

# NORTHUMBERLAND

Northumberland County Council

DRAFT  
Statement of Accounts  
2016 – 17

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# Narrative Report

## 1. Introduction

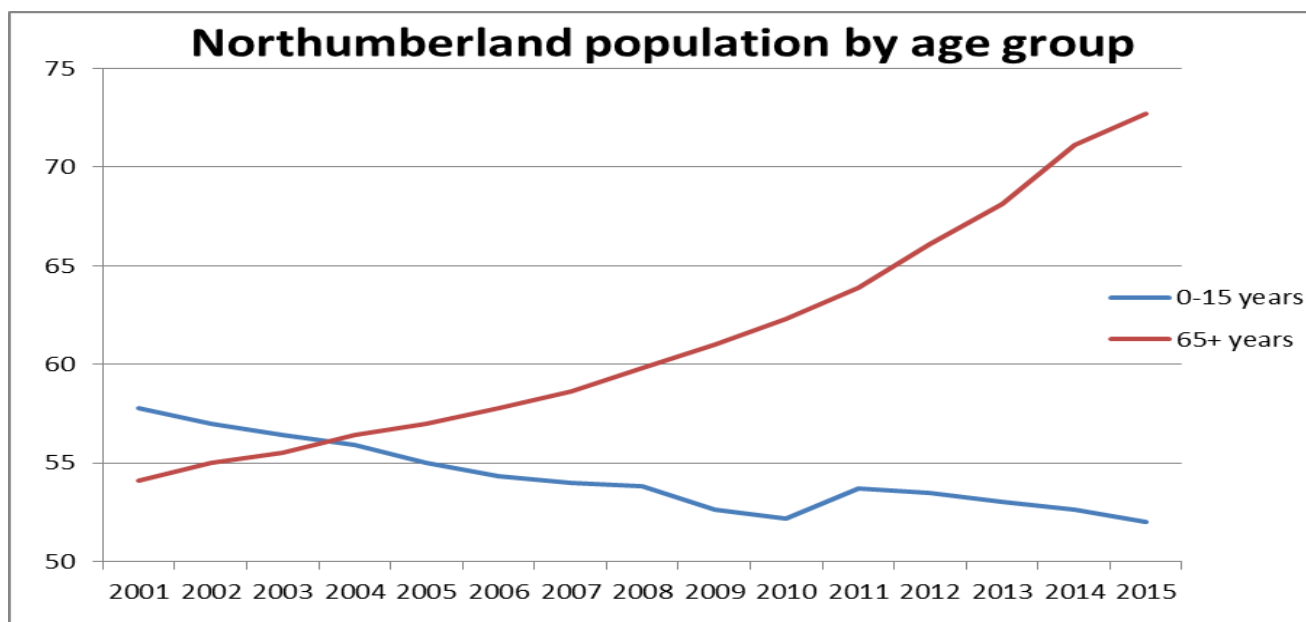
Northumberland is the northernmost county in England, bordering Cumbria to the west, County Durham and Tyne and Wear to the south and Scotland to the north. The county is home to 315,300 people and covers an area of 5,013 km<sup>2</sup>, of which 96.7% is classed as rural. The county is sparsely populated 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 315,300 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 60.4% compared with 63.3% 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	Northumberland		England	
	No.	%	No.	%
All Ages	315,263		54,786,327	
0-15 years	52,064	16.5	10,405,114	19.0
16-64 years	190,478	60.4	34,669,641	63.3
65 years +	72,721	23.1	9,711,572	17.7

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 52,100 in 2015. Looking at older residents, there were 54,100 aged 65 and over in 2001 and this has risen to 72,700 in 2015. 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 £545. The unemployment rate for Northumberland is 5.2% which is broadly in line with the England average, and the employment rate in Northumberland is 72.2% compared to the national average of 74%.

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 151,190 dwellings in Northumberland with an average (mean) house price of £188,084; which is substantially lower than the average England figure of £284,823.

Gross Value Added (GVA) is much lower in Northumberland at £15,950 per head compared to £26,159 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 as at the 31 March 2017 is shown below:

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

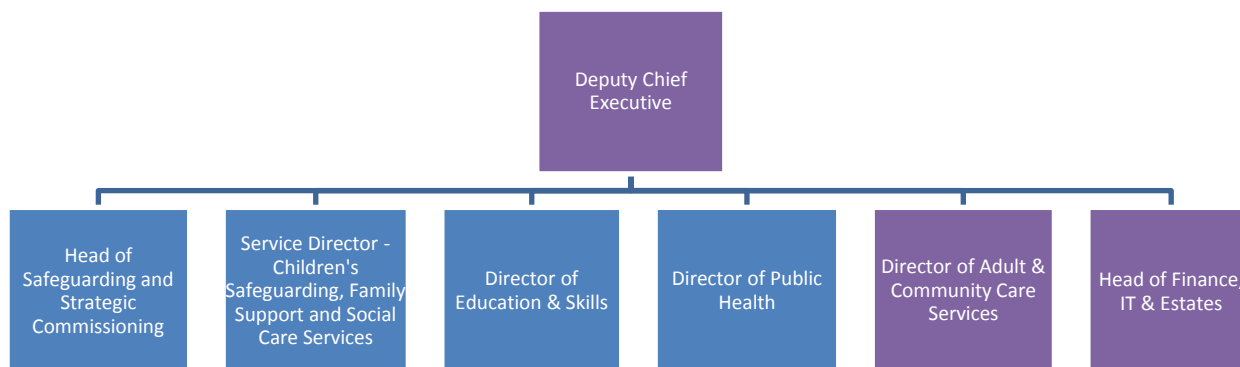
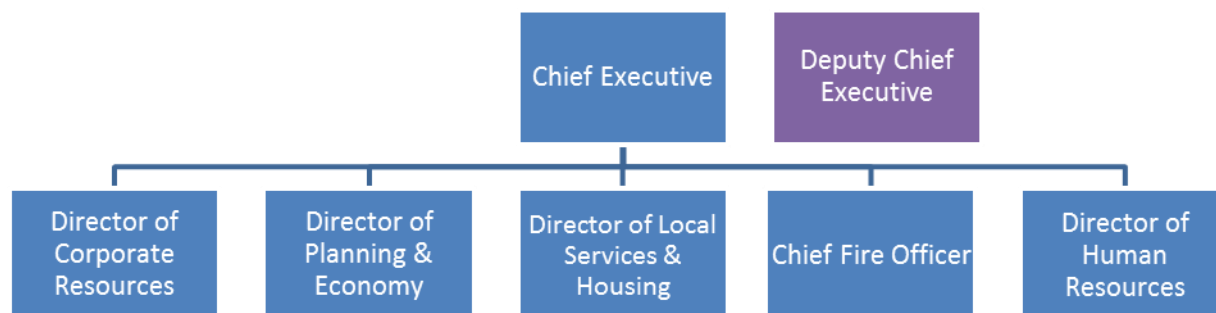
Following local elections on 4 May 2017 the revised political structure of the Council is shown below. Further details are included within Note 8 Events after the Reporting Period:

Conservative	33
Independent	5
Labour	24
Liberal Democrat	3
Non-aligned	2

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### Management Structure

The management structure of the Council for the financial year 2016-17 is shown below:



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

### 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 £203.40 million between 2009-10 and 2016-17. A further £6.01 million reduction has been approved for 2017-18 with an additional £30.00 million reduction required to balance the budget up to 2019-20.

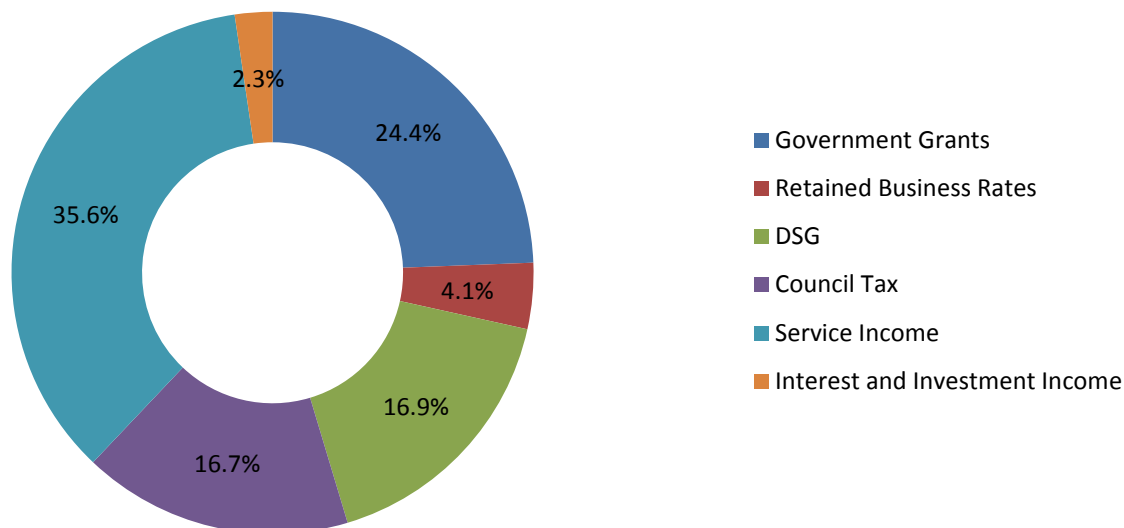
Increasing financial cutbacks nationally are leading to severe pressures locally but despite that, the Council is determined to deliver the best services and opportunities for everyone in the area – be that in health, education, affordable housing or benefiting from clean streets and good roads.

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## 2. Income and Expenditure

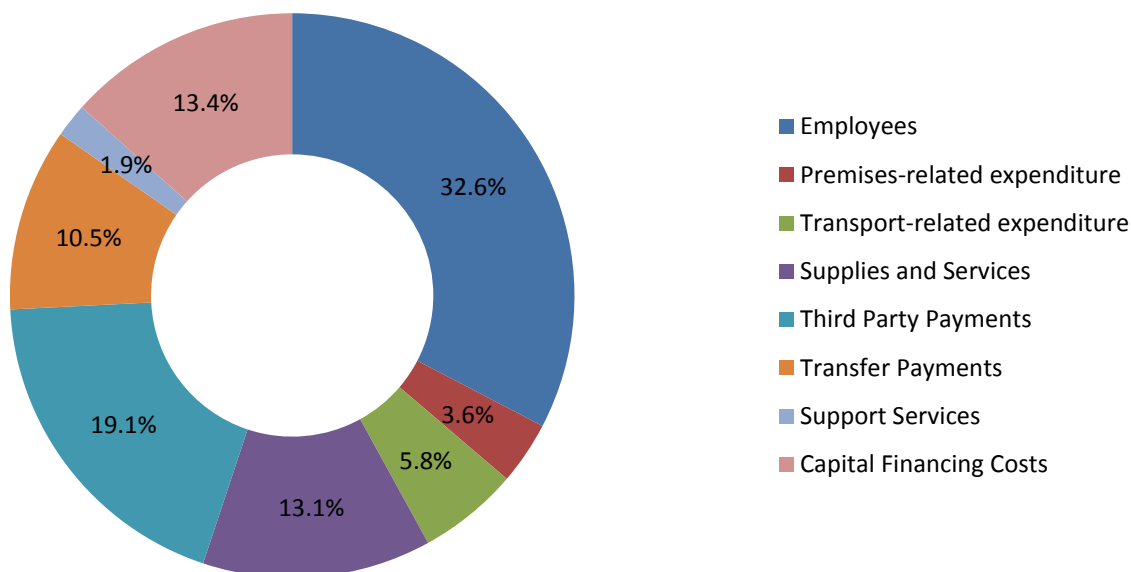
### Where the money comes from

The Council relies in the main on service income, Dedicated Schools Grant (DSG), local taxation and Retained Business Rates to fund service provision. These sources of funding accounted for 73.3% 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

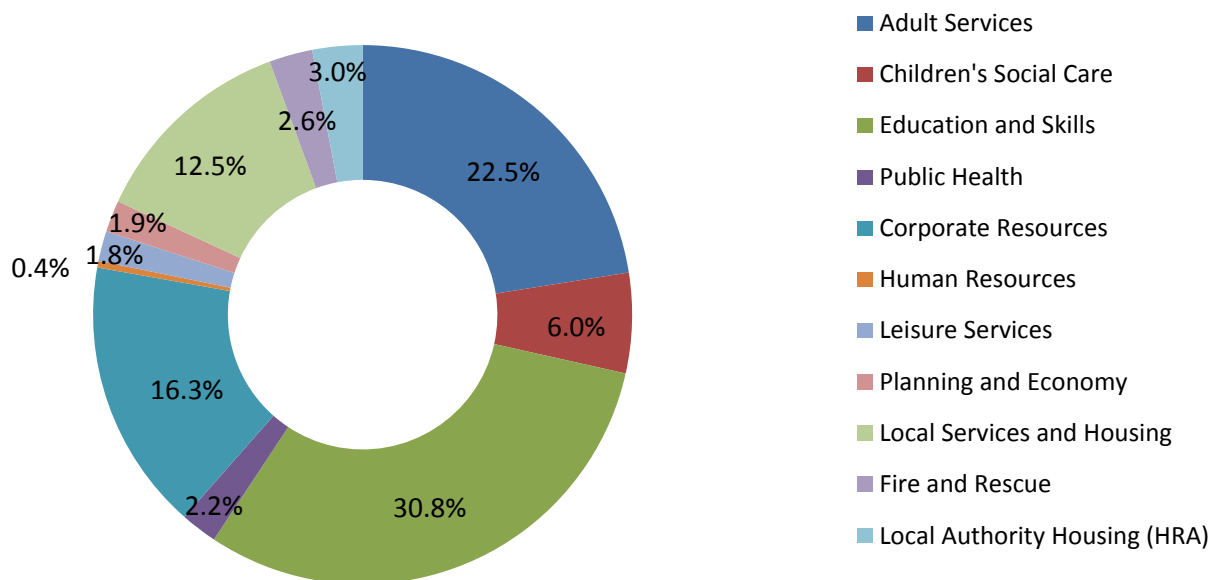
A large proportion of the Council's expenditure (32.6%) is staff-related, 29.6% relates to transfer payments and third party payments, with capital charges for the use of assets (depreciation and minimum revenue provision) accounting for a further 13.4%. The balance is mainly related to the purchase of supplies and services and central costs.



## Narrative Report

### What services were provided?

A percentage breakdown of gross expenditure on the services provided by the Council is shown below. The service with the highest gross expenditure is the Education and Skills Service, most of which is financed by the Dedicated Schools Grant. Adult Services has the second highest gross expenditure and the highest net expenditure. Corporate Resources has the third highest gross expenditure.



The Comprehensive Income and Expenditure Statement (page 19) and the Notes to the Financial Statements (pages 26 - 151) provide more detail regarding the charts above.

## Narrative Report

### 3. Outturn Against Budget for 2016-17 – Revenue

#### Revenue Budget 2016-17

The Council approved a net revenue budget of £261.69 million for 2016-17 after taking account of Dedicated Schools Grant of £162.34 million, New Homes Bonus Grant of £6.99 million, Education Services Grant of £3.03 million and Rural Services Delivery Grant of £2.33 million. Efficiencies and other savings totalling £11.93 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	41,459
Council Tax	154,882
Retained Business Rates	65,429
Contribution to General Fund	(78)
	261,692

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

The Council approved the Medium Term Financial Plan for 2017-18 to 2019-20 in February 2017, with the main aims of protecting frontline services and promoting growth in the county whilst implementing efficiency savings of £36.00 million over the same period.

To give some degree of clarity and facilitate financial planning, the Government has provided the Council with a four year funding offer which in theory is fixed up to and including 2019-20. To facilitate this offer the Council has produced and published on its web-site an efficiency plan. The Council's efficiency plan can be accessed at:

<http://www.northumberland.gov.uk/NorthumberlandCountyCouncil/media/About-the-Council/Northumberland-County-Council-Efficiency-Strategy-Plan-2016-2020.pdf>

Core funding from Government by 2020 is expected to be cut by 75.2% with the expectation that the Council will raise more money locally through increasing Council Tax, new homes being built and from Business Rates. However, the Council, like many others, comes under increasing pressure to provide or enable essential statutory services. This is particularly evident within Children's and Adult Social Care services where demand for the provision of care and support for Looked After Children and Adults with complex needs and an aging population continues to grow. This adds significantly to the budgetary pressures faced by the Council which are not fully evident. The Council has set aside £2.50 million within the base budget in 2017-18 to address pressures within Children's social care.

The additional cost of the National Living Wage on Adult Social Care contracts is estimated to be approximately £9.00 million over the period of the Medium Term Financial Plan 2017-20. The Government's offer to add up to 6 per cent Adult Social Care Precept to Council Tax levels over the next three years to address pressures in relation to Adult Social Care services, and the provision of the non-recurrent Adult Social Care grant in 2017-18 has alleviated the financial pressure within this area.



## Narrative Report

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

- 100% Business Rates income retention for local authorities by the end of the current parliament; and,
- A revised New Homes Bonus scheme which has significantly reduced the amount of New Homes Bonus funding that the Council will receive; and,
- Additional Adults' Social Care Funding. The Spring 2017 budget announced additional funding in this area over the period 2017 to 2020.

For 2017-18 the Council has taken up the Government's offer which allows Adult Social Care authorities to raise an additional 3% Council Tax Precept in order to alleviate some of the pressures within Adult Services.

The Council's net revenue budget for 2017-18 was set at £269.66 million after efficiency savings of £6.01 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 agreed at its budget meeting in February 2017 to invest £1,160.87 million in the county through the 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. The Council aims 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>

## Narrative Report

### Outturn Against Budget for 2016-17 - Revenue

Revenue budget monitoring is reported to each meeting of the Corporate Performance Overview and Scrutiny Committee and is regularly reviewed by the Corporate Leadership Team. The Council's revenue outturn position is shown in the table below:

	Net Budget	Net Expenditure	Net Variance
	£'000	£'000	£'000
Adult Services	85,221	86,152	931
Children's Social Care	32,398	38,292	5,894
Corporate Resources	13,838	6,560	(7,278)
Education and Skills	18,798	21,421	2,623
Fire and Rescue	18,837	18,613	(224)
Human Resources	2,709	2,879	170
Leisure Services	14,065	13,611	(454)
Local Services and Housing	71,489	70,585	(904)
Planning and Economy	4,140	3,308	(832)
Public Health	197	(181)	(378)
<b>Total</b>	<b>261,692</b>	<b>261,240</b>	<b>(452)</b>

The final outturn is a net contribution to general reserves of £0.45 million comprising a planned contribution of £0.08 million, the planned use of Adult Services reserves of £5.40 million and a general underspend against services of £5.77 million. The use of the Adult Services reserve was planned in order to meet recurrent pressures within both Adult and Children's Social Care. The General Reserve balance ring-fenced to Adult Services has now been fully exhausted. During the year the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme.

The underspend against services and the planned contribution to the General Fund and planned use of Adult Services reserves are reflected within the General Fund balance shown below:

	£'000
Balance as at 1 April 2016	36,852
Balance as at 31 March 2017	37,336
Change in year	484

The other element which makes up the total movement in the General Fund balance relates to the transfer of the remaining balance of £0.03 million from Homes for Northumberland following the transfer of the remaining reserves in March 2017.

The overall net worth of the Council has increased by £68.91 million in the year. This is due to several factors including an increase in the value of property, plant and equipment and long and short term debtors offset by an increase in borrowing and an increased Pension Fund liability.

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### Outturn Against Budget for 2016-17 – Capital

The table shows the net capital position by service area against the approved 2016-17 Capital Programme:

	Budget	Expenditure	Variance
	£'000	£'000	£'000
Adult Services	2,110	2,103	(7)
Children's Social Care	383	86	(297)
Corporate Resources	15,270	13,108	(2,162)
Education and Skills	8,120	10,673	2,553
Fire and Rescue	2,892	2,527	(365)
Leisure Services	3,790	3,141	(649)
Local Authority Housing (HRA)	14,039	12,592	(1,447)
Local Services and Housing	71,608	73,146	1,538
Planning and Economy	4,289	2,017	(2,272)
Total Services	122,501	119,393	(3,108)
Other Capital Items	180,540	177,601	(2,939)
Total Capital Expenditure	303,041	296,994	(6,047)

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

	Financing
	£'000
Borrowing	202,655
Capital Receipts	9,396
Revenue Contributions to Capital Outlay	17,495
HRA Contribution	7,383
External Grants	60,065
Total Financing	296,994

### Three Year Capital Programme

The Council agreed to embark on a three year capital programme totalling £1,160.87 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. A comprehensive schedule of capital schemes is included in Appendix 9 of the Council's Medium Term Financial Plan 2017-2020 and Budget for 2017-18 report at: [http://committeedocs.northumberland.gov.uk/MeetingDocs/25662\\_M7689.pdf](http://committeedocs.northumberland.gov.uk/MeetingDocs/25662_M7689.pdf)

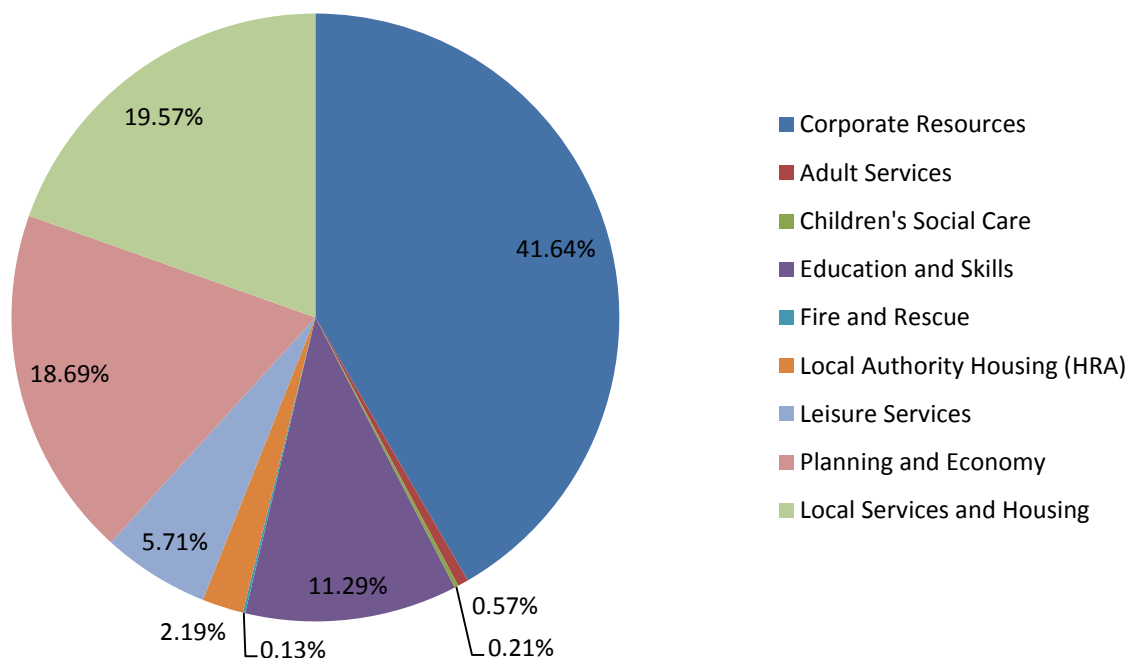
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### Capital Expenditure and Funding

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

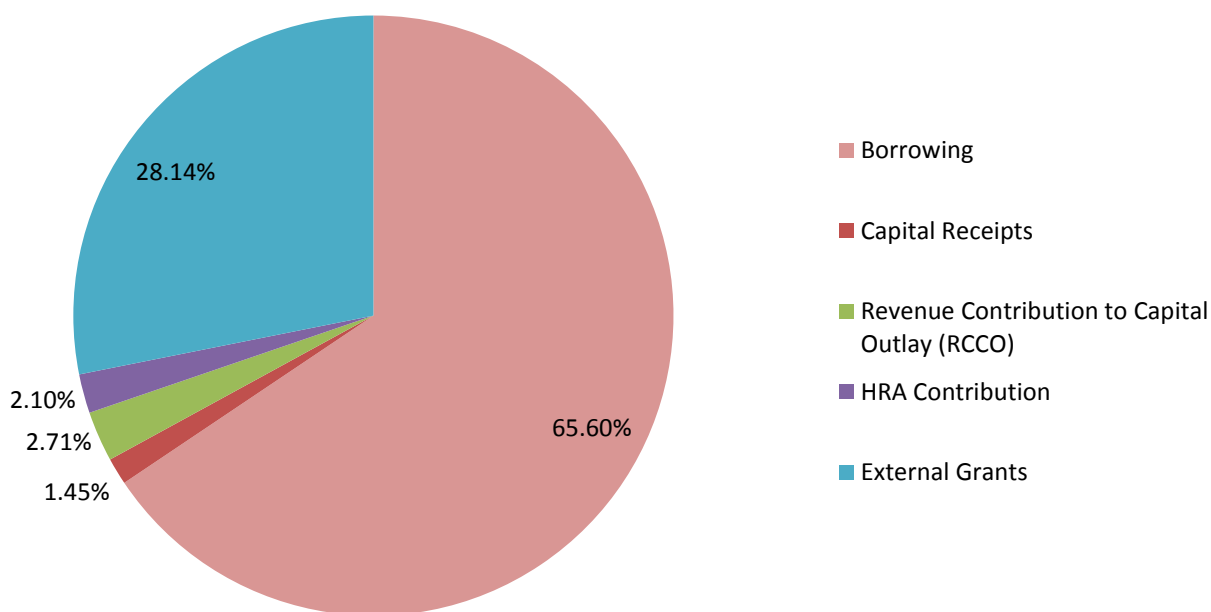
Service Area	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
Adult Services	2,222	2,218	2,218	6,658
Children's Social Care	2,449	-	-	2,449
Corporate Resources	178,068	154,283	151,000	483,351
Education and Skills	49,748	64,412	16,900	131,060
Fire and Rescue	1,523	-	-	1,523
Leisure Services	12,794	38,500	15,000	66,294
Local Authority Housing (HRA)	10,391	7,461	7,606	25,458
Local Services and Housing	103,753	80,675	42,734	227,162
Planning and Economy	20,526	107,568	88,817	216,911
<b>Total Expenditure</b>	<b>381,474</b>	<b>455,117</b>	<b>324,275</b>	<b>1,160,866</b>
<b>Financed by:</b>				
Borrowing	275,387	291,553	194,493	761,433
Capital Receipts	6,700	6,700	3,420	16,820
External Grants	73,521	138,203	114,956	326,680
HRA Borrowing	1,099	-	-	1,099
HRA Contribution (MRR and RCCO)	8,767	7,161	7,406	23,334
Revenue Contributions to Capital Outlay	16,000	11,500	4,000	31,500
<b>Total Financing</b>	<b>381,474</b>	<b>455,117</b>	<b>324,275</b>	<b>1,160,866</b>

### Capital Expenditure 2017-18 to 2019-20



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## Capital Funding 2017-18 to 2019-20



### 4. Performance

The Council set five core priorities in its Corporate Plan for 2013-17 on Economic Growth; Places and Environment; Stronger Communities and Families; Health and Wellbeing; and Developing the Organisation. During 2016-17 there have been significant achievements against these priorities:

#### **Economic Growth** *a great place to work.*

The Council is leading the regeneration of the county through its review of market towns and its £238 million capital programme for 2015-16 and 2016-17. The Council is rationalising its property portfolio and creating one stop shops, making it easier for residents to access Council services locally and under one roof. Together with Arch, the Northumberland Development Company, the Council is delivering the Northumberland Economic Strategy 2015-20. The Core Strategy which will support the creation of 10,000 extra jobs and the delivery of 24,320 extra homes (including a target of 30% affordable homes) in the county over the period 2011 to 2031 has been approved by the Council and submitted to the Secretary of State.

- New public transport facilities, housing and retail premises represents a £3.3 million investment in Hexham town centre, including a new bus station. The Council supported the new Hexham Business Improvement District which has now been launched and will deliver £1.2 million of improvements to the town.
- The Local Sustainable Transport Fund programme reached out to 15,000 employees across the county to encourage travel to work by sustainable means and supported nearly 500 job seekers by providing personalised travel training.

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- 150,000 households and businesses in Northumberland are now able to connect to fibre broadband as a result of the Council's £23 million iNorthumberland programme and BT's commercial roll-out of the high-speed technology.
- Following a restructure of Northumberland County Council's planning processes there has been a significant improvement in service. The percentage of major planning applications determined within target has risen from 45% in 2013-14 to 83% in 2016-17; with minor planning applications rising from 53% to 78% in the same period. 'Other' planning applications, which include those from individuals or householders have also increased from 77% to 88%.
- 97.6% of supplier invoices were paid within 30 days of receipt, an increase of 1.3% when compared to 2015-16.

### Places and environment

#### *a beautiful place.*

The Council is preserving and improving Northumberland; embracing diversity from the rural areas, the coastline, national park, market towns and other urban areas. The Council's parks continue to achieve Green Flag status and the Tall Ships in August 2016 showcased the county internationally, attracting ships and visitors from across the world.

- Nine Green Flags were awarded covering 10 parks in total: Carlisle Park, Hexham Park, Hirst Park, Dr Pit Park, Ridley Park, Astley Park, Bolam Lake Country Park, Plessey Woods Country Park, Castle Vale and Coronation Parks (in Berwick).
- Over the last 12 months approximately 1,200 new homes have been built in Northumberland.
- The Council has placed a strong emphasis on building new Council houses and has financed the build of 300 properties over the last three years. 180 affordable family homes have been built in Blyth at South Newsham, Tynedale Drive and Hodgson's Road together with 80 new homes in north Northumberland across Amble, Shilbottle and Embleton.
- Council housing tenants will benefit from a five year £31 million housing improvement programme to upgrade properties. The work includes kitchen and bathroom replacements, electrical rewiring, new heating systems, replacement roof coverings and windows.
- The proportion of fly-tips removed from public areas within three days has decreased from 91% in 2015-16 to 88% in 2016-17 but is still above targeted performance levels.
- 98% of hazardous potholes were filled within 24 hours of identification.
- The rate of missed bin collections reduced from 95 per 100,000 in 2015-16 to 49 in 2016-17.
- The percentage of street lighting faults attended to within three days increased from 84% in 2015-16 to 95% in 2016-17.

### Stronger communities and families

#### *a great place to live.*

Working with parents, governors and schools the Council is helping to drive improvements in Northumberland's schools. There is a significant schools capital investment programme

## Narrative Report

to ensure children receive the best possible education. Despite the national move for schools to become academies the Council has remained committed to challenging and supporting schools to improve. The Council sees its role as acting as a champion for children and parents in a time of significant cuts to national funding for schools.

- Visits to Northumberland funded museums have increased by 30%.
- In 2015 Northumberland Live was launched, a free music festival which took place in Blyth. Due to its success, events took place in 2016 in Blyth and for the first time in Bedlington; attracting 12,000 and 6,500 people respectively.
- Of the 121 primary and first schools, 101 were judged to be Good or Outstanding as at March 2017, which is below the national average. This also means that 2,909 children are in schools that are not yet good enough. Of the 41 secondary schools, 28 were judged to be Good or Outstanding as at March 2017, which is significantly worse than the national average. This means that 9,047 children are in schools that are not yet good enough.
- Children's centre services (which cost £4.2 million net to run a year) have supported 84% of children under the age of five in our most deprived communities.
- The number of cases per full time social worker was reduced from 24 to 22 in 2016-17 to improve the quality of support; and the number of cases per independent reviewing officer was reduced from 75 to 67.
- The percentage of foster care children placed with County Council foster carers increased from 72% in 2015-16 to 81% in 2016-17.
- The average time between a child entering care and moving in with an adoptive family was reduced from 687 days in 2015-16 to 597 days in 2016-17.

### Health and Wellbeing

#### *a healthy place to live and work.*

Following the transfer of Public Health from the NHS to the Council in 2012, the health and wellbeing of people living in Northumberland continues to improve. As well as increases in life expectancy and years of life in good health, people in Northumberland in general have high levels of happiness and low levels of anxiety. Investment has continued in a range of public health services including sexual health and contraception services, 0-19 years public health services, exercise referral, drug and alcohol services and stop smoking schemes. Leisure and cultural activity contributes to both the wellbeing and quality of life of local communities. Between 2013 and 2017, and with Active Northumberland, the Council has invested over £40 million in new and modernised leisure facilities across the county ensuring residents have access to some of the best facilities and activities available. The Council continues to provide library services across the county where other Councils have closed them.

- The Council is spending £51.6 million a year on commissioned and in-house services to enable people to live independently; examples include £4.5 million on the short term support service which enables people to recover their independence after a major health crisis or accident, and, direct payments totalling £6.3 million enabling 758 people to take full control of their own support arrangements.
- There have been marked improvements in public health over recent years, including:



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- an increase in the proportion of adults who do not smoke from 81.9% in 2012 to 83.4% in 2015.
- an increase in the proportion of pregnant women who do not smoke by the time of delivery from 80.6% in 2012-13 to 85% in 2015-16.
- a dramatic decrease in the number of teenage pregnancies from 239 in 2007 to 121 in 2014.
- All Adult Care performance measures achieved their targets in 2016-17.
- There were three accidental fire deaths in 2016-17, the first since 2013-14.

### Developing the Organisation *an organisation for the future.*

The Council is focused on delivering excellent services as effectively as possible within reduced resources. Technology is being utilised to maximise the time staff can spend delivering services, including creating 'back office' hubs to bring together staff, reducing costs and providing a space for staff working across the county to use, saving travel time and meaning more time to deliver frontline services.

- Northumberland was recognised again as one of the top 100 employers in Britain in Stonewall's 2016 Workplace Equality Index, coming third in the Local Government category.
- £13.6 million was invested in the renewal of vehicles and plant used in the delivery of key frontline services.
- Average time for processing new housing and council tax benefit applications improved from 16.22 days in 2015-16 to 15.53 days in 2016-17; and performance in dealing with changes of circumstances improved from 4.35 days to 3.39 days.

## 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 2017	
	Principal	Average Rate (at Year End)
	£'000	%
Public Works Loans Board	268,919	3.34
Local Authority Loans	234,000	4.10
Other Market Loans	258,690	1.72
<b>Total Debt</b>	<b>761,609</b>	<b>3.29</b>
Investments excluding Impaired Deposits and In-House Funds	136,062	2.10
<b>Total Investments</b>	<b>136,062</b>	<b>2.10</b>

During the year the Council repaid £153.63 million of maturing borrowing and took out replacement short-term borrowing of £75.00 million, along with £202.00 million of long term borrowing, in line with authorised limits. This resulted in a net increase in total borrowing of £123.37 million.



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Investment balances decreased during the year by £60.27 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 2017 the County Council's net liability for future pension costs was £678.12 million. Sixty one 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 2016-17 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 fully fund the liabilities within approximately 22 years.

### 7. Group Results

The Group Accounts fully incorporate the results of Arch, Homes for Northumberland and Generation and Innovation all 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 reveal a surplus on the provision of service after taxation of £60.89 million (£30.13 million in 2015-16), incorporating a net deficit for Arch of £7.53 million (£3.01 million surplus in 2015-16) and a net surplus for Homes for Northumberland of £0.01 million (£0.67 million surplus in 2015-16). The net assets of the Group are £399.68 million at 31 March 2017 (£332.13 million at 31 March 2016). Generation and Innovation was dormant at 31 March 2017.

### 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 2017 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.

## Narrative Report

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 2016-17; and,
- The Group accounts which consolidate the results and balances of the Council with a number of subsidiary entities that it controls (Arch, Homes for Northumberland and Generation and Innovation).

The format of the Statement of Accounts has been revised in line with the CIPFA Code of Practice on Local Authority Accounting 2016-17. This includes the introduction of the expenditure and funding analysis and expenditure and income analysed by nature note.

The expenditure and funding analysis reconciles the financial position reported on the basis of proper accounting practices with the amount charged to the financial statements under statute. Further detail on the statutory adjustments is also provided in the movement in reserves statement and note 9 – adjustments between accounting basis and funding basis under regulations.

For the Council, the Statement of Accounts comprises:

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

From 2016-17 local authorities are no longer required to report based on the service expenditure analysis in the Service Reporting Code of Practice (SeRCOP) but to report on the same basis as the Council's budget and performance monitoring reports. This new format means that the service section of the comprehensive income and expenditure statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

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.

### **Movement in Reserves Statement**

This statement shows the movement in the year for the 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.

### **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.

## **Narrative Report**

### **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.
- Generation and Innovation, created to allow the authority to explore potential commercial opportunities.

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

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

## **Narrative Report**

### **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.

During 2016-17 the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme.

## **Comprehensive Income and Expenditure Statement**

for the year ended 31 March 2017

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 both the Expenditure and Funding Analysis (page 51) and the Movement in Reserves Statement (page 21). The 2015-16 position has been restated as 2016-17 CIPFA regulations now require the Council's income and expenditure to be reported in the format presented to management.

## Comprehensive Income and Expenditure Statement

for the year ended 31 March 2017

	Note	As Restated		2016-17			
		2015-16		Gross	Net		
		Gross Expenditure £'000	Gross Income £'000	Gross Expenditure £'000	Net Expenditure £'000		
Adult Services		154,031	(78,693)	75,338	173,499	(87,659)	85,840
Children's Social Care		43,126	(6,560)	36,566	46,538	(8,021)	38,517
Corporate Resources		133,061	(97,165)	35,896	125,296	(93,305)	31,991
Education and Skills		256,398	(216,139)	40,259	235,832	(215,582)	20,250
Fire and Rescue		18,400	(5,667)	12,733	20,219	(5,271)	14,948
Human Resources		2,294	(127)	2,167	3,069	(224)	2,845
Leisure Services		15,567	-	15,567	14,136	(525)	13,611
Local Authority Housing (HRA)		21,486	(33,015)	(11,529)	23,185	(60,228)	(37,043)
Local Services and Housing		92,349	(20,929)	71,420	96,460	(25,607)	70,853
Planning and Economy		13,708	(10,283)	3,425	14,519	(15,064)	(545)
Public Health		14,778	(14,923)	(145)	16,860	(17,155)	(295)
Cost of Services		765,198	(483,501)	281,697	769,613	(528,641)	240,972
Other Operating Expenditure	11	31,267	(15,416)	15,851	62,577	(22,189)	40,388
Financing and Investment Income and Expenditure	12	51,973	(14,786)	37,187	51,099	(22,176)	28,923
Taxation and Non-Specific Grant Income	13	-	(361,187)	(361,187)	-	(378,699)	(378,699)
(Surplus) or Deficit on Provision of Services		848,438	(874,890)	(26,452)	883,289	(951,705)	(68,416)
(Surplus) or Deficit on Revaluation of Non Current Assets	14			(19,580)			(15,197)
(Surplus) or Deficit on Revaluation of Available-for-Sale Financial Assets	25			(167)			154
Actuarial (Gains)/Losses on pension Assets/Liabilities	44			(43,610)			14,580
Movement due to Acquisitions/Disposals on Pension Fund	44			8,060			-
Transfer of HfN Balances				(2,656)			(32)
Other Comprehensive Income and Expenditure				(57,953)			(495)
Total Comprehensive Income and Expenditure				(84,405)			(68,911)

## **Movement in Reserves Statement**

for the year ended 31 March 2017

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 2017

	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 2015	(26,636)	(99,257)	(11,155)	(2,274)	(15,622)	(614)	(155,558)	(30,550)	(186,108)
<b>Movement in Reserves during 2015-16:</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 Transfers to Earmarked Reserves	(8,922)	-	(6,254)	1,937	(9,414)	(377)	(23,030)	(61,375)	(84,405)
Transfers to/(from) Earmarked Reserves (Note 10)	(1,294)	1,694	(400)	-	-	-	-	-	-
(Increase)/Decrease in 2015-16	(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)
<b>Movement in Reserves during 2016-17:</b>									
(Surplus)/Deficit on the provision of services	(34,938)	-	(33,478)	-	-	-	(68,416)	-	(68,416)
Other Comprehensive Income & Expenditure	(32)	-	-	-	-	-	(32)	(463)	(495)
Total Comprehensive Income & Expenditure	(34,970)	-	(33,478)	-	-	-	(68,448)	(463)	(68,911)
Adjustments between accounting basis & funding basis under regulations (Note 9)	31,185	-	28,009	74	4,653	(1,148)	62,773	(62,773)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(3,785)	-	(5,469)	74	4,653	(1,148)	(5,675)	(63,236)	(68,911)
Transfers to/(from) Earmarked Reserves (Note 10)	3,301	(3,027)	(274)	-	-	-	-	-	-
(Increase)/Decrease in 2016-17	(484)	(3,027)	(5,743)	74	4,653	(1,148)	(5,675)	(63,236)	(68,911)
Balance at 31 March 2017 carried forward	(37,336)	(100,590)	(23,552)	(263)	(20,383)	(2,139)	(184,263)	(155,161)	(339,424)



## **Balance Sheet**

as at 31 March 2017

The Balance Sheet shows the value as at 31 March 2017 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'.

## Balance Sheet

as at 31 March 2017

	Note	31 March 2016 £'000	31 March 2017 £'000
Property, Plant and Equipment	14	1,204,806	<b>1,293,576</b>
Heritage Assets	15	8,210	<b>8,383</b>
Investment Property	16	1,723	<b>1,575</b>
Intangible Assets	17	3,245	<b>3,320</b>
Assets Held for Sale - non current	21	400	<b>415</b>
Long Term Investments	18	120,288	<b>49,990</b>
Long Term Debtors	18,19	224,802	<b>394,787</b>
<b>Long Term Assets</b>		<b>1,563,474</b>	<b>1,752,046</b>
Intangible Assets	17	373	<b>442</b>
Short Term Investments	18	62,868	<b>70,835</b>
Assets Held for Sale - current	21	9,117	<b>15,737</b>
Inventories		1,133	<b>1,222</b>
Short Term Debtors	19	92,879	<b>122,515</b>
Cash and Cash Equivalents	20	31,535	<b>30,995</b>
<b>Current Assets</b>		<b>197,905</b>	<b>241,746</b>
Bank Overdraft	18,20	(16,521)	<b>(4,157)</b>
Short Term Borrowing	18	(94,353)	<b>(159,597)</b>
Short Term Creditors	22	(72,053)	<b>(107,614)</b>
Short Term Provisions	23	(12,568)	<b>(12,964)</b>
Revenue Grants Receipts in Advance	37	(1,341)	<b>(35)</b>
<b>Current Liabilities</b>		<b>(196,836)</b>	<b>(284,367)</b>
Long Term Creditors - PFI	41	(80,009)	<b>(78,178)</b>
Long Term Borrowing	18,47	(547,825)	<b>(606,298)</b>
Other Long Term Liabilities	44	(652,480)	<b>(678,120)</b>
Long Term Provisions	23	(1,668)	<b>(606)</b>
Capital Grants Receipts in Advance	18,37	(12,048)	<b>(6,799)</b>
<b>Long Term Liabilities</b>		<b>(1,294,030)</b>	<b>(1,370,001)</b>
<b>Net Assets</b>		<b>270,513</b>	<b>339,424</b>
Usable Reserves	10,24	178,588	<b>184,263</b>
Unusable Reserves	25	91,925	<b>155,161</b>
<b>Total Reserves</b>		<b>270,513</b>	<b>339,424</b>

## Cash Flow Statement

as at 31 March 2017

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2017 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.

	Note	2015-16 £'000	2016-17 £'000
Net surplus on the provision of services		26,452	<b>68,416</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements	29	23,540	<b>26,539</b>
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	30	(87,886)	<b>(111,223)</b>
<b>Net cash flows from Operating Activities</b>		<b>(37,894)</b>	<b>(16,268)</b>
Investing Activities	27	55,227	<b>(131,774)</b>
Financing Activities	28	(28,292)	<b>159,866</b>
<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>(10,959)</b>	<b>11,824</b>
Cash and cash equivalents at the beginning of the reporting period		25,973	<b>15,014</b>
Cash and cash equivalents at the end of the reporting period	20	15,014	<b>26,838</b>

## Notes to the Financial Statements

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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 2016-17 financial year and its position at the year-end of 31 March 2017. 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 2016-17 and the Service Reporting Code of Practice 2016-17, 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.

### 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.

### 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:

- 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.

## Notes to the Financial Statements

- 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.

#### 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.



## Notes to the Financial Statements

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

Component	Description
<i>Service cost comprising:</i>	
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

## Notes to the Financial Statements

Component	Description
	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,
- 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

## Notes to the Financial Statements

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.

### 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.

## Notes to the Financial Statements

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.

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

## Notes to the Financial Statements

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.

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.

## Notes to the Financial Statements

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.
- 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



## Notes to the Financial Statements

- 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 – 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

## Notes to the Financial Statements

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 in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting standard 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.

### 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.



## Notes to the Financial Statements

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 service segments in accordance with the authority's arrangements for accountability and financial performance.

## Notes to the Financial Statements

### 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 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);

## Notes to the Financial Statements

- 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.

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.

## Notes to the Financial Statements

### 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 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:

## Notes to the Financial Statements

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



## Notes to the Financial Statements

- 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.

#### 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.

## Notes to the Financial Statements

### 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 third year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon 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 Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.



## Notes to the Financial Statements

### 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)).

#### National 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.

### 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

## Notes to the Financial Statements

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.
- **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.

## Notes to the Financial Statements

### 1.30 Business Improvement District Schemes (BIDS)

There is one Business Improvement District that has been set up for the purposes of providing additional services over and above those already provided by the Council within Hexham. The Council acts as an agent for the BID company and bills and collects a levy from businesses within the area and pays it over to the BID company.

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

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2017 but not yet adopted by the Code.

The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 includes the adoption of the asset valuation requirements of the CIPFA Code of Practice on Transport Infrastructure Assets (The Transport Code) which requires the re-measurement of the Highways Network Asset from a historical cost basis to depreciated replacement cost basis.

At its meeting on 8 March 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to the issue only if provided with clear evidence that benefits outweigh costs for local authorities.

The 2017-18 Code will also introduce the following amendments in respect of pension fund accounts:

- Amendments to the reporting of pension fund scheme transaction costs.

Currently a breakdown of pension fund administrative expenses is not required. However, in the interests of greater transparency the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. The guidance recommends that funds should disclose by way of a note to the accounts, a breakdown of management expenses across the following three categories as a minimum: investment management expenses, pension scheme administration costs and oversight and governance expenses. The first category, investment management expenses, will include transaction costs for all categories of investment other than directly held property. The Fund has adopted CIPFA guidance on management expenses since 2015-16 when the guidance was introduced. The 2017-18 Code is expected to mandate the current guidance and therefore no material change to the Fund accounts is expected.

- Amendment to the reporting of investment concentration.

The 2017-18 Code of Practice will also amend the reporting of investment asset concentration for pension funds and will require disclosure of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security. This is consistent with the approach taken in the Financial Reports of Pension

## Notes to the Financial Statements

Schemes – A Statement of Recommended Practice 2015. No material impact on the accounts of the Fund is expected.

### 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.
- 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 £68.84 million for Waste and £12.21 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 £1.08 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 Cushman & Wakefield Debenham Tie Leung Limited 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 or 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.

## Notes to the Financial Statements

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	94	68	17	8	1	-
Foundation	7	4	3	-	-	-
Pupil Referral Unit	1	-	-	-	-	1
Voluntary Aided	37	31	6	-	-	-
Voluntary Controlled	12	12	-	-	-	-
<b>Total Maintained Schools</b>	<b>151</b>	<b>115</b>	<b>26</b>	<b>8</b>	<b>1</b>	<b>1</b>
Academies	21	7	12	-	2	-
Free Schools	1	1	-	-	-	-
<b>Total Schools</b>	<b>173</b>	<b>123</b>	<b>38</b>	<b>8</b>	<b>3</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.

Queen Elizabeth High School and Hexham Middle School converted to academy status on 1 September 2016 and Prudhoe Adderlane First School converted to academy status on 1 December 2016. The net book value of these assets at the time of disposal was £13.91 million, £6.67 million and £1.14 million respectively. The transfers are shown as a reduction in the Property, Plant and Equipment line on the Balance Sheet and as a loss on disposal in the Comprehensive Income and Expenditure Statement. The loss does not affect the General Fund balance as the amounts are appropriated to the Capital Adjustment Account in the Movement in Reserves Statement.

#### 4. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (page 19).

## Notes to the Financial Statements

	2016-17		
	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES
	£'000	£'000	£'000
Adult Services	77,753	8,087	85,840
Children's Social Care	37,782	735	38,517
Corporate Resources	42,756	(10,765)	31,991
Education and Skills	8,438	11,812	20,250
Fire and Rescue	15,264	(316)	14,948
Human Resources	2,877	(32)	2,845
Leisure Services	6,726	6,885	13,611
Local Authority Housing (HRA)	(9,308)	(27,735)	(37,043)
Local Services and Housing	49,225	21,628	70,853
Planning and Economy	3,290	(3,835)	(545)
Public Health	(177)	(118)	(295)
Net Cost of services	234,626	6,346	240,972
Other Income And Expenditure	(240,821)	(68,567)	(309,388)
(Surplus)	(6,195)	(62,221)	(68,416)
Transfer of Homes for Northumberland Balances	(32)		
Total (Surplus) General Fund and HRA	(6,227)		
Opening General Fund and HRA Balance at 31 March 2016	(54,661)		
Add: (Surplus) on General Fund and HRA Balance in Year	(6,227)		
Closing General Fund and HRA Balance at 31 March 2017	(60,888)		

Note: the split between the General Fund and HRA balances are detailed in the Movement in Reserves Statement on page 21

## Notes to the Financial Statements

	2015-16		
	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the CIES £'000
Adult Services	72,277	3,061	75,338
Children's Social Care	33,585	2,981	36,566
Corporate Resources	27,432	8,464	35,896
Education and Skills	7,613	32,646	40,259
Fire and Rescue	15,112	(2,379)	12,733
Human Resources	2,182	(15)	2,167
Leisure Services	8,678	6,889	15,567
Local Authority Housing (HRA)	(10,265)	(1,264)	(11,529)
Local Services and Housing	50,193	21,227	71,420
Planning and Economy	3,650	(225)	3,425
Public Health	(168)	23	(145)
Net Cost of services	210,289	71,408	281,697
Other Income And Expenditure	(224,503)	(83,646)	(308,149)
(Surplus)	(14,214)	(12,238)	(26,452)
Transfer of Homes for Northumberland Balances	(2,656)		
Total (Surplus) General Fund and HRA	(16,870)		
Opening General Fund and HRA Balance at 31 March 2015	(37,791)		
Add: (Surplus) on General Fund and HRA Balance in Year	(16,870)		
Closing General Fund and HRA Balance at 31 March 2016	(54,661)		

Note: the split between the General Fund and HRA balances are detailed in the Movement in Reserves Statement on page 21.

### Notes to the Expenditure and Funding Analysis

The adjustments between the funding and accounting basis shown above are analysed further in the following tables.

#### Adjustments for Capital Purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line, and for:

- Other Operating Expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also any change in the fair value of assets held for sale is reflected in this note.
- Financing and Investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are



## Notes to the Financial Statements

deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

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

### Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For Services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and Investment income and expenditure – the net interest on the defined benefit liability is charged to the comprehensive income and expenditure statement.

### Other Differences

Other differences between amounts debited/credited to the comprehensive income and expenditure statement and amounts payable/receivable to be recognised under statute:

- For Financing and Investment income and expenditure - the other differences column recognises adjustments to the County Fund for the timing differences for premiums and discounts.
- For Services - this represents the change in accrued employee benefits such as annual leave.
- The charge under taxation and non-specific grant income represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits in the Collection Fund.



## Notes to the Financial Statements

### Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	2016-17			
	Adjustments for	Net change for	Other	Total
	Capital Purposes	the Pensions	Differences	Adjustments
	£'000	Adjustment	£'000	£'000
	£'000	£'000	£'000	£'000
Adult Services	8,351	(284)	20	8,087
Children's Social Care	824	(219)	130	735
Corporate Resources	(8,679)	(2,149)	63	(10,765)
Education and Skills	14,469	(3,810)	1,153	11,812
Fire and Rescue	3,145	(3,350)	(111)	(316)
Human Resources	-	(35)	3	(32)
Leisure Services	6,885	-	-	6,885
Local Authority Housing (HRA)	(27,522)	(213)	-	(27,735)
Local Services and Housing	21,913	(352)	67	21,628
Planning and Economy	(3,808)	(49)	22	(3,835)
Public Health	(104)	(9)	(5)	(118)
Net Cost of services	15,474	(10,470)	1,342	6,346
Other Income And Expenditure	(89,354)	21,530	(743)	(68,567)
<b>(Surplus) or Deficit</b>	<b>(73,880)</b>	<b>11,060</b>	<b>599</b>	<b>(62,221)</b>

	2015-16			
	Adjustments for	Net change for	Other	Total
	Capital Purposes	the Pensions	Differences	Adjustments
	£'000	Adjustment	£'000	£'000
	£'000	£'000	£'000	£'000
Adult Services	3,690	(587)	(42)	3,061
Children's Social Care	3,168	(173)	(14)	2,981
Corporate Resources	9,430	(874)	(92)	8,464
Education and Skills	37,430	(3,849)	(935)	32,646
Fire and Rescue	1,832	(4,225)	14	(2,379)
Human Resources	-	(17)	2	(15)
Leisure Services	6,922	-	(33)	6,889
Local Authority Housing (HRA)	(1,213)	(51)	-	(1,264)
Local Services and Housing	21,848	(534)	(87)	21,227
Planning and Economy	(87)	(132)	(6)	(225)
Public Health	31	(8)	-	23
Net Cost of services	83,051	(10,450)	(1,193)	71,408
Other Income And Expenditure	(104,452)	20,920	(114)	(83,646)
<b>(Surplus) or Deficit</b>	<b>(21,401)</b>	<b>10,470</b>	<b>(1,307)</b>	<b>(12,238)</b>

## Notes to the Financial Statements

### 5. Expenditure and Income Analysis by Nature

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

	2015-16	2016-17
	£'000	£'000
<b>Expenditure:</b>		
Depreciation, amortisation, impairment	81,885	<b>84,494</b>
Employee Benefits Expenses	296,440	<b>317,409</b>
(Gain) or Loss on the Disposal of Assets	1,624	<b>(592)</b>
Interest Payments	33,456	<b>33,204</b>
Other Services Expenditure	406,048	<b>415,500</b>
Payments to Housing Capital Receipts Pool	1,003	<b>1,120</b>
Precepts and levies	14,544	<b>15,136</b>
Support Service Recharges	13,439	<b>17,018</b>
<b>Total Expenditure</b>	<b>848,439</b>	<b>883,289</b>
<b>Income:</b>		
Fees Charges and Other Services Income	<b>(265,617)</b>	<b>(339,096)</b>
Government Grants	<b>(406,567)</b>	<b>(392,332)</b>
Income from council tax, non-domestic, district rate income	<b>(188,095)</b>	<b>(198,135)</b>
Interest and Investment Income	<b>(14,612)</b>	<b>(22,142)</b>
<b>Total Income</b>	<b>(874,891)</b>	<b>(951,705)</b>
<b>(Surplus) on the Provision of Services</b>	<b>(26,452)</b>	<b>(68,416)</b>

## 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 2017 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 2017 was £1,293.60 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 increased its equal pay provision by £0.53 million in 2016-17 bringing the total amount provided for since 2008-2009 to £12.98 million. Of this, £1.08 million remains on the balance sheet as at 31 March 2017 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 £1.30 million to the provision needed.
Pensions Liability	At 31 March 2017, the Council had a net pension liability of £678.12 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 pension 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 £25.87

## 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 2016-17, the Council's actuary advised that the net pension liability for funded LGPS benefits had decreased by £128.23 million due to changes in demographic assumptions and experience, and decreased by £278.41 million due to changes in actuarial assumptions.
Arrears	At 31 March 2017, the Council had a balance of sundry debtors of £14.13 million. A review of significant balances suggested that an impairment of doubtful debts of 25% (£3.53 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 £7.20 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

#### Icelandic Banks

On 16 June 2016 the Council sold its remaining Icelandic kroner investment, via a currency auction held by the Central Bank of Iceland (CBI).

The deposit formed part of the settlement received from Glitnir/Landsbanki following the collapse of the Icelandic banks, and was being held in an escrow account due to the imposition of currency controls imposed by the Icelandic Government and Central Bank.

As at the date of disposal the value of the deposit, based on exchange rates at that time, was £2.18 million. The net proceeds received from the auction totalled £1.62 million, resulting in an impairment to the Comprehensive Income and Expenditure statement of £0.56 million.

#### RCCO

During 2016-17 the Council made a revenue contribution to capital of £15.70 million to fund the overall capital programme.

### 8. Events After the Reporting Period

The Statement of Accounts will be authorised for issue by the Section 151 Officer on 30 September 2017. 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 2017, 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 2017:

## Notes to the Financial Statements

### Academy Conversions

Abbeyfields First School converted to an academy on 1 May 2017. The Property, Plant and Equipment line in the Balance Sheet contained valuations totalling £2.40 million for the school which transferred out of Council ownership. The Usable Reserves for the Council includes £0.05 million in relation to this school.

Further academy conversions are anticipated by 30 September 2017 for Prudhoe West First School, Haydon Bridge Shaftoe Trust Primary School, Ashington Community High School Sports College, Bedlingtonshire Community High School and Haydon Bridge High School; however conversion dates are yet to be confirmed.

### Brexit

On the 23 June 2016 a referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision returned to leave the EU. The result of Brexit has created some uncertainty and the related financial impacts are not yet quantified. Although this provides some future uncertainties for the Council, it is considered a non-adjusting event for these Statement of Accounts to 31 March 2017.

The significant areas impacted could include:

- reduced income - central government grants might decrease, European grant funding could end;
- potential for reduced tourism/inward investment;
- increased cost pressure due to movement in Inflation rates;
- the valuation of land and buildings;
- the fair value of long-term borrowing (but not the principal sum or interest payable);
- the liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation; and,
- unusable reserves – any movement in the liability related to defined benefit pension schemes or movement in the value of land and buildings will be offset within unusable reserves.

As the lead in time to Brexit is two years, and negotiations have only recently commenced the value of the financial impact cannot be measured at this stage.

### Chief Executive

The Chief Executive, Head of Paid Service and Section 151 Officer left the Council's employment on 31 May 2017. Interim arrangements were put in place with effect from 1 June 2017 to cover statutory roles.

### Elections

County Council and Parish and Town Council elections were held on 4 May 2017. The Conservative Group will form the administration of the Council and were appointed at the meeting of the County Council on 24 May 2017.

### Sale of County Hall

During May 2017 the proposed purchasers and developers of the County Hall site in Morpeth withdrew their planning applications. The Council has subsequently withdrawn the

## Notes to the Financial Statements

property from the market and the land is no longer for sale. The Council will retain County Hall in Morpeth as its main administrative building.

The former administration of the Council had intended moving the Council headquarters to a new site in Ashington. No decision has yet been taken regarding the site that had been identified as the Council's new headquarters where construction work had commenced. A number of options are currently being explored for the Council to consider regarding the future use and development of the site.

### **Woodhorn Archive and Modern Records**

The Northumberland Archive and Modern Records Service was transferred from Woodhorn Charitable Trust to Northumberland County Council on 1 May 2017. As part of the transfer, a reduction was made to the Service Level Agreement and Local Authority contribution awarded to the Charitable Trust. In total £0.44 million was retained by the Council per year to cover the costs of Staffing, Materials and Property, Plant and Equipment.

The transfer affected 22 members of staff who are now working to Northumberland County Council terms and conditions. This transfer is part of a wider strategic agenda to strengthen and consolidate our Information Governance and Records Management functions.

### **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 21.

## Notes to the Financial Statements

2016-17	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	(36,296)	(8,531)	-	-	-	44,827
Revaluation (losses)/gains on Property Plant and Equipment	(11,805)	27,163	-	-	-	(15,358)
Movements in the fair value of Investment Properties	495	-	-	-	-	(495)
Amortisation of intangible assets	(1,084)	-	-	-	-	1,084
Capital grants and contributions applied	89,125	1,219	-	-	-	(90,344)
Revenue expenditure funded from capital under statute	(17,340)	-	-	-	-	17,340
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	(45,667)	(448)	-	-	-	46,115
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the repayment of debt	18,577	-	-	-	-	(18,577)
Capital expenditure charged against the General Fund and HRA balances	17,221	274	-	-	-	(17,495)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8,549	-	-	(8,549)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	13,202	-	(13,202)
<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	21,594	579	(19,402)	-	-	(2,771)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	9,396	-	-	(9,396)
Voluntary set aside of Capital Receipts to repay debt	-	-	9,286	-	-	(9,286)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(139)	-	139	-	-	-

## Notes to the Financial Statements

2016-17	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.	(1,120)	-	1,120	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(465)	-	-	465
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve:</i>						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	-
Transfer to the Capital Receipts Reserve upon receipt of cash	(26)	-	-	-	-	26
<i>Adjustment primarily involving the Major Repairs Reserve:</i>						
Reversal of Major Repairs Allowance credited to the HRA	-	8,531	-	-	(8,531)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	7,383	(7,383)
<i>Adjustments primarily involving the Financial Instruments Adjustment Account:</i>						
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	(429)	-	-	-	-	429
<i>Adjustments primarily involving the Pensions Reserve:</i>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(47,057)	(2,773)	-	-	-	49,830
Employer's pensions contributions and direct payments to pensioners payable in the year	36,758	2,011	-	-	-	(38,769)
<i>Adjustments primarily involving the Collection Fund Adjustment Account:</i>						
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	1,171	-	-	-	-	(1,171)



## Notes to the Financial Statements

2016-17	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>Adjustment primarily involving the Accumulated Absences Account:</b>						
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	(1,342)	(16)	-	-	-	1,358
<b>Total Adjustments</b>	<b>31,185</b>	<b>28,009</b>	<b>74</b>	<b>4,653</b>	<b>(1,148)</b>	<b>(62,773)</b>

## Notes to the Financial Statements

2015-16	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 market 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 repayment of debt	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	Housing	Capital	Capital	Major	Movement
	Fund	Revenue	Receipts	Grants	Repairs	in
Balance	Account	Reserve	Unapplied	Reserve	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 Unequal Pay Back Pay Adjustment Account:</a>						
<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)
<b>Total Adjustments</b>	<b>12,269</b>	<b>1,663</b>	<b>1,937</b>	<b>(9,414)</b>	<b>(377)</b>	<b>(6,078)</b>

## 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 2016-17.

	2015-16			2016-17			
	Balance as	Transfers	Transfers	Balance as	Transfers	Transfers	Balance
	at 1 April	Out	In	at 31	Out	In	as at 31
	2015			March			March
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund Reserves:</b>							
Adults Services Reserve	5,819	(5,819)	-	-	-	-	-
Balances held by schools under a scheme of delegation	8,868	(813)	865	8,920	(2,616)	284	6,588
Community Led Housing	-	-	-	-	-	1,315	1,315
Contingency Reserve	20,541	(20,541)	-	-	-	-	-
Estates Rationalisation	23,934	(8,286)	-	15,648	(2,286)	231	13,593
Homefinders	76	(36)	-	40	(12)	-	28
Insurance Reserve	8,528	(6,080)	3,388	5,836	-	709	6,545
Invest to Save	3,194	(571)	923	3,546	(304)	-	3,242
Local Authority Mortgage Scheme	291	-	85	376	-	48	424
Market Traders' Levy	6	(2)	3	7	(4)	1	4
NCC Economic Regeneration Reserve	164	(165)	83	82	-	-	82
NCC Fire and Rescue PFI Sinking Fund Reserve	914	(914)	-	-	-	-	-
NCC Waste PFI Sinking Fund Reserve	6,545	(6,545)	-	-	-	-	-
Neighbourhood Partnerships	76	(76)	-	-	-	-	-
Pension Cost Reserve	2,970	(2,970)	-	-	-	-	-
Planning Delivery Grant	552	-	60	612	(159)	-	453
Revenue Grants Reserve	11,276	(11,276)	9,508	9,508	(8,822)	8,215	8,901
Rural Growth Network	334	(272)	-	62	(5)	-	57

## Notes to the Financial Statements

	2015-16			2016-17			
	Balance as at 1 April 2015	Transfers Out	Transfers In	Balance as at 31 March 2016	Transfers Out	Transfers In	Balance as at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund Reserves:</b>							
Section 106 Reserve	2,295	(780)	629	2,144	(829)	3,234	4,549
Severe Weather Reserve	2,500	-	-	2,500	-	-	2,500
Strategic Management Reserve	-	(85)	48,209	48,124	-	4,040	52,164
	98,883	(65,231)	63,753	97,405	(15,037)	18,077	100,445
<b>Transferred from the Borough and District Councils:</b>							
ADC Housing Capital	201	(201)	-	-	-	-	-
ADC Parks & Open Spaces	86	(11)	-	75	(11)	-	64
ADC Section 106 Monies	87	(9)	5	83	(2)	-	81
	374	(221)	5	158	(13)	-	145
<b>Total General Fund Reserves</b>	<b>99,257</b>	<b>(65,452)</b>	<b>63,758</b>	<b>97,563</b>	<b>(15,050)</b>	<b>18,077</b>	<b>100,590</b>
<b>HRA Account:</b>							
Major Repairs Reserve	614	-	377	991	(7,383)	8,531	2,139
<b>Total Reserves</b>	<b>99,871</b>	<b>(65,452)</b>	<b>64,135</b>	<b>98,554</b>	<b>(22,433)</b>	<b>26,608</b>	<b>102,729</b>

## Notes to the Financial Statements

### Adults Services Reserve

This reserve is funded from the Adult Services revenue budgets to support future service reconfiguration. During 2015-16 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 £6.59 million includes school balances of £4.98 million (£7.48 million in 2015-16), 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 £1.61 million (£1.44 million in 2015-16). The school balances are made up as follows:

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Unspent Balances	8,200	7,811
Overspent Balances	(711)	(2,305)
Loan Outstanding	(10)	(528)
	7,479	4,978

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 2017 there were two loans outstanding of £0.53 million (2015-16 £0.01 million) for Swansfield Park Primary School £0.03 million and Alnwick Duchess High School £0.50 million.

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

### Community Led Housing

This reserve was created from the Council's allocation from the Department for Communities and Local Government's Community Housing Fund. It is to be used to support community-led housing developments in areas where the impact of second homes is particularly acute. To enable community groups to deliver affordable housing units of mixed tenure on sites which are to be of little interest to mainstream housebuilders and to build collaboration, skills and supply chains at a local level. The reserve will enable capital investment, technical support and revenue to be provided to make schemes viable.

### Contingency Reserve

This reserve was established to cover future redundancy and restructuring costs. Following a review of reserves during 2015-16 the balance of this reserve was transferred to the Strategic Management Reserve to be utilised over the period of the Medium Term Financial Plan.

### 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 reserve was created when the Homefinder service transferred from Homes for Northumberland back into the Council and is to be used to contribute to the development of

## Notes to the Financial Statements

the Homefinder Service, including the management of the Housing Register and the Homelessness module.

### 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 2017 is £6.55 million (2015-16 £5.84 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 provisions since the 2010-11 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 and a further payment in May 2016 of £0.52 million; this provision is now at £0.08 million at 31 March 2017. (note 23)

### 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 worked in partnership with Lloyds Bank and provided a cash backed indemnity to Lloyds who in turn, subject to applicants meeting their lending criteria, awarded mortgages to first time buyers at a lower rate of interest. In return for the cash backed indemnity the Council received interest payments from Lloyds. This scheme closed during 2016-17 but the interest is being held in case of future defaults. In 2016-17 £0.05 million interest was received by the Council.

### Market Traders' Levy

Each week market traders pay an additional levy of £0.50 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 one hundred pounds during the year.

It is anticipated that the remaining balance of £0.08 million will be fully utilised during 2017-18.

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

The account was closed during 2015-16 with the balance £0.92 million transferred to the Strategic Management Reserve.

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

The account was closed during 2015-16 after £2.70 million was utilised to fund expenditure with the balance of £3.85 million transferred to the Strategic Management Reserve.

### **Neighbourhood Partnerships**

During the 2015-16 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. The balance on the reserve was appropriated back into revenue in 2015-16.

### **Planning Delivery Grant**

This was created using the Planning Delivery Grant received by the former District and Borough Councils and Northumberland County Council 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 balance of the funding being used for the Local Growth Fund (LGF) Programme which ends in 2018-19.



## Notes to the Financial Statements

### Section 106 Reserve

The reserve was created in 2011-12 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 2016-17 £3.23 million was received from developers with £0.83 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 2015-16 which enabled £48.12 million to be released to support the Medium Term Financial Plan. A further £4.04 million was added to the reserve from the Collection Fund surplus in 2016-17 to support the Medium Term Financial Plan in 2017-18. This funding was approved at the Council's budget meeting in February 2017.

### 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 2015-16 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 2005-06 and 2006-07 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 2016-17.

### 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 157.

## Notes to the Financial Statements

### 11. Other Operating Expenditure

	2015-16	2016-17
	£'000	£'000
Parish and other precepts	14,544	15,136
Payments to the Government Housing Capital Receipts Pool	1,003	1,120
Downward Valuation of Assets Held for Sale	(13)	(15)
Losses on the disposal of non-current assets	317	24,147
Total net operating expenditure	15,851	40,388

### 12. Financing and Investment Income and Expenditure

	As Restated	
	2015-16	2016-17
	£'000	£'000
Interest payable and similar charges	29,381	30,049
Pensions interest cost and expected return on pensions assets	20,920	21,530
Interest receivable and similar income	(14,735)	(22,141)
Income and expenditure in relation to investment properties and changes in fair value	1,621	(515)
Total Financing and Investment Income and Expenditure	37,187	28,923

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

	2015-16	2016-17
	£'000	£'000
Council tax income	(150,878)	(159,184)
Non domestic rates	(37,217)	(38,951)
Non-ring fenced government grants	(93,948)	(81,671)
Capital grants and contributions	(79,144)	(98,893)
Total Taxation and Non Specific Grant Income	(361,187)	(378,699)

## Notes to the Financial Statements

### 14. Property, Plant and Equipment

<b>Movements in 2016-17:</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 2016	270,510	485,233	141,305	424,650	9,839	12,165	59,278	1,402,980	106,324
Additions	12,548	53,446	6,282	33,360	4	128	40,057	145,825	1,582
Reclassifications	5,188	7,226	147	10,369	-	2,550	(25,480)	-	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(7,941)	-	-	10	8,346	-	415	-
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	18,675	(17,941)	-	-	-	(873)	-	(139)	-
De-recognition - Disposals	(1,620)	(28,131)	(2,676)	-	(4)	(76)	(321)	(32,828)	-
De-recognition - Other	-	(3,516)	-	-	-	-	-	(3,516)	-
Assets reclassified (to)/from Held for Sale	-	(6,912)	-	-	(50)	(6,023)	-	(12,985)	-
At 31 March 2017	305,301	481,464	145,058	468,379	9,799	16,217	73,534	1,499,752	107,906
<b>Accumulated Depreciation and Impairment:</b>									
At 1 April 2016	-	34,292	46,898	115,564	1,420	-	-	198,174	22,664
Depreciation/Impairment charge	8,488	13,811	9,913	12,487	128	-	-	44,827	4,198
Reclassifications	-	(627)	-	-	-	627	-	-	-
Depreciation written out to the Revaluation Reserve	-	(14,216)	-	-	-	(566)	-	(14,782)	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(8,488)	(6,863)	-	-	-	(61)	-	(15,412)	-
De-recognition - Disposals	-	(4,056)	(2,276)	-	-	-	-	(6,332)	-

## Notes to the Financial Statements

<b>Movements in 2016-17:</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
De-recognition – Other	-	(299)	-	-	-	-	-	(299)	-
At 31 March 2017	-	22,042	54,535	128,051	1,548	-	-	206,176	26,862
Net Book Value:									
At 31 March 2017	305,301	459,422	90,523	340,328	8,251	16,217	73,534	1,293,576	81,044
At 31 March 2016	270,510	450,941	94,407	309,086	8,419	12,165	59,278	1,204,806	83,660

## Notes to the Financial Statements

<b>Movements in 2015-16:</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)	-	-	-
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)	-

## Notes to the Financial Statements

<b>Movements in 2015-16:</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
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

### 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 2016	6,082	1,276	927	8,285
Additions	150	-	23	173
<b>As at 31 March 2017</b>	<b>6,232</b>	<b>1,276</b>	<b>950</b>	<b>8,458</b>
<b>Accumulated Depreciation and Impairment :</b>				
As at 1 April 2016	-	52	23	75
<b>As at 31 March 2017</b>	<b>-</b>	<b>52</b>	<b>23</b>	<b>75</b>
Net Book Value 31 March 2017	6,232	1,224	927	8,383
Net Book Value 31 March 2016	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:

	2015-16 £'000	2016-17 £'000
Rental income from investment property	(51)	(35)
Direct operating expenses arising from investment property	20	14
Net Gain	(31)	(21)

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:

	2015-16 £'000	2016-17 £'000
Balance at the start of the year	3,543	1,723
Reclassifications	(50)	-
Assets reclassified (to)/from Held For Sale	-	(270)
Disposals	(145)	(470)
Net (losses)/gains from fair value adjustments	(1,625)	592
Balance at the end of the year	1,723	1,575

### Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 1.29 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 2017 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 Cushman and Wakefield 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
5 years	None	Fire Service call taking and mobilising system
3 years	None	Vehicle Tracking System

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.08 million was charged to revenue in 2016-17. £0.67 million of this was charged to the IT Administration cost centre and then absorbed as an overhead across all

## Notes to the Financial Statements

the service headings in the Net Expenditure of Services, and £0.38 million was charged to the Fire & Rescue Service, and £0.03 million to general housing.

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

	Current		Long Term	
	2015-16	2016-17	2015-16	2016-17
Total	Total	Total	Total	Total
Intangible Assets (Other)*	Intangible Assets (Other)*	Intangible Assets (Other)*	Intangible Assets (Other)*	Intangible Assets (Other)*
	£'000	£'000	£'000	£'000
<b>Balance at start of year:</b>				
Gross carrying amounts	462	373	7,233	7,743
Accumulated amortisation	-	-	(3,168)	(4,498)
Net carrying amount at the start of year	462	373	4,065	3,245
<b>Additions:</b>				
- Purchases	334	442	220	1,159
Assets reclassified from PPE	-	-	18	-
Other Disposals - cost	(423)	(373)	-	(2,224)
Other Disposals - amortisation	-	-	-	2,224
Amortisation for the period	-	-	(1,105)	(1,084)
HfN transfer	-	-	272	-
HfN transfer Amortisation	-	-	(225)	-
Net carrying amount at the end of year	373	442	3,245	3,320
<b>Comprising:</b>				
Gross carrying amounts	373	442	7,743	6,679
Accumulated amortisation	-	-	(4,498)	(3,359)
	373	442	3,245	3,320

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	31 March	31 March	31 March
	2016	2017	2016	2017
	£'000	£'000	£'000	£'000
<b>Investments:</b>				
Loans and receivables (principal)	93,250	<b>33,251</b>	62,240	<b>60,000</b>
Add: Accrued Interest	-	-	628	<b>544</b>
Loans and receivables at amortised cost	93,250	<b>33,251</b>	62,868	<b>60,544</b>
RBS Certificate of Deposit	10,299	-	-	<b>10,291</b>
Available-for-sale financial assets	13,399	<b>13,399</b>	-	-
Unquoted equity investment at cost	3,340	<b>3,340</b>	-	-
<b>Total Investments</b>	<b>120,288</b>	<b>49,990</b>	<b>62,868</b>	<b>70,835</b>
<b>Debtors:</b>				
Loans and receivables *	224,802	<b>394,787</b>	87,908	<b>117,737</b>
<b>Total Debtors</b>	<b>224,802</b>	<b>394,787</b>	<b>87,908</b>	<b>117,737</b>
<b>Borrowings:</b>				
Financial liabilities at amortised cost	(549,609)	<b>(608,064)</b>	(88,627)	<b>(153,546)</b>
Add: Accrued Interest	-	-	(5,743)	<b>(6,069)</b>
Add : Amortised premiums	1,784	<b>1,766</b>	17	<b>18</b>
<b>Total Borrowings</b>	<b>(547,825)</b>	<b>(606,298)</b>	<b>(94,353)</b>	<b>(159,597)</b>
<b>Creditors:</b>				
Financial liabilities at amortised cost	(12,048)	<b>(6,799)</b>	(71,639)	<b>(105,818)</b>
<b>Total Creditors</b>	<b>(12,048)</b>	<b>(6,799)</b>	<b>(71,639)</b>	<b>(105,818)</b>

\* Note – The debtors figure quoted exclude 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 2016 £'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 2017 £'000	Closing Balance (Nominal) 31 March 2017 £'000
Berwick Core - Solar Panels	9	4.00%	9.34%	43	-	-	(10)	2	35	39
Homes for Northumberland - Allendale Properties	40	4.50%	6.00%	1,127	-	-	(1,355)	228	-	-
Loans to Adoptive Parents	10	0.00%	3.70%	1	-	-	(1)	-	-	-
Northumberland Aged Miners Housing Association- Solar Panels	20	3.54%	5.87%	1,918	-	-	(105)	29	1,842	2,149
Northumbria Healthcare NHS Foundation Trust - Local Government Pension Scheme	15	1.50%	5.00%	1,664	-	-	30	54	1,748	2,010
Persimmon Homes - Deferred Capital Receipt (Wellesley Site)	4	0.00%	5.25%	541	-	-	(570)	29	-	-
The Maltings - LED Technologies Investment	10	3.87%	5.85%	135	-	-	(5)	2	132	150

### 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%	2.48%	177,561

## 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:

	2015-16			Total	2016-17			Total
	Financial Liabilities measured Amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale		Financial Liabilities measured Amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	(29,735)	-	-	(29,735)	(30,044)	-	-	(30,044)
Fee Expense	(21)	-	-	(21)	(360)	-	-	(360)
Total expense in surplus or deficit on the provision of services	(29,756)	-	-	(29,756)	(30,404)	-	-	(30,404)
Interest income	-	15,727	132	15,859	-	22,763	147	22,910
Total income in surplus or deficit on the provision of services	-	15,727	132	15,859	-	22,763	147	22,910
Gain on Revaluation	-	-	167	167	-	-	-	-
Loss on Revaluation	-	-	-	-	-	-	(155)	(155)
Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	167	167	-	-	(155)	(155)
Net gain/(loss) for the year	(29,756)	15,727	299	(13,730)	(30,404)	22,763	(8)	(7,649)

## 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 2016	31 March 2017
			Fair Value £'000	Fair Value £'000
Certificates of deposit with Royal Bank of Scotland	Level 2	Unadjusted quoted prices in active markets for identical shares	10,298	10,291
Equity shareholding in Newcastle Airport Local Authority Holding Company Limited	Level 2	Unadjusted quoted prices in active markets for identical shares	13,399	13,399
Unquoted equity investment at cost ARCH	Level 3	Equity shares with no quoted market prices	3,340	3,340
<b>Total Liabilities</b>			<b>27,037</b>	<b>27,030</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 143. 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 2016-17 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 2016-17.

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 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB - Maturity	231,774	317,520	<b>221,678</b>	<b>343,620</b>
PWLB - Annuity	744	1,351	<b>724</b>	<b>1,318</b>
PWLB - EIP	56,386	59,877	<b>47,835</b>	<b>51,024</b>
LOBOs	262,658	432,830	<b>191,218</b>	<b>372,392</b>
Cash Overdrawn	16,521	16,521	<b>4,157</b>	<b>4,157</b>
Market Loans	90,616	91,613	<b>304,440</b>	<b>372,855</b>
Financial Liabilities	658,699	919,712	<b>770,052</b>	<b>1,145,366</b>
Long-Term Creditors	12,048	12,048	<b>6,799</b>	<b>6,799</b>
<b>Total Liabilities</b>	<b>670,747</b>	<b>931,760</b>	<b>776,851</b>	<b>1,152,165</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 2017) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Cash	31,535	31,535	<b>30,995</b>	<b>30,995</b>
Short Term Investments	62,868	62,868	<b>70,835</b>	<b>70,835</b>
Long Term Investments	120,288	124,938	<b>49,990</b>	<b>53,816</b>
Loans and Receivables	214,691	219,341	<b>151,820</b>	<b>155,646</b>
Long Term Debtors	224,802	224,802	<b>394,787</b>	<b>394,787</b>
<b>Total Assets</b>	<b>439,493</b>	<b>444,143</b>	<b>546,607</b>	<b>550,433</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. 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 2016 £'000	31 March 2017 £'000
<b>Short Term:</b>		
Central government bodies	20,066	56,582
NHS bodies	12,818	16,640
Other entities and individuals	47,734	42,706
Other local authorities	7,984	3,487
Public corporations and trading funds	4,277	3,100
<b>Total Short Term</b>	<b>92,879</b>	<b>122,515</b>
<b>Long Term:</b>		
ARCH Loan - Assets Tranche 1	9,657	9,657
ARCH Loan - Other Commercial Properties	34,205	179,916
ARCH Loan - Development Projects	5,535	18,260
ARCH Loan - Housing	18,320	27,946
Lloyds TSB Lend a Hand Scheme	1,064	-
NCC - Airport Loan Notes	11,916	11,916
Northumberland Aged Mineworkers Homes Association Solar Panel Loan	1,720	1,637
Northumberland College	1,852	1,657
Northumberland College Loan 2014	6,175	6,012
Northumbria Healthcare NHS Foundation Trust Berwick Hospital Loan	23,000	22,000
Northumbria Healthcare NHS Foundation Trust Cramlington Capital Equipment Loan	10,000	10,000
Northumbria Healthcare NHS Foundation Trust Hexham Hospital Loan	98,167	93,775
Northumbria Healthcare NHS Foundation Trust LGPS Loan	1,466	1,322
Other Loans	1,725	10,689
<b>Total Long Term</b>	<b>224,802</b>	<b>394,787</b>
<b>Total Debtors</b>	<b>317,681</b>	<b>517,302</b>

### 20. Cash and Cash Equivalents

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

	31 March 2016 £'000	31 March 2017 £'000
Cash and Bank Balances	31,535	30,995
Bank overdraft	(16,521)	(4,157)
<b>Total Cash and Cash Equivalents</b>	<b>15,014</b>	<b>26,838</b>

## Notes to the Financial Statements

### 21. Assets Held for Sale

	Current		Non-Current	
	2015-16 £'000	2016-17 £'000	2015-16 £'000	2016-17 £'000
Balance at 1 April	2,752	9,117	388	400
<i>Assets newly classified as held for sale:</i>				
Property, Plant and Equipment	7,350	13,705	-	-
Revaluation gains	-	-	12	15
<i>Assets declassified as held for sale:</i>				
Property, Plant and Equipment	-	(450)	-	-
Assets sold	(985)	(6,635)	-	-
Balance outstanding at year-end	9,117	15,737	400	415

### 22. Creditors

	31 March 2016 £'000	31 March 2017 £'000
Central government bodies	(15,611)	(48,725)
NHS bodies	(1,003)	(2,878)
Other entities and individuals	(54,213)	(54,362)
Other local authorities	(1,225)	(1,414)
Public corporations and trading funds	(1)	(235)
Total	(72,053)	(107,614)

## Notes to the Financial Statements

### 23. Provisions

	Redundancy Costs	Unequal PayBack Pay	Accumulated Absences*	MMI Liability	Repairs & Maintenance	Land Restoration	NNDR Appeals	Estates Rationalisation	Other	Total
Provisions	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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 2015-16	745	819	5,512	-	642	-	2,219	958	543	11,438
Additional provisions made in 2015-16	(309)	-	-	-	-	-	(2,757)	-	-	(3,066)
Unused amounts reversed in 2015-16	2,189	1,153	-	-	5,445	3,546	-	25	309	12,667
Balance at 1 April 2016	(309)	(557)	-	(600)	(6,171)	-	(3,990)	(2,254)	(355)	(14,236)
Amounts used in 2016-17	280	254	-	522	1,023	-	1,487	307	208	4,081
Additional provisions made in 2016-17	(271)	(780)	-	-	(897)	-	(1,726)	-	-	(3,674)
Unused amounts reversed in 2016-17	29	-	-	-	-	-	-	230	-	259
Balance at 31 March 2017	(271)	(1,083)	-	(78)	(6,045)	-	(4,229)	(1,717)	(147)	(13,570)
Comprising:										
Short Term	(271)	(1,083)	-	(78)	(6,045)	-	(4,229)	(1,111)	(147)	(12,964)
Long Term	-	-	-	-	-	-	-	(606)	-	(606)
Total Provisions	(271)	(1,083)	-	(78)	(6,045)	-	(4,229)	(1,717)	(147)	(13,570)

\* from 2015-16 the amount held for Accumulated Absences has been accrued as a Creditor and is included within Note 22

## 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 2016-17 (and for comparative amounts during 2015-16) 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. From 2015-16 this balance has been recognised as an accrual and is held within the creditors balance.

### Municipal Mutual Insurance (MMI) Liability

In September 1992 Municipal Mutual Insurance Ltd (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 provision in this respect. As at 31 March 2017, the total amount of the Council's claims to date subject to reclamation was £5.34 million (£5.22 million as at 31 March 2016). MMI's position deteriorated in 2011-12 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 provision.

Similarly in April 2016 Municipal Mutual issued Northumberland County Council with a further levy payment due under the Scheme of Arrangement namely £0.52 million which was met from the provision.

This provision is now £0.08 million at 31 March 2017. The outstanding claims estimate for Northumberland County Council is £0.35 million at 31 March 2017. Assuming a further levy of 25% Northumberland County Council would be required to pay (estimate) £0.09 million.

## Notes to the Financial Statements

Thereafter Northumberland County Council will review its provision and if necessary transfer from the Insurance Reserve.

### Repairs and Maintenance

A sum of £6.05 million has been set aside to provide for future repairs and maintenance liabilities.

### Land Restoration

The provision was no longer required based on the latest information received from the contractor and therefore the provision was reversed in 2015-16.

### 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 2017.

### Estates Rationalisation

This provision is 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 Property Snagging issues arising from GB Building Solutions in administration £0.15 million.

## 24. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement on page 21, in Note 10 on page 65 and are summarised in the table below:

	31 March 2016 £'000	31 March 2017 £'000
Capital Grants Unapplied Reserve	25,036	20,383
Capital Receipts Reserve	337	263
Earmarked General Fund Reserves	97,563	100,590
General Fund	36,852	37,336
Housing Revenue Account	17,809	23,552
Major Repairs Reserve	991	2,139
Total Usable Reserves	178,588	184,263

## 25. Unusable Reserves

	31 March 2016 £'000	31 March 2017 £'000
Accumulated Absences Adjustment Account	(4,386)	(5,743)
Available-for-Sale Financial Instruments Reserve	13,271	13,116
Capital Adjustment Account	573,609	658,756
Collection Fund Adjustment Account	3,806	4,977
Deferred Capital Receipts Reserve	821	3,101
Financial Instruments Adjustment Account	(758)	(1,188)
Pensions Reserve	(652,480)	(678,120)
Revaluation Reserve	158,042	160,262
Total Unusable Reserves	91,925	155,161

## Notes to the Financial Statements

### 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.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	143,333	158,042
Upward revaluation of assets	40,321	26,986
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	(20,741)	(11,789)
Difference between fair value depreciation and historical cost depreciation	(3,567)	(3,073)
Accumulated gains on assets sold or scrapped	(1,304)	(9,389)
Amount written off to the Capital Adjustment Account	-	(515)
Balance at 31 March	158,042	160,262

### 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.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	(677,560)	(652,480)
Net (increase) from acquisitions/disposals*	(8,060)	-
Return on plan assets	(34,540)	172,200
Actuarial gains or (losses) arising on changes in financial assumptions	57,740	(318,390)
Actuarial gains or (losses) arising on changes in demographic assumptions	3,040	34,570
Other	17,370	97,040
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	(50,100)	(49,830)
Employer's pensions contributions and direct payments to pensioners payable in the year	39,630	38,770
Balance at 31 March	(652,480)	(678,120)

- \* 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.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	552,769	573,609
<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	(42,832)	(44,827)
Deficit on Available-for-Sale financial assets	13	15
Revaluation losses on Property, Plant and Equipment	(32,420)	15,343
Amortisation of intangible assets	(1,105)	(1,084)
Revenue expenditure funded from capital under statute *	(18,778)	(17,340)
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)	(46,115)
Adjusting amounts written out of the Revaluation Reserve	4,871	12,977
<b>Capital financing applied in the year:</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	10,098	9,396
Use of the Major Repairs Reserve to finance new capital expenditure	7,190	7,383
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	65,079	90,344
Application of grants to capital financing from the Capital Grants Unapplied Account	4,651	13,202
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	31,488	18,577
Voluntary set aside of capital receipts	6,621	9,286
Capital expenditure charged against the General Fund and HRA balance	3,172	17,495
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,652)	495
Balance at 31 March	573,609	658,756

\*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

	2015-16 £'000	2016-17 £'000
Balance at 1 April	1,482	821
Finance Lease receivables principal	(172)	(355)
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	-	3,100
Transfer to the Capital Receipts Reserve upon receipt of cash	(489)	(465)
Balance at 31 March	821	3,101

### 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.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	28	(758)
Proportion of premiums/(discounts) incurred in previous financial years to be charged/(credited) against the General Fund Balance in accordance with statutory requirements	(772)	(516)
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	(14)	86
Balance at 31 March	(758)	(1,188)

### 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.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	2,906	3,806
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non domestic rates calculated for the year in accordance with statutory requirements	900	1,171
Balance at 31 March	3,806	4,977

## 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 £13.12 million at 31 March 2017 (2015-16 £13.27 million) and is reflected in the Available-for-Sale Financial Instruments Reserve.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	13,104	13,271
Upward Revaluation of Investment	167	-
Downward Revaluation of Investment	-	(155)
Balance at 31 March	13,271	13,116

The Council also has two Royal Bank of Scotland Certificates of Deposit (totalling £10.00 million) which were acquired in 2015-16. There was a downward revaluation of these instruments during 2016-17 of £0.16 million.

### 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.

	2015-16 £'000	2015-16 £'000	2016-17 £'000	2016-17 £'000
Balance at 1 April		(5,512)		(4,386)
Settlement or cancellation of accrual made at the end of the	5,512		4,386	
Amounts accrued at the end of the current year	(4,386)		(5,743)	
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		1,126		(1,357)
Balance at 31 March		(4,386)		(5,743)

## 26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2015-16 £'000	2016-17 £'000
Interest received	(14,741)	(18,926)
Interest paid	29,784	29,178
Dividends	-	(3,381)

## Notes to the Financial Statements

### 27. Cash Flow Statement – Investing Activities

	2015-16 £'000	2016-17 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(105,102)	(146,889)
Purchase of short term and long term investments	(110,132)	(20,000)
Other payments for investing activities	(26,569)	(180,501)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,502	12,722
Proceeds from short term and long term investments	140,000	81,620
Other receipts from investing activities	148,528	121,274
Net cash flows from investing activities	55,227	(131,774)

### 28. Cash Flow Statement – Financing Activities

	2015-16 £'000	2016-17 £'000
Cash receipts of short term and long term borrowing	75,051	277,017
Other receipts from financing activities	294	37,563
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(896)	(1,087)
Repayments of short and long term borrowing	(102,741)	(153,627)
Net cash flows from financing activities	(28,292)	159,866

## Notes to the Financial Statements

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

	2015-16	2016-17
	£'000	£'000
Depreciation	42,832	44,827
Impairment and downward valuations	32,408	(15,358)
Amortisation	1,105	1,084
Reduction in fair value of Soft Loans (non-subsiary) made in year	(29)	(86)
Soft Loans (non-subsiary) - Interest adjustment credited to the Comprehensive Income and Expenditure Statement during the year	(6)	-
Increase/(Decrease) in Interest Creditors	(163)	325
Increase in Creditors	17,347	(2,662)
Decrease in Interest and Dividend Debtors	12	166
(Increase) in Debtors	(76,299)	(56,376)
(Increase)/Decrease in Inventories	15	(89)
(Decrease) in Receipts in Advance	(321)	(1,306)
Increase in Pension Liability	10,470	11,060
Contributions (from) Provisions	(21,039)	(666)
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	15,556	46,115
Movement in Investment Property Values	1,652	(495)
<b>Net Deficit on the Provision of Services for Non-Cash Movements</b>	<b>23,540</b>	<b>26,539</b>

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

	2015-16	2016-17
	£'000	£'000
Capital grants credited to the surplus or deficit on the provision of services	(79,144)	(98,893)
Foreign exchange (Gain)/Loss on investments debited to the surplus or deficit on the provision of services in year	(240)	392
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8,502)	(12,722)
<b>Items included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities</b>	<b>(87,886)</b>	<b>(111,223)</b>

### 31. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2016-17.

### 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. The figures for 2015-16 have been restated to:

## Notes to the Financial Statements

	As Restated 2015-16			2016-17		
	Income	Cost	(Surplus) / Deficit	Income	Cost	(Surplus) / Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
Building, Pest Control and						
Land Charges	(1,212)	816	(396)	(1,229)	834	(395)
Car Parks	(1,113)	2,166	1,053	(1,060)	2,345	1,285
Catering	(228)	222	(6)	(232)	263	31
Cemeteries and Crematorium	(1,105)	793	(312)	(1,676)	1,016	(660)
Highways Maintenance	(384)	245	(139)	(2,384)	2,356	(28)
Markets	(152)	106	(46)	(140)	138	(2)
Public Buildings available for						
Private Hire	(75)	105	30	(113)	50	(63)
Trade Waste	(1,435)	1,293	(142)	(1,609)	1,436	(173)
<b>Total Trading Operations</b>	<b>(5,704)</b>	<b>5,746</b>	<b>42</b>	<b>(8,443)</b>	<b>8,438</b>	<b>(5)</b>

### Buildings, Pest Control and Land Charges

These services deal with dangerous structures and 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. The Council's main restaurant has generated a marginal surplus in the last 2 financial years. The restaurant operated by the Fire and Rescue Service is subsidised by the service.

### Cemeteries and Crematorium

The service manages nineteen cemeteries throughout the county and one crematorium in Blyth.

### 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 eleven locations throughout the county.

### Car Parks

Parking services are managed within the Council with two distinct elements to the service delivered to the public: on-street car parking and off street car parking. The latter incorporates 114 managed car parks of various types and is the element included in this note as on-street car parking is not subject to competitive forces. Consultations were held with local communities during 2013-14 aimed at introducing a policy specific to each location. This resulted in eight car parks retaining charging facilities, with the remainder operating either through time restrictions via the use of a disc, or, free all day parking.

Expenditure in the service has increased in 2016-17 primarily as a result of a £0.24 million increase in capital charges.

## Notes to the Financial Statements

### Trade Waste

Waste Services undertake trading on a partial basis in relation to trade waste. After allocating costs associated with these trading activities, the net effect is an overall surplus to the service. This activity contributes to the Council's duty of care for waste disposal.

### Public Buildings available for Private Hire

The service operates one building as a wedding venue which provides a significant contribution to building costs, several other buildings which are available for hire or rent have not been included as the income generated is relatively insignificant.

### Schools SLA's

The Council provides services to schools on a service level agreement (SLA) basis in various areas including Finance, IT Support, Legal etc, which generated income of £8.20 million in 2016-17. The basis of the majority of these SLA agreements is the recharge of costs incurred, therefore this income has been excluded.

### 33. Members' Allowances

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

	2015-16	2016-17
	£'000	£'000
Salaries	167	177
Allowances	1,314	1,352
Expenses	47	43
Total	1,528	1,572



## 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	2015-16	2016-17
	All Employees	All Employees
£50,000 to £54,999	91	94
£55,000 to £59,999	67	69
£60,000 to £64,999	29	39
£65,000 to £69,999	19	19
£70,000 to £74,999	12	11
£75,000 to £79,999	13	4
£80,000 to £84,999	5	9
£85,000 to £89,999	2	5
£90,000 to £94,999	4	2
£95,000 to £99,999	3	3
£100,000 to £104,999	2	1
£105,000 to £109,999	1	2
£110,000 to £114,999	1	1
£115,000 to £119,999	1	3
£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	-	-
£155,000 to £159,999	1	-
£170,000 to £174,999	-	-
£175,000 to £179,999	1	-
£195,000 to £199,999	1	-
£205,000 to £209,999	-	1
<b>Total</b>	<b>254</b>	<b>264</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 Audit Regulations 2015 require authorities to disclose the remuneration of Senior Officers. These officers are also included in the table on page 98. There have been no bonuses paid to any of the senior officers in 2015-16 or 2016-17.

2016-17	Salary	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	142,569	65,888	<b>208,457</b>	22,297	<b>230,754</b>
Deputy Chief Executive - Daljit Lally ①	156,311	19,180	<b>175,491</b>	24,208	<b>199,699</b>
<b>Senior Officers emoluments – salary is between £50,000 and £150,000 per year</b>					
Director of Planning and Economy	98,639	19,169	<b>117,808</b>	15,585	<b>133,393</b>
Director of Corporate Resources	107,860	11,488	<b>119,348</b>	17,042	<b>136,390</b>
Director of Education and Skills	116,150	2,104	<b>118,254</b>	18,352	<b>136,606</b>
Director of Public Health	96,204	-	<b>96,204</b>	13,418	<b>109,622</b>
Director of Local Services and Housing	113,545	-	<b>113,545</b>	17,940	<b>131,485</b>
Service Director - Children's Safeguarding, Family Support and Social Care Services ②	60,936	-	<b>60,936</b>	9,514	<b>70,450</b>
Head of Safeguarding and Strategic Commissioning ③	68,663	-	<b>68,663</b>	10,849	<b>79,512</b>
Director of Human Resources ④	86,593	9,966	<b>96,559</b>	13,808	<b>110,367</b>
Director of Adult and Community Care Services ⑤	54,225	2,547	<b>56,772</b>	8,118	<b>64,890</b>
Head of Finance, IT and Estates ⑥	38,289	2,928	<b>41,217</b>	5,894	<b>47,111</b>
Chief Fire Officer ⑦	30,766	-	<b>30,766</b>	6,247	<b>37,013</b>
Chief Fire Officer ⑧	108,162	-	<b>108,162</b>	18,277	<b>126,439</b>

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

Notes:

- ① Jointly funded post with the Northumbria Healthcare NHS Foundation Trust - each organisation pays 50% of the costs.
- ② Commenced work with Northumberland County Council 1 September 2016.
- ③ Leaver 1 January 2017.

## Notes to the Financial Statements

- ④ Director of Human Resources - seconded from Northumbria Healthcare NHS Foundation Trust. Salary is recharged 100% to Northumberland County Council.
- ⑤ Director of Adult and Community Care Services - Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs.
- ⑥ Head of Finance, IT and Estates - Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs.
- ⑦ Resigned from post 7 July 2016.
- ⑧ Deputy Chief Fire Officer 1 April 2016 to 7 July 2016. Chief Fire Officer from 8 July 2016.

## Notes to the Financial Statements

2015-16	Salary Compensation for loss of office	Benefits in kind*	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
	£	£	£	£	£
<b>Post Holder Information</b>					
<b>Senior Officers emoluments – salary is £150,000 or more per year</b>					
Chief Executive - Steven Mason ①	143,937	-	55,010	22,643	<b>221,590</b>
Deputy Chief Executive - Daljit Lally ②	146,226	-	9,100	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>
Director of Planning and Economy ④	98,701	-	19,300	15,636	<b>133,637</b>
Director of Corporate Resources ⑤	96,227	-	7,100	15,204	<b>118,531</b>
Director of Education and Skills	111,010	-	1,904	17,540	<b>130,454</b>
Director of Public Health	97,618	-	-	13,285	<b>110,903</b>
Director of Local Services and Housing Delivery ⑥	90,947	-	-	14,370	<b>105,317</b>
Director of Local Services and Housing Delivery ⑦	72,255	-	-	-	<b>72,255</b>
Associate Director (Head of Safeguarding & Strategic Commissioning)	90,319	-	-	14,270	<b>104,589</b>
Head of Children's Social Care ⑧	83,769	-	-	13,235	<b>97,004</b>
Head of Financial and Customer Services ⑨	82,578	-	-	13,047	<b>95,625</b>
Head of Public Protection ⑩	77,417	-	-	12,232	<b>89,649</b>
Director of Human Resources ⑪	96,599	-	-	13,814	<b>110,413</b>
Director of Adult and Community Care Services ⑫	56,722	-	-	8,111	<b>64,833</b>
Head of Finance, IT and Estates ⑬	41,217	-	-	5,894	<b>47,111</b>
Chief Fire Officer	107,160	-	-	22,854	<b>130,014</b>

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

### 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. Jointly funded post with the Northumbria Healthcare NHS Foundation Trust - each organisation pays 50% of the costs.

## Notes to the Financial Statements

- 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 NHS 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 NHS 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 NHS Foundation Trust. Figures represent 50% of the total salary costs.

## 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	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
							£	£
£0 - £20,000	42	<b>52</b>	50	<b>77</b>	92	<b>129</b>	707,099	<b>831,875</b>
£20,001 - £40,000	6	<b>2</b>	9	<b>13</b>	15	<b>15</b>	404,867	<b>404,005</b>
£40,001 - £60,000	2	<b>2</b>	4	<b>4</b>	6	<b>6</b>	270,642	<b>277,935</b>
£60,001 - £80,000	1	<b>1</b>	1	<b>5</b>	2	<b>6</b>	148,888	<b>413,158</b>
£80,001 - £100,000	-	-	2	<b>2</b>	2	<b>2</b>	176,835	<b>181,415</b>
£100,001 - £150,000	1	-	-	-	1	-	148,456	-
£150,001 - £200,000	-	-	1	-	1	-	179,188	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
	<b>52</b>	<b>57</b>	<b>67</b>	<b>101</b>	<b>119</b>	<b>158</b>	<b>2,035,975</b>	<b>2,108,388</b>
Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings	-	-	78	-	78	<b>49</b>	309,000	<b>270,526</b>
Total cost included in Comprehensive Income and Expenditure	<b>52</b>	<b>57</b>	<b>145</b>	<b>101</b>	<b>197</b>	<b>207</b>	<b>2,344,975</b>	<b>2,378,914</b>

The Council's Comprehensive Income and Expenditure Statement includes a provision for £0.27 million, to recognise redundancy plans which had been communicated prior to 31 March 2017 and as such meant the Council has a constructive obligation to meet these costs. The cost and number of departures is the best estimate of the liability as at 31 March 2017. 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:

	2015-16 £'000	2016-17 £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	191	191
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	9	10
Fees payable in respect of any other services provided by the appointed auditor during the year	36	64
<b>Total</b>	<b>236</b>	<b>265</b>

Notes:

Fees payable in respect of other services provided by the appointed auditor are in relation to fees paid relating to VAT advice and Ad Hoc services.

### 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 2016-17 are as follows:

	Schools' Budget Funded by DSG		
	Central Expenditure	Individual Schools' Budget	Total
	£'000	£'000	£'000
Final DSG for 2016-17			219,068
Academy figure recouped for 2016-17			(60,155)
Total DSG after Academy Recoupment			158,913
Brought forward from 2015-16			1,356
Agreed budgeted distribution in 2016-17	33,658	126,611	160,269
In Year Adjustments *	144	-	144
Final Budget Distribution for 2016-17	33,802	126,611	160,413
Actual Central Expenditure	(35,530)	-	(35,530)
Actual ISB deployed to Schools	-	(126,611)	(126,611)
Carried forward to 2017-18	(1,728)	-	(1,728)

\*Note – £0.19 million relates to additional funding received in 2016-17 for 2015-16 final early years block adjustment and an estimated clawback of £0.04 million is included for the 2016-17 final early years block adjustment which will be confirmed by the Department for Education (DfE) in June 2017.

## 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 2016-17:

	2015-16 £'000	2016-17 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Revenue</b>		
Central New Homes Bonus Grant	5,016	6,755
Central Services Education Grant	3,574	3,155
Other	489	743
Revenue Support Grant	56,995	41,459
Rural Services Delivery Grant	-	2,326
Small Business Rates Relief Grant	4,015	3,109
Top Up Grant	23,859	24,058
<b>Total Revenue</b>	<b>93,948</b>	<b>81,605</b>
<b>Capital</b>		
Department for Communities and Local Government - Broadband Delivery UK	4,856	-
Department for Communities and Local Government - Coastal Communities Fund	96	-
Department for Communities and Local Government - Disabled Facilities Grant	(2,004)	1,482
Department for Communities and Local Government - Hexham Fire Station	-	878
Department for Communities and Local Government - Rural Growth Network Fund	-	951
Department for Culture, Media and Sport	4,856	1,790
Department for Education - Basic Needs	3,102	3,663
Department for Education - Devolved Formula Capital	1,207	687
Department for Education - Donated Assets	-	43,481
Department for Education - Other	58	-
Department for Education - Schools' Capital Maintenance Grant	10,095	9,530
Department for Energy and Climate Change	164	5,989
Department for Environment, Food and Rural Affairs - Rural Growth Network	204	-
Department for Transport - Local Sustainable Transport	33	-
Department for Transport - Local Transport Plan	17,443	18,177
Department for Transport - Morpeth Northern Bypass	15,075	2,038
Department for Transport - OLEV Vehicle Charge Point	4	-
Department for Transport - Other	15,597	3,611
Department for Transport - Pinch Point	3,438	-
Department of Health	737	737
Environment Agency	60	274
European Regional Development Fund	71	-
Football Foundation	20	10
Highways England	-	134
Homes and Communities Agency	703	1,527
Housing Associations (Various)	-	528
National Lottery	33	351
North East Combined Authority	1,661	1,039
Northumbria Healthcare NHS Foundation Trust	-	559



## Notes to the Financial Statements

	2015-16	2016-17
	£'000	£'000
Northumbrian Water	-	504
Other	597	698
Other Local Authorities	-	22
Parish/ Town Councils	-	64
Sport England	138	154
Zurich Insurance Ltd	900	15
<b>Total Capital</b>	<b>79,144</b>	<b>98,893</b>
<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>173,092</b>	<b>180,498</b>
<b>Grants Credited to Services:</b>		
<b>Revenue :</b>		
Community Housing Fund	-	1,315
Council Tax / Housing Benefit Subsidy Grants	88,583	85,646
Dedicated Schools Grant (DSG)	163,090	160,791
Deferred Payments Grant	504	-
Early Assessment Grant	958	-
Education Funding Agency	10,922	10,090
European Regional Development Fund	356	-
Flooding Grant	911	1,023
Grants in Support of Individual School Budgets	13,216	12,947
Independent Living Grant	731	926
North East Combined Authority Grant	5,996	7,441
Other Grants	5,954	6,681
The Private Finance Initiative (PFI)	4,760	4,760
Public Health Grant	14,923	17,075
Severe Weather Recovery Scheme	834	-
Skills Funding Agency (SFA)	2,182	2,161
Supporting Families Grant	650	831
Sustainable Transport Fund	686	-
Youth Justice Board	621	544
<b>Total Revenue Grants</b>	<b>315,877</b>	<b>312,231</b>
<b>Donations and Contributions</b>		
Contributions to Shared Schemes	656	941
Contributions Towards Music	641	645
Contributions from Other Local Authorities	3,970	3,863
European Elections	632	847
Health Service	7,323	11,935
Other Donations and Contributions	4,763	5,117
Parental Contributions	474	567
S117 Health Contribution	4,321	5,392
<b>Total Donations and Contributions</b>	<b>22,780</b>	<b>29,307</b>
<b>Total Credited to Services</b>	<b>338,657</b>	<b>341,538</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 2016 £'000	31 March 2017 £'000
<b>Capital Grant Receipts in Advance:</b>		
Department for Communities and Local Government	879	51
Department for Education	1,936	4,136
Department for Energy and Climate Change	6,405	15
Department for Transport	1,120	230
Environment Agency	455	1,915
Football Foundation	8	-
Homes and Communities Agency	502	298
North East Combined Authority	34	-
Northumbria Healthcare NHS Foundation Trust	648	89
Other	61	65
<b>Total Capital Grant Receipts in Advance</b>	<b>12,048</b>	<b>6,799</b>
<b>Revenue Grant Receipts in Advance:</b>		
DEFRA - Lead Local Food Authorities Grant	91	-
Department for Transport - Total Transport Pilot Fund	200	-
Department of Communities and Local Government - Flooding Grant	313	-
Department for Work and Pensions	76	-
Education Funding Agency	-	35
Environment Agency - Coast Protection Grant	504	-
European Commission	21	-
Forestry Commission	13	-
Homes and Communities Agency	80	-
Improvement and Development Agency	25	-
SITA Trust	18	-
<b>Total Revenue Grant Receipts in Advance</b>	<b>1,341</b>	<b>35</b>
<b>Total Receipts in Advance</b>	<b>13,389</b>	<b>6,834</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.

#### 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.

## Notes to the Financial Statements

### Subsidiaries

The Council had three subsidiary companies in 2016-17 that are considered to be related parties:

- Arch Group
- Homes for Northumberland
- Generation and Innovation

Arch Group owed £246.10 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 £0.27 million. Income to Northumberland County Council from Arch Group was £8.97 million.

In prior years Homes for Northumberland was paid a management fee by the Council to carry out the management of the Council's housing stock. These activities were brought back in-house from 1 September 2015 and the company only operated in 2016-17 to manage its 22 properties in Allendale.

These Allendale properties and the remaining assets and liabilities of Homes for Northumberland were transferred to the Council on 30 March 2017.

Homes for Northumberland is in the process of being wound up.

Generation and Innovation was created but remained dormant during 2016-17.

### 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. On 1 January 2017, seven libraries and two Tourist Information Centres transferred to the Council. During 2016-17 the Council paid a management fee of £3.83 million to Active Northumberland. Active Northumberland has used the Council's Enterprise Resource Planning system, Oracle e-Business for all expenditure transactions. At the end of 2016-17 NCC owed Active Northumberland £0.73 million due to timing delays.

### Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2016-17 the Pension Fund had an average balance of £4.93 million borrowed from the Council for which it paid interest of £17,214 (and an average balance of £3.73 million borrowed from the Council during 2015-16 for which it paid interest of £19,169). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2016-17 these costs amounted to £0.65 million (£0.64 million in 2015-16). £2.46 million was due to the Council at 31 March 2017 (£6.00 million at 31 March 2016).

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 2017 (four as at 31 March 2016).

## Notes to the Financial Statements

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2016-17 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 106 organisations with transactions totalling £56.05 million in respect of goods or services provided to the Council.

During 2016-17 goods and services amounting £13.29 million were provided by the Council to 86 organisations in which Members had an interest.

Included in the above sums are amounts due from the Council of £1.97 million and due to the Council of £7.93 million as at 31 March 2017.

### Officers

During 2016-17 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 11 organisations with transactions totalling £32.53 million in respect of goods or services provided to the Council.

During 2016-17 goods and services amounting £9.12 million were provided by the Council to 8 organisations in which officers had an interest.

Included in the above sums are amounts due from the Council of £1.16 million and due to the Council of £7.29 million as at 31 March 2017.

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

### 39. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases and PFI 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.

## Notes to the Financial Statements

	2015-16 £'000	2016-17 £'000
Opening Capital Financing Requirement	712,179	730,730
<b>Capital Investment:</b>		
Property, Plant and Equipment	100,696	145,575
Capital Long Term Debtors	26,307	177,560
Addition of HFN Assets	153	-
PFI / Finance Lease Additions	804	1,582
Revenue Expenditure Funded From Capital under Statute (REFCUS)	19,931	17,340
Reversal of Capitalisation (REFCUS)	(1,153)	-
HRA Downward Revaluation (non-dwelling assets)	112	27
<b>Sources of Finance:</b>		
Capital receipts	(10,098)	(9,396)
Government grants and other contributions	(69,730)	(103,546)
<b>Sums set aside from revenue/Major Repairs Reserve:</b>		
Major Repairs Reserve	(7,190)	(7,383)
Direct revenue contributions	(3,172)	(17,495)
Capital Long Term Debtors Amortisation	(6,621)	(9,286)
Minimum Revenue Provision	(31,488)	(18,577)
Closing Capital Financing Requirement	730,730	907,131
<b>Explanation of movements in year:</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	55,591	202,655
Minimum Revenue Provision	(38,109)	(27,863)
Assets acquired under PFI / PPP contracts	804	1,582
Addition of HFN Assets	153	-
HRA Downward Revaluation (non-dwelling assets)	112	27
Increase/(Decrease) in Capital Financing Requirement	18,551	176,401

### 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:

	31 March 2016 £'000	31 March 2017 £'000
Vehicles, Plant, Furniture and Equipment	189	93

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:

## Notes to the Financial Statements

	31 March 2016 £'000	31 March 2017 £'000
Finance lease liabilities (net present value of minimum lease payments):		
Current	96	93
Non Current	93	-
Finance costs payable in future years	45	21
Minimum lease payments	234	114

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

	Minimum Lease		Finance Lease	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	119	114	96	93
Later than one year and not later than five years	115	-	93	-
	234	114	189	93

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 2016 £'000	31 March 2017 £'000
Not later than one year	1,433	1,189
Later than one year and not later than five years	4,361	2,852
Later than five years	2,250	2,237
	8,044	6,278

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

	31 March 2016 £'000	31 March 2017 £'000
Minimum lease payments	2,416	2,125

## Notes to the Financial Statements

### 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	-
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 2016 £'000	31 March 2017 £'000
<b>Finance lease debtor (net present value of minimum lease payments):</b>		
Current	35	-
Non Current	320	-
Unearned finance income	131	-
<b>Gross investment in the lease</b>	<b>486</b>	<b>-</b>

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 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	62	-	62	-
Later than one year and not later than five years	248	-	248	-
Later than five years	176	-	176	-
	<b>486</b>	<b>-</b>	<b>486</b>	<b>-</b>

#### 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:



## Notes to the Financial Statements

	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	545	701
Later than one year and not later than five years	489	741
Later than five years	387	397
	1,421	1,839

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 2016 £'000	31 March 2017 £'000
<b>Long term finance lease liability:</b>		
Waste PFI	(55,979)	(55,173)
Fire PFI	(11,929)	(11,664)
Other finance leases (Note 40)	(93)	-
<b>Total Finance Lease Liability</b>	<b>(68,001)</b>	<b>(66,837)</b>
<b>Long term deferred credits:</b>		
Waste PFI	(12,008)	(11,341)
<b>Total Deferred Credits</b>	<b>(12,008)</b>	<b>(11,341)</b>
<b>Total Long Term Creditors</b>	<b>(80,009)</b>	<b>(78,178)</b>

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

#### Waste PFI

2016-17 was the tenth 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 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.



## Notes to the Financial Statements

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 2016-17:

	2015-16	2016-17	2016-17	2016-17
		Plant Shell	Project	Assets
	£'000	£'000	£'000	£'000
Cost brought forward 1 April	93,290	13,566	79,204	<b>92,770</b>
Disposals in year	(1,324)	-	-	-
Additions in year	804	-	1,582	<b>1,582</b>
Cost carried forward 31 March	92,770	13,566	80,786	<b>94,352</b>
Accumulated depreciation brought forward 1 April	(18,410)	(3,445)	(18,321)	<b>(21,766)</b>
Disposal in year	335	-	-	-
Depreciation charge for year	(3,692)	(533)	(3,217)	<b>(3,750)</b>
Depreciation at 31 March	(21,767)	(3,978)	(21,538)	<b>(25,516)</b>
Net book value carried forward 31 March	71,003	9,588	59,248	<b>68,836</b>

The following table provides information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2016-17:

	2015-16	2016-17	2016-17	2016-17
		Plant Shell	Project	Assets
	£'000	£'000	£'000	£'000
Lease liability brought forward 1 April	57,310	11,389	45,339	<b>56,728</b>
Payments made in year	(582)	(158)	(591)	<b>(749)</b>
Liability carried forward 31 March	56,728	11,231	44,748	<b>55,979</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.

	Total as at 31 March 2016	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	Total as at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	22,254	1,150	806	7,328	13,333	<b>22,617</b>
Within two to five years	94,064	4,834	4,193	29,960	57,204	<b>96,191</b>
Within six to ten years	133,255	6,607	10,700	38,396	80,476	<b>136,179</b>
Within eleven to fifteen years	153,563	7,295	20,614	36,707	92,344	<b>156,960</b>
Within sixteen to twenty years	139,347	4,736	19,666	19,074	61,799	<b>105,275</b>
	542,483	24,622	55,979	131,465	305,156	<b>517,222</b>

### Fire & Rescue PFI

2016-17 was the seventh 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

## Notes to the Financial Statements

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 2016-17:

	2015-16 £'000	2016-17 £'000
Costs brought forward 1 April	13,555	13,555
Cost carried forward 31 March	13,555	13,555
Restated depreciation brought forward 1 April	(449)	(898)
Depreciation charge for year	(449)	(449)
Depreciation at 31 March	(898)	(1,347)
Net book value carried forward 31 March	12,657	12,208

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2016-17:

	2015-16 £'000	2016-17 £'000
Lease liability brought forward 1 April	12,394	12,171
Payments made in year	(223)	(242)
Liability carried forward 31 March	12,171	11,929

The following table provides the best estimate 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 2013-14, 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.

## Notes to the Financial Statements

	Total as at 31 March 2016	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	Total as at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	2,477	205	264	1,287	733	2,489
Within two to five years	10,200	868	1,331	4,868	3,153	10,220
Within six to ten years	13,468	1,202	2,534	5,175	4,510	13,421
Within eleven to fifteen years	14,367	1,349	4,101	3,525	5,252	14,227
Within sixteen to twenty years	12,777	1,051	3,699	797	3,890	9,437
	53,289	4,675	11,929	15,652	17,538	49,794

### 42. Impairment Losses

There have been no new impairment losses during 2016-17. Losses are through downward revaluations in relation to Property, Plant and Equipment balances in 2016-17 and 2015-16.

### 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 2016-17 the County Council paid £10.96 million (£10.69 million in 2015-16) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 16.48% of teachers' pensionable pay for the period 1 April 2016 to 31 March 2017.

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 pension 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.

## Notes to the Financial Statements

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 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.

**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 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

## Notes to the Financial Statements

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:

2016-17	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	(25.60)	(1.88)	-	-	(27.48)
Past service cost	(0.82)	-	-	-	(0.82)
<b>Financing and Investment Income and Expenditure:</b>					
Net interest expense	(13.87)	(5.33)	(1.13)	(1.20)	(21.53)
<b>Total post employment benefit charged to the deficit on the provision of services</b>	<b>(40.29)</b>	<b>(7.21)</b>	<b>(1.13)</b>	<b>(1.20)</b>	<b>(49.83)</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)	172.20	-	-	-	172.20
Actuarial gains and losses arising on changes in financial assumptions	(278.41)	(33.77)	(2.99)	(3.22)	(318.39)
Actuarial gains and losses arising on changes in demographic assumptions	32.48	-	0.81	1.28	34.57
Other	95.75	0.75	0.26	0.28	97.04
<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>22.02</b>	<b>(33.02)</b>	<b>(1.92)</b>	<b>(1.66)</b>	<b>(14.58)</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	40.29	7.21	1.13	1.20	49.83
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
Employer's contributions payable to the scheme	(28.63)	-	-	-	(28.63)
Net retirement benefits payable to pensioners	-	(5.17)	(2.29)	(2.68)	(10.14)

## Notes to the Financial Statements

2015-16	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)
Total post employment benefit charged to the deficit on the provision of services	(39.65)	(8.15)	(1.11)	(1.19)	(50.10)
<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
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	25.56	14.82	1.61	1.62	43.61
<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

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

2016-17	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	(1.02)	(0.04)	(0.75)	(0.07)	(1.88)
Past service cost	-	-	-	-	-
<b>Financing and Investment Income and Expenditure:</b>					
Net interest expense	(4.97)	(0.18)	(0.04)	(0.14)	(5.33)
Total post employment benefit charged to the deficit on the provision of services	(5.99)	(0.22)	(0.79)	(0.21)	(7.21)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Remeasurement of the net defined liability comprising:</b>					
Actuarial gains and losses arising on changes in financial assumptions	(29.83)	(2.12)	(0.96)	(0.86)	(33.77)
Actuarial gains and losses arising on changes in demographic assumptions	0.71	0.01	-	0.03	0.75
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(35.11)	(2.33)	(1.75)	(1.04)	(40.23)
<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	5.99	0.22	0.79	0.21	7.21
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
Net retirement benefits payable to pensioners	(5.32)	-	0.37	(0.22)	(5.17)



## Notes to the Financial Statements

2015-16	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>					
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)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2016-17 is a loss of £14.58 million (£43.61 million gain in 2015-16).

## 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:

2016-17	LGPS £m	Firefighters' Schemes £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m
Present value of the defined benefit obligation	(1,491.87)	(194.52)	(35.02)	(36.69)	(1,758.10)
Fair value of plan assets	1,079.98	-	-	-	1,079.98
Net liability arising from defined benefit obligation	(411.89)	(194.52)	(35.02)	(36.69)	(678.12)

2015-16	LGPS £m	Firefighters' Schemes £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £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)

## Notes to the Financial Statements

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

	LGPS	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	2015 Firefighters' Pension Scheme	Firefighters' Injury & non scheme III Health	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April 2016	(1,303.04)	(148.86)	(5.20)	(1.05)	(4.35)	(34.26)	(36.51)	(1,533.27)
Increase from acquisition/disposal*	-	-	-	-	-	-	-	-
Current service cost	(25.60)	(1.02)	(0.04)	(0.75)	(0.07)	-	-	(27.48)
Interest cost	(43.78)	(4.97)	(0.18)	(0.04)	(0.14)	(1.13)	(1.20)	(51.44)
Contributions from scheme participants	(6.70)	(0.41)	(0.02)	(0.37)	-	-	-	(7.50)
<b>Remeasurement (gains)/losses:</b>								
Actuarial (gains)/losses arising from changes in financial assumptions	(278.41)	(29.83)	(2.12)	(0.96)	(0.86)	(2.99)	(3.22)	(318.39)
Actuarial (gains)/losses arising from changes in demographic assumptions	32.48	-	-	-	-	0.81	1.28	34.57
Other	95.75	0.71	0.01	-	0.03	0.26	0.28	97.04
Past service cost	(0.82)	-	-	-	-	-	-	(0.82)
Benefits paid	38.25	5.73	0.02	-	0.22	2.29	2.68	49.19
Closing balance as at 31 March 2017	(1,491.87)	(178.65)	(7.53)	(3.17)	(5.17)	(35.02)	(36.69)	(1,758.10)
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)
<b>Remeasurement (gains)/losses:</b>								
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)

\* 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	
	2015-16 £m	2016-17 £m
Opening fair value of scheme assets	869.38	<b>880.79</b>
Increase from acquisition/disposal*	19.41	-
Interest income	28.05	<b>29.91</b>
<b>Remeasurement gain/(loss):</b>		
The return on plan assets, excluding the amount included in the net interest expense	<b>(34.54)</b>	<b>172.20</b>
Contributions by the employer	28.07	<b>28.63</b>
Contributions by participants	6.44	<b>6.70</b>
Benefits paid	<b>(36.02)</b>	<b>(38.25)</b>
Closing balance of scheme assets	880.79	<b>1,079.98</b>

## Notes to the Financial Statements

### Local Government Pension Scheme assets comprised:

LGPS assets comprised:	Fair Value of Scheme Assets			
	2015-16		2016-17	
	£m	%	£m	%
UK and overseas equities	554.70	62.98	<b>678.23</b>	<b>62.80</b>
Fixed interest and index linked	213.00	24.18	<b>271.29</b>	<b>25.12</b>
Property unit trusts	41.23	4.68	<b>41.26</b>	<b>3.82</b>
Ventures and partnerships	73.61	8.36	<b>87.15</b>	<b>8.07</b>
Other net current (liabilities)/assets	(1.75)	(0.20)	<b>2.05</b>	<b>0.19</b>
<b>Total</b>	<b>880.79</b>	<b>100.00</b>	<b>1,079.98</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			
	2015-16		2016-17	
	£m	%	£m	%
United Kingdom	311.24	56.11	<b>272.72</b>	<b>40.21</b>
Europe	58.76	10.59	<b>80.50</b>	<b>11.87</b>
North America	60.01	10.82	<b>78.00</b>	<b>11.50</b>
Japan	28.29	5.10	<b>38.25</b>	<b>5.64</b>
Pacific	31.30	5.64	<b>40.22</b>	<b>5.93</b>
Other	65.10	11.74	<b>168.54</b>	<b>24.85</b>
<b>Total</b>	<b>554.70</b>	<b>100.00</b>	<b>678.23</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' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
As at 31 March 2017			
<b>Mortality assumptions:</b>			
Longevity at age 65 for current pensioners:			
Men	<b>22.8</b>	<b>22.1</b>	<b>22.8</b>
Women	<b>24.9</b>	<b>24.6</b>	<b>24.9</b>
Longevity at age 65 for future pensioners:			
Men	<b>25.0</b>	<b>24.2</b>	-
Women	<b>27.2</b>	<b>26.9</b>	-
Inflation - CPI	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>
Salary increases	<b>3.5%</b>	<b>3.5%</b>	-
Pension increases	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>
Pension accounts revaluation rate	-	-	-
Discount rate	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>
As at 31 March 2016			
<b>Mortality assumptions:</b>			
Longevity at age 65 for current pensioners:			
Men	23.1	22.0	23.1
Women	25.6	24.5	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%
Salary increases	3.3%	3.3%	-
Pension increases	1.8%	1.8%	1.8%
Pension accounts revaluation rate	1.8%	1.8%	-
Discount rate	3.4%	3.4%	3.4%

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 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 2017.

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

## Notes to the Financial Statements

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.

	Impact on the Defined Benefit Obligation in the 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)	44.99	3.0%	(44.69)	-3.0%
Rate of increase in salaries (increase or decrease by 0.1%)	5.32	0.4%	(5.27)	-0.4%
Rate of increase in pensions (increase or decrease by 0.1%)	20.95	1.4%	(20.64)	-1.4%
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(25.87)	-1.7%	26.32	1.8%
<b>Firefighters' Pension Scheme</b>				
Longevity (increase or decrease in 1 year)	5.50	3.1%	(5.46)	-3.1%
Rate of increase in salaries (increase or decrease by 0.1%)	0.49	0.3%	(0.48)	-0.3%
Rate of increase in pensions (increase or decrease by 0.1%)	2.44	1.4%	(2.41)	-1.3%
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.89)	-1.6%	2.93	1.6%
<b>New Firefighters' Pension Scheme</b>				
Longevity (increase or decrease in 1 year)	0.23	3.1%	(0.23)	-3.1%
Rate of increase in salaries (increase or decrease by 0.1%)	0.09	1.2%	(0.09)	-1.2%
Rate of increase in pensions (increase or decrease by 0.1%)	0.12	1.6%	(0.12)	-1.6%
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.21)	-2.8%	0.22	2.9%

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.



## Notes to the Financial Statements

### 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);
- 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 2017-18 in relation to the seven post-employment schemes covered by this note:

	LGPS	LGPS Unfunded	Teachers' Unfunded	FPS	NFPS	2015 FPS	Firefighters' Injury	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Regular employer contributions payable to Northumberland County Council Pension Fund	30.51	-	-	-	-	-	-	30.51
Payments to beneficiaries	-	2.31	2.71	-	-	-	-	5.02
Payments to beneficiaries net of member contributions receivable, where contributions include the Government Grant	-	-	-	5.41	0.01	(0.38)	0.23	5.27
<b>Total</b>	<b>30.51</b>	<b>2.31</b>	<b>2.71</b>	<b>5.41</b>	<b>0.01</b>	<b>(0.38)</b>	<b>0.23</b>	<b>40.80</b>

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2017-18 includes a fixed monetary lump sum of £10.00 million which is intended to amortise the deficit attributable to the Council over a period of 21 years.

Additional employer contributions will also be payable by the Council to Northumberland County Council Pension Fund in relation to the 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 2016	31 March 2017
	No. of years	No. of
Weighted average duration for LGPS, LGPS Unfunded and Teachers' Unfunded	17.20	<b>17.50</b>
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	17.60	<b>16.30</b>
Weighted average duration for NFPS	-	<b>28.20</b>
Weighted average duration for 2015 FPS	-	<b>36.00</b>
Weighted average duration for Firefighters' Injury and Non-Scheme Ill Health Pensions	-	<b>16.60</b>

## 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	31.00	16.00	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 started to review the environmental monitoring and aftercare information with a view to formally applying to surrender the licence in 2017-18.

#### 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 £85.68 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. 3.18%. The guarantee will 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.

#### 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 2012-13 and prior years. A provision of £8.46 million has been created within the 2016-17 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

## Notes to the Financial Statements

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. There is currently a national claim for charitable exemption in relation to NHS properties which could see backdated appeals for a total of six years plus the current year. No provision has been included for the potential cost of this as currently no legal obligation exists. However, depending on the type of NHS properties included, it is estimated that the potential impact could be between £10.20 million and £19.20 million. As with other appeals the provision would be shared between the Council and Central Government.

### **Solaria – Renewable Energy Components**

The Council has been put on notice from a third party supplier that they consider that they have a claim against the authority for outstanding payments in relation to renewable energy components which have been installed on Council properties. The Council considers that it has no liability for the claimed amount and would intend to defend any claim that is issued. At present it is not possible to put a value on any potential liability.

#### **46. Contingent Assets**

During 2011-12, 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 2016-17 the Council's policy continued to be the security of principal.

## Notes to the Financial Statements

### 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)
Debt Management Organisation	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 Banks	N/A	N/A	£35m (Group Limit £70m)	12 months
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+	ST:P-1		
High Upper Medium Grade UK Clearing Banks/ Building Societies	LT:AA-	LT:Aa2	£25m (Group Limit £50m)	12 months
High Grade Foreign Banks	ST:F1	ST:P-1		
	LT:A-	LT:A3	£15m (Group Limit £30m)	12 months
	ST:F1	ST:P-1		
	LT:A-	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	ST:P-1		
	LT:A-	LT:A3	£10m per institution	5 Years
Deposits or Corporate Bonds with institutions which meet the rating criteria	ST:F2	ST:P-2		
	LT:A-	LT:A3	£5m per institution	12 months
Good, Medium Grade UK Clearing Banks/ Building Societies	ST:F2	ST:P-2		
	LT:BBB-	LT:Baa1	£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

## Notes to the Financial Statements

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

### Customer Debt

The Council has £8.93 million (2015-16 £3.49 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Less than three months	1,356	7,160
Three to six months	444	270
Six months to one year	501	189
More than one year	1,188	1,315
<b>Total</b>	<b>3,489</b>	<b>8,934</b>

At 31 March 2017 the Council held a provision of £3.61 million (2015-16 £0.91 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:

## Notes to the Financial Statements

	As at 31 March 2016	As at 31 March 2017
	£'000	£'000
<b>Analysis by Loan Type</b>		
Public Works Loans Board	267,135	<b>243,631</b>
Other Market Loans	20,090	<b>173,167</b>
LOBO (Market Loans)	260,600	<b>189,500</b>
	547,825	<b>606,298</b>
<b>Analysis of Loans by Maturity</b>		
Less than 1 year	-	-
Between 1 and 2 years	33,527	<b>87,523</b>
Between 2 and 5 years	70,566	<b>85,566</b>
Between 5 and 10 years	14,852	<b>7,353</b>
Between 10 and 20 years	23,053	<b>19,982</b>
Between 20 and 30 years	9,670	<b>12,141</b>
Between 30 and 40 years	88,557	<b>70,133</b>
Between 40 and 50 years	153,600	<b>179,600</b>
Between 50 and 60 years	23,000	<b>13,000</b>
In excess of 60 years	131,000	<b>131,000</b>
	547,825	<b>606,298</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 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



## Notes to the Financial Statements

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 2017 with all other variables held constant, the effect would have been:

	As at 31 March 2017 £'000
Increase in Interest Payable on Variable Rate Borrowings	1,665
Increase in Interest Receivable on Variable Rate Investments	(663)
Increase in Government Grant receivable for financing costs	(5,620)
Impact on (Surplus) or Deficit on the Provision of Services	(4,618)
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	191,907

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 £95.10 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 £75.00 million of short term borrowing maturing in the year.

### 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 143.

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.

### 48. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2017:

	Total Cost £'000	Future Payments £'000
Morpeth Northern Bypass	33,500	493
Streetlighting Replacement and Modernisation	27,366	7,479

## Notes to the Financial Statements

### 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 2016-17 of £24.78 million was calculated using both the 'regulatory' (£7.24 million) and 'asset life' (£17.54 million) methods from the guidance. The latter figure includes a set aside of £10.90 million in relation to capital long term debtors. (The 2015-16 provision of £38.33 million was based on a regulatory element of £9.00 million and asset life element of £14.33 million, along with a voluntary set aside of £15.00 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 Cushman & Wakefield Debenham Tie Leung Limited, Central Square South, Orchard Street, Newcastle upon Tyne, NE1 3AZ.

Of the Property, Plant and Equipment not held at cost on the Balance Sheet, 70% was valued in year. In addition, 100% of the Investment Assets and Assets Held for Sale remaining at 31 March 2017 were revalued by Cushman & Wakefield Debenham Tie Leung Limited.

In addition to carrying out valuations on the selected properties, Cushman & Wakefield Debenham Tie Leung Limited 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 2016-17.

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.

## Notes to the Financial Statements

- 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.

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,

## Notes to the Financial Statements

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.

	Council Dwellings	Other Land and Buildings	Vehicles, Infrastructure Plant, Furniture and Equipment	Community Assets	Community Assets *	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost	-	3,516	90,523	340,328	8,251	-	73,534	516,152
Valued at Current Value in:								
2012-13	-	6,150	-	-	-	-	-	6,150
2013-14	-	10,953	-	-	-	-	-	10,953
2014-15	-	113,528	-	-	-	-	-	113,528
2015-16	-	102,541	-	-	-	-	-	102,541
2016-17	305,301	222,734	-	-	-	16,217	-	544,252
<b>Total</b>	<b>305,301</b>	<b>459,422</b>	<b>90,523</b>	<b>340,328</b>	<b>8,251</b>	<b>16,217</b>	<b>73,534</b>	<b>1,293,576</b>

\* 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.

## Notes to the Financial Statements

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 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.

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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.

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 (£13.40 million in 2015-16). 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



## Notes to the Financial Statements

sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2016-17 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. A dividend of £3.38 million was received for the year ended 31 December 2016 (nil for the year ended 31 December 2015).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012-13, 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 loss before tax of £2.27 million and a loss after tax of £0.50 million for the year ended 31 December 2017. In the previous year, the Group made a profit before tax of £2.30 million and a profit after tax of £4.56 million.

### 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 two joint venture agreements. One with the Duke of Northumberland with both holding a 50% ownership in Prudhoe Estate LLP, which is a property development company. The other joint venture is with Hodgson Newcastle Ltd with both holding a 50% ownership in SLJH Ltd, 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 2010-11 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

## Notes to the Financial Statements

(Financial Services) Limited has remained dormant for the majority of 2016-17 with only minimal transactions flowing through the accounts. Those transactions that have been processed throughout 2016-17 relate to historic repayments on loans that were previously granted by Northumberland County Council.

Group accounts have been prepared for 2016-17. 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, Prudhoe LLP Estates Ltd and Hodgson Newcastle 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:

Arch (Corporate Holdings) Limited	2015-16	2016-17
	£'000	£'000
Profit/(Loss) on ordinary activities before taxation	(1,448)	5,964
Profit/(Loss) on ordinary activities after taxation	(1,448)	5,964

### Homes for Northumberland

Homes for Northumberland was a subsidiary of Northumberland County Council which was created following Local Government Reorganisation, and, was 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 management of the Council's housing stock was brought back in house leaving the Company managing the 22 properties which they owned. On 30 March 2017 Homes for Northumberland transferred to the Council, the remaining assets, liabilities and reserves of the company.

Financial results are as follows:

Homes for Northumberland	2015-16	2016-17
	£'000	£'000
Profit on ordinary activities before taxation	781	5
Profit on ordinary activities after taxation	781	5

### 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 £3.83 million in 2016-17.

### Generation and Innovation

On 12 July 2016 the Council created Generation and Innovation Limited, a wholly owned subsidiary of the Council, to deliver a range of proposals to deliver cohesive business and commercial capacity to the authority.

The principal purpose of the new company is to allow the authority to exploit potential commercial opportunities (and therefore generate income); to review internal service



## Notes to the Financial Statements

delivery areas of the authority (at the request of, and in partnership with, service delivery managers); to develop an understanding of where there may be additional commercial opportunities; and, to provide a central skills base to support, all areas of the authority, in ensuring efficiency and commercial opportunities are fully exploited.

At 31 March 2017 the company remains dormant and no financial transactions have taken place.

### 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. Income received during 2016-17 through dividends was £279 (£274 in 2015-16). There was no expenditure incurred during 2016-17 or during 2015-16. 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 £3,025.

#### Thropton First School

The Council held £0.03 million of funds at 31 March 2017 (£0.01 million at 31 March 2016) for Thropton First School (which is a foundation school).

#### Trust Schools

The Council also held funds for the following Trust schools:

	31 March 2016 £'000	31 March 2017 £'000
<b>Ashington Partnership:</b>		
Ashington Central First School	81	185
Ashington Community High School	654	638
Ashington Hirst Park Middle School	(61)	-
Ashington Wansbeck First School	205	52
Bothal Middle School	(78)	-
<b>Total Ashington Partnership</b>	<b>801</b>	<b>875</b>
<b>West Partnership:</b>		
Bellingham First School	88	35
Bellingham Middle School	32	96
Haydon Bridge High School	(321)	(641)
<b>Total West Partnership</b>	<b>(201)</b>	<b>(510)</b>

#### Academies/Agencies

The Council acted as the Payroll provider for eight Academies and one Agency during the 2016-17 financial year, namely:

- Cramlington Learning Village Academy (since 1 September 2011)
- Berwick Academy (since 1 November 2011)
- The Three Rivers Academy (since 1 December 2011)

## Notes to the Financial Statements

- 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)
- Hadrian Learning trust Academy (since 1 September 2016)

As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2016-17, £3.43 million (2015-16 £5.54 million) employers' contributions for the Academies, 16.48% of pensionable pay for the period 1 April 2016 to 31 March 2017 and £1.98 million (2015-16 £3.31 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.

### 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 2017 the balance on these accounts was £3.48 million (£3.94 million at 31 March 2016) 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 2016-17 this income totalled £0.06 million (£0.06 million at 31 March 2016) and has been excluded from the Council's Balance Sheet.

### Armed Forces Community Covenant Schemes

The Council held funding on behalf of other bodies awarded by the Ministry of Defence for projects funded through the Armed Forces Community Covenant Scheme. The final payment was made in 2016-17 and the scheme has now ended.

### Adult Personal Allowances

The Council holds personal allowance money paid to clients in residential care. At the end of 2016-17 this totalled £0.04 million (£0.05 million at 31 March 2016) 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 clients or activities and are classed as Amenity Funds. At the end of 2016-17 these funds totalled £0.30 million (£0.25 million at the end of 2015-16) 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 2016-17 (£0.03 million at the end of 2015-16) 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.

## Notes to the Financial Statements

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

	31 March 2016 £'000	31 March 2017 £'000
Blaeberry Hill	8	8
Broadband Loan Briskona	9	10
Butterwell OCCS	950	-
Choppington Educational Foundation	3	3
Corbridge Road, Hexham	5	5
DP Front Red Row	-	20
Joyce Wakenshaw Bequest Fund	-	2
Lidl - Bedlington	-	90
Lidl - Blyth	-	154
Meg Burdon Library Legacy Fund	5	4
Middlemoor Windfarm	77	-
Network Rail Hexham Goods Yard	8	8
New Ridley Road Stocksfield	13	14
Northsteads Windfarm	144	144
North Stobswood Open Cast Coal Site	24	24
Potland Burn Surface	970	-
Rural Growth Fund Income in Advance	136	-
Sisters Windfarm	108	108
Southlane SJ Williams	40	40
The Northumberland Children's Fund	35	19
Twickenham Court	16	16
Wandyław Wind Farm	54	-
<b>Total</b>	<b>2,605</b>	<b>669</b>

### Blaeberry Hill

S38 Bond from Kowalczyk & Rugman for Highway works at Blaeberry Hill, 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 have now been repaid in 2016-17 as all restoration work has been completed.

### 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.

### DP Front Red Row

Section 38 Bond from DP Builders.

### Joyce Wakenshaw Bequest Fund

## Notes to the Financial Statements

The late Joyce Wakenshaw was an avid library customer and left monies held on behalf of to the Northumberland & Durham Family History Society to be spent at Blyth Library in the Local History Area.

### **Lidl - Bedlington**

Section S278 Agreement for Lidl - Bedlington. The balance is to be repaid to the developer upon completion.

### **Lidl - Blyth**

Section S278 Agreement for Lidl - Blyth. The balance is to be repaid to the developer upon completion.

### **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. Work has been completed in 2016-17 with all funds repaid to developer.

### **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 the interest on the bond and this will be reviewed in 2017.

### **Potland Burn Surface**

Funds have now been repaid in 2016-17 as all restoration work has been completed.

### **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 Rural Growth Fund scheme has now ended with approval for the remaining funds to be allocated to Local Growth Fund scheme which ends in 2018-19.

### **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.

## Notes to the Financial Statements

### 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 £0.12 million have been paid to organisations in 2016-17.

### Twickenham Court

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

### Wandylaw Wind Farm

Section S59/278 Agreement. The Bond was repaid in 2016-17 as all work has completed on this project.

## 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 Board's 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.

## Notes to the Financial Statements

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,
- Social Care Capital and Disabled Facility Grants.

	2015-16	2016-17
	£'000	£'000
<b>Funding Provided to the pooled budget:</b>		
Northumberland County Council	(2,256)	(2,328)
Northumberland Clinical Commissioning Group	(22,267)	(22,449)
	(24,523)	(24,777)
<b>Expenditure met from the pooled budget:</b>		
Northumberland County Council	11,662	14,186
Northumberland Clinical Commissioning Group	12,598	10,459
	24,260	24,645
Net surplus to be carried forward	(263)	(132)

## Housing Revenue Account (HRA) Income and Expenditure Statement for the year ended 31 March 2017

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	2015-16 £'000	2016-17 £'000
<b>Expenditure:</b>			
Repairs and maintenance		6,041	<b>6,802</b>
Supervision and management		7,116	<b>5,719</b>
Rents, rates, taxes and other charges		880	<b>824</b>
Depreciation and impairment of Fixed Assets		6,622	<b>8,505</b>
Debt management costs		16	<b>15</b>
Movement in the allowance for Bad Debt (not specified by the Code)	12	249	<b>739</b>
<b>Total Expenditure</b>		<b>20,924</b>	<b>22,604</b>
<b>Income:</b>			
Dwelling rents (gross)		(30,639)	<b>(30,335)</b>
Non dwelling rents (gross)	4	(342)	<b>(332)</b>
Charges for services and facilities		(1,502)	<b>(1,606)</b>
Contributions towards expenditure		(527)	<b>(791)</b>
Revaluation gains		-	<b>(27,163)</b>
HRA Subsidy receivable		(5)	<b>(1)</b>
<b>Total Income</b>		<b>(33,015)</b>	<b>(60,228)</b>
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		(12,091)	<b>(37,624)</b>
HRA services' share of Corporate and Democratic Core costs		562	<b>581</b>
<b>Net cost for HRA Services</b>		<b>(11,529)</b>	<b>(37,043)</b>
<b>HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:</b>			
Capital grants and contributions applied	1	(703)	<b>(1,219)</b>
Gain on sale of HRA non current assets		-	<b>(131)</b>
Interest payable and similar charges		4,329	<b>4,208</b>
Interest and investment income		(270)	<b>(268)</b>
Pensions net interest expense		256	<b>975</b>
<b>Surplus for the year on HRA Services</b>		<b>(7,917)</b>	<b>(33,478)</b>

## Movement on the Housing Revenue Account Statement for the year ended 31 March 2017

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

	Note	2015-16 £'000	2016-17 £'000
Balance on the HRA at the end of the previous year		(11,155)	(17,809)
Surplus for the year on the HRA Income and Expenditure Statement		(7,917)	(33,478)
Adjustments between accounting basis and funding basis under Statute	1	1,663	28,009
Net increase before transfers to or from reserves		(6,254)	(5,469)
Transfer (to) or from earmarked reserves		(400)	(274)
Increase in year on the HRA		(6,654)	(5,743)
Balance on the HRA at the end of the current year		(17,809)	(23,552)



## Notes to the HRA Income and Expenditure Statement

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

	Note	2015-16 £'000	2016-17 £'000
<i>Analysis of adjustments between accounting basis and funding basis</i>			
Transfers to the Capital Adjustment Account		833	27,163
Capital grants and contributions applied		703	1,219
HRA share of contributions to the Pensions Reserve		(206)	(762)
Accumulated Absences		(67)	(16)
Gain on sale of HRA non current assets		-	131
Capital expenditure charged against the HRA	8	400	274
Total		1,663	28,009

### 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 2012-13 depreciation and impairment charges, other than valuation reductions on non-dwelling assets, have been 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 decreased by 1% in 2016-17 when compared to 2015-16.

### 4. Other Rent Income

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

	2015-16 £'000	2016-17 £'000
Garages	(277)	(280)
Shops	(42)	(29)
Miscellaneous	(23)	(23)
Total	(342)	(332)

## Notes to the HRA Income and Expenditure Statement

### 5. Housing Stock

	2015-16	2016-17
	No.	No.
Houses and Bungalows	7,224	7,233
Flats	1,343	1,337
Shared Ownership	-	4
Houses in Multiple Occupation	10	10
<b>Total</b>	<b>8,577</b>	<b>8,584</b>

An analysis of the change in stock is as follows:

	2015-16	2016-17
	No.	No.
Stock at 1 April	8,596	8,577
Additions	34	41
Sales	(53)	(55)
Appropriations	-	22
Conversion	-	(1)
<b>Stock at 31 March</b>	<b>8,577</b>	<b>8,584</b>

## Notes to the HRA Income and Expenditure Statement

### 6. Housing Revenue Account Fixed Assets

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Surplus Assets	Investment Properties	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross book value at 1 April 2016	270,510	2,335	-	322	655	4,942	278,764
Re-categorisation	5,188	(250)	-	-	-	(4,938)	-
Additions	12,548	-	75	-	-	44	12,667
Disposals	(1,620)	-	-	-	(448)	-	(2,068)
Revaluations	18,675	-	-	(70)	97	-	18,702
<b>Gross book value at 31 March 2017</b>	<b>305,301</b>	<b>2,085</b>	<b>75</b>	<b>252</b>	<b>304</b>	<b>48</b>	<b>308,065</b>
Depreciation at 1 April 2016	-	66	-	-	-	-	66
Charged in year	8,488	43	-	-	-	-	8,531
Revaluations	(8,488)	-	-	-	-	-	(8,488)
<b>Depreciation at 31 March 2017</b>	<b>-</b>	<b>109</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>109</b>
<b>Net book value at 31 March 2017</b>	<b>305,301</b>	<b>1,976</b>	<b>75</b>	<b>252</b>	<b>304</b>	<b>48</b>	<b>307,956</b>
Net book value at 1 April 2016	270,510	2,269	-	322	655	4,942	278,698

The value of Council dwellings at 31 March 2017 of £305.30 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £744.63 million. This shows that the economic cost to government of providing council housing at less than open market value is £439.33 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 £0.57 million. Surplus Assets consists of land valued at £0.25 million, and investment properties include £0.01 million worth of land.

Following guidance from DCLG on Stock Valuation for Resource Accounting and advice from the Council's valuers, Cushman & Wakefield Debenham Tie Leung Limited, the Existing Use Value – Social Housing adjustment factor had been increased to 41% from 37% in 2016-17. The regional adjustment factor for the North East Region is 44%. However, based upon the location and condition of the Council's Housing stock portfolio the lower increase has been used to better reflect the value of social housing within our local authority area. This is in line with the +/- 5 percentage points tolerance permitted within the DCLG guidance.

## 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 2011-12, 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 2012-13 however councils were no longer allowed to reverse non-dwelling depreciation and were only allowed to reverse dwelling depreciation on a transitional basis until 2017-18. Subsequent to this from 1 April 2017, it has been announced that both dwelling and non-dwelling revaluations can be reversed for 2017-18 and subsequent years until further guidance is issued.

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:

	2015-16 £'000	2016-17 £'000
<b>Income:</b>		
Depreciation on Fixed Assets	(7,567)	(8,531)
	(7,567)	(8,531)
<b>Expenditure:</b>		
Capital expenditure funded from the Reserve Houses	7,190	7,383
	7,190	7,383
Surplus/(Deficit) for the year	(377)	(1,148)
Balance brought forward at 1 April	(614)	(991)
Balance carried forward at 31 March	(991)	(2,139)

### 8. HRA Capital Expenditure and Financing

	2015-16 £'000	2016-17 £'000
<b>Capital Expenditure:</b>		
Houses	12,831	12,592
Vehicle, Plant and equipment	-	75
	12,831	12,667
<b>Financing:</b>		
Borrowing	1,334	2,023
Government Grants	703	1,220
Capital Receipts	3,204	1,767
Capital Expenditure charged against the HRA	400	274
Major Repairs Reserve	7,190	7,383
<b>Total</b>	<b>12,831</b>	<b>12,667</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	2,117	997	1,120

### 10. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a debit of £0.76 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 rent arrears were as follows:

	As at 31 March 2016		As at 31 March 2017	
	£'000	%	£'000	%
<b>Rents:</b>				
Current tenants	736	2.40	<b>545</b>	<b>1.80</b>
Former tenants	864	2.82	<b>1,079</b>	<b>3.56</b>
Balance at 31 March	1,600	5.22	<b>1,624</b>	<b>5.36</b>

### 12. Provision for Impairment of Debt

The actual charge to the HRA in respect of bad debts provision and debts written off in 2016-17 was £0.74 million. This charge relates to an increase in the bad debt provision for Council dwelling rents and charges of £0.27 million and £0.47 million for rechargeable repairs transferred from Home for Northumberland.

In 2015-16 the actual charge to the HRA was £0.25 million. This charge relates to an increase in the bad debts provision for Council dwelling rents and charges.

The provision for bad debts at 31 March 2017 is:

	2015-16 £'000	2016-17 £'000
Balance at 1 April	833	<b>1,082</b>
Rechargeable Repairs transferred from Homes for Northumberland	-	<b>630</b>
Increase in provision	249	<b>739</b>
Balance at 31 March	1,082	<b>2,451</b>

## Notes to the HRA Income and Expenditure Statement

### 13. Homes for Northumberland

Homes for Northumberland is an Arms Length Management Organisation (ALMO) that was 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. These activities were brought back in-house from 1 September 2015 and the company only operated in 2016-17 to manage 22 properties in Allendale. The Allendale properties and the remaining assets and liabilities of Homes for Northumberland were transferred to the Council on 30 March 2017. The company is in the process of being wound up.

## **Collection Fund Account** for the year ended 31 March 2017

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 2013-14 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 2017

	Note	2015-16 Total £'000	Council Tax £'000	2016-17 NNDR £'000	Total £'000
<b>Income:</b>					
Council Tax Payers	1	(160,017)	(169,048)	-	(169,048)
Income collectable from Business Ratepayers	2	(75,447)	-	(79,084)	(79,084)
<b>Total Income</b>		<b>(235,464)</b>	<b>(169,048)</b>	<b>(79,084)</b>	<b>(248,132)</b>
<b>Expenditure:</b>					
<b>Apportionment of previous year's surplus/(deficit):</b>					
Northumberland County Council	3	1,432	4,041	(1,552)	2,489
Police and Crime Commissioner for Northumbria	3	114	250	-	250
Central Government - Share		(368)	-	(1,552)	(1,552)
<b>Precepts, demands and shares:</b>					
Northumberland County Council		177,178	147,060	38,560	185,620
Parish and Town Councils		7,346	7,823	-	7,823
Police and Crime Commissioner for Northumbria		8,633	9,245	-	9,245
Central Government - Share	2	37,650	-	38,560	38,560
<b>Charges to Collection Fund:</b>					
Costs of collection		474	-	478	478
Interest payments		14	-	-	-
Provision for bad debts	4	840	348	1,021	1,369
Provision for appeals	4	1,076	-	478	478
Disregarded amounts - renewable energy		1,255	-	1,406	1,406
<b>Total Expenditure</b>		<b>235,644</b>	<b>168,767</b>	<b>77,399</b>	<b>246,166</b>
<b>(Surplus)/Deficit for year</b>		<b>180</b>	<b>(281)</b>	<b>(1,685)</b>	<b>(1,966)</b>
Opening fund balance		(2,340)	(6,184)	4,024	(2,160)
Closing fund balance		(2,160)	(6,465)	2,339	(4,126)
<b>Allocated to:</b>					
Northumberland County Council		(3,810)	(6,083)	1,170	(4,913)
Police and Crime Commissioner for Northumbria		(362)	(382)	-	(382)
Central Government		2,012	-	1,169	1,169
		(2,160)	(6,465)	2,339	(4,126)



## 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 2016-17 was £169.05 million (£160.02 million in 2015-16).

In 2013-14 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.

	2015-16	2016-17
Council tax base (Band D equivalent @ 98.2% of collection rate)	97,734	99,058
Council tax (Band D property)	£1,515.88	£1,577.89

Council Tax Band	Proportion	2016-17		Council Tax Charge £
		No. of Properties	No. of Band D equivalent Properties	
A (Disabled)	5/9	-	72.11	876.60
A	6/9	70,428	29,417.15	1,051.92
B	7/9	23,559	15,087.41	1,227.25
C	8/9	19,055	14,783.32	1,402.57
D	9/9	15,453	14,133.44	1,577.89
E	11/9	10,110	11,406.38	1,928.53
F	13/9	6,433	8,750.98	2,279.17
G	15/9	3,939	6,183.25	2,629.81
H	18/9	515	866.48	3,155.77
<b>Total</b>		<b>149,492</b>	<b>100,700.52</b>	

Council Tax Band	Proportion	2015-16		Council Tax Charge £
		No. of Properties	No. of Band D equivalent Properties	
A (Disabled)	5/9	-	65.94	842.16
A	6/9	70,189	28,958.91	1,010.59
B	7/9	23,218	14,820.87	1,179.02
C	8/9	18,911	14,600.60	1,347.45
D	9/9	15,246	13,917.24	1,515.88
E	11/9	10,044	11,307.55	1,852.74
F	13/9	6,379	8,664.27	2,189.60
G	15/9	3,916	6,138.65	2,526.47
H	18/9	511	856.96	3,031.76
<b>Total</b>		<b>148,414</b>	<b>99,330.99</b>	

## Notes to the Collection Fund Account

### 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 2013-14 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 2016-17 were estimated before the start of the financial year as £38.56 million to Central Government and £38.56 million retained by Northumberland County Council. These sums have been paid to the General Fund and Central Government in 2016-17 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 2016-17 of £24.06 million.

The total income from business ratepayers in 2016-17 was £79.08 million (£75.45 million in 2015-16). 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.

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 2016-17 was £58.34 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 2016-17.

For 2016-17 the total non-domestic rateable value at year end is £205.61 million (£204.30 million in 2015-16). The national multipliers for 2016-17 were 48.4p for qualifying Small Businesses, and the standard multiplier being 49.7p for all other businesses (48.0p and 49.3p respectively for 2015-16).

### 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 2016 the estimated surplus and amounts due to preceptors were:

## Notes to the Collection Fund Account

	Council Tax £'000	NNDR £'000	Total £'000
Estimated Surplus/(Deficit) 2015-16 (January 2016)	4,291	(3,104)	1,187
Allocated to:			
Northumberland County Council	4,041	(1,552)	2,489
Police and Crime Commissioner for Northumbria	250	-	250
Central Government	-	(1,552)	(1,552)
<b>Total</b>	<b>4,291</b>	<b>(3,104)</b>	<b>1,187</b>

	Council Tax £'000	NNDR £'000	Total £'000
Estimated Surplus/(Deficit) 2014-15 (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)
<b>Total</b>	<b>1,914</b>	<b>(736)</b>	<b>1,178</b>

#### 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 2009-10 to 2012-13 collection rates increased year on year. In 2013-14, however, due to the effects of new legislation collection rates fell for the first time. Collection rates have since improved in each of the last three years.

	2015-16			2016-17		
	Council Tax £'000	NNDR £'000	Total £'000	Council Tax £'000	NNDR £'000	Total £'000
Balance at 1 April	5,591	1,246	6,837	5,318	1,206	6,524
Write offs	(527)	(626)	(1,153)	(864)	(657)	(1,521)
Increase in provision	254	586	840	348	1,021	1,369
Balance at 31 March	5,318	1,206	6,524	4,802	1,570	6,372
Northumberland County Council	5,003	603	5,606	4,517	785	5,302
Police and Crime Commissioner for Northumbria	315	-	315	285	-	285
Central Government	-	603	603	-	785	785
	5,318	1,206	6,524	4,802	1,570	6,372

## Notes to the Collection Fund Account

### 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 2017.

	2015-16 £'000	2016-17 £'000
Balance at 1 April	6,904	7,980
Use of provision	(4,438)	(2,974)
Increase in provision	5,514	3,452
Balance at 31 March	7,980	8,458
<b>Allocated to:</b>		
Northumberland County Council	3,990	4,229
Central Government	3,990	4,229
Total	7,980	8,458

There is currently a national claim for charitable exemption in relation to NHS properties which could see backdated appeals for a total of six years plus the current year. No provision has been included for the potential cost of this as currently no legal obligation exists. However, depending on the type of NHS properties included, it is estimated that the potential impact could be between £10.20 million and £19.20 million. As with other appeals the provision would be shared between the Council and Central Government.

## 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 2017:

- Arch Group
- Homes for Northumberland
- Generation and Innovation

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 2010-11 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 two joint ventures, 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.

## Group Accounts Explanatory Foreword

- to promote economic regeneration in the community through the provision of light industrial, retail and office accommodation to small businesses.
- 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 2016-17 which relate to historic repayments on loans that were previously granted by Northumberland County Council.

**Arch (DigEco) Ltd:** The principal activities of the company were:

- 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.

### SLJH Ltd

The group holds a joint venture agreement with Hodgson Newcastle Ltd with both holding a 50% ownership in SLJH Ltd, 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.

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 previously funded via an Annual Management Fee from the Council's Housing Revenue Account.

The key services Homes for Northumberland provided for the Council were:

- Housing and Estate Management.
- Rent Collection and Arrears Management.

## Group Accounts Explanatory Foreword

- Responsive Repairs and Maintenance.
- Planned Repairs and Major Works (including Decent Homes).
- Leasehold Management.
- Resident Participation.
- Resolving Anti-Social Behaviour.

On 1 September 2015 the management of the Council's housing stock was brought back in house leaving the Company managing 22 properties which it owned. On 30 March 2017 Homes for Northumberland transferred the remaining assets, liabilities and reserves of the company to the Council.

### 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 £3.83 million in 2016-17.

### Generation and Innovation

On 12 July 2016 the Council created Generation and Innovation Limited, a wholly owned subsidiary of the Council, to deliver a range of proposals to deliver cohesive business and commercial capacity to the authority.

The principal purpose of the new company is as follows:

- To allow the authority to explore potential commercial opportunities (and therefore generate income);
- To review internal service delivery areas of the authority (at the request of, and in partnership with, service delivery managers);
- To develop an understanding of where there may be additional commercial opportunities; and,
- To provide a central skills base to support, all areas of the authority, in ensuring efficiency and commercial opportunities are fully explored.

At 31 March 2017 the company remains dormant and no financial transactions have taken place during 2016-17.

## 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



## **Group Accounts Explanatory Foreword**

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 2017

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.

	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	Council's share of usable reserve of £'000	Council's share of unusable reserve of £'000	Total Group Reserves £'000
Balance brought forward 1 April 2016	(36,852)	(97,563)	(17,809)	(337)	(25,036)	(991)	(178,588)	(91,925)	(3,941)	(57,671)	(332,125)
Movement in Reserves during 2016-17:											
(Surplus)/Deficit on the provision of Other Comprehensive Income and Expenditure	(34,938)	-	(33,478)	-	-	-	(68,416)	-	7,529	-	(60,887)
	(32)	-	-	-	-	-	(32)	(463)	32	(6,202)	(6,665)
Total Comprehensive Income and Expenditure	(34,970)	-	(33,478)	-	-	-	(68,448)	(463)	7,561	(6,202)	(67,552)
Adjustments between accounting basis & funding basis under regulations	31,185	-	28,009	74	4,653	(1,148)	62,773	(62,773)	637	(637)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(3,785)	-	(5,469)	74	4,653	(1,148)	(5,675)	(63,236)	8,198	(6,839)	(67,552)
Transfers (to)/from Earmarked Reserves	3,301	(3,027)	(274)	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2016-17	(484)	(3,027)	(5,743)	74	4,653	(1,148)	(5,675)	(63,236)	8,198	(6,839)	(67,552)
Balance at 31 March 2017 carried	(37,336)	(100,590)	(23,552)	(263)	(20,383)	(2,139)	(184,263)	(155,161)	4,257	(64,510)	(399,677)

## Group 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	Council's share of usable reserve of £'000	Council's share of unusable reserve of £'000	Total Group Reserves £'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)
Movement in Reserves during 2015-16:											
(Surplus)/Deficit on the provision of Other Comprehensive Income and Expenditure	(18,535)	-	(7,917)	-	-	-	(26,452)	-	(3,681)	-	(30,133)
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 2015-16	(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	(36,852)	(97,563)	(17,809)	(337)	(25,036)	(991)	(178,588)	(91,925)	(3,941)	(57,671)	(332,125)

## Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2017

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. The 2015-16 position has been restated as 2016-17 CIPFA regulations require the Council's income and expenditure to be reported along management lines.

2016-17 Group	Note	Council Only			Group		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure £'000	Income £'000	Expenditure £'000	Expenditure £'000	Income £'000	Expenditure £'000
Adult Services		173,499	(87,659)	85,840	173,499	(87,659)	85,840
Children's Social Care		46,538	(8,021)	38,517	46,517	(8,021)	38,496
Corporate Resources		125,296	(93,305)	31,991	125,259	(92,960)	32,299
Education and Skills		235,832	(215,582)	20,250	235,779	(215,582)	20,197
Fire and Rescue		20,219	(5,271)	14,948	20,219	(5,261)	14,958
Human Resources		3,069	(224)	2,845	3,069	(222)	2,847
Leisure Services		14,136	(525)	13,611	14,136	(525)	13,611
Local Authority Housing (HRA)		23,185	(60,228)	(37,043)	23,180	(60,227)	(37,047)
Local Services and Housing		96,460	(25,607)	70,853	96,309	(25,592)	70,717
Planning and Economy		14,519	(15,064)	(545)	14,519	(14,770)	(251)
Public Health		16,860	(17,155)	(295)	16,860	(17,155)	(295)
Subsidiary Companies					20,576	(21,837)	(1,261)
Cost Of Services		769,613	(528,641)	240,972	789,922	(549,811)	240,111
Other Operating Expenditure		62,577	(22,189)	40,388	62,577	(22,189)	40,388
Financing and Investment Income and Expenditure	18	51,099	(22,176)	28,923	51,133	(13,820)	37,313
Taxation and Non-Specific Grant Incomes	19	-	(378,699)	(378,699)	-	(378,699)	(378,699)
Group (Surplus) or Deficit on Provision of Services		883,289	(951,705)	(68,416)	903,632	(964,519)	(60,887)
(Surplus) or Deficit on Revaluation of Non Current Assets				(15,197)			(21,399)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				154			154
Actuarial (Gains)/Losses on pension Assets/Liabilities				14,580			14,580
Transfer of Homes for Northumberland Balances				(32)			-
Other Comprehensive Income and Expenditure				(495)			(6,665)
Total Comprehensive Income and Expenditure				(68,911)			(67,552)

## Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2016

2015-16 Group (As Restated)	Note	Council Only			Group		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure £'000	Income £'000	Expenditure £'000	Expenditure £'000	Income £'000	Expenditure £'000
Adult Social Care		154,031	(78,693)	75,338	154,018	(78,695)	75,323
Children's Social Care		43,126	(6,560)	36,566	43,044	(6,557)	36,487
Corporate Resources		133,061	(97,165)	35,896	132,634	(97,096)	35,538
Education and Skills		256,398	(216,139)	40,259	256,398	(216,139)	40,259
Fire and Rescue		18,400	(5,667)	12,733	18,400	(5,666)	12,734
Human Resources		2,294	(127)	2,167	2,294	(90)	2,204
Leisure Services		15,567	-	15,567	15,567	-	15,567
Local Authority Housing (HRA)		21,486	(33,015)	(11,529)	16,273	(33,015)	(16,742)
Local Services and Housing		92,349	(20,929)	71,420	91,931	(19,845)	72,086
Planning and Economy		13,708	(10,283)	3,425	13,695	(10,283)	3,412
Public Health		14,778	(14,923)	(145)	14,778	(14,923)	(145)
Subsidiary Companies					22,190	(24,329)	(2,139)
Cost Of Services		765,198	(483,501)	281,697	781,222	(506,638)	274,584
Other Operating Expenditure		31,267	(15,416)	15,851	31,122	(15,244)	15,878
Financing and Investment Income and Expenditure	18	51,973	(14,786)	37,187	52,216	(11,624)	40,592
Taxation and Non-Specific Grant Incomes	19	-	(361,187)	(361,187)	-	(361,187)	(361,187)
Group (Surplus) or Deficit on Provision of Services		848,438	(874,890)	(26,452)	864,560	(894,693)	(30,133)
(Surplus) or Deficit on Revaluation of Non Current Assets				(19,580)			(27,794)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				(167)			(167)
Actuarial (Gains)/Losses on pension Assets/Liabilities				(43,610)			(41,940)
Movement due to Acquisitions/Disposals on Pension Fund				8,060			(1,000)
Transfer of Homes for Northumberland Balances				(2,656)			-
Other Comprehensive Income and Expenditure				(57,953)			(70,901)
Total Comprehensive Income and Expenditure				(84,405)			(101,034)

## Group Balance Sheet

as at 31 March 2017

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the 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 2017

	Note	31 March 2016		31 March 2017	
		Council Only £'000	Group £'000	Council Only £'000	Group £'000
Property, Plant & Equipment	1, 12	1,204,806	1,225,499	<b>1,293,576</b>	<b>1,327,944</b>
Heritage Assets		8,210	8,210	<b>8,383</b>	<b>8,383</b>
Investment Property	2	1,723	121,314	<b>1,575</b>	<b>286,030</b>
Intangible Assets		3,245	3,245	<b>3,320</b>	<b>3,319</b>
Assets Held for Sale - non current		400	400	<b>415</b>	<b>415</b>
Long-Term Investments		120,288	117,856	<b>49,990</b>	<b>48,701</b>
Long-Term Debtors		224,802	154,712	<b>394,787</b>	<b>148,707</b>
<b>Long-Term Assets</b>		<b>1,563,474</b>	<b>1,631,236</b>	<b>1,752,046</b>	<b>1,823,499</b>
Intangible Assets		373	373	<b>442</b>	<b>442</b>
Short Term Investments		62,868	62,641	<b>70,835</b>	<b>70,835</b>
Assets Held for Sale - current		9,117	9,116	<b>15,737</b>	<b>15,736</b>
Inventories		1,133	1,133	<b>1,222</b>	<b>1,223</b>
Short-Term Debtors	7	92,879	92,719	<b>122,515</b>	<b>126,814</b>
Cash and Cash Equivalents	3	31,535	35,493	<b>30,995</b>	<b>37,227</b>
<b>Current Assets</b>		<b>197,905</b>	<b>201,475</b>	<b>241,746</b>	<b>252,277</b>
Bank Overdraft	3	(16,521)	(16,521)	<b>(4,157)</b>	<b>(4,157)</b>
Short Term Borrowing	16	(94,353)	(94,651)	<b>(159,597)</b>	<b>(159,898)</b>
Short Term Creditors	8	(72,053)	(79,275)	<b>(107,614)</b>	<b>(118,173)</b>
Short Term Provisions		(12,568)	(12,619)	<b>(12,964)</b>	<b>(13,262)</b>
Revenue Grants Receipts in Advance		(1,341)	(1,341)	<b>(35)</b>	<b>(35)</b>
<b>Current Liabilities</b>		<b>(196,836)</b>	<b>(204,407)</b>	<b>(284,367)</b>	<b>(295,525)</b>
Long Term Creditors - PFI		(80,009)	(80,136)	<b>(78,178)</b>	<b>(86,862)</b>
Long Term Borrowing	17	(547,825)	(549,847)	<b>(606,298)</b>	<b>(608,014)</b>
Other Long Term Liabilities	9, 15	(652,480)	(652,480)	<b>(678,120)</b>	<b>(678,120)</b>
Long Term Provisions		(1,668)	(1,668)	<b>(606)</b>	<b>(606)</b>
Capital Grants Receipts in Advance		(12,048)	(12,048)	<b>(6,799)</b>	<b>(6,972)</b>
<b>Long-Term Liabilities</b>		<b>(1,294,030)</b>	<b>(1,296,179)</b>	<b>(1,370,001)</b>	<b>(1,380,574)</b>
<b>Net Assets</b>		<b>270,513</b>	<b>332,125</b>	<b>339,424</b>	<b>399,677</b>
Usable Reserves		178,588	182,529	<b>184,263</b>	<b>180,006</b>
Unusable Reserves	9	91,925	149,596	<b>155,161</b>	<b>219,671</b>
<b>Total Reserves</b>		<b>270,513</b>	<b>332,125</b>	<b>339,424</b>	<b>399,677</b>

## Group Cash Flow Statement

as at 31 March 2017

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	2015-16		2016-17	
		Council Only £'000	Group £'000	Council Only £'000	Group £'000
Net surplus on the provision of services		26,452	30,133	68,416	60,887
Adjustments to net surplus or deficit on the provision of services for non-cash movements		23,540	11,407	26,539	27,720
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing		(87,886)	(87,886)	(111,223)	(111,223)
<b>Net cash flows from Operating Activities</b>		<b>(37,894)</b>	<b>(46,346)</b>	<b>(16,268)</b>	<b>(22,616)</b>
Investing Activities	5	55,227	61,457	(131,774)	(123,152)
Financing Activities	6	(28,292)	(28,292)	159,866	159,866
<b>Net (increase) / decrease in cash and cash equivalents</b>		<b>(10,959)</b>	<b>(13,181)</b>	<b>11,824</b>	<b>14,098</b>
Cash and cash equivalents at the beginning of the reporting period		25,973	32,153	15,014	18,972
Cash and cash equivalents at the end of the reporting period	3	15,014	18,972	26,838	33,070

## Notes to the Group Financial Statements

### Accounting Policies

The financial results of the Council and its subsidiaries as of 31 March 2017 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
<b>Arch (Commercial Enterprise) Limited:</b>	
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
<b>Arch (Corporate Holdings):</b>	
Plant and Machinery	25% per annum reducing balance
<b>Arch (Development Projects):</b>	
Plant and Machinery	20 years 5% Straight line
<b>Arch (Housing) Limited:</b>	
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 2016-17	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 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
Additions	12,548	53,446	6,282	33,360	4	128	40,057	145,825	1,582	14,767	120	160,712
Reclassifications	5,188	7,226	147	10,369	-	2,550	(25,480)	-	-	2,038	-	2,038
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(7,941)	-	-	10	8,346	-	415	-	-	-	415
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	18,675	(17,941)	-	-	-	(873)	-	(139)	-	170	-	31
De-recognition - Disposals	(1,620)	(28,131)	(2,676)	-	(4)	(76)	(321)	(32,828)	-	(2,902)	-	(35,730)
De-recognition - Other	-	(3,516)	-	-	-	-	-	(3,516)	-	-	-	(3,516)
Impairment	-	-	-	-	-	-	-	-	-	(35)	(1)	(36)
Other Movement in Cost / Valuation - Correction of opening balance	-	-	-	-	-	-	-	-	-	(485)	-	(485)
Assets reclassified (to)/from Held for Sale	-	(6,912)	-	-	(50)	(6,023)	-	(12,985)	-	-	-	(12,985)
At 31 March 2017	305,301	481,464	145,058	468,379	9,799	16,217	73,534	1,499,752	107,906	32,087	3,190	1,535,029

## Notes to the Group Financial Statements

Movements in 2016-17	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>Accumulated Depreciation and Impairment:</b>												
At 1 April 2016	-	34,292	46,898	115,564	1,420	-	-	198,174	22,664	506	406	199,086
Depreciation/Impairment charge	8,488	13,811	9,913	12,487	128	-	-	44,827	4,198	82	176	45,085
Reclassifications	-	(627)	-	-	-	627	-	-	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	(14,216)	-	-	-	(566)	-	(14,782)	-	-	-	(14,782)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(8,488)	(6,863)	-	-	-	(61)	-	(15,412)	-	-	-	(15,412)
De-recognition - Disposals	-	(4,056)	(2,276)	-	-	-	-	(6,332)	-	(261)	-	(6,593)
De-recognition – Other	-	(299)	-	-	-	-	-	(299)	-	-	-	(299)
At 31 March 2017	-	22,042	54,535	128,051	1,548	-	-	206,176	26,862	327	582	207,085
<b>Net Book Value:</b>												
At 31 March 2017	305,301	459,422	90,523	340,328	8,251	16,217	73,534	1,293,576	81,044	31,760	2,608	1,327,944
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

## Notes to the Group Financial Statements

Movements in 2015-16	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
	Buildings	Furniture &	Equipment				Construction	Plant and	Property,	Buildings	Equipment	
	£'000	£'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
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	-	(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 2015-16	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
	Buildings	Furniture &				Construction	Plant and	Property,	Buildings	Equipment		
	Equipment						Equipment	Plant and				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Accumulated Depreciation and Impairment:</b>												
At 1 April 2015	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859	410	619	183,704
Transfer from HfN	-	-	162	-	-	-	-	162	-	-	(162)	-
Depreciation/Impairment 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)
At 31 March 2016	-	34,292	46,898	115,564	1,420	-	-	198,174	22,664	506	406	199,086
<b>Net Book Value:</b>												
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

### 2. Investment Property

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

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	3,543	100,423	1,723	121,314
Additions	-	13,904	-	161,932
Reclassifications	(50)	1,126	(270)	(2,307)
Assets reclassified (to)/from held for sale	-	-	-	-
Disposals	(145)	(940)	(470)	(549)
Net (losses)/gains from fair value adjustments	(1,625)	6,801	592	5,640
Balance at 31 March	1,723	121,314	1,575	286,030

#### Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes. Within Arch investment properties, £54.06 million have been valued at level 2 and the remainder of those properties subject to a revaluation during 2016-17 were valued at level 1.

#### 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 2017 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 2016-17.

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.

## Notes to the Group Financial Statements

### 3. Group Cash and Cash Equivalents

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

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Cash and Bank Balances	31,535	31,535	30,995	30,995
Bank Overdraft	(16,521)	(16,521)	(4,157)	(4,157)
Cash held by Homes for Northumberland	-	30	-	-
Cash held by Arch	-	3,928	-	6,232
<b>Total Cash and Cash Equivalents</b>	<b>15,014</b>	<b>18,972</b>	<b>26,838</b>	<b>33,070</b>

### 4. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Interest received	(14,741)	(17,904)	(18,926)	(10,569)
Interest paid	29,784	29,540	29,178	29,213
Dividends	-	-	(3,381)	(3,381)

### 5. Group Cash Flow Statement – Investing Activities

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Purchase of property, plant and equipment, investment property and intangible assets	(105,102)	(120,904)	(146,889)	(314,104)
Purchase of short term and long term investments	(110,132)	(110,132)	(20,000)	(21,150)
Other payments for investing activities	(26,569)	(7,636)	(180,501)	(4,178)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,502	11,601	12,722	13,386
Proceeds from short term and long term investments	140,000	140,000	81,620	81,620
Other receipts from investing activities	148,528	148,528	121,274	121,274
<b>Net cash flows from investing activities</b>	<b>55,227</b>	<b>61,457</b>	<b>(131,774)</b>	<b>(123,152)</b>

## Notes to the Group Financial Statements

### 6. Group Cash Flow Statement – Financing Activities

	2015-16		2016-17	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Cash receipts of short term and long term borrowing	75,051	75,051	277,017	277,017
Other receipts from financing activities	294	294	37,563	37,563
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(896)	(896)	(1,087)	(1,087)
Repayments of short and long term borrowing	(102,741)	(102,741)	(153,627)	(153,627)
Net cash flows from financing activities	(28,292)	(28,292)	159,866	159,866

### 7. Group Short Term Debtors

	2015-16		2016-17	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Central government bodies	20,066	20,066	56,582	56,582
NHS bodies	12,818	12,818	16,640	16,640
Other entities and individuals	47,734	47,574	42,706	47,005
Other local authorities	7,984	7,984	3,487	3,487
Public corporations and trading funds	4,277	4,277	3,100	3,100
Total Short Term Debtors	92,879	92,719	122,515	126,814

### 8. Group Short Term Creditors

	2015-16		2016-17	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Central government bodies	(15,611)	(15,611)	(48,725)	(48,725)
NHS bodies	(1,003)	(1,003)	(2,878)	(2,878)
Other entities and individuals	(54,213)	(61,435)	(54,362)	(64,921)
Other local authorities	(1,225)	(1,225)	(1,414)	(1,414)
Public corporations and trading funds	(1)	(1)	(235)	(235)
Total Short Term Creditors	(72,053)	(79,275)	(107,614)	(118,173)



## Notes to the Group Financial Statements

### 9. Group Unusable Reserves

Unusable reserves reflect the balances included within the parent company of Northumberland County Council with the exception of the Revaluation Reserve, the introduction of the called up share capital reserve and the capital adjustment account with the differences detailed below:

	2015-16		2016-17	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Accumulated Absences Adjustment Account*	(4,386)	(4,386)	(5,743)	(5,743)
Available-for-Sale Financial Instruments Reserve*	13,271	13,271	13,116	13,116
Capital Adjustment Account	573,609	583,603	658,756	669,387
Collection Fund Adjustment Account*	3,806	3,806	4,977	4,977
Deferred Capital Receipts Reserve*	821	821	3,101	3,101
Financial Instruments Adjustment Account*	(758)	(758)	(1,188)	(1,188)
Pensions Reserve **	(652,480)	(652,480)	(678,120)	(678,120)
Revaluation Reserve	158,042	205,718	160,262	214,140
Share Capital	-	1	-	1
<b>Total</b>	<b>91,925</b>	<b>149,596</b>	<b>155,161</b>	<b>219,671</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.

\*\* Homes for Northumberland's Pensions Reserve transferred to the Council in 2015-16. The Group balances for 2016-17 are now 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.

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	143,333	143,333	<b>158,042</b>	<b>158,042</b>
Amounts held in Subsidiaries	-	39,463	-	<b>47,676</b>
Restated balance 1 April	143,333	182,796	<b>158,042</b>	<b>205,718</b>
Upward revaluation of assets	40,321	40,321	<b>26,986</b>	<b>26,986</b>
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	(20,741)	(12,528)	<b>(11,789)</b>	<b>(5,587)</b>
Difference between fair value depreciation and historical cost depreciation	(3,567)	(3,567)	<b>(3,073)</b>	<b>(3,073)</b>
Accumulated gains on assets sold or scrapped	(1,304)	(1,304)	<b>(9,389)</b>	<b>(9,389)</b>
Amount written off to the Capital Adjustment Account	-	-	<b>(515)</b>	<b>(515)</b>
Balance at 31 March	158,042	205,718	<b>160,262</b>	<b>214,140</b>

## 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. Within 2015-16 Homes for Northumberland's Pensions Reserve was transferred to the Council.

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	(677,560)	(684,640)	(652,480)	(652,480)
Net (Increase)/Decrease from Acquisition and Disposal	(8,060)	1,000	-	-
Return on plan assets	(34,540)	(36,210)	172,200	172,200
Actuarial gains or (losses) arising on changes in financial assumptions	57,740	57,740	(318,390)	(318,390)
Actuarial gains or (losses) arising on changes in demographic assumptions	3,040	3,040	34,570	34,570
Other	17,370	17,370	97,040	97,040
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 Employer's pensions contributions and direct payments to pensioners payable in the year	(50,100)	(50,810)	(49,830)	(49,830)
	39,630	40,030	38,770	38,770
Balance at 31 March	(652,480)	(652,480)	(678,120)	(678,120)

### 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.

	2015-16		2016-17	
	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.

	2015-16		2016-17	
	Council Only £	Group £	Council Only £	Group £
Balance at 1 April	552,769	559,962	573,609	583,603
<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	(42,832)	(42,832)	(44,827)	(44,827)
Deficit on Available-for-Sale financial assets	13	13	15	15
Revaluation losses on Property, Plant and Equipment	(32,420)	(32,420)	15,343	15,343
Amortisation of intangible assets	(1,105)	(1,105)	(1,084)	(1,084)
Revenue expenditure funded from capital under statute*	(18,778)	(15,977)	(17,340)	(16,703)
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)	(46,115)	(46,115)
Adjusting amounts written out of the Revaluation Reserve	4,871	4,871	12,977	12,977
<b>Capital financing applied in the year:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	10,098	10,098	9,396	9,396
Use of the Major Repairs Reserve to finance new capital expenditure	7,190	7,190	7,383	7,383
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	65,079	65,079	90,344	90,344
Application of grants to capital financing from the Capital Grants Unapplied Account	4,651	4,651	13,202	13,202
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	31,488	31,488	18,577	18,577
Voluntary set aside of capital receipts	6,621	6,621	9,286	9,286
Capital expenditure charged against the General Fund and HRA balance	3,172	3,172	17,495	17,495
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(1,652)	(1,652)	495	495
Balance at 31 March	573,609	583,603	658,756	669,387

\* includes negative capitalisation of Icelandic Impairments

## **Notes to the Group Financial Statements**

### **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 (Cushman & Wakefield Debenham Tie Leung Limited). The valuations for ARCH are carried out by Chartered Surveyors (Bradley Hall).

	Council Dwellings	Other Land and Buildings	Vehicles, plant, furniture and equipment	Council Infrastructure Assets	Community Assets*	Surplus Assets	Assets under construction	Council Total	Subsidiaries Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Group Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost	-	3,516	90,523	340,328	8,251	-	73,534	516,152	20,267	2,607	539,026
Valued at Current Value in:											
2012-13	-	6,150	-	-	-	-	-	6,150	-	-	6,150
2013-14	-	10,953	-	-	-	-	-	10,953	-	-	10,953
2014-15	-	113,528	-	-	-	-	-	113,528	-	-	113,528
2015-16	-	102,541	-	-	-	-	-	102,541	-	-	102,541
2016-17	305,301	222,734	-	-	-	16,217	-	544,252	11,494	-	555,746
<b>Total</b>	<b>305,301</b>	<b>459,422</b>	<b>90,523</b>	<b>340,328</b>	<b>8,251</b>	<b>16,217</b>	<b>73,534</b>	<b>1,293,576</b>	<b>31,761</b>	<b>2,607</b>	<b>1,327,944</b>

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

## Notes to the Group Financial Statements

### 13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Provision brought Forward	-	114	-	114
Adjustment in respect of previous year	-	-	-	8,570
Provision to Carry forward	-	114	-	8,684

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Excess of taxation allowances over depreciation on fixed assets	-	114	-	8,684

### 14. The Nature and Extent of Significant Restrictions within the Group

Prior to the creation of the Arch Group, the payment of dividend was historically 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 2016-17 £0.9 million was paid to Arch Corporate Holdings Ltd; £0.1 million from Arch Development Projects Ltd, £0.5 million from Arch Housing Ltd and £0.3 million from Arch Commercial Enterprises 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, previously participated in the Local Government Pension Scheme (LGPS). The disclosure incorporates the group position for 2015-16 only, subsequent to this the pension liability from Homes for Northumberland was transferred to the Council and the position for 2016-17 is shown within the Council disclosures. The disclosures below show a comparison between the parent authority's LGPS scheme with that of Homes for Northumberland for 2015-16 only.

**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.

## Notes to the Group Financial Statements

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 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.

**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 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. 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



## Notes to the Group Financial Statements

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 required to be made 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 actioned 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:

2015-16	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)
Total post employment benefit charged to the deficit on the provision of services	(50.10)	(0.71)	(50.81)
<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
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	43.61	(1.67)	41.94
<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)

The amount of actuarial gains and losses for the Group recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2016 is a gain of £41.94 million.

## Notes to the Group Financial Statements

### 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:

2015-16	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

### Reconciliation of Present Value of the Schemes' Liabilities (Defined Benefit Obligation):

2015-16	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)

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

2015-16	Council Only £m	Homes for N'land £m	Group Total £m
Opening fair value of scheme assets as at 1 April 2015	869.38	28.83	898.21
Increase/(Decrease) from Acquisition/Disposal	19.41	(27.98)	(8.57)
Interest income	28.05	0.40	28.45
<b>Remeasurement gain/(loss):</b>			
The return on plan assets, excluding the amount included in the net interest	(34.54)	(1.67)	(36.21)
Contributions by the employer	28.07	0.40	28.47
Contributions by participants	6.44	0.16	6.60
Benefits paid	(36.02)	(0.14)	(36.16)
Closing balance as at 31 March 2016	880.79	0.00	880.79

## Notes to the Group Financial Statements

### Local Government Pension Scheme assets comprised:

2015-2016	Council Only £m	Homes for N'land £m	Group Total £m	Total Assets %
UK and Overseas Equities	554.70	-	554.70	62.98
Fixed Interest and Index Linked	213.00	-	213.00	24.18
Property Unit Trust	41.23	-	41.23	4.68
Ventures and Partnerships	73.61	-	73.61	8.36
Net Current (Liabilities)/Assets	(1.75)	-	(1.75)	(0.20)
<b>Total assets</b>	<b>880.79</b>	<b>-</b>	<b>880.79</b>	<b>100.00</b>
<b>Equity instruments (by geographical area):</b>				
United Kingdom	311.24	-	311.24	56.11
Europe	58.76	-	58.76	10.59
North Americas	60.01	-	60.01	10.82
Japan	28.29	-	28.29	5.10
Pacific	31.30	-	31.30	5.64
Other	65.10	-	65.10	11.74
<b>Total equity</b>	<b>554.70</b>	<b>-</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.

## Notes to the Group 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 2015-16 figures the latest full actuarial valuation of the Fund took place as at 31 March 2013.

The principal assumptions used by the actuary have been:

	Council Only				Homes for N'land
	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme	
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%

### 16. Group Short Term Borrowing

The Group's short term borrowing can be analysed as follows:

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Borrowings:				
Financial liabilities at amortised cost	(88,627)	(88,925)	(153,546)	(153,847)
Add: Accrued Interest	(5,743)	(5,743)	(6,069)	(6,069)
Add: Amortised premiums	17	17	18	18
<b>Total Borrowings</b>	<b>(94,353)</b>	<b>(94,651)</b>	<b>(159,597)</b>	<b>(159,898)</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 2016		As at 31 March 2017	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
<b>Analysis by Loan Type:</b>				
Public Works Loans Board	267,135	267,135	<b>243,631</b>	<b>243,631</b>
Other Market Loans	20,090	22,112	<b>173,167</b>	<b>174,883</b>
LOBO (Market Loans)	260,600	260,600	<b>189,500</b>	<b>189,500</b>
	547,825	549,847	<b>606,298</b>	<b>608,014</b>
<b>Analysis of Loans by Maturity:</b>				
Less than 1 year	-	-	-	-
Between 1 and 2 years	33,527	33,527	<b>87,523</b>	<b>87,523</b>
Between 2 and 5 years	70,566	70,566	<b>85,566</b>	<b>85,566</b>
Between 5 and 10 years	14,852	14,852	<b>7,353</b>	<b>7,353</b>
Between 10 and 20 years	23,053	25,075	<b>19,982</b>	<b>21,698</b>
Between 20 and 30 years	9,670	9,670	<b>12,141</b>	<b>12,141</b>
Between 30 and 40 years	88,557	88,557	<b>70,133</b>	<b>70,133</b>
Between 40 and 50 years	153,600	153,600	<b>179,600</b>	<b>179,600</b>
Between 50 and 60 years	23,000	23,000	<b>13,000</b>	<b>13,000</b>
In excess of 60 years	131,000	131,000	<b>131,000</b>	<b>131,000</b>
	547,825	549,847	<b>606,298</b>	<b>608,014</b>

### 18. Financing and Investment Income and Expenditure

	As Restated 2015-16		2016-17	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Interest payable and similar charges	29,381	29,527	<b>30,049</b>	<b>30,078</b>
Pensions interest cost and expected return on pensions assets	20,920	21,010	<b>21,530</b>	<b>21,530</b>
Interest receivable and similar income	(14,735)	(11,566)	<b>(22,141)</b>	<b>(13,779)</b>
Income and expenditure in relation to investment properties and changes in fair value	1,621	1,621	<b>(515)</b>	<b>(516)</b>
Total Financing and Investment Income and Expenditure	37,187	40,592	<b>28,923</b>	<b>37,313</b>

## Notes to the Group Financial Statements

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

	2015-16		2016-17	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Council tax income	(150,878)	(150,878)	(159,184)	(159,184)
Non domestic rates	(37,217)	(37,217)	(38,951)	(38,951)
Non-ring fenced government grants	(93,948)	(93,948)	(81,671)	(81,671)
Capital grants and contributions	(79,144)	(79,144)	(98,893)	(98,893)
<b>Total Taxation and Non-Specific Grant Income</b>	<b>(361,187)</b>	<b>(361,187)</b>	<b>(378,699)</b>	<b>(378,699)</b>

## Notes to the Group Financial Statements

### 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.

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.

Remuneration Band	2015-16	2015-16	2016-17	2016-17
	All Employees	All Employees	All Employees	All Employees
£50,000 to £54,999	91	92	94	96
£55,000 to £59,999	67	68	69	73
£60,000 to £64,999	29	30	39	39
£65,000 to £69,999	19	19	19	20
£70,000 to £74,999	12	13	11	11
£75,000 to £79,999	13	15	4	6
£80,000 to £84,999	5	5	9	11
£85,000 to £89,999	2	2	5	5
£90,000 to £94,999	4	5	2	3
£95,000 to £99,999	3	3	3	3
£100,000 to £104,999	2	2	1	1
£105,000 to £109,999	1	1	2	2
£110,000 to £114,999	1	1	1	1
£115,000 to £119,999	1	1	3	3
£120,000 to £124,999	-	1	-	-
£125,000 to £129,999	-	-	-	-
£130,000 to £134,999	1	1	-	1
£135,000 to £139,999	-	-	1	1
£140,000 to £144,999	-	-	-	-
£155,000 to £159,999	1	1	-	-
£170,000 to £174,999	-	-	-	-
£175,000 to £179,999	1	1	-	-
£195,000 to £199,999	1	1	-	-
£205,000 to £209,999	-	-	1	1
<b>Total</b>	<b>254</b>	<b>262</b>	<b>264</b>	<b>277</b>



## Notes to the Group Financial Statements

### 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:

	2015-16		2016-17	
	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	191	226	191	221
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	9	9	10	10
Fees payable in respect of any other services provided by the appointed auditor during the year	36	130	64	160
<b>Total</b>	<b>236</b>	<b>365</b>	<b>265</b>	<b>391</b>

#### Notes:

Fees payable in respect of other services provided by the appointed auditor are in relation to fees relating to VAT advice and Ad Hoc services.

# **Pension Fund Accounts**

## **Northumberland County Council Pension Fund Financial Statements**

### **for the year ended 31 March 2017**

#### **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.

In the year to 31 March 2017 the total market value of the Fund, net of liabilities, has increased from £1,055.26 million to £1,308.32 million as the annual return on the Fund (comprising income and realised/unrealised gains/losses on investments) together with receipts to the Fund have exceeded the payments made from the Fund.

The Fund Account shows a net withdrawal from dealings with members of £6.88 million in 2016-17 (£10.26 million in 2015-16) as payments to pensioners and leavers exceed contributions from members, reflecting the Fund’s maturity. The net return on investments experienced during 2016-17 of £259.94 million reflects the high positive returns experienced by funds generally over that period and follows the low negative returns experienced during 2015-16.

The overall annual return on the Fund was 24.2% for the year (-0.7% in 2015-16), which compares favourably with the Fund specific benchmark annual return of 24.1%.

The long term growth of the Pension Fund is seen as the most 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 2017 was 7.1% per annum, which compares with the benchmark annualised return of 7.2%. Fund returns for the ten year period were higher than the growth in average earnings and inflation increases.

The significant changes made to Fund investments in 2016-17 were:

- the portfolio of active global equities managed by M&G was transferred to Legal and General to be passively managed;
- 8% of the Fund was allocated to a value-style bias global equity tracker fund, namely RAFI 3000 (a FTSE Research Affiliates Fundamental Index);
- currency hedging against exposure to the US dollar was introduced and the decision made to hedge exposure to the Euro.

Local Government Pension Scheme (LGPS) regulations were introduced in 2016-17 to facilitate pooling of investments, and Northumberland County Council made a commitment to join Border to Coast Pensions Partnership pooling arrangement.

The triennial actuarial valuation of the Fund as at 31 March 2016 was finalised in 2016-17, revealing a funding ratio of 84% (81% as at 31 March 2013).

## Pension Fund Accounts

### Northumberland County Council Pension Fund Financial Statements

for the year ended 31 March 2017

Membership of the Fund at 31 March 2017 is summarised below:

	31 March 2016	31 March 2017
Active members	8,515	8,867
Pensioner members	8,047	8,304
Deferred members	8,616	8,724
	25,178	25,895

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 2017.

**Pension Fund Accounts**  
**Fund Account**  
for the year ended 31 March 2017

	Note	2015-16 £'000	2016-17 £'000
<b>Dealings with members, employees and others directly involved with the Fund</b>			
Contributions	5	43,633	<b>44,535</b>
Transfers in from other pension funds	6	1,331	<b>3,004</b>
		44,964	<b>47,539</b>
Benefits	7	(48,889)	<b>(50,696)</b>
Payments to and on account of leavers	8	(5,160)	<b>(2,581)</b>
Administrative expenses	9	(1,175)	<b>(1,144)</b>
		(55,224)	<b>(54,421)</b>
Net (withdrawals) from dealings with members		(10,260)	<b>(6,882)</b>
<b>Returns on investments</b>			
Investment income	10	5,032	<b>7,241</b>
Taxes on income		-	-
Profit and losses on disposal of investments and changes in the market value of investments	11	(2,395)	<b>257,818</b>
Investment management expenses	12	(4,236)	<b>(5,117)</b>
Net returns on investments		(1,599)	<b>259,942</b>
Net (decrease)/increase in net assets available for benefits during the year		(11,859)	<b>253,060</b>
Net assets of the Fund at 1 April		1,067,121	<b>1,055,262</b>
At 31 March		1,055,262	<b>1,308,322</b>

**Pension Fund Accounts**  
**Net Assets Statement**  
as at 31 March 2017

	Note	31 March 2016 £'000	31 March 2017 £'000
<b>UK Investments</b>			
Pooled Investment Vehicles			
- Property		49,398	50,031
- Equity		372,881	330,347
- Index Linked		161,615	228,645
<b>Overseas Investments</b>			
Pooled Investment Vehicles			
- Equity		291,742	491,294
- Other Fixed Interest		93,609	99,911
<b>Ventures and Partnerships</b>		88,183	105,653
	11	1,057,428	1,305,881
Other Investment Balances	11	246	993
	11	1,057,674	1,306,874
Cash Deposits		4,076	3,442
Current Assets	13	323	708
Current Liabilities	14	(6,811)	(2,702)
<b>Net Assets of the Fund at 31 March</b>	15	1,055,262	1,308,322

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 IAS 26 (also prepared by the actuary) shown on page 229 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 Assets 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 fair value which has been determined as follows:

- (1) Quoted securities are valued at the bid price quotations at close of business on 31 March 2017;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2017;
- (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 2017 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 2017 are credited to the Fund.

- *Investment transactions*

Investment transactions arising up to 31 March 2017 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 2017 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 2017 which provide evidence of conditions that existed as at 31 March 2017 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2017 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 2016. 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 2017 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 £106 million. The Fund’s performance measurement service provider, Portfolio Evaluation, 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 8.6%. This equates to a tolerance of +/- £9 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.	An increase of 0.5% in the discount rate assumption would decrease the pension liability by approximately £125 million at 31 March 2016. An increase of 0.25% in assumed salary inflation would increase



## Notes to the Pension Fund Financial Statements

Uncertainties	Effect if actual results differ from assumptions
The Fund actuary provides advice about the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured.	the pension liability by approximately £12 million at 31 March 2016. A one year increase in assumed life expectancy would increase the pension liability by approximately £45 million at 31 March 2016.

There are no new relevant accounting standards which have been issued but not yet adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

### 5. Contributions

	2015-16 £'000	2016-17 £'000
<b>Employers' normal contributions</b>		
Administering authority	16,272	16,923
Scheduled bodies	3,424	3,270
Admitted bodies	2,410	2,119
<b>Employers' other contributions</b>		
Deficit funding	12,174	12,263
Strain on the Fund following early retirement	903	1,439
<b>Members</b>		
Normal	8,450	8,521
	<b>43,633</b>	<b>44,535</b>

### 6. Transfers in from other pension funds

	2015-16 £'000	2016-17 £'000
Individual transfers in from other schemes	1,331	3,004
	1,331	3,004

### 7. Benefits

	2015-16 £'000	2016-17 £'000
<b>Pensions</b>		
Administering authority	(37,322)	(37,659)
Scheduled bodies	(1,961)	(2,118)
Admitted bodies	(1,495)	(1,698)
Commutation of pensions and lump sum retirement benefits	(7,056)	(7,466)
Lump sum death benefits	(1,055)	(1,755)
	<b>(48,889)</b>	<b>(50,696)</b>

## Notes to the Pension Fund Financial Statements

### 8. Payments to and on account of leavers

	2015-16	2016-17
	£'000	£'000
Group transfer to other scheme	(959)	-
Individual transfers to other schemes	(4,090)	(2,455)
Payments for members joining state scheme	(30)	(38)
Refunds to members leaving service	(81)	(88)
	(5,160)	(2,581)

### 9. Administrative expenses

	2015-16	2016-17
	£'000	£'000
Administrative costs	(739)	(723)
Oversight and governance costs	(436)	(421)
	(1,175)	(1,144)

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

	2015-16	2016-17
	£'000	£'000
Income from pooled investment vehicles	3,563	3,393
Income from ventures and partnerships	1,488	3,865
Net interest on cash deposits	(19)	(17)
	5,032	7,241

## Notes to the Pension Fund Financial Statements

### 11. Investments

Fund investments as at 31 March 2017 (and as at 31 March 2016) were all externally managed in pooled investment vehicles which can be analysed as follows:

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
<b>Actively managed investments</b>		
Unitised insurance policies (equity)	116,769	-
Unit trusts (property)	49,398	50,031
Other managed funds		
- (other fixed interest)	93,609	99,911
- (ventures and partnerships)	88,183	105,653
	347,959	255,595
<b>Passively managed investments</b>		
Unitised insurance policies (equity and index linked)	709,469	1,050,286
	1,057,428	1,305,881
Other investment balances	246	993
<b>Total</b>	<b>1,057,674</b>	<b>1,306,874</b>

	Value at 1 April 2016 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2017 £'000
Actively managed investments	347,959	14,773	(157,948)	50,811	255,595
Passively managed investments	709,469	1,239,093	(1,105,110)	206,834	1,050,286
	1,057,428	1,253,866	(1,263,058)	257,645	1,305,881
Other investment balances	246			173	993
<b>Total</b>	<b>1,057,674</b>			<b>257,818</b>	<b>1,306,874</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>(2,395)</b>	<b>1,057,674</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.

## Notes to the Pension Fund Financial Statements

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, stamp duty and indirect costs incurred through the bid-offer spread on investments within pooled investment vehicles. Transaction costs incurred in the year amounted to £0.14 million (£0.19 million in 2015-2016).

### Other investment balances

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Cash deposits	177	908
Outstanding dividends, tax and other investment income	69	85
	246	993

### 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.

	2015-16 £'000	2016-17 £'000
<b>Contributions due from employers in respect of</b>		
Management fees	(4,201)	(5,082)
Custody fees	(35)	(35)
	(4,236)	(5,117)

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.

## Notes to the Pension Fund Financial Statements

### 13. Current assets

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Contributions due from employers in respect of		
Employers	156	291
Members	37	81
Retirement grants prepaid	120	335
Other	10	1
	323	708

These can be further analysed as follows:

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Bodies external to general government	232	536
Central government bodies	46	127
NHS bodies	44	43
Other local authorities	1	2
	323	708

### 14. Current Liabilities

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Due to Northumberland County Council	(6,001)	(2,458)
Retirement/death grants due	(219)	(61)
Investment management and custodial fees due	(312)	(60)
Other	(279)	(123)
	(6,811)	(2,702)

These can be further analysed as follows:

	As at 31 March 2016 £'000	As at 31 March 2017 £'000
Central government bodies	(27)	(40)
Other local authorities	(6,001)	(2,458)
Bodies external to general government	(783)	(204)
	(6,811)	(2,702)

## Notes to the Pension Fund Financial Statements

### 15. Analysis of Investments

The total market value of the Fund as at 31 March 2017 was £1,308.32 million (£1,055.26 million as at 31 March 2016), which can be analysed as follows:

	As at 31 March 2016 £m	As at 31 March 2017 £m	%
UK and overseas equities	664.62	821.64	62.80
Fixed interest and index linked	255.22	328.56	25.12
Property unit trusts	49.40	50.03	3.82
Ventures and partnerships	88.18	105.65	8.07
Other investment balances	0.25	0.99	0.08
Cash deposits and net current (liabilities)	(2.41)	1.45	0.11
	1,055.26	1,308.32	100.00

The majority of the Fund's value is held in equities. Analysis by geographical area is as follows:

	As at 31 March 2016 £m	As at 31 March 2017 £m	%
United Kingdom	372.88	330.35	40.20
Europe	70.43	97.57	11.88
North America	71.89	94.47	11.50
Japan	33.94	46.33	5.64
Pacific	37.53	48.73	5.93
Other	77.95	204.19	24.85
	664.62	821.64	100.00

### Fund Value and Proportions

The values and proportions of the Fund's assets managed externally are as follows:

	As at 31 March 2016 £m	As at 31 March 2017 £m	%
Legal & General Investment Management	709.47	1,050.29	80.37
M&G Investment Management	116.77	-	0.00
Wellington Management International	93.61	99.91	7.64
Morgan Stanley (private equity)	38.59	32.74	2.50
NB Alternatives (private equity)	16.53	21.29	1.63
Schroder Investment Management	24.94	25.64	1.97
BlackRock Investment Management (UK)	24.59	24.53	1.88
GIP (infrastructure)	19.97	33.51	2.56
Antin (infrastructure)	13.20	18.96	1.45
	1,057.67	1,306.87	100.00

Net current assets of £1.45 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.

## Notes to the Pension Fund Financial Statements

### 16. Significant Holdings

As at 31 March 2017, 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:

- Three separate holdings, each of £110.12 million (8.42%) in the UK Equity Index Fund managed by Legal and General Investment Management, which together total £330.35 million (25.25%).
- Three separate holdings, each of £76.21 million (5.83%) in the Over Five Year Index Linked Gilts Fund managed by Legal and General Investment Management, which together total £228.64 million (17.48%).
- £66.27 million (5.07%) 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.

During 2016-17 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 2016-17 to AVC investments were £0.24 million (£0.29 million in 2015-16) to Prudential, £87 (£87 in 2015-16) to Equitable Life, and £1,815 (£2,134 in 2015-16) to Phoenix Life Limited.

As at 31 March 2017, the aggregate value of the AVC investments with Prudential was £1.86 million (£1.82 million as at 31 March 2016), with Equitable Life was £48,852 (£46,498 as at 31 March 2016), and with Phoenix Life Limited was £13,015 (£25,248 as at 31 March 2016).

### 18. Related party transactions

Northumberland County Council administers the Pension Fund. During 2016-17 the Pension Fund had an average balance of £4.93 million borrowed from the Council for which it paid interest of £17,214 (and an average balance of £3.73 million borrowed from the Council during 2015-16 for which it paid interest of £19,169). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2016-17 these costs amounted to £0.65 million (£0.64 million in 2015-16). £2.46 million was due to the Council at 31 March 2017 (£6.00 million at 31 March 2016).

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

## Notes to the Pension Fund Financial Statements

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 2017 (four as at 31 March 2016).

### 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 until 6 April 2016. 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 2017 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.

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 2016. 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 2017 there were four external investment managers, namely Legal and General Investment Management, Wellington Management International, BlackRock Investment Management (UK), and Schroder Investment Management.

As at 31 March 2017 the Fund also had private equity investments with Morgan Stanley, and NB Alternatives, and infrastructure investment with Global Infrastructure Partners and Antin Infrastructure Partners.



## Notes to the Pension Fund Financial Statements

The Northern Trust Company provides custodial services for the Fund.

### 20. Investment Strategy Statement (ISS)

The Northumberland County Council Pension Fund's ISS is maintained as a separate document. A copy can be obtained from the Chief Executive.

### 21. Outstanding commitments

As at 31 March 2017 the Fund had outstanding commitments to five investments.

	Year of commitment	Initial commitment m	Capital payments made m	Outstanding commitment as at 31 March 2017 m      £m	
Morgan Stanley Private Markets III	2005	\$50.00	\$47.59	\$2.41	1.93
Morgan Stanley GDO Fund	2006	\$10.00	\$9.66	\$0.34	0.27
Morgan Stanley Private Markets IV	2007	\$30.00	\$29.37	\$0.63	0.50
Global Infrastructure Partners II-C	2011	\$43.00	\$36.51	\$6.49	5.19
Antin Infrastructure Partners II	2013	€24.00	€20.03	€3.97	3.39
<b>Total outstanding commitments</b>					<b>11.28</b>

Outstanding capital commitments totalled £11.28 million as at 31 March 2017 (£31.61 million as at 31 March 2016). 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 2017			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	-	1,200,228	105,653	1,305,881
Loans and receivables	5,143	-	-	5,143
Financial liabilities at amortised cost	(2,702)	-	-	(2,702)
<b>Net financial assets</b>	<b>2,441</b>	<b>1,200,228</b>	<b>105,653</b>	<b>1,308,322</b>

	As at 31 March 2016			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'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)
<b>Net financial assets</b>	<b>(2,166)</b>	<b>969,245</b>	<b>88,183</b>	<b>1,055,262</b>

Financial instruments as at 31 March 2016 have been restated, classifying the financial assets at fair value through profit and loss previously shown as level 1 as level 2 instead, to better reflect the valuation methods used for these assets.

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

## Notes to the Pension Fund Financial Statements

mainly observable market data and level 3 means financial instruments valued using unobservable inputs.

The majority of the Fund assets are classified as level 2. The Fund has no investment assets classified as level 1 and has private equity and infrastructure investments classified as level 3 which are based on the valuations 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:

	2015-16	2016-17
	£'000	£'000
Financial assets at fair value through profit and loss	(2,502)	257,645
Loans and receivables	107	173
Total net gains on financial instruments	(2,395)	257,818

### 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 229 and Appendix 2 respectively 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 and therefore change the 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;

## Notes to the Pension Fund Financial Statements

- 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.

### 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 Northumberland County Council's Annual Report.

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 2017. The LGPS Regulations require that a risk assessment of any new employer admitted under paragraph 1(d) of Part 3, Schedule 2 of the 2013 LGPS Regulations (formerly known as a 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 other new 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 and General Investment Management, which totalled £1,050.28 million as at 31 March 2017, can be realised at short notice and at minimal cost. In eight out of the last ten

## Notes to the Pension Fund Financial Statements

years the Fund has experienced net withdrawals from dealings with members, with the maximum withdrawal in a single year being £10.30 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 and General are realised. Note 21 to the accounts shows further information about outstanding commitments to private equity and infrastructure investments.

### 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 eight separate investment managers, each with different investment styles and strategies, and different benchmarks and performance targets. The Fund has a regular rebalancing policy to maintain the asset split close to the agreed asset allocation target. 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.

## Notes to the Pension Fund Financial Statements

### 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 2017 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	330,347	8.86	359,615	301,078
Overseas equities	491,294	11.33	546,976	435,612
Index linked	228,645	11.13	254,096	203,194
Other fixed interest	99,911	6.95	106,855	92,967
Property	50,031	2.86	51,462	48,600
Ventures and partnerships	105,653	8.58	114,703	96,602
Other investment balances	993	0.00	993	993
<b>Total investment assets</b>	<b>1,306,874</b>	<b>6.68</b>	<b>1,394,173</b>	<b>1,219,574</b>

	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
<b>Total investment assets</b>	<b>1,057,674</b>	<b>7.0</b>	<b>1,131,500</b>	<b>983,848</b>

The percentage change for total investment assets as at 31 March 2017 and as at 31 March 2016 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 fixed interest investment assets. This risk is mitigated by asset and manager diversification. Interest rate risk can be quantified as follows:

## Notes to the Pension Fund Financial Statements

	As at 31 March 2017	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
	£'000	£'000	£'000
Index linked	228,645	254,096	203,194
Other fixed interest	99,911	106,855	92,967
<b>Total fixed interest investments</b>	<b>328,556</b>	<b>360,951</b>	<b>296,161</b>

	As at 31 March 2016	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
	£'000	£'000	£'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>

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 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.

### 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 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Equities</b>				
Europe	97,571	9.04	106,391	88,750
North America	94,473	9.08	103,050	85,896
Japan	46,329	12.85	52,284	40,375
Pacific	48,729	10.69	53,938	43,520
Other	204,192	11.94	228,573	179,812
Other fixed interest	99,911	7.60	107,505	92,318
Ventures and partnerships	105,653	9.07	115,238	96,067
<b>Total overseas investments</b>	<b>696,858</b>	<b>7.60</b>	<b>749,819</b>	<b>643,897</b>

## Notes to the Pension Fund Financial Statements

	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>

The percentage change for total overseas investments as at 31 March 2017 and as at 31 March 2016 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 2017

	Active members	Pensioner members	Deferred members
<b>Northumberland County Council</b>			
Employees	6,778	7,527	7,715
Councillors	19	13	11
<b>Local Government Pension Scheme Employers (known as "Scheduled Bodies")</b>			
Ashington Town Council	4	-	-
Berwick Academy	42	9	10
Blyth Academy (part of Northern Education Trust)	78	12	17
Blyth Quays Academy	130	8	46
Choppington Parish Council	2	-	-
Corbridge Parish Council	2	-	-
Cramlington Learning Village Academy	98	11	30
Cramlington Village Primary School (free school)	9	1	2
Emmanuel Schools Foundation (formerly Bede Academy)	132	16	46
Hadrian Learning Trust	149	-	3
Haltwhistle Community Campus Academy	45	3	16
Hexham Town Council	7	5	-
Meadowdale Academy	36	2	15
Morpeth Town Council	6	4	-
Northumberland College	222	157	262
Northumberland Church of England Academy	269	51	134
Northumberland Inshore Fisheries and Conservation Authority	16	4	3
Northumberland National Park Authority	66	34	89
Northumbria Magistrates Courts Committee	-	88	53
Pax Christi Academy	91	7	11
Ponteland Town Council	3	1	-
Prudhoe Adderlane Primary (part of Wise Academies)	9	-	-
St. Matthew's Catholic Academy (part of St. Thomas More Partnership)	20	1	3
Seaton Valley Council	-	-	1
Three Rivers Learning Trust Academy	177	10	63
West Bedlington Town Council	1	-	1
<b>Admitted Bodies</b>			
Action for Children	12	1	14
Active Northumberland	210	62	43
Age UK Northumberland	2	14	15
Barnardo's Services Ltd	8	1	12
Berwick Borough Housing Ltd (part of Bernicia Group)	7	12	4



## Notes to the Pension Fund Financial Statements

	Active members	Pensioner members	Deferred members
Bullough Cleaning Services Ltd	8	1	1
Feversham School	-	25	14
Isos Housing Ltd	21	57	19
Northumberland Aged Mineworkers Homes Association	8	6	-
Northumbria Healthcare NHS Foundation Trust	50	79	42
Queens Hall Arts	3	2	2
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	2
Wansbeck Homes (part of Bernicia Group)	99	58	15
Woodhorn Charitable Trust	26	7	7
Other bodies pre 1974	-	11	-
	8,867	8,304	8,724

## Pension Fund Performance

### Annual returns

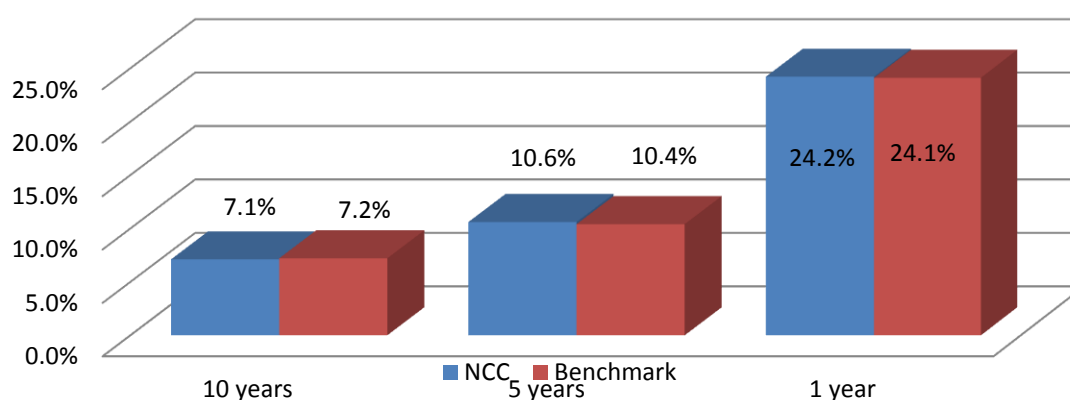
Over the year to 31 March 2017, the Northumberland County Council Pension Fund's return was 24.2%, outperforming its benchmark of 24.1%.

Year ending 31 March	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)
Fund performance	13.8	4.0	13.4	-0.7	24.2
Benchmark	14.0	3.7	13.4	-1.2	24.1

### 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 2017	
	Fund %	Benchmark %
Legal & General (Index tracker)	27.3	28.0
Wellington (Bonds)	6.7	6.5
BlackRock (Property)	3.7	3.7
Schroder (Property)	6.0	3.7
Morgan Stanley (private equity)	14.2	32.9
NB Alternatives (private equity)	9.8	32.9
G.I.P. (infrastructure)	28.4	8.0
Antin (infrastructure)	8.9	8.0
Combined Fund	24.2	24.1

All returns are shown net of fees.

## **Pension Fund Performance**

### **Market Commentary**

The majority of local authority pension funds (which are included on Portfolio Evaluation's database) exceeded a return of 20% in 2016-17.

All equity markets performed strongly through the year as did alternative assets (including private equity and infrastructure). The majority of non UK regional equities returned approximately 30%; however it should be noted that sterling depreciation was a strong driver behind the high returns from non-sterling assets. UK equities returned in excess of 20% and there were strong performances from commodities, large capitalisation and value stocks.

Bond performance was also robust with gilts returning over 5%, UK corporate bonds returning almost 10% and index linked bonds returning 20% in the year.

Alternative assets such as private equity had a return of 20%, and infrastructure funds typically exceeded 15%.

In the UK, 2016-17 was particularly notable for the Brexit referendum whose result, in June 2016, led to a significant depreciation in sterling versus other major currencies. Despite Brexit, the UK economy remained robust through the year due to consumer spending and exporters. Global equity markets benefitted from economic growth (albeit low) in Europe and the US and emerging markets. Business sentiment remained positive throughout the Eurozone and the "Trump effect", following the November 2016 election in the US, assisted markets given his pro-business focus.

### **The Fund's returns**

The Northumberland County Council Pension Fund produced a return of 24.2% in 2016-17. The Fund return was 0.2% above its benchmark in the year.

Asset allocation had a positive impact due to the Fund being overweight in equities (a higher performing asset class) and underweight in bonds (a lower performing asset class).

Manager performance was a negative generator of Fund returns despite positive contributions from equities and infrastructure, as this was more than countered by the negative portfolio return contributions from private equities. Index tracker funds, as expected, have performed in line with their benchmarks.

Relative to Portfolio Evaluation's database of local authority pension funds, the Fund has returned a higher than average return for the year.

Over five years, the Fund returned 10.6% p.a. which was 0.2% p.a. above the benchmark return of 10.4 % p.a. This return is significantly above returns from cash, salary inflation and retail inflation over the same period.

Over ten years the Fund achieved a return of 7.1% p.a. This return is significantly above returns from cash, salary inflation and retail inflation over the same period. Retail inflation, as measured by the Retail Prices Index (RPI), was 2.8% over the ten year period.

## Pension Fund Accounts

### Statement of the Actuary for the year ended 31 March 2017

#### 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 last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

#### Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £1,055.26 million) covering 84% of the liabilities allowing, in the case of pre- 1 April 2014 membership for 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 2017 is:
  - 19.3% 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, (the primary rate)

#### 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 21 years from 1 April 2017 (the secondary rate), equivalent to 7.9% of pensionable pay (or £11.2 million in 2017-18 increasing by 10.9% every 3 years).
3. In practice, each individual employer's or Group of Employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 29 March 2017 (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 or Group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the administering authority reflecting the employers' circumstances.
  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 2017

<b>Discount rate for periods in service</b>	
Scheduled Bodies	4.4% per annum
Ongoing Orphan employers	4.4% per annum
<b>Discount rate for periods after leaving service</b>	
Scheduled Bodies	4.4% per annum
Ongoing Orphan employers	2.5% per annum
Rate of inflationary pay increases (additional allowance made for promotional increases)	3.5% per annum
Rate of increase to pension accounts	2.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.0% per annum

*The discount rate for scheduled bodies was also used for employers whose liabilities will be subsumed after exit by a scheduled body employer.*

*In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a.*

The assets were valued at market value.

Further details of the assumptions adopted for the valuation are 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 2016. 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 2017 to 31 March 2020 were signed on 29 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
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 2016. 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.

9. The report on the actuarial valuation as at 31 March 2016 is available from Northumberland County Council. Requests should be addressed to [andrew.lister@northumberland.gov.uk](mailto:andrew.lister@northumberland.gov.uk)

Aon Hewitt Limited

**8 May 2017**

# **Auditor's Report to a LGPS Administering Authority – Report on Pension Fund Financial Statements**

## **Independent Auditor's Report to the Members of Northumberland County Council Opinion on the pension fund financial statements<sup>1</sup>**

To be inserted upon completion of the audit.

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<sup>1</sup> Where the authority publishes separate accounts in respect of more than one LGPS fund, replicate this section for each fund and include a suitable reference in each to the fund to which the opinion relates.

# **Auditor's Report to a LGPS Administering Authority – Report on Pension Fund Financial Statements**

## **Independent Auditor's Report to the Members of Northumberland County Council**

To be inserted upon completion of the audit.

## Firefighters' Pension Fund

Fund Account	2015-16 £'000	2016-17 £'000
<b>Contributions</b>		
From employer - normal	1,062	1,017
From employer – ill health	61	61
From members	985	799
	2,108	1,877
<b>Transfers in</b>		
Individual transfers from other schemes	31	11
	2,139	1,888
<b>Benefits</b>		
Pensions	(5,027)	(4,914)
Commutations and lump sum retirement benefits	(1,753)	(847)
Lump sum death benefits	(12)	-
	(6,792)	(5,761)
<b>Payments to and on account of leavers</b>		
Individual transfers to other schemes	(273)	-
<b>Net amount payable before top-up grant</b>	4,926	3,873
Grant received for 1992 Contributions Holiday	-	103
Top-up grant payable by central Government	(4,926)	(3,976)
<b>Net Amount Payable for the year</b>	-	-

Net Assets Statement	As at 31 March 2016 £'000	As at 31 March 2017 £'000
<b>Current assets</b>		
Transfer Values Received - Debtor	-	-
Top-up grant receivable from central Government	1,063	531
Amount receivable from the General Fund	-	-
<b>Current liabilities</b>		
Top-up grant payable to the Government	-	-
Provision for Pensions payable	-	-
Amount payable to the General Fund	(1,063)	(531)
	-	-



# 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 21.7% (of pensionable pay) for the 1992 Firefighters' Pension Scheme, 11.9% 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 was the Chief Executive during the financial year 2016-17; and following the departure of the Chief Executive on 31 May 2017 it is now the Director of Corporate Resources
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

### The Director of Corporate Resources Responsibilities

The Director of Corporate Resources 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 Director of Corporate Resources 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 Director of Corporate Resources 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 2017. All known material events that have occurred up to and including 30 June which relate to 2016-17 or before have been reflected in the accounts.

### Director of Corporate Resources 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 2017 and their income and expenditure for the year ended 31 March 2017.

Alison Elsdon

Director of Corporate Resources

30 June 2017

# Annual Governance Statement

## 1. Introduction

The governance framework is the system, processes, culture and values by which the Council is directed and controlled and how 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 Council has adopted a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA Framework Delivering Good Governance in Local Government, which has recently been updated and was issued in 2016.

The AGS is used by the Council to report publicly on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations (England) 2015.

The AGS also applies to the Council's wholly owned subsidiaries:

- The Arch Group - an arm's length company which acts as the development vehicle dedicated to economic development, regeneration and housing market renewal throughout Northumberland.
- Homes for Northumberland - an arm's length organisation that managed 22 houses in Allendale up until they were transferred to Council ownership on 30 March 2017.
- Generation and Innovation Ltd – an arm's length company established to develop a range of proposals to deliver cohesive business and commercial capacity with the objective of identifying opportunities that will generate revenue.

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 number of shared services are in place including audit and risk management (with North Tyneside Council); procurement (with Northumbria Healthcare NHS Foundation Trust and North Cumbria University Hospitals NHS Trust) and Occupational Health (with Northumbria Healthcare NHS Foundation Trust). The Council is also examining the potential for sharing further services with other local 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. The Chief Executive was appointed as the Accountable Officer for the Northumberland Clinical Commissioning Group in December 2016 and the Council will participate in the Northumberland Accountable Care Organisation with health partners.

## 2. The process

Heads of Service together with the Chief Executives of Arch and Active Northumberland and lead officers in provision of shared services for Procurement and Internal Audit have

## Annual Governance Statement

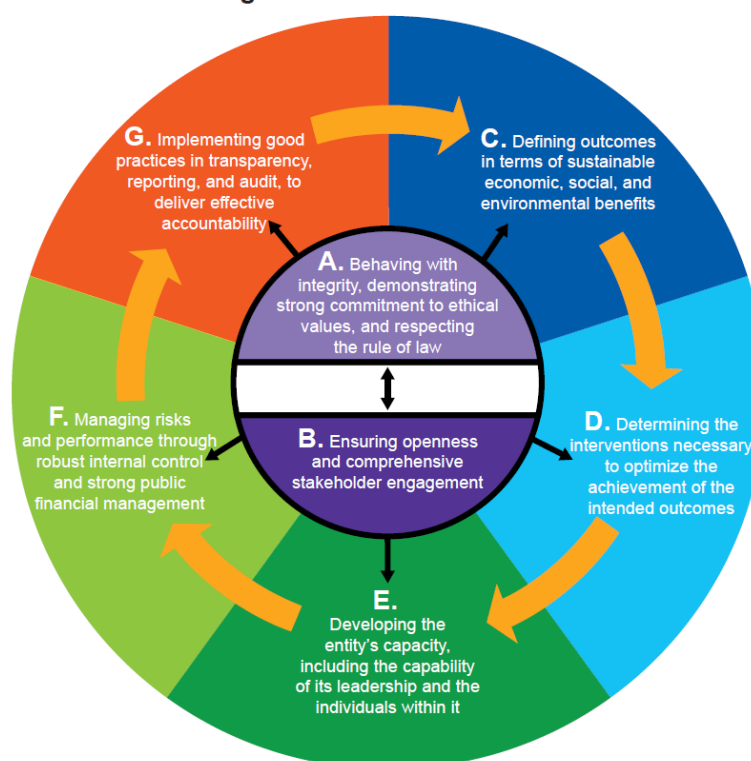
completed returns summarising their compliance with the code of governance during the financial year 2016-17. From the information contained within the returns, the Director of Corporate Resources has prepared the AGS and consulted with those officers and with Members of the Audit Committee. The AGS is also reviewed by Internal Audit to provide assurance on its accuracy and completeness.

### 3. The Governance Framework

The revised governance framework is built around seven principles:

## International Framework: Good Governance in the Public Sector

**Achieving the Intended Outcomes  
While Acting in the Public Interest at all Times**



The Council's compliance with the seven principles is outlined below.

#### **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Monitoring Officer supported by staff in Democratic Services has maintained the Councillors' register of interests as required under the Localism Act 2011 which is available online for public inspection. The register includes the declaration of gifts and hospitality received by members in connection with their official duties.

Advice has been given throughout the year to Members with regard to the need to make appropriate declarations of interests under both the 2011 Act and the local members' code of conduct. Sixteen member code of conduct complaints were received under the arrangements adopted by the Council under the 2011 Act, of which one, concerning a member of a local council, proceeded to a full hearing resulting in the censure of the

## Annual Governance Statement

member by their authority. The number of complaints received represented a reduction of almost 30% on the number of complaints received in the previous year. Work was also commissioned from a leading firm of ethical framework consultants to support a local council which had been experiencing ongoing governance problems. The work undertaken was supported by both the Monitoring Officer and the Chairman of the Standards Committee with an improvement plan being agreed with the authority concerned which provides for regular monitoring reports to be made to the Monitoring Officer and onwards to the Standards Committee. It is considered that the County Council's willingness to commission and pay for such work is a clear indication of the seriousness with which it takes its statutory responsibilities under the 2011 Act as they pertain to member standards of conduct.

No matters arose during the year which caused the Monitoring Officer to consider exercising powers under section 5 of the Local Government & Housing Act 1985 in relation to the contravention, or potential contravention, of any enactment or rule or law or in relation to an instance of maladministration.

A review of the Constitution is currently underway and it is intended to report to a meeting of full Council as soon as possible in the lifetime of the new Council from May 2017.

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 the Council's Constitution. 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. 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.

### **B. Ensuring openness and comprehensive stakeholder engagement**

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. Meetings are generally held in the public domain, although of necessity a small number of



## Annual Governance Statement

items may be considered in private. Regulatory matters are normally dealt with by specific committees established for the purpose. Reports are provided to a standard template.

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.

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 of 2,000 citizens which can be used to seek views on specific strategic issues – recent examples include consultation on the emerging budget, seeking views on the Devolution Agreement for the North East and awareness of Arch's role in Northumberland.

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 were satisfied with the way the Council runs things and more believed that the Council provides value for money.

The Council's website provides details on information governance including the Council's policies covering data protection, freedom of information, environmental information regulations and records management. The publication scheme advises the public about how to get the information they seek from the Council and the transparency pages on the website meet the requirements of the Local Government Transparency Code 2015.

### **C. Defining outcomes in terms of sustainable economic, social and environmental benefits**

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. The Plan covers the period up to 2017 and 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 the information 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 Council's 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

## Annual Governance Statement

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 was submitted to the Secretary of State for approval in March 2017 and, following examination in public, is expected to be adopted in December 2017.

The Capital Works Programme Cabinet Advisory Group considers the Medium Term Capital Plan and makes recommendations to the Cabinet as part of the budget preparations for Council approval.

### **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. A framework of policies and procedures is in place as set out in the Financial and Contract rules. These rules were last updated in 2011-12 and a review is currently underway.

Planning protocols were fully reviewed and implemented in 2015-16 with increased delegation to officers and more effective engagement with applicants at pre-submission stage. The protocols have led to improved performance in dealing with applications and are set out on the Council's website.

The medium term financial plan for the period 2017-20 was approved by the Council at its meeting on 22 February 2017.

### **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

A workforce plan for the Council is being developed to determine the Council's workforce requirements over the next 3 to 5 years. The workforce plan is a full plan covering all disciplines and is focussed on addressing core areas such as developing apprenticeships, developing core skills and utilising technology. The workforce plan utilises the recent development of a data set for workforce information which is being used to improve performance across the organisation.

Over the last 12 months the Council has launched a Northumberland 2020: Built to Serve Organisational Development Strategy which promotes development initiatives to assist the Council to achieve its strategic objectives by 2020. This has been positively received by staff and is supported by a regular staff survey and staff engagement initiatives.

All employment legislation has now been incorporated into key employment initiatives and policies have been reviewed to reflect this.

During 2016-17, the focus on ensuring that all individuals have an appraisal has been a key focus for the Human Resources/Organisational Development team. Personal Development Plans are part of the appraisal process and completion of appraisals for 2016-17 was achieved at a rate of 70.89% which was a significant improvement upon 2015-16.

Some early preliminary work has taken place with services regarding their succession planning arrangements and workforce planning. A talent management tool has been developed over the last twelve months to help facilitate this and will be part of the long term workforce planning arrangements going forward.



## Annual Governance Statement

During 2016-17 a corporate training and development plan for statutory and mandatory training has been developed and monitored through the Council's Workforce Committee. All staff now have to complete a minimum of ten pieces of required learning and this is monitored on an individual and directorate basis. Overall performance for 2016-17 for statutory and mandatory training was 75.83% which was a significant improvement upon the training and development completed during 2015-16.

A new corporate induction programme was developed during 2016-17 and now all new staff must complete the Council's corporate induction programme which gives them an overview of all Council services and key useful information to assist with settling them into the organisation positively.

Significant investment has been agreed for apprenticeships during 2017-18 and the initial preparatory work has been undertaken to ensure that the Council utilises its share of the Apprenticeship Levy.

The whole suite of HR policies and procedures for the Council requires review and during 2016-17 this review commenced. Nine policies have been reviewed and approved by the Joint Consultative Committee and a further twenty policies are planned to be reviewed during 2017-18.

### **F. Managing risks and performance through robust internal control and strong public financial management**

The Council's risk management framework provides a structured approach to the management of risk. The objectives of this framework are to: provide standard definitions to underpin the risk management process; co-ordinate the approach to risk management across the Council, providing a consistent and integrated output, through the clarification of key concepts; formally document the Council's risk management methodology; clearly identify roles and responsibilities for managing risk, raising awareness of the need for risk management by staff at all levels within Northumberland County Council; implement an approach which is fully integrated and embedded throughout the organisation; and ensure that risks are managed in accordance with best practice. The framework incorporates the policy and strategy for risk management, along with details of the key features of the Council's approach. The risk management policy is approved by the Cabinet and signed off by the Leader of the Council and the Chief Executive. Supporting this document is the strategy, which gives the scope, direction and priorities for risk management. The Council's risk management policy, strategy and methodology are set out in the November 2014 update of the Risk Management Framework. Improvements to the process to enhance management of risk are planned for the early part of 2017-18.

The Council's performance management framework is published to the website and performance information is updated regularly. The data is input to the corporate system by services and publicly available reports map the information to services, Corporate Plan priorities, Cabinet member portfolios and overview and scrutiny committees.

The Council benchmarks its services against a number of national and regional comparators and each service includes details of its benchmarking in its annual service statement.

During 2016-17 seven overview and scrutiny committees were in operation – Economic Growth and Strategic Transport; Corporate Resources and Regional Affairs; Care and Well-

## Annual Governance Statement

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. 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.

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 PDPs 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. A full induction programme has been prepared for all Members of the new Council from May 2017.

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.

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 2016-17, 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 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 oversees the arrangements across the two councils.

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

## Annual Governance Statement

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.

The Council has an Information Governance Group (IGG) which meets on a regular basis to ensure that all Information Governance and Information Security policies and procedures are fully implemented across the organisation and that issues of non-compliance are raised at these meetings. The minutes of the IGG are reported to the Council's Digital Board which provides governance on all Information and Digital activities undertaken by the organisation. All services are represented on the Digital Board by senior officers.

Finance officers meet regularly with budget holders across the Council and prepare a monthly financial monitoring statement which is shared with the Corporate Leadership Team each month and reported bi-monthly to scrutiny.

### **G. Implementing good practices in transparency, reporting and audit to deliver effective accountability**

As already mentioned, the website provides a platform for the Council's openness in governance with its transparency pages, publication scheme, access to committee agendas, papers and records of decision and up to date performance information.

Annual reports are provided on the State of Northumberland providing a range of information about the county aligned to the Corporate Plan and an account of physical progress made in delivering the aims of the Corporate Plan.

At Service level there has continued to be regular regulatory inspections of Adult and Children's Services and six monthly reports are provided to the Audit Committee to provide assurance of how the actions resulting from inspections are implemented and monitored:

- In 2016-17, all Adult Services continued to be fully compliant with 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. Ofsted inspected all of the Council's residential homes for children during 2016-17. All were judged to be good or better, (Barndale and Thorndale children's homes were judged to be Outstanding and Kyoie 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 121 primary and first schools, 101 were judged to be Good or Outstanding as at March 2017, which is below the national average. This also means that 2,909 children are in schools that are not yet good enough. Of the 41 secondary schools, 28 were judged to be Good or

## Annual Governance Statement

Outstanding as at March 2017, which is significantly worse than the national average. This means that 9,047 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 on the Council's Improvement Plan is reported regularly to the Council's Family and Children's Services Overview and Scrutiny Committee, the Council's Corporate Parenting Advisory Group and the Local Safeguarding Children Board.
- Northumberland Youth Offending Service underwent a Short Quality Screening Inspection carried out by Her Majesty's Inspectorate of Probation (HMIP) in June 2016. The report was published in July 2016. Inspectors found that case managers were doing 'exceptional' work with young people and were ambitious for them. Key strengths included outstanding resettlement practice, transitions of young people to adult probation services and management oversight. There is one area for development in relation to application of the risk classifications.
- A peer review of Adult Social Care Services was carried out by the Local Government Association in September 2016. The review focussed on the formal assessment process designed to meet the requirements of the Care Act. The final report was received in November 2016 which was extremely positive about the delivery integrated services and the commitment of staff.

### 4. Overall assessment of governance arrangements in place

Any system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, and, that significant risks impacting on the achievement of the Council's objectives have been mitigated.

As a result of reviewing the evidence the Corporate Leadership Team has taken the view that, as a whole, the governance arrangements in operation during 2016-17 within the Authority were adequate.

## Annual Governance Statement

### 5. Improvement Plan

Submissions by Heads of Service identify improvement plans for individual services for aspects of governance in 2017-18. In addition, a corporate improvement plan is set out in the table below.

Area for Improvement	Proposed action	Responsible Officer	Target date
Corporate approach to governance	To establish a governance group which will meet 4 times a year in: <ul style="list-style-type: none"> <li>• June - to plan delivery of corporate improvements.</li> <li>• September - to review delivery of corporate improvements.</li> <li>• December - to review progress of corporate improvements and issue guidance for preparation of service AGSs.</li> <li>• April - to review service submissions and prepare the corporate AGS, score each of the seven principles and recommend areas for improvement in the following 12 months.</li> </ul>	Alison Elsdon	June 2017
Constitution	To review and update the Constitution	Liam Henry	June 2017
Consultation	To establish a framework for the consistent publication of all Council public consultation.	Janice Rose	September 2017
Risk Management	To introduce a streamlined approach to corporate risk management.	Allison Mitchell	September 2017
Scheme of Officer Delegations	To review the scheme of officer delegations in all directorates to ensure they are aligned to the updated Constitution and current management structure	All Directors	November 2017
Corporate Plan	To prepare a new Corporate Plan to cover the period 2017-21.	Daljit Lally	November 2017
NECA and devolution	To review the Council's governance arrangements in relation to the North East Combined Authority and to devolution.	Geoff Paul	December 2017
Accountable Care Organisation	To review the Council's governance arrangements in relation to the development of the Accountable Care Organisation.	Vanessa Bainbridge	December 2017

## Annual Governance Statement

Area for Improvement	Proposed action	Responsible Officer	Target date
The Arch Group	To review the Council's governance arrangements in relation to The Arch Group's activities as an arm's length company which acts as the development vehicle dedicated to economic development, regeneration and housing market renewal throughout Northumberland.	Daljit Lally	December 2017

**Signed:**

**Peter Jackson**  
Leader of the County Council

**Daljit Lally**  
Interim Chief Executive  
and Head of Paid Service

**Alison Elsdon**  
Director of Corporate Resources  
and Interim Section 151 Officer

# **Independent Auditor's 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**

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 Practise (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 IAS 26 Disclosure

**Prepared for** Northumberland County Council Pension Fund  
**Prepared by** Joel Duckham FIA  
**Date** 10 May 2017

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## Glossary

2016 Valuation	Actuarial Valuation of the Fund as at 31 March 2016
Accounting date	This report is suitable for publication in the Fund's accounts for the years ending 31 March 2017, 31 March 2018 and 31 March 2019
Fund	Northumberland County Council Pension Fund
Fund Administering Authority	Northumberland County Council

## 1 Introduction

### Addressee

This report sets out pension cost information required by the Fund 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 Fund.

### Related Documents

The advice provided in this report is supported by advice contained in the following documents:

- IAS 26 Terms of Reference dated 26 April 2017 ('Terms of Reference').
- Whole of Pension Fund IAS 26 Assumptions Advice dated 10 May 2017 ('Assumptions Advice').
- Actuarial Valuation at 31 March 2016 – Northumberland County Council Pension Fund dated 29 March 2017 (the '2016 Valuation').

**Background**

CIPFA's Code of Practice indicates that the Fund accounts for the year ending 31 March 2017 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 Fund Administering Authority has chosen "Option C" which was confirmed to us in an e-mail dated 5 April 2017. 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 2016. 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.

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**Document structure**

This document is structured as follows:

- Section 1 summarises the scope of 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.

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## 2 Information Required for IAS 26

### Introduction

IAS 26 requires the "actuarial present value of the promised retirement benefits" (also known as the "defined benefit obligation") to be disclosed.

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' Pensionable Pay. Pre 1 April 2014 benefits are linked to pay increases while members are active members of the Fund and post 1 April 2014 benefits are linked to statutory (inflationary) revaluation in service.

### Actuarial present value of promised retirement benefits

Paragraph 6.5.2.7 of CIPFA's Code of Practice on local authority accounting for 2016-17 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed.

The results as at 31 March 2016, together with the results as at 31 March 2013 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.

	Value as at 31 March 2016 £M	Value as at 31 March 2013 £M
Fair value of net assets	1,055.3	914.4
Actuarial present value of the promised retirement benefits	1,421.4	1,281.2
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(366.1)	(366.8)

### Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities was carried out as at 31 March 2016. The principal assumptions used for the purpose of IAS 26 by the Fund's independent qualified actuaries were:

	31 March 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	3.4	4.4
RPI Inflation	2.9	3.4
CPI Inflation (pension increases) *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate. We also recommend the assumption for the revaluation rate of pension accounts is set equal to the assumption for pension increases.

\*\* 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 <sup>(1)</sup>	31 March 2016	31 March 2013
<b>Males</b>		
Base table	Standard SAPS S2P Tables	Standard SAPS S1N Tables
Rating to above base table (years) <sup>(2)</sup>	0	0
Scaling to above base table rates	100%	100%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of 1.5%	CMI 2012 with a long term rate of improvement of 1.5%
Future lifetime from age 65 (currently aged 65)	22.7	22.8 <sup>(3)</sup>
Future lifetime from age 65 (currently aged 45)	24.9	25.0 <sup>(3)</sup>
<b>Females</b>		
Base table	Standard SAPS S2P Tables	Standard SAPS S1N Tables
Rating to above base table (years) <sup>(2)</sup>	0	0
Scaling to above base table rates	100%	100%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of 1.5%	CMI 2012 with a long term rate of improvement of 1.5%
Future lifetime from age 65 (currently aged 65)	24.8	25.3 <sup>(3)</sup>
Future lifetime from age 65 (currently aged 45)	27.1	27.6 <sup>(3)</sup>
<p>(1) The mortality tables shown apply to normal health retirements. Different rates apply to retirements in ill health.</p> <p>(2) 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.</p> <p>(3) Future lifetimes shown at 31 March 2013 are for individuals aged 65 (or 45) at 31 March 2013, so do not show the effect of anticipated mortality improvements between 2013 and 2016.</p>		
	31 March 2016	31 March 2013
<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 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.

**Key risks associated with reporting under IAS 26**

**Volatility of results**

Results under IAS 26 can change significantly 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 Fund.

**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 Fund Administering Authority should ensure that it understands the reasoning behind the assumptions adopted and is comfortable that they are appropriate.

Furthermore, the Fund 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**

IAS 19 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions.

The following table illustrates the sensitivity of the defined benefit obligation to small changes to some of the key actuarial assumptions:

<b>Change in assumption</b>	<b>Increase in defined benefit obligation</b>
0.1% p.a. decrease in the discount rate	£25.2M
0.1% p.a. increase in the assumption for inflationary pay increases	£4.5M
1 year increase in life expectancy	£45.5M

**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 2016**

		<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>2016</b>	2,286	45.8	51,434	22,500	9.9
	2013	2,175	46.8	50,193	23,077	13.5
<b>Women</b>	<b>2016</b>	6,266	45.7	86,972	13,880	5.4
	2013	5,565	46.2	77,114	13,857	7.2
<b>Total</b>	<b>2016</b>	8,552	45.7	138,406	16,184	6.6
	2013	7,740	46.4	127,307	16,448	8.9

Note: The average ages shown in these tables are unweighted. Pensionable Pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers. It is based on the 2014 scheme definition of pensionable pay. Average service at the 2016 valuation is from 31 March 2014.

**Deferred pensioners at 31 March 2016**

		<b>Number</b>	<b>Average age</b>	<b>Total pension (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2016</b>	2,139	45.3	4,959	2,318
	2013	1,924	44.9	4,374	2,273
<b>Women</b>	<b>2016</b>	6,395	46.9	7,379	1,154
	2013	5,658	45.7	6,187	1,093
<b>Total</b>	<b>2016</b>	8,534	46.5	12,338	1,446
	2013	7,582	45.5	10,561	1,393

Note: The average ages shown in these tables are unweighted. The deferred pension amounts shown above include increases up to and including April 2016 (2013: April 2013). There were also 849 (2013: 522) members who had yet to decide whether to take transfer payments and suitable allowance has been made in our calculations.

**Pensioners at 31 March 2016**

		<b>Number</b>	<b>Average age</b>	<b>Total pension (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2016</b>	2,867	70.7	23,786	8,296
	2013	2,727	70.0	22,428	8,225
<b>Women</b>	<b>2016</b>	4,066	70.2	13,403	3,296
	2013	3,683	69.4	11,892	3,229
<b>Dependants</b>	<b>2016</b>	1,053	73.8	3,571	3,391
	2013	967	76.2	2,755	2,849
<b>Total</b>	<b>2016</b>	7,986	70.9	40,760	5,104
	2013	7,377	70.5	37,075	5,026

Note: The average ages shown in these tables are unweighted. The pension amounts shown above include the increase awarded in April 2016 (2013: April 2013). The figures include 51 children in receipt of pensions (2013: 54).



## Appendix B Explanation of actuarial methods used

### Benefits valued

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.

A summary of the benefits that have been valued can be found in the report on the actuarial valuation of the Fund as at 31 March 2016. 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.

### Data

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.

This information was supplied by the Fund Administering Authority for the 2016 formal actuarial valuation of the Fund in the form of a standardised data extract from the Fund Administering Authority's administration systems.

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.

Where tests reveal issues with the data, the Fund 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.

We can confirm that no data issues were identified at the 2016 valuation that we believe would have a material effect on the calculations presented in this report. Overall, it is our opinion that the data presented at the valuation is sufficiently accurate, relevant and complete for the Fund Administering Authority to rely on the resulting IAS 19 (IAS 26) figures.

<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> <p>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.</p> <p>CIPFA have informed us that under IAS 26 the assumptions are ultimately the responsibility of the Fund Administering Authority. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.</p> <p>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.</p>
<b>Method and calculations</b>	<p>The figures at 31 March 2016 have been based on a full calculation of the liabilities using the assumptions set out in the Assumptions Advice.</p>
<b>Assets</b>	<p>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 2016.</p>
<b>Treatment of Risk Benefits</b>	<p>To value the risk benefits we have valued service related benefits based on service completed to the date of calculation only.</p>
<b>Expenses</b>	<p>Fund 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.</p>

**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.

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## Appendix C Compliance and Disclaimer

**Compliance with actuarial standards** This report should be read in conjunction with the supporting documents listed in Section 1.

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.

The results of the calculations provided in this document constitute a valuation exercise.

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### Disclaimer

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.

This report is prepared on the instructions of the Fund Administering Authority as appropriate ("you" or "your") in relation to the preparation of IAS 26 figures for the Fund 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 Fund Administering Authority.

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 Fund 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.

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.

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 Fund Administering Authority as

appropriate.

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 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 Fund 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 Fund 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.