. In some schools and academies where there has been a legacy of under achievement and weak leadership it was too late and the school has been judged to require special measures. Far too many secondary schools in Northumberland currently require special measures and it is a top priority of the Council to ensure that action is taken immediately to address the situation. However, in 2015 there has been a great improvement in GCSE results and this bodes well for future inspections.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Children's Social Worker Caseloads</i></b></p> <p>Internal monitoring has indicated that current caseload levels are high; including levels for recently qualified staff and this was confirmed by an LGA Peer Review of Children's care services.</p>	<p>There has during 2015-2016 been an intended and appropriate reduction in social worker caseloads. As at 4 April 2016, the average social worker caseload was 23, a reduction from 32 in March 2015. The list of the social workers with the top 10 highest caseloads is scrutinised every week, this process also considers how long this has been the case for. The Ofsted Single Inspection Framework inspection in February 2016 identified that social work caseloads had been too high and whilst recognising that they had reduced in the last year, it highlighted that caseloads were still too high for some social workers.</p> <p>The service aims to safely reduce the average number of caseloads further primarily through the embedding of the early intervention hubs in each locality. They provide the means for contacts that would previously have gone to social work assessment being dealt with more appropriately at a lower level through suitably skilled staff, but not social workers. The ongoing recruitment of new social workers will also support the workforce to be as close to full capacity as possible and help it to manage instances of staff sickness and maternity leave.</p> <p>Progress towards reducing the average social work caseload to 20 with no individual social worker having more than 30 will be monitored through the inspection improvement plan and reported quarterly to the Council's Family and Children's Services Overview and Scrutiny Committee and the Local Safeguarding Children's Board.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<i>Independent Reviewing Officers (IRO) Service</i>	<p>IRO caseloads needed to reduce to enable the officers to undertake more direct work with children and young people and fulfil their quality assurance and challenge role better. The average IRO caseload has reduced from 116 to 75 between March 2015 and March 2016. This has been achieved through ongoing recruitment of suitably qualified and experienced IROs resulting in an increased complement of staff, and thus reducing the average caseload. Going forward, the Council wishes to see a swifter reduction in the caseloads of Independent Reviewing Officers (IROs). The target was set in context of the numbers at the start of the financial year and the highly-pressurised state of local authority budgets – it didn't reflect the ambitions of the team and their intent to meet all aspects of IRO best practice, including levels of caseload. The Director of Children's Services increased established capacity for the IROs from 5.5 full-time equivalents to 9.3. These additional posts have now been appointed to and start dates agreed with the new members of staff. There is also further recruitment being sourced to address caseloads held by longer term team members.</p> <p>The Ofsted SIF inspection of February 2016 identified that IRO caseloads were still too high and whilst recognising that they had reduced in the last year, it highlighted that the high caseloads prevented the IROs fulfilling their roles entirely.</p> <p>The ongoing recruitment of new IROs will support the workforce to be as close to full capacity as possible and help it to manage instances of staff sickness and maternity leave.</p> <p>Progress will be monitored through the inspection improvement plan and reported quarterly to the Council's Family and Children's Services Overview and Scrutiny Committee and the Local Safeguarding Children's Board.</p>

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Planning Inquiries and Judicial Reviews</b></p> <p>In 2014-2015 the Council was involved in three significant public inquiries relating to planning appeals against decisions to refuse permission for major residential developments. These related to sites at South Loansdean and Stobhill in Morpeth, and at Birney Hill near Ponteland. The combined cost of these inquiries in terms of providing expert witnesses and consultancy support to present the Council's case, venue hire etc. amounted to £193,000. In one of those cases (South Loansdean) costs were awarded against the Council for acting unreasonably in refusing planning permission although to date the costs claim has not been pursued any further. In addition to this, the Council had a number of its planning decisions judicially reviewed in 2014-2015, most notably in relation to a proposed wind turbine at Brackenside which resulted in the planning decision being quashed and costs of over £70,000 being incurred by the authority.</p> <p>In 2015-2016 the Council was not involved in any significant public inquiries relating to planning appeals and therefore there were no costs to the Service in this respect. Only one decision of the Council in 2015-2016 was successfully challenged through the judicial review process and this had only a minor cost implication for the Planning Service.</p> <p>During 2016-2017 the Council has already received two planning appeals which will require significant public inquiries being held at likely costs of approximately £80,000 combined. There are also a number of planning decisions that could potentially be challenged through the judicial review process in 2016-2017.</p>	<p>One of the significant planning inquiries during 2014-2015 (South Loansdean) related to a decision that resulted from the officer recommendation being overturned by Planning Committee on grounds that could not be defended at the appeal. In doing so the Inspector concluded that the Council had acted unreasonably and made an award of costs against the authority on this basis. Training for Committee members has been carried out in respect of flood risk/drainage and the robustness of planning decisions since that decision, and a rolling programme of further training for Members commenced in Summer 2015 and is ongoing at the present time.</p> <p>Following the Brackenside judicial review decision a thorough investigation was carried out and clear lines of action established to ensure that all future planning decisions are robust and capable of standing up to legal challenge. The implications of the decision have been discussed at length with planning staff and a briefing note circulated setting out the basis of the decision and the issues arising from it. Specific actions have been identified and implemented with immediate effect to address the issues where the Council were found to be at fault in the Brackenside case. In 2015-2016 only one planning decision was successfully challenged through the judicial review process representing a significant reduction on previous years and demonstrating a clear improvement on the robustness of decision making.</p> <p>A Specialist Planning Team was created in Autumn 2014 to deal with applications most at risk of judicial review, including renewable energy, minerals and waste. Managers have been instructed to ensure that all Officer reports are carefully scrutinised before sign-off.</p> <p>This issue can now be closed.</p>
<p><b>Relationship with Arch</b></p> <p>The relationship between Arch and the County Council has been criticised as being unclear.</p>	<p>The Council approved a new Economic Strategy in late 2014 and work has been ongoing with stakeholders to identify the role they will play in delivering projects and support to the delivery of the plan. Arch has agreed a new corporate plan that identifies the key linkages with the Economic Strategy and outlines a number of specific outcomes to be delivered. A statement of arrangements has been agreed and signed between the Council and Arch which articulates the arm's length relationship and the ongoing review of Arch performance has been programmed into the Council's scrutiny programme.</p> <p>This issue can now be closed.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Impact of NCC Review of Housing Management on the delivery of functions</i></b></p>	<p>During 2014-2015, NCC initiated an exercise to consider transferring Housing Management from Homes for Northumberland and taking it under the direct control of the Council.</p> <p>The transfer was completed with staff TUPE transferring to NCC on the 1 September 2015. A new management structure was also developed, establishing the posts of Director of Local Services and Housing, Head of Housing and Head of Property and Capital Programming. A further review of structures will take place during 2016-2017 to ensure full integration of housing management, capital programming, health and safety and responsive repair functions within NCC.</p> <p>This issue can now be closed.</p>
<p><b><i>Development of Tenant Engagement</i></b></p>	<p>In August 2015, a new Resident Involvement Manager was appointed to implement and deliver an Involvement Framework post County Council review of Housing Management. The creation of an additional mechanism within the Council current Cabinet Structure was agreed and designed to allow tenants to communicate views and opinions directly with representative members. In the interests of openness, and accountability, the Tenant Steering group stepped down to enable the recruitment of the new Tenant Forum to take place. The new Tenant Forum was recruited by the end of November 2015 and the first Tenant Voice Meeting took place in January 2016. The groups have since continued to meet on a bi-monthly basis. The involvement structure now includes Tenant Voice, Tenant Forum, Community Voice and Service Development Groups all of which offer tenants an opportunity to be involved at differing levels. This is by no means the completed framework and work to strengthen engagement with our tenants in rural communities is underway. A number of training opportunities have been made available to all tenants to maximise the effectiveness of their involvement.</p> <p>This issue can now be closed.</p>
<p><b><i>Assurance on Premises Responsibilities</i></b></p> <p>It has been recognised through the property management function and strategic estates programme, that greater scrutiny and control needs to be undertaken with regard to the current and future use of buildings by the council to ensure the effective management of health and safety risks.</p>	<p>A review of service provision has been carried out and consultation is underway with a view to implementing a corporate landlord function in the summer of 2016.</p>



<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Active Northumberland</b></p> <p>Active Northumberland is a charity and not-for-profit limited company. During 2015-2016 further services from Culture, Libraries and Tourism transferred to Active Northumberland and the structure of the company changed. Originally Northumberland County Council was the only member governed by a Board of 16 trustees. This was changed in October 2015 to five organisation members with each individually appointing a Director:</p> <ul style="list-style-type: none"> <li>• Northumberland County Council</li> <li>• Northumberland National Park Authority</li> <li>• Northumbrian Water Ltd</li> <li>• Northumbria Healthcare NHS Foundation Trust</li> <li>• Arch</li> </ul> <p>As part of the Council's agreed two year budget 2015-2017, a detailed savings plan (contributing to the Council's Medium Term Financial Plan) has been agreed. This savings plan sets out proposed revenue savings of £1.77 million from Active Northumberland's management of Leisure in the period 2015-2017; and, a further £1.72 million in in same period from their management of Culture, Libraries and Tourism.</p> <p>During 2015-2016 Internal Audit carried out an evaluation of the governance arrangements of Active Northumberland and a no assurance opinion was given. This matter was taken very seriously and a detailed work programme was produced to address the issues raised and further more detailed audits have been carried out.</p>	<p>Internal Audit issued its report evaluating Active Northumberland's governance arrangements in November 2015. This report was subsequently discussed in some detail at Audit Committee on 25 November 2015.</p> <p>The report highlighted a number of significant governance failings which required attention; Active Northumberland was given a 'no assurance' audit opinion at that time. Governance arrangements overall were found to lack clarity and were unlikely to be effective as they operated in the period covered by the audit.</p> <p>Since that time, and based on Internal Audit's earlier work described above, a detailed list of potential assurance 'deep dives' has been compiled in conjunction with the Active Northumberland management team. Work began in January 2016 on these audit assignments. The aim of this additional work is to explore, in-depth, arrangements in place regarding a number of key governance matters within Active Northumberland. Work is nearing completion on the first two of these 'deep dives', which have covered all of the establishments in Active Northumberland's estate, focusing on:</p> <ul style="list-style-type: none"> <li>• Health and Safety – reviewing the arrangements established for health and safety throughout the Active Northumberland estate, in particular within leisure centres which attract a specific and unique set of health and safety risks.</li> <li>• Non-credit income and expenditure – evaluating the arrangements established for cash income and expenditure throughout Active Northumberland's leisure establishments, and to determine whether consistent practices are in operation.</li> </ul>
<p><b>Active Northumberland (continued)</b></p> <p>In September 2015 the provision of, and staff delivering Finance and HR support transferred from within the company to the Council, to strengthen these key areas. Subsequent to this serious concerns were raised regarding the financial performance of the company in year. This has resulted in the Council agreeing to provide funding up to £1 million to support the company provided they are able to produce a credible business plan which will deliver the financial targets for the coming years. Work has progressed to produce this and restructure and redesign proposals were released and consulted upon in advance of the 2016-2017 financial year.</p>	<p>These audits will be reported to Active Northumberland's management team within the first quarter of 2016-2017, and will in turn be presented to Active Northumberland's Board. Following this the topics for the next tranche of the assurance 'deep dives' will be discussed and agreed, with work on these commencing within quarter 1 of 2016-2017.</p> <p>In addition, work has been undertaken to support Active Northumberland in the identification and evaluation of its risks, with this work having been presented to the Board in March 2016. The risk management team will continue to provide support to Active Northumberland's risk management process.</p>

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## Issues Identified in 2015-2016

Issues Identified	Current Position
<p><b>Business Continuity Management (BCM)</b></p> <p>During 2015-2016 the new NCC management structure led to changes which gave a fresh impetus to the Strategic Risk Management Group (SRMG). This in turn led to BCM coming under the umbrella of the SRMG. As a result, the BCM Policy and Strategic Framework has been reviewed and revised to version 4.0 and was agreed by the SRMG in August 2015. This was then considered and approved by the Corporate Leadership Team (CLT) in September 2015. In addition to this, CLT also agreed to the establishment of the Business Continuity Management Working Group (BCMWG) and that each representative of the SRMG nominate a representative to sit on the BCMWG. The BCMWG has met twice in March 2016, agreeing the Group's Terms of Reference and also a programme of business continuity work going into 2016-2017. This programme of work has been included as an objective within the Civil Contingencies Team Service Plan 2016-2017.</p> <p>Existing BC Plans have been reviewed and revised during 2015-2016, including the Corporate BC Plan, the Northumberland Fire and Rescue Service (NFRS) Resilient Northumberland Plan, the NFRS Fuel Disruption Strategy and the NCC Industrial Action Plan. A new NCC Fuel Disruption Strategy has also been developed.</p> <p>A fire at the only crematorium in the County in March 2015 saw significant disruption to the crematorium service for several months. Although the service did not have a specific BC Plan, the Council was able to activate a Business Interruption Management Team as detailed in the Corporate BC Plan, which ensured prompt and effective business continuity and recovery measures were put in place.</p>	<p>The BCMWG have agreed a programme of work for 2016-2017, which will involve promoting the benefits of BC across the Council as well as developing Service Level BC Plans across the establishment. This, in turn, will inform the Corporate level plan.</p> <p>The BCMWG will continue to meet on a monthly basis and will report progress to the SRMG, who will in turn report to the CLT.</p> <p>A representative of the Council's insurer, Zurich, has provided an independent assessment of the Council's BCM Policy and Strategy as well as some training and input into the BCMWG's activities.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Impact of legislative changes upon Housing Management and provision of Affordable homes</i></b></p>	<p>In 2015-2016 Central Government introduced a number of budgetary and legislative changes, including the Welfare Reform and Work Act which will have a direct impact upon rental income and the Housing Revenue Account, and, further proposals exist to extend the Right to Buy scheme to tenants of Housing Associations, as part of the Housing and Planning Bill.</p> <p>The Welfare Reform and Work Act introduces a compulsory reduction of 1% on rents for council tenants per annum for four years commencing in 2016-2017, which will reduce gross rents, with the subsequent reduction in available resources. As a consequence, NCC has terminated its own new build programme.</p> <p>Further pressure is likely to result from the extension to the right to buy arrangements, which if implemented as proposed, may require the Council to sell its high value housing stock to offset the discounts provided by Housing Associations.</p>
<p><b><i>Data Security</i></b></p> <p>The Council suffered twenty six separate security incidents/data breaches in 2015-2016. The Senior Information Risk Owner (SIRO) did not require for these to be reported to the Information Commissioner's Office (ICO). All breaches were investigated by the appropriate service areas and measures implemented based on the lessons learnt from their breaches.</p>	<p>The Council has an Information Governance Working Group which meets on a monthly basis to discuss the practical day to day security and information governance issues. The terms of reference of this group have been reviewed to ensure the group's role better reflects the needs of the organisation.</p> <p>Any significant issues of policy decisions are referred to the Council's Digital Programme Board and if necessary to the Corporate Leadership Team.</p> <p>The Council continues to make progress in this area and management are committed to continually improve.</p> <p>A portal is being developed to improve the management of security incidents including data breaches which will enable all information to be captured and will go directly into workflows for the relevant service area and will make the reporting process more robust.</p> <p>Internal Audit has undertaken a follow up audit of the Council's information governance processes and have identified that progress has been made in improving processes. There are still some area's that require attention and Information Services management are in the process of implementing these.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Data Management</b></p> <p>The Council continues to rely on significant amounts of historic data transferred from demised district and borough councils during Local Government Review in 2009. The availability and accessibility of this data has in the past caused operational problems for officers.</p> <p>The Council does not have a Records Manager to deal with the day to day issues of records management resulting in the Council/Woodhorn holding information that is past its retention period. Principle 5 of the Data Protection Act states that "Personal data processed for any purpose or purposes shall not be kept longer than is necessary for that purpose or purposes therefore the Council could be breaching this principle.</p>	<p>As part of the accommodation review a work stream has been created to resolve the data management issues. The responsibility for delivering this work stream has recently been passed to Information Services.</p> <p>A review of all paper storage is being undertaken and where possible these documents are being scanned into the Council's document management systems.</p> <p>The Information Governance Working Group continues to monitor services to ensure they are reviewing their documents (including those held in storage) and their Retention Schedules to allow for any changes in the appropriate legislation.</p> <p>The annual increase in the volume of freedom of information requests received, has placed a further strain on all service areas. The Council is committed to publishing this data which will result in fewer requests needing exhaustive searches. Whilst the Council will encounter issues with implementing this, it will require time and resource across all services. Publishing data will show the public, the Council's clients; that it is trying to be transparent</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Compliance with Policies and Procedures</i></b></p> <p>Evidence from a number of sources, including HR, finance, accounts payable and payroll, indicates that managers are not consistently complying with policies and procedures implemented by the Council.</p> <p>This weakens the overall control environment of the organisation.</p>	<p>The Annual Report from the Chief Internal Auditor (Chief Audit Executive) is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2015-2016 coverage in line with the agreed audit plan. Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of Internal Audit's coverage and findings, and the significance of this work in the Authority's governance framework.</p> <p>It is suggested that the following issues are considered for inclusion in the Annual Governance Statement</p> <p><b><i>Overall Opinion on the organisation's internal systems of governance, risk management and control:</i></b></p> <p>The overall opinion of Chief Internal Auditor on the organisation's internal systems of governance, risk management and control in 2015-2016, which was found to be satisfactory. The organisation overall has a mature and business focused approach to its governance arrangements, and a culture where governance and risk management are embedded and given high organisational visibility.</p> <p><b><i>Areas where the framework of governance, risk management and control is working well include all of the key financial system audits carried out during 2015-2016, including those in the process of being finalised. All of these audits have, or will, receive at least a 'moderate assurance' audit opinion. The most notable audit in this area was the review of the implementation and operation of the ERP system implemented in 2014-2015.</i></b></p> <p>This audit identified several areas of good practice including strong password controls to manage access to the ERP and housekeeping tasks scheduled on a monthly basis to remove obsolete system data. The draft report provides a provisional 'significant assurance' audit opinion.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<i>Compliance with Policies and Procedures (continued)</i>	<p><b>Attention is drawn to the progress which has been demonstrated in the following areas, which had previously been included in the 2014-2015 Annual Governance Statement due to their low assurance levels. The follow-up activity undertaken in 2015-2016 has shown improvement in all of these areas, in particular:</b></p> <ul style="list-style-type: none"> <li>• Information Governance Arrangements – Whilst further progress is required the review identified that good progress had been made in relation to the management of hard copy records and it is expected that the assurance level will rise from 'limited' to 'moderate assurance' when the follow-up audit report is finalised; and,</li> <li>• Highways Recoverables – Follow-up of recommendations made in the 2014-2015 'no assurance' audit report indicate that these have been implemented and a more robust system is in place to identify and recover costs incurred by the Council in relation to damage to street furniture caused by third parties.</li> </ul> <p><b>A final area of focus is the governance arrangements within Active Northumberland (a charity and not-for-profit limited company). Active Northumberland joined Northumberland County Council's family of companies in October 2014, originally delivering leisure services on behalf of the Council, and subsequently also culture, libraries and tourism services:</b></p> <p>A detailed evaluation of governance arrangements within Active Northumberland was undertaken to assess whether these arrangements were fit for purpose given the breadth and scale of operations delivered by the Trust. The review assessed whether arrangements safeguarded key stakeholder interests, promoted effective decision making and performance management, and ensured the effective discharge of key business processes. Overall, the review found that governance arrangements lacked clarity and were unlikely to be effective as these currently operated, and a 'no assurance' audit opinion was therefore provided.</p>
<i>Compliance with Policies and Procedures (continued)</i>	<p>There were a number of significant risks inherent in the arrangements audited. Advice and recommendations to consider were included throughout an internal audit report agreed with NCC and Active Northumberland senior management, reported in November 2015.</p> <p>Work within Active Northumberland will continue to be an ongoing focus of Internal Audit's assurance activity in 2016-2017.</p>



## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Overspends in Groups</i></b></p> <p>In aggregate, for 2015-2016 the Council performed strongly and after providing for future commitments there was a small contribution to balances. However, this masks the reliance on the planned use of previous years' underspends and use of Earmarked Reserves in Adult Services (£6.5 million) and Local Services (£0.2 million).</p> <p>There was also a significant overspend on the Local Services and Housing Budget (£1.9 million).</p> <p>At the end of the year the Children's Social Care budget showed an overspend of £2.1 million after a non-recurrent contribution of £2.5 million from the Adult Services Reserve.</p> <p>Coupled with the difficult economic circumstances faced by the Council, overspends of this magnitude have the potential to jeopardise the future financial standing of the Council.</p>	<p>It is anticipated that the Adult Services Reserve will be exhausted by the end of the 2016-2017 financial year. The Director of Adult and Community Care Services will review budgets and spending and produce a robust plan which achieves a balanced budget going forward.</p> <p>The overspend in Local Services mainly related to 'one off' issues, namely the cost of the immediate clean up and damage repair following the severe flooding in December 2015; and, the loss of income following a fire at the Council's only crematorium which resulted in its closure for most of the financial year. The Director of Local Services and Housing will review recurring budget shortfalls and produce a robust plan which achieves a balanced budget going forward.</p> <p>The significant financial pressures being faced by Children's Services are being scrutinised and a plan will be produced to achieve a balanced budget going forward.</p>
<p><b><i>School Budgets</i></b></p> <p>There are a number of schools requesting licensed deficits and overspending their budget allocations.</p>	<p>Although the number of schools with licenced deficits decreased from thirteen in 2014-2015 to three in 2015-2016 the number of deficit budgets is still a concern and a number of schools continue to overspend against their budget allocation. Staff within Corporate Resources and Education and Skills will continue to work with those schools in financial difficulty to produce robust business plans to ensure that a balanced position can be achieved in the future. A report will be produced following the completion of the 2016-2017 budget setting exercise which will update the Education and Skills Management Team on the three year budget position for each school. This will be reviewed by the School Operations Group on a quarterly basis and schools that are causing concern will be contacted in an attempt to resolve any issues in advance of formal procedures.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Impact of the Economic Downturn</i></b></p> <p>The primary issue facing the Council continues to be the impact that the national economic situation is having on the Local Government Finance Settlement as Central Government seeks to rebalance public expenditure. This is exacerbated by an increased demand for services from the Council arising from the economic downturn.</p> <p>The Council has saved over £190 million from 2009-2010 to 2015-2016 and anticipates saving an additional £57 million over the next four years.</p> <p>Reductions of this scale will have a profound impact on the way the council delivers services and on its internal operations. For example, there is a concern that on-going reductions in staffing levels could lead to a reduction in the effectiveness or application of controls.</p>	<p>A balanced budget was agreed for 2015-2016 as part of a three-year medium term financial plan, and a balanced budget has once again been agreed for 2016-2017.</p> <p>The Council has reviewed its financial resilience to identify those areas most at risk of overspending in future periods.</p> <p>Improvement and efficiency programmes are being developed and implemented in areas at risk of overspending.</p> <p>Budget preparation for 2015-2016 (and 2016-2017) commenced early in order to increase the confidence in the process.</p> <p>In relation to treasury management, the Council has taken advantage of the historically low interest rate environment in recent years to secure a significant proportion of the Council's long-term borrowing requirement. Surplus funds from balances have been placed with other local authorities to maximise security.</p>
<p><b><i>Impact of Reduced Staff Levels on the Control Environment</i></b></p> <p>Major financial savings have been required during the year. There is a potential that the reduction in staffing levels could lead to a reduction in the effectiveness or application of controls. (See impact of the economic downturn).</p>	<p>Financial pressures continue to present issues for the Council. Directors and Heads of Service continue to ensure that a sufficient level of skill and expertise is retained in order to deliver the appropriate level of service and control.</p>
<p><b><i>Inspection of services for children in need of help and protection, children looked after and care leavers</i></b></p> <p>The Ofsted inspection of February 2016 judged that overall the Council required improvement to be good.</p>	<p>The judgements were published on 14 April 2016. In response, an improvement plan is being drafted and some actions have already been implemented to tackle some of the report's 15 recommendations, e.g. procedures for friends and family placements.</p> <p>The Director of Children's Services intends to implement 6 work streams in response:</p> <ul style="list-style-type: none"> <li>Team structures and management arrangements</li> <li>Audit</li> <li>Quality improvement</li> <li>Transformation, policies and procedures</li> <li>Workforce development / staff engagement</li> <li>Research and voice of the child</li> </ul> <p>Progress will be monitored through the inspection improvement plan and reported to the Council's Family and Children's Services Overview and Scrutiny Committee and the Local Safeguarding Children's Board.</p>



## Annual Governance Statement

### 6. Conclusion

We propose over the coming year to take steps to address the above matters, and ensure the robustness of governance -arrangements within the Council and its subsidiaries. Through the Audit Committee, the actions taken in response to identified weaknesses will be actively monitored. We are satisfied that these actions will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

This statement has been prepared having regard for issues within the financial year to which the Statement of Accounts relates. Any significant events or developments relating to the governance system between the end of the financial year and the date on which the Statement of Accounts is signed are also reflected.

**Signed:**

**Grant Davey**

**Leader of the County Council**

**Steven Mason**

**Chief Executive  
& Section 151 Officer**

**Alison Elsdon**

**Deputy Section 151 Officer**

## **Independent Auditors' Report to the Members of Northumberland County Council**

To be inserted upon completion of the audit.

### **Accrual**

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

### **Actuary**

An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary determines the rate of employer contributions due to the Pension Fund every three years.

### **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

### **Amortised**

Written off over an appropriate period of time.

### **Annual Governance Statement**

A document published with the Statement of accounts that sets out the governance framework in place during the year and sources of assurance about the governance framework.

### **Appropriations**

Amounts transferred between the service and revenue or capital reserves.

### **Available-for-sale Asset**

A category of financial instrument which includes investments traded in an active market and equity instruments other than those for which a reliable value cannot be determined.

### **Audit of Accounts**

An independent examination of the Council's Statement of Accounts.

### **Balance Sheet**

A summary of an Authority's financial position at the year end. It shows the balances and reserves at an Authority's disposal and its long term indebtedness, and the long term and current assets employed in its operations, together with summarised information on fixed assets held.

### **Budget**

A statement of the Council's expected level of income and expenditure over a set period, usually one year.

### **Budget Requirement**

Planned spending to be met from council tax, general government grant and national non domestic rates.

### **Capital Adjustment Account**

The balance represents the timing differences between the amount of historical cost that has been consumed and the amount that has been financed in accordance with statutory purposes.

### **Capital Asset**

An item bought to improve, build, prepare or replace plant, machinery, buildings, land and other structures.

### **Capital Charge**

A charge for depreciation to service accounts to reflect the cost of fixed assets used in the provision of services.

### Capital Expenditure

Expenditure on the acquisition of a fixed asset; or, expenditure which adds to the life or value of an existing fixed asset.

### Capital Receipt

The income obtained from selling a capital asset. This is either set aside to the Capital Financing Account for the repayment of loans or used to finance new capital expenditure.

### Capital Reserves

Created to provide an alternative source for financing future capital expenditure and to ensure some stability in the level of capital programmes that can be financed.

### Cash Flow Statement

Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes. It provides a link between the Balance Sheet at the beginning of the year, the Comprehensive Income and Expenditure Statement for the year and the Balance Sheet at the end of the year.

### CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

### Collection Fund

The fund administered by an authority collecting council tax.

### Comprehensive Income and Expenditure Statement

This account sets out the Council's income and expenditure for the year. It brings together all the services and functions performed by the County Council in one statement in accordance with the Best Value Accountancy service expenditure analysis.

### Constitution

The fundamental principles by which the Council operates and is governed.

### Contingencies

Sums set aside to meet either the potential costs of activities expected to occur during the year, over and above those costs included in the services budgets (pay and price), or items which are difficult to predict in terms of financial impact or timing (uncertain items).

### Contingent Asset

A possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

### Contingent Liability

A contingent liability is either:

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

### Corporate and Democratic Core

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

### Corporate Governance

The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

### Council Tax

The means of raising money locally to pay for local authority services. This is a property based tax where the amount levied depends upon the valuation of each dwelling.

### Credit risk

The exposure to risk that customers, banks and financial institutions are unable to meet their financial commitments to the Council

### Creditors

Amounts owed by the Council for goods or services that it has received but for which payment has not been made by the year end.

### Current Assets and Liabilities

Current assets are items that are, or can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term. By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

### Current Service Cost (IAS 19 term)

Employer pension contributions charged during the year have been removed from the Comprehensive Income and Expenditure Statement and replaced with an amount (i.e. current service cost) which reflects the increase in the scheme liabilities expected to arise from employee membership of the scheme during the annual accounts period.

### Debtors

Amounts owed to the Council at the year end where services have been delivered but payment has not been received.

### Dedicated Schools Grant

Ring fenced grant monies provided by the Department for Education that can only be applied to meet expenditure properly included in the Schools Budget.

### Deferred Consideration

The value of assets leased to contractors which results in an explicit or implicit reduction in contract payments

### Defined Benefit Scheme

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

### **Defined Contribution Scheme**

A pension or other retirement benefit scheme into which the employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### **Delegated Budgets**

Budgets for which schools and other services have complete autonomy in spending decisions.

### **Depreciated Replacement Cost**

A method of assessing market value where there is no comparable evidence available and equating to the current cost of reproducing or replacing an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

### **Depreciation**

The theoretical loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

### **E-Business Suite**

The Council's Enterprise Resource Planning System which provides an integrated solution rather than linked legacy systems such as general ledger, purchasing, accounts payable, accounts receivable, cash management, payroll etc.

### **Earmarked Reserves**

These reserves represent monies set aside that can only be used for a specific usage or purpose.

### **Estimation Uncertainty**

Potential error included in the accounts as a result of estimates used to generate particular balances.

### **Expected Rate of Return on Pensions Assets**

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

### **Fair Value**

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

### **Finance Leases**

A lease that transfers most of the risks and rewards of ownership of an asset to the lessee.

### **Financial Instruments**

Contracts that give rise to a financial asset in one entity and a financial liability or equity holding in another entity.

### **Financial Instruments Adjustment Account**

This represents the difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the recharge against the General Fund balance in respect of financial assets and liabilities.

### **General Fund**

The Council's main revenue fund to which all revenue transactions are credited and from which revenue liabilities are discharged.

### **Government Grants**

Revenue grants and contributions are credited to the appropriate service revenue account. Capital grants and contributions are credited to the Government Grants and Contributions Deferred Account.

### **Holiday Pay Accrual**

A provision representing the liability relating to holidays earned but untaken at the financial year-end.

### **Housing Revenue Account**

This account reflects the statutory obligation to "ring-fence" and show separately the financial transactions relating to the provision of housing. Included within the section on the HRA is the Statement of Movement on the HRA which discloses how the HRA Income & Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year.

### **Impairment**

The deterioration of an asset, through damage, dilapidation etc., which affects the value of that asset.

### **Income**

Money which the Council receives, or expects to receive, from any source, including fees, charges, sales and grants.

### **Infrastructure**

Fixed assets belonging to the Council which do not necessarily have a resale value, and for which a useful life span cannot be readily assessed.

### **Intangible Assets**

Non-financial fixed assets that do not have physical substance, but, are identifiable and are controlled by the organisation through custody or legal rights.

### **Interest Cost (Pensions)**

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

### **Inventory**

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

### **Investments**

Short term investments comprise of temporary surplus funds with banks or similar institutions.

### **Lender Option Borrower Option (LOBO)**

A LOBO is a loan from a financial institution where the interest rate is agreed at the outset of the arrangement. The lender then has the option to increase the rate at specific agreed periodic intervals through the term of the loan. If at one of these points the lender exercises the option to increase the interest rate on the loan the borrower has the option to repay the loan and end the agreement.

### **Liquidity Risk**

The exposure to the risk of insufficient funding to meet commitments

### **Long Term Borrowing**

The main element of long term borrowing is comprised of loans that have been raised to finance capital investment projects.

### **Market Value**

The monetary value of an asset as determined by current market conditions.

### **Minimum Revenue Provision (MRP)**

The statutory minimum amount that must be charged to the Comprehensive Income and Expenditure Statement in each financial year to repay external debt.

### **Monitoring Officer**

The Monitoring Officer has responsibility for ensuring that the Council acts within its legal powers at all times and has a duty to report formally on any adverse matters. A requirement which is set out in the Constitution.

### **Movement in Reserves Statement**

Statement showing whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

### **National Non-Domestic Rates**

The government levies a standard rate on all properties used for commercial purposes. The rates are collected on behalf of the government by District and Unitary Councils, and are then redistributed nationally on the basis of resident population. This is paid by way of a general grant to local authorities, to support local authority revenue expenditure.

### **Net Book Value**

The amount at which fixed assets are included in the Balance Sheet i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### **Net Debt**

This comprises cash in hand, cash overdrawn, short term investments and long term borrowing.

### **Net Current Replacement Cost**

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

### **Net Realisable Value**

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

### **Non Distributed Costs**

Overhead costs for which no user now benefits so are not apportioned to services.

### **Non Operational Assets**

Fixed assets not used or consumed by the Council in the delivery of services or for the service or strategic objectives of the Council such as investment properties.



### Operating Leases

A lease other than a finance lease.

### Operational Assets

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

### Past Service Cost

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

### Pension Liabilities

See scheme liabilities.

### Precept

The amount of money levied on the County Council by other public bodies.

### Prepayments

Amounts paid by the Council in the year of account that related to goods and services not received until subsequent years.

### Private Finance Initiative

Long term contracts with the private sector to procure the design, build and running of assets for the delivery of public services.

### Property, Plant and Equipment

Non-current assets that yield benefits to the Council and the services they provide for a period of more than one year.

### Provisions

Provisions represent sums set aside for any liabilities of uncertain amount or timing that have been incurred.

### Rack Rent

The full market rent of land or buildings.

### Receipts in Advance

Amounts received by the Council during the year of account relating to services delivered in subsequent years.

### Remuneration

All sums paid to or receivable by an employee, and includes sums due by way of expenses allowances (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

The surpluses built up in the Revenue Reserve. Except where specified for other purposes amounts may be used from reserves to reduce the Council tax precept.

### **Retirement Benefits**

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

### **Revaluation Reserve**

The accumulated gains in value on fixed assets held by the Council since 1 April 2007 less the part of depreciation charges that have been incurred because the assets have been valued.

### **Revenue Expenditure**

Revenue expenditure is spending on day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies & services.

### **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 fixed assets.

### **Revenue Support Grant**

A general grant paid by Central Government to local authorities, to support local authority revenue expenditure.

### **Scheme Liabilities**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

### **Section 151 Officer**

The Officer designated to assume overall responsibility for the administration of the financial affairs of the County Council and for the preparation of the Council's Statement of Accounts.

### **Settlements and Curtailments (Pensions)**

Settlements are liabilities settled at a cost materially different to the Pensions Reserve during the year. Curtailments represent the cost arising from early payment of accrued pensions in respect of any redundancies during the year.

### **Service Reporting Code of Practice (SeRCOP)**

The SeRCOP replaced the Best Value Accounting Code of Practice (BVACOP) on the 1<sup>st</sup> April 2011. It provides guidance on financial reporting to stakeholders but does not provide guidance on the Statement of Accounts. The overall framework adopted by SeRCOP will support the objective to establish the widest range of financial reporting requirements, in order that data consistency and comparability are achieved. SeRCOP particularly aims to meet the demands of both the Best Value and the Transparency initiatives and its various stakeholders. It contains a standard definition of services and total cost.

### **Soft Loan**

Loans, normally to voluntary sector organisations, below the market rate of interest.

### Total Cost

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

# Whole of Pension Fund Disclosures under IAS 26

Northumberland County Council Pension Fund

<b>Prepared for</b>	Northumberland County Council, as Administering Authority to the Fund
<b>Prepared by</b>	Chris Archer FIA Aon Hewitt Ltd
<b>Date</b>	23 May 2014

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**1 Introduction****Addressee**

This report sets out pension cost information required by Northumberland County Council in its capacity as Administering Authority to the Fund (the "Administering Authority") in order to meet their disclosure requirements in relation to their pension obligations as specified by the accounting standard, IAS 26.

We have carried out this work in relation to benefits payable from the Northumberland County Council Pension Fund (the "Fund").

**Related Documents**

The advice provided in this report is supported by advice contained in the following documents:

- IAS 26 Terms of Reference dated 27 March 2014 (the 'Terms of Reference').
- Advice in relation to the actuarial assumptions was provided by Aon Hewitt in a document dated 23 May 2014 ('Assumptions Advice').

In addition, the following document should be referred to which contains a more detailed description of the approach taken in valuing liabilities, further detail on the demographic assumptions and the treatment of data.

- Actuarial Valuation at 31 March 2013 – Northumberland County Council Pension Fund dated 31 March 2014 (the '2013 Valuation').

**Background**

The Code of Practice indicates that the Fund accounts for the year ending 31 March 2014 should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on the funding assumptions.

CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits and further detail on these can be found in our Terms of Reference document noted above.

The Administering Authority has chosen "Option C" which was confirmed to us in an e-mail dated 27 March 2014. Option C requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2013. Under Option C this, together with other related information, should be disclosed in an actuarial report which will accompany the notes to the accounts.

The calculations contained in this document have been carried out on a basis consistent with our understanding of IAS 19.

I confirm that I am a Fellow of the Institute and Faculty of Actuaries.

**Document structure**

This document is structured as follows:

- Section 1 summarises the scope and legal considerations regarding the work we have undertaken.

- Section 2 sets out the results of our calculations together with some comments on the calculations.
- Appendix A summarises the data used in our calculations.
- Appendix B sets out a brief explanation of the method we have used in preparing the figures.
- Appendix C sets out compliance and legal considerations.

**Methodology**

The approach to our calculations under the various options was set out in the Terms of Reference.

Comments on the methodology as it applies to IAS 26 are set out as Appendix B.

## 2 Information Required for IAS 26

### Introduction

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the "defined benefit obligation".

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay

### Actuarial present value of promised retirement benefits

Paragraph 6.5.2.7 of CIPFA's Code of Practice on local authority accounting for 2013/14 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed.

The results at as 31 March 2013, together with the 2010 figures are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. We do not believe the Authority needs to show the 2010 figures under IAS 26 if it does not wish to do so. The Code of Practice is not clear if the fair value of assets and the surplus / deficit at 31 March 2013 also needs to be disclosed but you may want to include these figures for clarity.

	Value as at 31 March 2013 £M	Value as at 31 March 2010 £M
Fair value of net assets	914.4	719.0
Actuarial present value of the promised retirement benefits	1,281.2	1,209.3
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(366.8)	(490.3)

## Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2013. The principal assumptions used by the Fund's independent qualified actuaries were:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment*	2.4	3.9
Rate of increase to deferred pensions*	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.



## Principal demographic assumptions

Post retirement mortality	31 March 2013	31 March 2010
<b>Males</b>		
Base table	Standard SAPS Normal Health All Amounts tables (S1NMA)	Standard SAPS Normal Health All Amounts tables (S1NMA)
Scaling to above base table rates **	100%	100%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5% p.a.	CMI 2009 with a long term rate of improvement of 1.25% p.a..
Future lifetime from age 65 (currently aged 65)	22.8	22.1
Future lifetime from age 65 (currently aged 45)	25.0	24.0
<b>Females</b>		
Base table	Standard SAPS Normal Health All Amounts tables (S1NFA)	Standard SAPS Normal Health All Amounts tables (S1NFA)
Scaling to above base table rates **	100%	100%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5%	CMI 2009 with a long term rate of improvement of 1.25%
Future lifetime from age 65 (currently aged 65)	25.3	24.3
Future lifetime from age 65 (currently aged 45)	27.6	26.3

\* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

\*\* The scaling factors shown apply to normal health retirements

	31 March 2013	31 March 2010
<b>Commutation</b>	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.  Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

**Changes in benefits during the accounting period**

There have been no changes in benefits during the accounting period. No allowance has been made in our calculations for the new Scheme benefits accruing from 1 April 2014.

**Key risks associated with reporting under IAS 26**

### **Volatility of results**

Results under IAS 26 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while a significant proportion of the assets of the Fund are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the pension fund.

If at any time during the year you want us to provide you with an update of the IAS 26 position, please let us know.

### **Choice of accounting assumptions**

The calculation of the actuarial present value of the promised retirement benefits involves projecting future cash-flows from the Fund many years into the future. This means that the assumptions used can have a material impact on the surplus / deficit. As such, the Administering Authority should ensure that it understands the reasoning behind the assumptions adopted and are comfortable that they are appropriate.

Furthermore, the Administering Authority should bear in mind that, as required by the accounting standard, the assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the Fund. In practice future experience within the Fund may not be in line with the assumptions adopted. This means that the liabilities shown in this report only represent one view of the future and the true position could be different from those shown. For example members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculations.

### **Sensitivity of results to key assumptions**

In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions.

The revised version of IAS 19 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions although it is not clear that IAS 26 or the CIPFA Code of Practice requires this information. Please let us know if you require this information.

### **GMP equalisation**

The Government intends that GMPs will be equalised in due course. At present it is not appropriate to allow for this in the accounts because the methodology for implementing the equalisation is uncertain. However, once the methodology is clarified, the defined benefit obligation will increase and it is likely that the associated cost will need to be recognised through the

profit and loss account. As such, a risk exists as to the magnitude of the impact of equalising GMPs.

## Appendix A Data Summary

### Active members at 31 March 2013

		<b>Number</b>	<b>Average age</b>	<b>Total Pensionable Pay (£000 p.a.)</b>	<b>Average Pensionable Pay (£ p.a.)</b>	<b>Average service (years)</b>
<b>Men</b>	<b>2013</b>	<b>2,175</b>	<b>46.8</b>	<b>50,193</b>	<b>23,077</b>	<b>13.5</b>
	2010	2,369	46.4	53,296	22,497	13.5
<b>Women</b>	<b>2013</b>	<b>5,565</b>	<b>46.2</b>	<b>77,114</b>	<b>13,857</b>	<b>7.2</b>
	2010	6,079	45.2	79,053	13,004	6.6
<b>Total</b>	<b>2013</b>	<b>7,740</b>	<b>46.4</b>	<b>127,307</b>	<b>16,448</b>	<b>8.9</b>
	2010	8,448	45.5	132,349	15,666	8.5

*Note: Pay is that over the year to the Valuation Date. Annualised pay is included for entrants in the last year. Part time pay is included for part-timers.*

### Deferred pensioners at 31 March 2013

		<b>Number</b>	<b>Average age</b>	<b>Total pension (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2013</b>	<b>1,924</b>	<b>44.9</b>	<b>4,374</b>	<b>2,273</b>
	2010	1,758	44.5	3,529	2,008
<b>Women</b>	<b>2013</b>	<b>5,658</b>	<b>45.7</b>	<b>6,187</b>	<b>1,093</b>
	2010	4,857	44.6	4,526	932
<b>Total</b>	<b>2013</b>	<b>7,582</b>	<b>45.5</b>	<b>10,561</b>	<b>1,393</b>
	2010	6,615	44.5	8,055	1,218

*Note: The deferred pensions include increases granted in April 2013 (2010).*

*In addition to the numbers above there were 511 members who had yet to decide whether to take a transfer payment. Suitable allowance has been made for these in our calculations.*

**Pensioners at 31 March 2013**

		<b>Number</b>	<b>Average age</b>	<b>Total pensions (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2013</b>	<b>2,727</b>	<b>70.0</b>	<b>22,428</b>	<b>8,225</b>
	2010	2,532	69.4	19,166	7,570
<b>Women</b>	<b>2013</b>	<b>3,683</b>	<b>69.4</b>	<b>11,892</b>	<b>3,229</b>
	2010	3,291	68.6	9,444	2,870
<b>Dependants</b>	<b>2013</b>	<b>967</b>	<b>76.2</b>	<b>2,755</b>	<b>2,849</b>
	2010	943	76.5	2,344	2,485
<b>Total</b>	<b>2013</b>	<b>7,377</b>	<b>70.5</b>	<b>37,075</b>	<b>5,026</b>
	2010	6,766	70.0	30,954	4,575

*Note: The pensions include increases granted in April 2013 (2010).*

*The 2013 figures include 54 children (2010: 45) who are in receipt of pensions. Suitable allowance has been made for these in our calculations.*

## Appendix B Explanation of actuarial methods used

<b>Benefits valued</b>	<p>Our calculations relate to benefits payable from the Fund (as set out in LGPS Regulations at the relevant times) and related arrangements. These benefits include retirement pensions and benefits on members' death and leaving service.</p> <p>A summary of the benefits that have been valued can be found in the reports on the actuarial valuations of the Fund as at 31 March 2013 and 31 March 2010.</p> <p>Unfunded defined benefit obligations e.g. discretionary pensions benefits being paid under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations (generally referred to as Compensatory Added Years), have not been valued as they do not form part of the Fund. However, they may be required in the IAS 19 figures prepared for individual employers within the Fund.</p>
<b>Data</b>	<p>The valuation of accrued pension benefits for IAS 26 purposes requires detailed information in respect of each member such as date of birth, gender, date of joining the fund, their accrued pension and so forth.</p> <p>This information was supplied by the Administering Authority for the 2013 and 2010 formal actuarial valuations of the Fund in the form of a standardised data extract from the Authority's administration systems.</p> <p>The formal valuation process (which is a precursor to the valuation for IAS 26 purposes) involves a series of structured validation tests on the data items for integrity and reasonableness. These tests, together with any actions taken in respect of specific data issues, are documented as part of the normal valuation process.</p> <p>Where tests reveal issues with the data, the Administering Authority is contacted with a view to resolving all data queries. Only when the data queries have been resolved to the satisfaction of the Fund Actuary, will the valuation proceed.</p> <p>We can confirm that no data issues were identified at either the 2013 or the 2010 valuations that would have any material effect on the calculations presented in this report. Overall, it is our opinion that the data presented at both valuations is sufficiently accurate, relevant and complete for the Administering Authority to rely on the resulting IAS 19 (IAS 26) figures.</p>
<b>Assumptions</b>	<p>IAS 19 sets out the following general requirements for the setting of assumptions:</p> <ul style="list-style-type: none"> <li>▪ Actuarial assumptions shall be unbiased and mutually compatible; and</li> <li>▪ Financial assumptions shall be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.</li> </ul>

Furthermore IAS 19 requires that the assumed discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds and in countries where there is no deep market in such bonds, the market yield (at the balance sheet date) on government bonds shall be used.

CIPFA have informed us that under IAS26 the assumptions are ultimately the responsibility of the Administering Authority. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

The key financial assumptions are set out on the first page of Section 2 and the derivation of the assumptions is set out in our assumptions letter referred to in the Related Documents section.

#### Method and calculations

The figures at 31 March 2013 have been based on a full calculation of the liabilities using the same method as for the full 2013 triennial valuation Fund, but with IAS 19 financial assumptions used.

#### Assets

IAS 19 requires that assets be valued at Fair Value which is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. For the purposes of this exercise we have taken the asset values directly from the Fund's audited annual accounts as at 31 March 2013.

#### Treatment of Risk Benefits

To value the risk benefits we have valued service related benefits based on service completed to the date of calculation only.

#### Expenses

Scheme administration expenses are not reserved for in the Net Present Value of Actuarial Liabilities, consistent with the treatment adopted for individual employers who require IAS 19 disclosures. If the Fund wishes the administration expenses to be treated in a different way they should discuss this further with their auditor and ourselves.

#### IFRIC 14

IFRIC 14 is an interpretation of paragraph 58 of the IAS 19 accounting standard setting out limits to the amount of surplus that can be recognised by employing organisations in their accounts. We do not believe it has any relevance to IAS 26.

## Appendix C Compliance and Disclaimer

<b>Compliance with actuarial standards</b>	<p>This report should be read in conjunction with the supporting documents listed in Section 1.</p> <p>This report and the work related to it, is subject to and complies with the Financial Reporting Council Limited's Pensions Technical Actuarial Standard and the Technical Actuarial Standards on reporting actuarial information, data and modelling.</p> <p>The results of the calculations provided in this document constitute a valuation exercise.</p>
<b>Disclaimer</b>	<p>The calculations contained in this report have been made on a basis consistent with our understanding of IAS 19 and IAS 26. Figures required for other purposes should be calculated in accordance with the specific requirements of those purposes. It must not be assumed that figures produced for the purposes of IAS 26, which we present in this report, have any relevance beyond the scope of the Financial Reporting Standards requirements.</p> <p>This report is prepared on the instructions of the Administering Authority as appropriate ("you" or "your") in relation to the preparation of IAS 26 figures for the Administering Authority's financial reporting as at the accounting date. It has been prepared at this date, for the purpose and on the basis set out in this report and for the benefit and use of the Administering Authority.</p> <p>This report should not be used or relied upon by any other person for any other purpose including, without limitation, other professional advisers, including your auditors and accountants ("third parties" or "third party"), to the Administering Authority. All third parties are hereby notified that this report shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this report.</p> <p>We neither warrant nor represent (either expressly or by implication) to any third party who receives this report that the information contained within is fair, accurate or complete, whether at the date of its preparation or at any other time.</p> <p>Unless we provide express prior written consent, no part of this report should be reproduced, distributed or communicated to any other person other than to meet any statutory requirements and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the Administering Authority as appropriate.</p> <p>We recognise that your auditors may request you directly to see a copy of our report, as part of their audit process and under statutory requirements. We agree that you may release our report to those auditors for such purpose however in making such disclosure, you shall ensure that this disclaimer remains attached to this report, and you further agree that you shall ensure that your auditors have read</p>



this disclaimer. For the avoidance of doubt, if we are approached directly by any third party for copies of this report or requested to answer queries about the report, we will require such third party to accept a third party release non-reliance letter agreeing that we did not prepare the report for the third party and we do not accept any legal obligations to them. Please rest assured that this approach does not affect our contractual obligations to you as our client, with whom we continue to hold a duty of care in accordance with our terms of engagement.

This report was based on data available to us at the effective date of our calculations and takes no account of developments after that date except where explicitly stated otherwise.

With respect to data on which we have relied in producing this report, whilst we have taken certain limited steps to satisfy ourselves that the data provided to us is of a quality sufficient for the purposes of our investigation, including carrying out certain basic tests for the purpose of detecting manifest inconsistencies, it is not possible for us to confirm the accuracy or completeness of the detailed information provided. Whilst the Administering Authority may have relied on others for the maintenance of accurate data, it is their responsibility to ensure the adequacy of these arrangements and ultimately the Administering Authority that bears the primary responsibility for the accuracy of such information provided. The information used is summarised in various sections of this report and Appendix A.