

# Statement of Accounts

## 2018-19

Draft



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# Leader's Introduction



**Introduction to the Statement of Accounts by  
the Leader of Northumberland County  
Council, Councillor Peter Jackson**



The past 12 months have seen some tremendous developments which will cement our position as a Council that delivers.

A devolution deal was signed by Government for the North of Tyne Combined Authority (comprising of Northumberland, Newcastle and North Tyneside Councils) which brings a raft of additional funds and powers to the county that make us more competitive and ensures everyone benefits from that economic growth.

We've also secured a £345 million Borderlands Inclusive Growth Deal which brings together the Government, partners and the five cross-border local authorities to make the area more attractive to investors, visitors and those who may wish to relocate.

We were especially delighted that the Government's first funding announcement

through the Borderlands Deal was up to £5 million investment in Northumberland.

Together these deals will give us the means to deliver transformational projects such as the reopening of passenger rail services from Newcastle right through the south east of Northumberland, the creation of an international energy park on Blyth Riverside and the delivery of a range of iconic cultural and tourism initiatives.

Aside from Government-backed deals we're also ensuring we're spending our own money wisely in these uncertain economic times.

We've worked tirelessly over the past year to balance our books and produce a deliverable but ambitious budget.

We have already committed to a capital spending programme of £589 million over the next three years - the biggest ever delivered in the county.

This will fund projects including new leisure centres in Berwick and Morpeth, a new enterprise zone in East Sleekburn, extra car parks, progress on the Northumberland to Newcastle rail line and new schools in Hexham and Seaton Delaval.

As a snapshot, over the next three years, we're looking to spend £142 million on our schools, £60 million on regeneration projects, £44 million on improving our leisure offer and £43 million on housing.

We're also supporting an ambitious five-year housing investment programme which will see £22.5 million of new investment in council housing which we know is desperately needed.

There are other challenges. We are all ageing and living longer and our health and social care services need to reflect this. We know that it can be tough for young people to access learning, source a good job, while too many households continue to feel hardships.

We remain committed to tackling these issues and know sound financial decision making is critical to this.

We are well aware that we have responsibility for a public pot of money to which you have all contributed, and, as such we need to make sure that every penny of it is spent wisely.

My pledge to you all is that we will be clear and transparent in what we do. I want to give you my personal assurance that we will continue to adopt a robust business planning approach to how we make future investment decisions.

I hope you find this year's Statement of Accounts useful and informative.

**Councillor Peter Jackson**  
**Leader of Northumberland County Council**

Written  
Statements and  
Narrative  
Report

# About the County of Northumberland

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 was once known as "The Kingdom of Northumbria" and was the largest kingdom in Britain. It stretched from the Firth of Forth in Scotland to the River Humber (hence 'north-Humber-land').

Northumberland officially has the largest protected area of night skies in Europe, with the sky above Northumberland National Park and Kielder Water & Forest Park being awarded the Gold-tier International Dark Sky status.



# About the Council



**8,743** staff employed by the council.



We have **30 libraries** with 94,000 members and 720,000 issues.



**7.5 million** residential bins were emptied.



We have **48,000 streetlights**.



We maintain **5,100 km of roads** and 2,000 km of footways together with **4,200 structures** including 1,174 bridges, 935 culverts and 1,698 retaining walls.



Northumberland County Council has been ranked the **seventh highest scoring local authority in the country as one of the most inclusive employers in Britain** by lesbian, gay, bi and trans equality charity Stonewall in its Top 100 Employers list for 2019.



**Our adult social care services helped more than 18,000** people in Northumberland.

**Over 20,000** people received information, advice, support and services on adult social care.



**2,400 adults were supported in care homes** and 4,600 people received care in their own homes.



**92.7% of older people were still living independently** three months after being discharged from hospital.

**97%** of the Council's Short Term Stay Service (STSS) referrals **did not go on to long-term services**.



**52%** of under 2's in the 30% most deprived areas regularly access our children's centres.

**89%** of all eligible 2 year-olds took up their statutory entitlement to early education.



**96.54% of parents** got their first choice of primary school.

# Political Structure

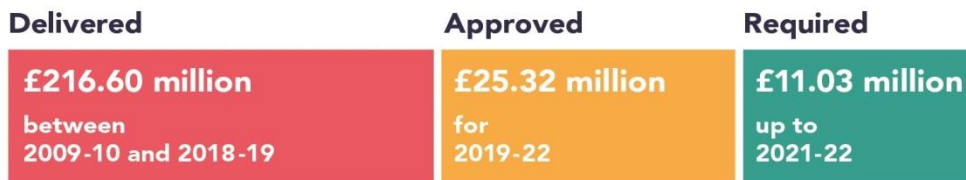
Northumberland County Council is made up of 67 elected members, each representing constituents within an area of Northumberland.

The political structure of the Council at 31 March 2019 is shown below:

| Party  | Seats |
|--|-------|
|  Conservative     | 33    |
|  Labour           | 24    |
| Non-aligned  | 4     |
|  Liberal Democrat | 3     |
| Independent  | 3     |

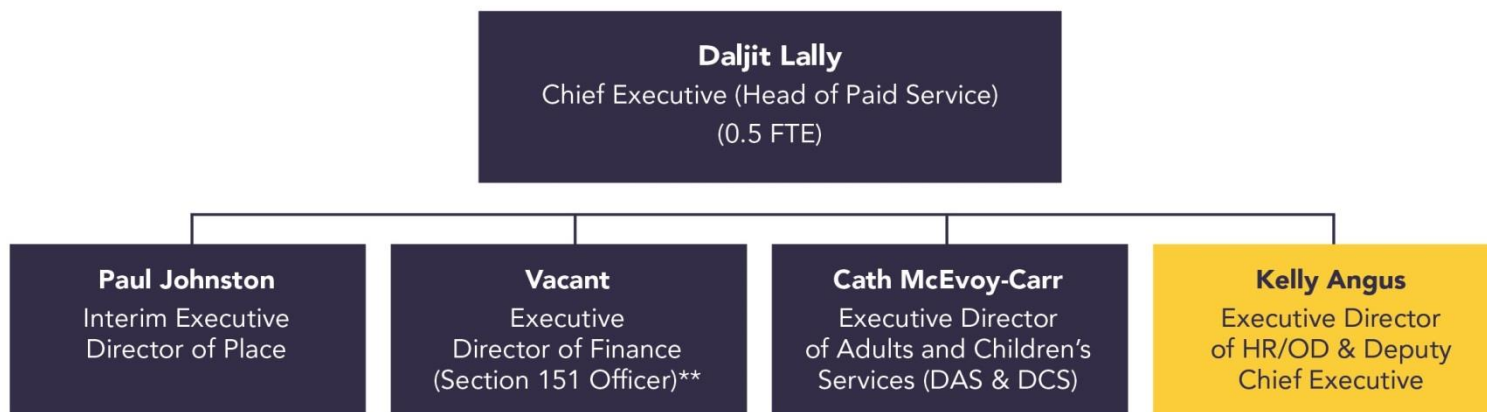
# Financial Picture

In common with the rest of Local Government, the Council has faced significant cuts in funding in recent years, resulting in revenue budget reductions as below:



# Management Structure

The Executive management structure of the Council is shown below. The full structure can be viewed on Northumberland County Council website.



\* Post in yellow are shared/funded with other organisations.

\*\* Duties of S151 Officer are being carried out by the Service Director - Finance.



## Written Statements and Narrative Report

### Narrative Report

#### 1. Corporate Plan 2018-21

The Council's Corporate Plan, "A Council that works for everyone", was approved in February 2018 and is the Council's main strategic planning document, providing a framework for the delivery of all services. It is a clear statement of the Council's vision, strategic aims and policy priorities for the period to 2021 and informs both the Medium Term Financial Plan and the Service Statements against which the Council's performance service by service are measured.

The Council's vision focuses on *"making Northumberland a County which you regard as a great place to live, and in which you can access the things you enjoy, whilst having the opportunity to learn and thrive."*

The overall vision for the Council is underpinned by a number of organisational values:

- Ensuring our services are customer focused;
- Supporting communities and staff to embrace change and innovation;
- Involving communities and staff in decisions which affect them;
- Supporting communities to feel safe; and,
- Creating a healthy and positive working environment.

The Council's Corporate Plan and Service Statements can be accessed in full at:

[Northumberland County Council Corporate Plan and Service Statements](#)

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

The Council approved the Medium Term Financial Plan for 2019-20 to 2021-22 in February 2019 to support the objectives contained within the Corporate Plan whilst implementing budget reduction measures of £36.35 million over the same period. The first year of the plan is based on the four year funding settlement agreed with central government from 2016-17 to 2019-20, meaning that, in theory, the level of government funding is fixed up until this date.

The funding landscape after this point is more unclear with a fundamental change to the way in which local government is financed on the horizon. This includes a revised relative needs formula and more emphasis on locally raised revenue in place of government grants.

Due to this uncertainty there is a risk that the level of income in the Medium Term Financial Plan is overestimated or the level of expenditure required to fund service provision is underestimated; both of which would have an impact on the level of savings required to balance the budget.

The Council's Medium Term Financial Plan can be accessed in full at:

[Northumberland County Council Medium Term Financial Plan](#)

## Written Statements and Narrative Report

### Narrative Report

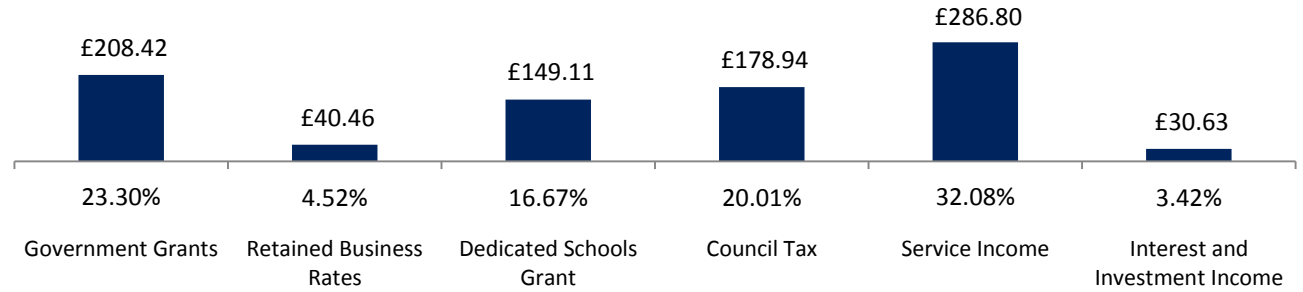
#### 3. Revenue Budget and Outturn

The Council approved a net revenue budget of £293.55 million for 2018-19. Budget reduction measures and other savings totalling £8.18 million were needed in order to arrive at a balanced position. Revenue budget monitoring is reported to Cabinet and is regularly reviewed by the Executive Team. The final outturn, after accounting for transfers to earmarked reserves and provisions of £11.02 million as agreed by Cabinet on 24 May 2019, is a breakeven position with no transfer to or from the General Fund Reserve as shown in the table below:

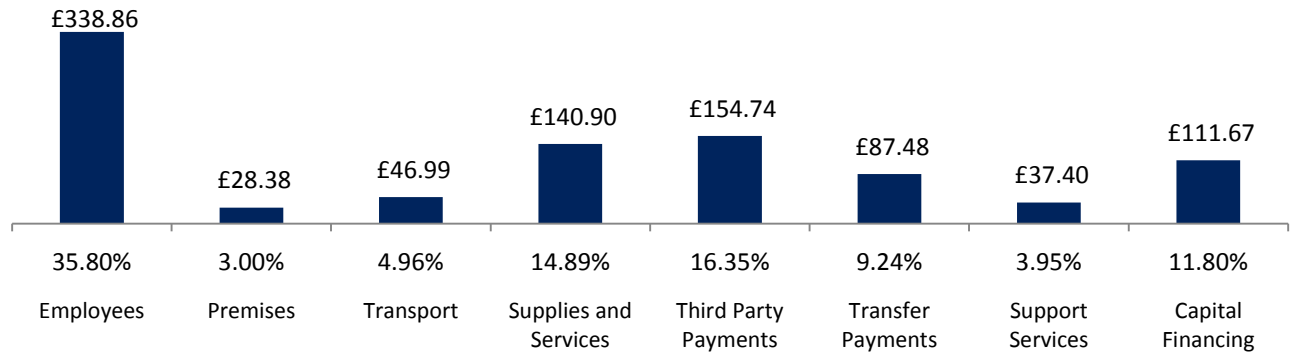
| Service  | Original Budget<br>£000 | Final Budget<br>£000 | Outturn<br>£000  | Variance<br>£000 |
|--|-------------------------|----------------------|------------------|------------------|
| Adult Social Care & Commissioning              | 89,302                  | 93,862               | 91,039           | (2,823)          |
| Chief Executive                                | 670                     | 815                  | 775              | (40)             |
| Children's Services                            | 48,693                  | 58,917               | 61,379           | 2,462            |
| Finance  | 33,720                  | 53,687               | 51,872           | (1,815)          |
| Human Resources                                | 13,741                  | 21,523               | 21,952           | 429              |
| Place  | 55,219                  | 76,578               | 75,586           | (992)            |
| <b>Total Services</b>                          | <b>241,345</b>          | <b>305,382</b>       | <b>302,603</b>   | <b>(2,779)</b>   |
| Corporate Items                                | 34,148                  | (59,379)             | (52,785)         | 6,594            |
| Treasury Management                            | (27,541)                | (27,541)             | (25,851)         | 1,690            |
| Capital Financing                              | 45,602                  | 128,528              | 126,590          | (1,938)          |
| <b>Total Net Expenditure</b>                   | <b>293,554</b>          | <b>346,990</b>       | <b>350,557</b>   | <b>3,567</b>     |
| Funded by:                                     |                         |                      |                  |                  |
| Council Tax                                    | (179,749)               | (179,749)            | (179,749)        | -                |
| Retained Business Rates (including S31 Grants) | (47,411)                | (47,411)             | (51,084)         | (3,673)          |
| Top Up Grant                                   | (26,444)                | (26,444)             | (26,486)         | (42)             |
| Revenue Support Grant                          | (18,990)                | (18,990)             | (18,990)         | -                |
| Other Corporate Grants                         | (17,725)                | (17,725)             | (17,577)         | 148              |
| Use of Strategic Management Reserve            | (3,235)                 | (3,235)              | (3,235)          | -                |
| Amortisation of Government Grants              | -                       | (53,436)             | (53,436)         | -                |
| <b>Total Funding</b>                           | <b>(293,554)</b>        | <b>(346,990)</b>     | <b>(350,557)</b> | <b>(3,567)</b>   |
| <b>Net Total</b>                               | <b>-</b>                | <b>-</b>             | <b>-</b>         | <b>-</b>         |

- An underspend on In House Services and Commissioned Services along with high staff turnover resulted in an underspend in Adult Social Care & Commissioning;
- Increased demand for out of county residential placements has resulted in the pressures seen in Children's Services;
- Savings on salaries and the recovery of overpaid benefits along with additional procurement income and the return to revenue of a surplus repair and maintenance provision led to an underspend in Finance;
- Place underspends resulted from the Waste PFI contract and Home to School transport;
- The unspent contingency budget (£2.60 million) and general underspend on services was utilised to create a Council Transformation Fund Reserve (£8.18 million) and increase the Equal Pay provision (£1.84 million) which resulted in an overspend on the Corporate Items budget; and,
- Additional Section 31 Grants in relation to Business Rates along with a surplus on income retained in relation to renewable energy led to a £3.67 million underspend within Corporate Funding.

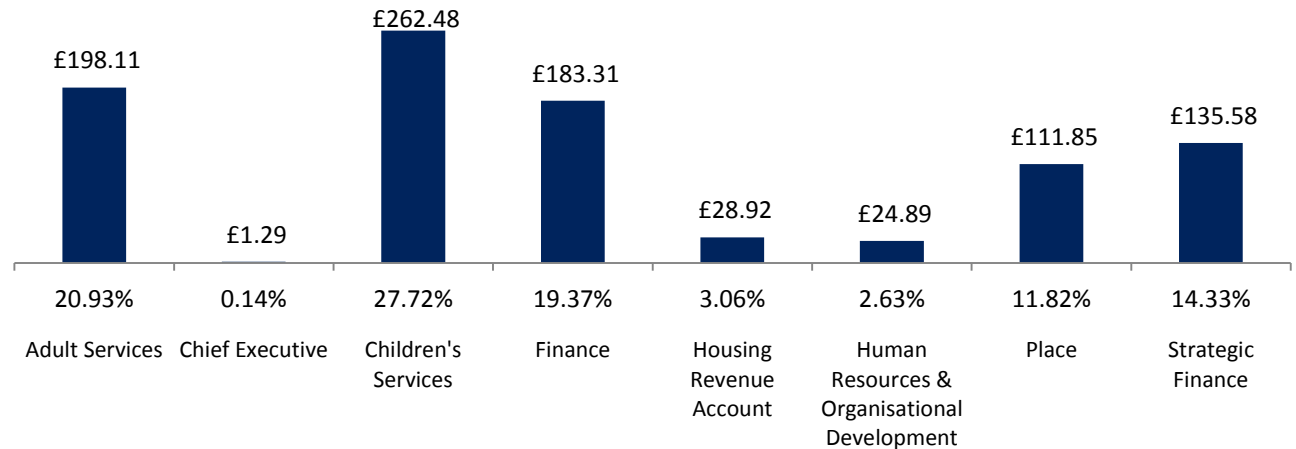
Where the money comes from\*



What the money was spent on\*



What services were provided?\*



\*All values are shown in millions



## Written Statements and Narrative Report

### Narrative Report

#### 4. Capital

##### Capital Outturn and Three Year Budget Plan

The following table shows capital expenditure by service area for 2018-19 and the Council's three year plan as per the current Administration from 2019-20 to 2021-22:

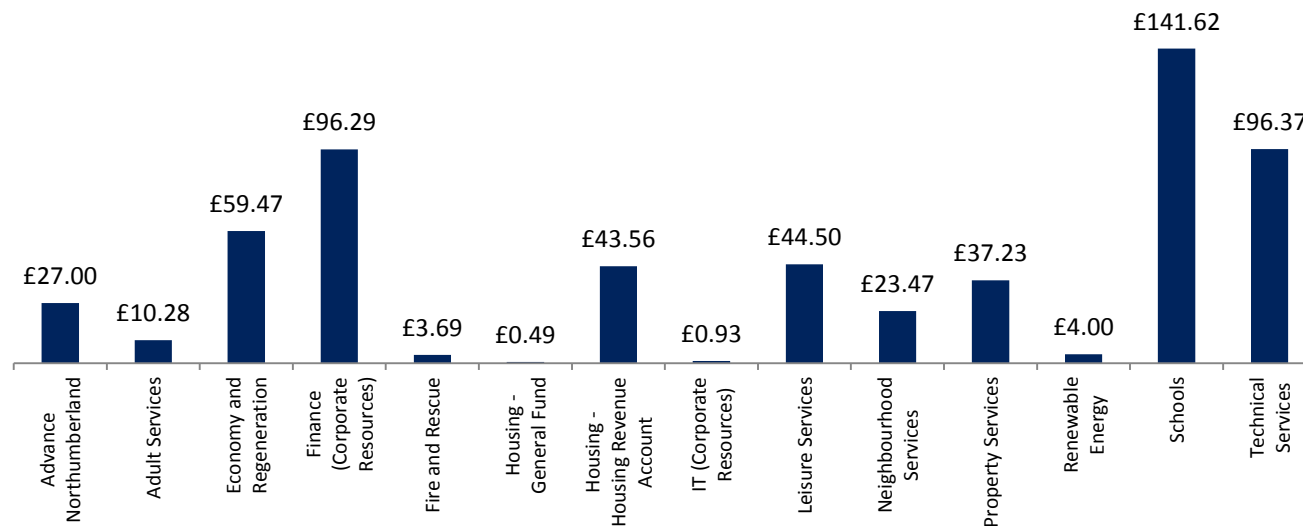
|                                   | Outturn<br>2018-19<br>£000 | Budget<br>2019-20<br>£000 | Budget<br>2020-21<br>£000 | Budget<br>2021-22<br>£000 | Total Budget<br>£000 |
|-----------------------------------|----------------------------|---------------------------|---------------------------|---------------------------|----------------------|
| <b>Expenditure</b>                |                            |                           |                           |                           |                      |
| Advance Northumberland            | 1,822                      | 6,954                     | 18,214                    | 1,836                     | 27,004               |
| Adult Services                    | 2,808                      | 4,320                     | 4,481                     | 1,481                     | 10,282               |
| Economy and Regeneration          | 1,263                      | 6,259                     | 12,834                    | 40,375                    | 59,468               |
| Finance (Corporate Resources)     | 32,586                     | 32,948                    | 35,338                    | 28,000                    | 96,286               |
| Fire and Rescue                   | 843                        | 1,254                     | 1,210                     | 1,225                     | 3,689                |
| Housing - General Fund            | 185                        | 245                       | 245                       | -                         | 490                  |
| Housing - Housing Revenue Account | 10,220                     | 11,216                    | 16,219                    | 16,126                    | 43,561               |
| IT (Corporate Resources)          | 3,800                      | 250                       | 483                       | 200                       | 933                  |
| Leisure Services                  | 1,130                      | 2,000                     | 20,000                    | 22,500                    | 44,500               |
| Neighbourhood Services            | 8,512                      | 9,612                     | 10,542                    | 3,312                     | 23,466               |
| Property Services                 | 4,056                      | 9,157                     | 16,379                    | 11,700                    | 37,236               |
| Renewable Energy                  | 1,868                      | 1,000                     | 1,500                     | 1,500                     | 4,000                |
| Schools                           | 22,061                     | 40,020                    | 68,795                    | 32,803                    | 141,618              |
| Technical Services                | 44,477                     | 33,771                    | 34,858                    | 27,737                    | 96,366               |
| <b>Total Capital Expenditure</b>  | <b>135,631</b>             | <b>159,006</b>            | <b>241,098</b>            | <b>188,795</b>            | <b>588,899</b>       |
| <b>Funding</b>                    |                            |                           |                           |                           |                      |
| Borrowing                         | 63,139                     | 90,923                    | 159,628                   | 111,404                   | 361,955              |
| Capital Receipts                  | 8,917                      | 4,343                     | 2,660                     | 1,700                     | 8,703                |
| External Grants                   | 48,102                     | 51,872                    | 61,936                    | 58,911                    | 172,719              |
| HRA Contributions                 | 9,528                      | 11,113                    | 16,119                    | 16,025                    | 43,257               |
| Revenue Contributions             | 5,945                      | 755                       | 755                       | 755                       | 2,265                |
| <b>Total Funding</b>              | <b>135,631</b>             | <b>159,006</b>            | <b>241,098</b>            | <b>188,795</b>            | <b>588,899</b>       |

## Written Statements and Narrative Report

### Narrative Report

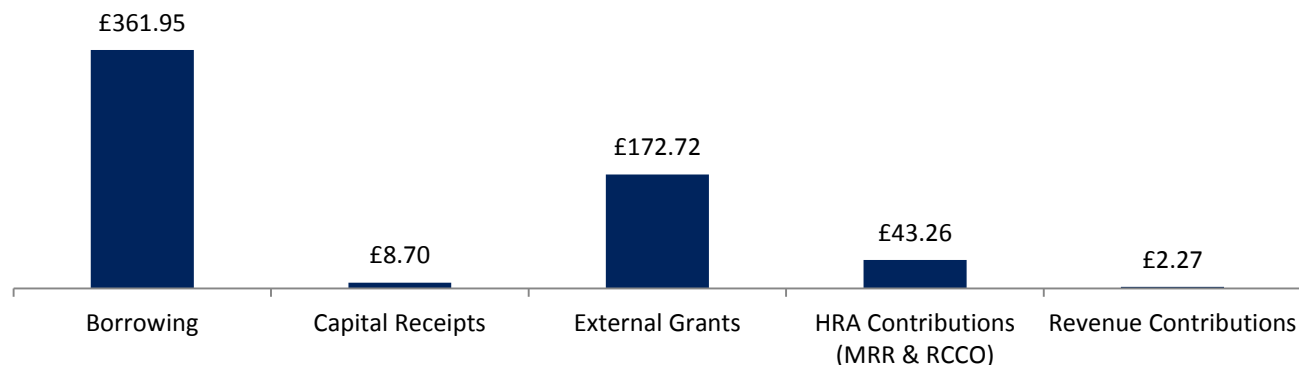
#### Three Year Capital Programme\*

The Council agreed to embark on a three year capital programme totalling £588.90 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 13 of the Council's Medium Term Financial Plan 2019-22 and Budget for 2019-20 report at: [Northumberland County Council schedule of capital schemes](#)



#### Capital Funding 2019-20 to 2021-22\*

The Capital programme is funded through a number of sources including external grants, capital receipts, contributions from the general fund and housing revenue accounts and borrowing. Examples of external grants include the Local Transport Plan, Pothole Fund, Schools' Capital Investment Fund, Disabled Facilities and other sources.



\*All values are shown in millions

## Written Statements and Narrative Report

### Narrative Report

#### 5. Performance

The Council agreed its Corporate Plan for 2018-21 alongside its medium term financial plan and budget for 2018-19 in February 2018 and identified priority areas as:

- We want you to feel safe, healthy and cared for [Living];
- We want you to love where you live [Enjoying];
- We want you to have access to the things you need [Connecting];
- We want you to achieve and realise your potential [Learning]; and,
- We want to attract more and better jobs [Thriving].

During 2018-19 there have been significant achievements against these priorities.

#### **We want you to feel safe, healthy and cared for [Living]**

Within children's social care, we prioritise getting the right service to the right family at the right time with a focus on meeting the needs of children, young people and families so that they get the best out of life. We try to support children and families at the lowest appropriate level of intervention to meet their needs and ensure any risks to children are managed as safely and as promptly as possible.

We have continued to develop the multi-agency front door service, with the implementation of the multi-agency safeguarding hub (MASH) ensuring that relevant information is shared promptly to ensure that the most appropriate service is offered to children and families in a timely way.

There has been an investment in and development of early help services and for the majority of families with whom we have worked through early help, this has ensured that identified needs have been met without escalating to higher levels of service. Between 90 and 100 early help assessments are initiated every month and 13,250 children under 5 (out of a total under 5 population of 14,360) are registered with a Sure Start children's centre.

Where children and families do require a social work service, we have improved the stability of our social work workforce through a range of measures meaning that children and families do receive a more consistent service, although there do remain areas of challenge and high demand. At any one time, the social work services will be working with around 1,750 children in need.

375 children and young people are in the care of the local authority as at March 2019, working out as 62.8 per 10,000. Where children do need to be in care, the majority of those children (67%) are placed within 20 miles of their home address, which is much higher than the national average (52%). This means that they are more likely to maintain their existing networks of family, friends and services.

We have increased the numbers of children who are placed with our own local authority foster carers, reducing the use of external independent foster placements. All residential homes for Northumberland children are judged as outstanding for their leadership and management by Ofsted. We place children who need to be adopted in a more timely way than comparator authorities and also place more older children successfully for adoption.

The Council spent £71.10 million in 2018-19 on commissioned and in-house services to support vulnerable people in Northumberland. Examples include £1.10 million on short term support services to enable people to recover their independence after a major health crisis or accident and direct payments totalling £11.21 million enabling 1,183 people to take full control of their own support arrangements.

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

## Written Statements and Narrative Report

### Narrative Report

contributes to both the wellbeing and quality of life of local communities. Between 2015 and 2019, in partnership with Active Northumberland, the Council has invested over £16.91 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 remains committed to increasing the supply of both affordable and specialist supported housing and it has been recognised and agreed by the North of Tyne Combined Authority that affordable rural housing is a priority for Northumberland. The overall ambition is to deliver up to 1,000 new council homes for rent, to support the needs of our communities. To support this commitment, in July we adopted the Extra Care and Supported Housing Strategy and we are developing a new Housing Strategy, which will be underpinned by a delivery plan which will be informed by the all member workshop which was held in March 2019.

There were no accidental dwelling fire deaths in 2018-19.

Average time for processing new housing and council tax benefit applications was around 16.3 days in 2018-19; and performance in dealing with changes of circumstances remained around 3.8 days.

### **We want you to love where you live [Enjoying]**

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 Tour of Britain cycle race swept through Northumberland in September 2018 showcasing the County internationally, attracting teams, visitors and television viewers from across the world.

Nine Parks were awarded Green Flag status: Ridley Park, Dr Pit Park, Astley Park, Alexandra Park, Carlisle Park, Hexham Park; Castle Vale and Coronation Park, Plessey Woods Country Park and Bolam Lake Country Park.

The proportion of fly-tips removed from public areas within four days has increased from 90% in 2017-18 to 96% in 2018-19. 75% of urgent carriageway defects were made safe by the next working day. The rate of

missed bin collections has continued to reduce from 95 per 100,000 in 2015-16 to 32 in 2018-19. The percentage of street lighting faults attended to within four days was 92% in 2018-19.

### **We want you to have access to the things you need [Connecting]**

The Council is securing new support through devolution with the North of Tyne Combined Authority now established. The North of Tyne Devolution Deal includes £600 million additional investment fund. The deal also includes a commitment to work together to deliver the Newcastle to Northumberland Rail Line.

To support rural growth, the Borderlands partnership (which includes Northumberland and Cumbria councils and councils in the Scottish Borders) has secured a combined commitment to a £345 million deal from the UK and Scottish Governments with predicted £1.3 billion return on the Government's investment securing a 10-year investment package.

Over 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.

Sickness absence has deteriorated with an average of 11.36 days lost to sickness per full time employee during the year. Completion rates for statutory and mandatory training has increased in 2018-19 and is now at 90%.

£16.44 million was invested in the period 2015-19 in renewal of vehicles and plant used in the delivery of key frontline services and the Council is planning a further £24.26 million in the next three year period to 2022.

### **We want you to achieve and realise your potential [Learning]**

Working with parents, governors and schools, the Council is committed to driving improvements in Northumberland's schools. This has resulted in the vast majority of our early years providers being judged as good or outstanding by OFSTED and more children than at any time in the last ten years being educated in a good or outstanding first or primary school. Fewer older pupils in Northumberland attend a good or outstanding

## Written Statements and Narrative Report

### Narrative Report

secondary school than nationally but this issue is being addressed as a matter of urgency through a programme of support and challenge in maintained schools and strong partnership working with our academies.

Stronger schools produce better outcomes for children and young people. The overall achievement of pupils in our schools in summer 2018 was particularly encouraging with attainment in both the Early Years Foundation Stage and Key Stage 1 in the top 20% nationally. Attainment in the Key Stage 2 SATS was in line with the national average and results at GCSE, in terms of both progress and attainment, were higher than the national average.

The county has a number of other education success stories. The Northumberland Adult Learning and Skills Service was inspected by Ofsted in June 2018 and was judged to be good overall, with outstanding leadership and management that has taken the service to 'a very high standard'. Apprenticeship recruitment, retention and success rates are on track to exceed national averages for all ages and groups, with Northumberland named as the north-east apprentice recruiter of the year in 2018. Furthermore, the number of young people who are not in education, employment or training (NEET) or not known to us is significantly lower than the national average.

Our excellent Education Welfare Service has ensured that attendance at our schools is higher than that seen nationally, although it is better in first and primary schools than in secondary schools. The Council's capital investment in our school building programme is one of the highest in the country and, alongside the investment in new special schools in Ashington and Hexham and the completion of the new Darras Hall Primary School, work has started on the Ponteland High School and leisure centre complex. In addition, capital funding has been secured to either rebuild or refurbish Haydon Bridge High School, Astley, James Calvert Spence and Queen Elizabeth, Hexham.

### **We want to attract more and better jobs [Thriving]**

The Council is delivering economic growth in the County focused on regenerating our towns and driving sector growth in support of the

Northumberland Economic Strategy which was refreshed and relaunched in December 2018.

The Council is providing assistance to drive business growth including:

- Supporting Business Growth;
- Rural Business development;
- Industrial Growth Opportunities;
- Boosting the Tourism Economy;
- Investing in Towns and Communities;
- Delivering infrastructure; and,
- Future places for life and work.

### **Business Growth**

- Advance Northumberland provides support on behalf of Northumberland County Council providing practical help for new business start-up's, local companies expanding, national and global firms relocating to the county;
- There are Four Enterprise Zones and a range of premises available and the Business Northumberland programme is fully funded by the European Regional Development Fund (ERDF) and Advance Northumberland, meaning all web content, seminars and 1-2-1 advice is free for eligible businesses to access;
- Advance registered 979 businesses to the programme and delivered over 202 workshops and 38 networking events to support local businesses;
- Advance delivering the North East Rural Growth Network programme. Overall £5.1 million committed to 37 projects delivering 527 jobs £12 million private investment;
- Priority sectors supported include manufacturing, energy, knowledge intensive business services, food & drink production, environmental and niche tourism;

## Written Statements and Narrative Report

### Narrative Report

- There is a new commitment to major rural business growth support fund through North of Tyne Combined Authority coming soon; and,
- The Rural Growth Network includes 19 Northumberland projects with a grant value of £3.1 million to deliver 178 jobs and £2.9 million private investment.

### Industrial Growth

- Focusing on major industrial growth opportunities for the future Northumberland County Council and Advance Northumberland Limited are developing interventions including:
  - Secure major developments in the energy and offshore, health and life sciences and advanced manufacturing sectors;
  - Ensure Northumberland is an internationally significant tourism and culture destination; and,
  - Deliver rural business scale up and develop the agritech sector providing an uplift in micro / SME business growth as the rural exemplar for England.
- Advance Northumberland Limited is focusing inward investment and strategic account management services on manufacturing sector support. This includes working with skills providers to support employers' workforce needs e.g. Northumberland Manufacturing Skills Network; and,
- Advance last year helped growth and expansion companies to leverage £25.48 million private sector investment into Northumberland with the creation of over 230 new jobs in the County.

### Boosting the tourism sector

- Discover Our Land campaign - Live, Work, Visit, Invest;
- Produced in Northumberland - 100 businesses participating;
- Major events such as Great Northumberland;
- £925 million spent in our county by 10.25 million visitors in 2017, provided a total of 14,800 direct and indirect full time jobs; and,

- This represents an increase of 31% in visitor spending, 15% in visitor numbers and 12% in tourism related employment since 2012.

### Investing in towns and communities

Town centres are a major focus with bespoke support in partnership with local stakeholders through the developing Town Forum Network and other partnerships with communities across the county.

The purpose of this network is to support the delivery of the Northumberland town investment programme. Examples of projects coming forward in 2019 include:

- Alnwick Bus Station feasibility study;
- Ashington Portland Park;
- Blyth Future High Streets Fund application;
- Berwick Maltings Theatre and Conference Centre;
- Bedlington Town Centre Redevelopment; and,
- Morpeth Leisure Centre.

### Delivering Infrastructure

- Digital - 5G Digital, data and rural broadband - making the case for North of Tyne testbed;
- Major Road and Rail - Supporting major road and rail schemes:
  - Northumberland to Newcastle Line - £3.5 million committed to develop the scheme and major economic study about to commence; and,
  - A1, A69, Blyth Relief Road.
- Keeping the county moving - Focus on maintaining our road network - potholes, winter services 3,000 miles with over 4,200 structures, including nearly 1,200 bridges.

### Future Places to live and work

- New Local Plan proposing where new homes, workplaces and facilities will be;



## Written Statements and Narrative Report

### Narrative Report

- 17,700 homes including affordable housing;
- Supporting 15,000 jobs to 2036;
- Major council house building programme in development;
- New school capital investment to support the future workforce; and,
- Major leisure facilities investment.

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.

## 6. Treasury Management Activities

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

|                                 | 31 March 2019     |                   |
|---------------------------------|-------------------|-------------------|
|                                 | Principal<br>£000 | Average Rate<br>% |
| Public Works Loans Board (PWLB) | 351,872           | 3.07              |
| Local Authority Loans           | 134,000           | 1.00              |
| Other Market Loans              | 245,650           | 3.99              |
| <b>Total Debt</b>               | <b>731,522</b>    | <b>3.00</b>       |
| <b>Total Investments</b>        | <b>96,000</b>     | <b>1.66</b>       |

During the year the Council repaid £153.55 million of maturing borrowing and took out replacement borrowing of £164 million in line with authorised limits - made up of £17 million short term borrowing and £147 million of long term borrowing. This resulted in a net increase in total borrowing of £10.45 million.

Core treasury management investment balances decreased during the year by £54.35 million, largely as result of increased utilisation of investment balances to cover the Capital Financing Requirement (CFR) in lieu of borrowing externally.

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 with 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.

## Written Statements and Narrative Report

### Narrative Report

#### 7. Pension Deficit

At 31 March 2019 the County Council's net liability for future pension costs was £713.94 million. Sixty 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 2018-19 was set on the basis of the actuarial valuation of the Fund as at 31 March 2016. This set the rate payable for the three years ending 31 March 2020 with an aim to fully fund the liabilities within approximately 21 years.

#### 8. Group Results

The Council delivers some of its activities through a number of wholly owned subsidiaries. Group financial statements are therefore produced to reflect the full extent of the Council's economic activity and financial position.

The Group accounts consolidate the results and balances of the Council with those organisations considered to be part of the Group. Intra-company transactions are eliminated and the accounting policies of the subsidiaries are aligned with those of the Council on consolidation in order to present the overall group position.

On the 13 November 2018, the Arch Group was re-organised with Arch (Corporate Holdings) Limited being removed as the Group holder and replaced with Advance Northumberland Limited. Arch (Corporate Holdings) Limited remains within the Council's group but ceased trading at this point and is now dormant.

The Group results show a deficit on the provision of services after taxation of £63.69 million (£6.00 million surplus in 2017-18), incorporating a net surplus for the Advance Northumberland Group after group consolidation adjustments of £1.32 million (£2.20 million surplus in 2017-18). Within this balance there is an unrealised net loss of £15.43 million on Investment Properties as a result of a net downward revaluation. Prior to consolidation

adjustments Advance Northumberland Limited showed a deficit of £4.43 million (£6.84 million deficit in 2017-18).

The Group balance sheet shows the value of assets and liabilities recognised by the Group at 31 March 2019 and the level of reserves, split into usable and unusable.

| 31 March 2018 |                                      | 31 March 2019 |
|---------------|--------------------------------------|---------------|
| £m            |                                      | £m            |
| 1,846.02      | Long Term Assets                     | 1,836.79      |
| 30.62         | Net Current Assets                   | 25.53         |
| (1,472.02)    | Long Term Liabilities and Provisions | (1,467.22)    |
| <b>404.62</b> | <b>Net Assets</b>                    | <b>395.10</b> |
|               | Represented by:                      |               |
| 205.52        | Usable Reserves                      | 205.43        |
| 199.10        | Unusable Reserves                    | 189.67        |
| <b>404.62</b> | <b>Total Reserves</b>                | <b>395.10</b> |

Advance Northumberland Group owed the Council £281.33 million (£278.44 million 2017-18) primarily in respect of principal and interest due on a commercial loan facility; whilst, the Council owed Advance Group £1.17 million (£0.20 million in 2017-18) primarily in respect of the Ashington North East Quarter capital scheme.



## Written Statements and Narrative Report

### Narrative Report

#### 9. Corporate Risks

The Council has a process to manage risks and assist the achievement of its objectives, alongside national and local performance targets.

Substantive improvements to the process to enhance management of risk have been rolled out in 2018-19. The Corporate Risk Register plays an integral role in supporting achievement of priorities as set out in the Corporate Plan.

Key risks currently identified and being managed at the corporate level include those relating to the following areas:

- finance;
- alternative service delivery models;
- regeneration (also devolution and Brexit);
- local development plan;
- educational attainment;
- safeguarding children; and,
- civil contingencies / business continuity.

## Written Statements and Narrative Report

### Narrative Report

#### 10. Explanation of the Financial Statements

The Statement of Accounts for Northumberland County Council presents the overall financial performance and position of the Council for the year ended 31 March 2019 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.

It comprises core and supplementary statements together with disclosure notes.

#### The Core Statements are:

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

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

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

This 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” (i.e. those that must be set aside for specific purposes).

##### **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.

##### **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.

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

The notes to the accounts provide further detail of material items within the core Financial Statements.

#### The Supplementary Financial Statements are:- **Pension Fund Account**

These Statements provide information about the financial position and performance of the Fund and are an extract from the Pension Fund Annual Report.

##### **Firefighters’ Pension Fund Financial Statements**

These statements provide information relating to the transactions in the year.

##### **Housing Revenue Account (HRA)**

This separately identifies the Council’s statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

##### **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**

This 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 show the full extent of the Council’s economic activities by reflecting the Group’s activities.

**Written Statements and Narrative Report  
Independent Auditor's Report  
Independent Auditor's Report to the Members of Northumberland  
County Council**

**To be inserted**







## Written Statements and Narrative Report

### Statement of Responsibilities

#### The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

#### The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts and of its Pension Fund Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), are required respectively to present fairly the financial position of the Council and of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

In preparing this statement of accounts the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- made judgements and estimates that were reasonable and prudent; and,
- complied with the Code.

The Section 151 Officer 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.

#### Interim Executive Director of Finance - Finance 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 2019 and their income and expenditure for the year ended 31 March 2019.

Alison Elsdon

Service Director – Finance

31 July 2019

## Written Statements and Narrative Report

### Annual Governance Statement

#### 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 was updated and 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 only wholly owned subsidiary, Advance Northumberland, an arm's length company which is the Council's primary regeneration delivery vehicle.

The Council works in close partnership with a number of other bodies including:

- Active Northumberland, a registered charity delivering Northumberland's leisure services;
- Northumbria Healthcare NHS Foundation Trust which delivers social care support for ill or disabled adults on behalf of the County Council through a partnership agreement;
- Northumberland, Tyne and Wear NHS Foundation Trust which provides support for working age adults with mental health problems on behalf of the County Council through a partnership agreement;
- Town and Parish Councils which as a distinct tier of local government have responsibility for specific services and, in some instances, commission the County Council to deliver services on their behalf; and
- Other local authorities and health organisations where shared service arrangements have been established and overviewed by joint boards,

specifically audit and risk management (with North Tyneside Council); procurement (with Northumbria Healthcare NHS Foundation Trust and Hull City Health Care Partnership); Occupational Health (with Northumbria Healthcare NHS Foundation Trust); local government pensions administration (with South Tyneside Council); and fire pensions administration (with the West Yorkshire Pension fund).

The Council is working collaboratively with other authorities. The North of Tyne Combined Authority (Northumberland, Newcastle and North Tyneside) was legally established on 1 November following the laying of the Order in Parliament. A simultaneous Order was also laid that altered the geographical boundary of the North East Combined Authority (NECA) so the three North of Tyne authorities left that body (which also included Durham, Gateshead, South Tyneside and Sunderland) on the same day. The seven local authorities continue to work together through regular meetings at Leader, Chief Executive, Economic Director and Finance Director levels on matters of shared interest. All seven Leaders also form part of the Board of the North East Local Enterprise Partnership.

The Council is also working in partnership with Carlisle City Council, Cumbria County Council, Dumfries and Galloway Council, and Scottish Borders Council as a Borderlands Partnership with the initial aim being to secure an Inclusive Growth Deal from the UK and Scottish Governments to achieve a 10-year investment programme to promote economic growth across the area. Legal advice is currently being taken as to the subsequent governance arrangements that are required to meet the responsibilities associated with this programme. Two accountability bodies have been identified - Northumberland County Council for the English side and Dumfries and Galloway for the Scottish side.

A refreshed version of the Partnership Agreement with Northumberland Clinical Commissioning Group (CCG), under which the Council commissions and arranges case management for NHS Continuing Healthcare and related services on the CCG's behalf, is now largely complete. This will bring the commissioning of aftercare services under the Mental Health Act within the scope of the Agreement, clarifying the arrangement for these.



## **Written Statements and Narrative Report**

### **Annual Governance Statement**

#### **The process**

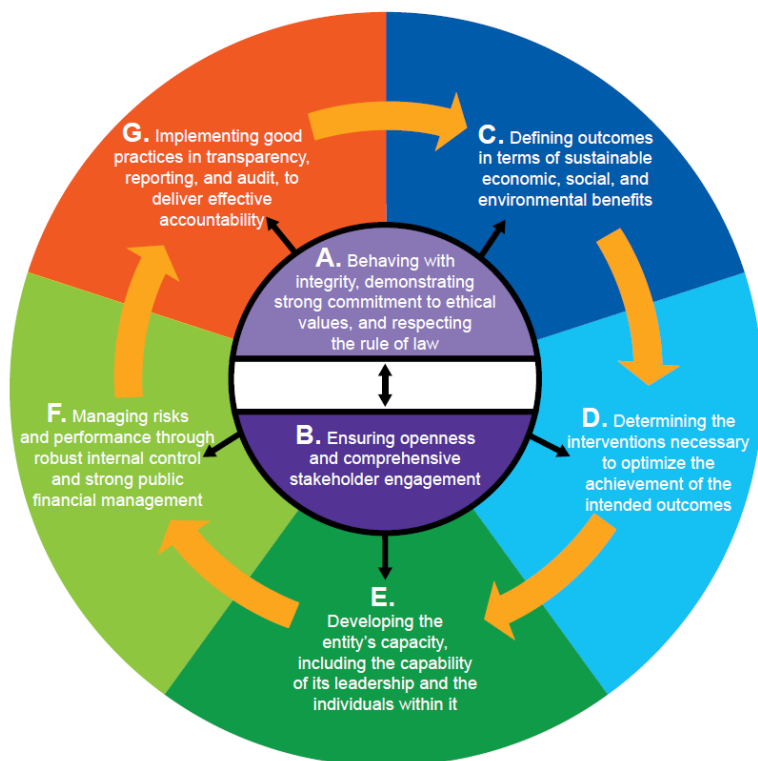
The County Council is responsible for conducting at least annually a review of the effectiveness of its governance framework which is attached at Appendix A. The Executive agreed a process and timetable for all heads of service, lead officers in provision of shared services for procurement and internal audit and the managing director of Advance Northumberland to complete returns reviewing compliance with the governance framework during 2018-19, summarising changes and improvements to governance during the year and identifying further improvements to be implemented during 2019-20. From the information contained within the returns, a draft AGS was prepared by the Service Director – Finance and acting Section 151 Officer for discussion with the Executive and agreement on scoring of the seven principles of good governance and an appropriate corporate improvement plan before submission to the Audit Committee. The AGS is also reviewed by Internal Audit to provide assurance on its accuracy and completeness.

## International Framework: Good Governance in the Public Sector

**CIPFA** The Chartered Institute of  
Public Finance & Accountancy

cipfa.org

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



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

### **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 established following the elections in May 2017 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. As of the end of February 2019 twenty one member code of conduct complaints were received under the arrangements adopted by the Council under the 2011 Act. The number of complaints received represented an increase of over 61% on the number of complaints received in the previous year

The Council's Standards Committee welcomed the opportunity to contribute to the Committee on Standards in Public Life's consultation in respect of the local government ethical framework and is to consider the recommendations from that review at its meeting in April 2019.

No matters arose during the year which caused the Monitoring Officer to consider exercising powers under section 5 of the Local Government & Housing Act 1989 in relation to the contravention, or potential contravention, of any enactment or rule or law or in relation to an instance of maladministration.

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

## Written Statements and Narrative Report Annual Governance Statement

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 effectively. 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. The Council has also introduced Safecall which provides an independent, confidential service where employees can report any concerns. The hotline does not replace internal reporting procedures, but is used alongside them to provide an alternative for employees who, for a number of reasons, may not wish to use the internal options.

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

The Council has also established five Local Area Councils which cover: North Northumberland; Tynedale; Castle Morpeth; Cramlington, Bedlington and Seaton Valley; and Ashington and Blyth. Their overall aim is to empower citizens, strengthen communities and improve services. Councillors are involved for each particular area and meetings are held in public. Everyone is welcome to attend the meetings and regular items include public question time, submitting and considering petitions and updates on local neighbourhood services and

highways issues. The Local Area Councils also deal with local planning applications.

Development of the Local Plan has involved extensive public consultation in advance of the final plan being submitted to Government in May 2019, with a series of 23 public consultation events. These drop-in events have provided opportunities for residents, businesses, community and voluntary groups, town and parish town councils, and anyone with an interest in the future of Northumberland to find out more and have their say.

To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior officers, in line with powers set out in the Constitution.

The Council periodically carries out extensive Northumberland Residents' Perception surveys commissioned through independent firms which provided a range of quality of life perception data statistically valid at Local Area Council level. The most recent surveys were conducted in 2012, 2015 and 2018 and it is intended to repeat the survey in 2020.

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.

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

The Council's Corporate Plan was adopted in February 2018 alongside the medium term financial plan for 2018-22 and the budget for 2018-19. The Plan covers the period up until 2021 and identifies priority areas around:

- We want to be efficient, open and work for everyone [How];
- We want you to feel safe, healthy and cared for [Living];
- We want you to love where you live [Enjoying];
- We want you to have access to the things you need [Connecting];

## Written Statements and Narrative Report Annual Governance Statement

- We want you to achieve and realise your potential [Learning];
- We want to attract more and better jobs [Thriving];

which are framed by the Council's vision, values and operating principles.

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 Local Plan sets out the long term spatial vision and strategic planning policies of the Council. It identifies the scale and distribution of new development which is required to deliver the Council's economic growth ambitions. It also provides the strategic planning principles that will be used to inform Neighbourhood Development Plans across Northumberland. Preparation of the Local Plan has now reached the 'Publication' stage. Representations on the soundness and legal compliance of the Local Plan were invited from 30 January 2019 to 13 March 2019 prior to the proposed submission of the Local Plan to government for independent examination in May 2019 with the aim of the Plan being adopted in March 2020.

### **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. A comprehensive review of these rules is currently underway and is scheduled for completion in July 2019.

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 Council has a clear process for the preparation and publication of Service Statements which set out the priorities for each service in delivering the Council's Corporate Plan. These priorities are described in greater detail in specific strategies and delivery plans. The Medium Term Financial Plan for the period 2019-22 was approved by the Council at its meeting on 20 February 2019.

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

The Workforce Committee (an officer group) continues to provide regular scrutiny, challenge and accountability for all workforce related improvement initiatives. Monthly publication of workforce intelligence data and performance reports is used to monitor and steer improvement actions. The Committee continues to monitor compliance levels for all mandatory required learning, completed inductions and appraisal. In April 2018 all employees were assigned General Data Protection Regulations training and performance as of 31 January 2018 was 85.22% compliance.

A new Human Resources/Organisational Development Plan has been published which clearly aligns people and organisational improvement activities against the principles and priorities outlined within Council's Corporate Plan 2018-21.

Results for the 2018 staff survey show improvements in both response rate up from 68% to 71% rate and across many of the elements with 15 significant areas of improvement and no responses significantly down from 2017.

A Leadership & Management Development pathway has been established which utilises the Council's Apprenticeship Levy and offers high quality accredited learning and talent development from Level 2 through to Level 7.

The Council's HR/OD service continues to work collaboratively with services, Trade Unions and the Joint Consultative Committee to manage a programme of policy development and review, ensuring all legislative changes are tracked and incorporated within key people management policies. The Council continues to exceed the 2.4% public service duty requirement for apprentices within the workforce (3.9%).

## Written Statements and Narrative Report Annual Governance Statement

Centralisation of the Council's recruitment process within HR/OD has led to improved levels of assurance for safer recruitment practice whilst supporting a more efficient and expedient on-boarding experience.

### Managing risks and performance.

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 Risk Management Framework which is usually reviewed and updated on an annual basis; the current edition was approved in July 2016, however, and substantive improvements to the process to enhance management of risk were identified during 2017-18 and rolled out in 2018-19.

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 2018-19 four Overview and Scrutiny Committees were in operation - Corporate Services and Economic Growth; Communities and Place; Health and Well-Being; Family and Children's Services - 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 was delivered for all members of the Council following the elections in 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



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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 relevant 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 referred to a more relevant Overview and 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 Audit 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 reviewed the role of the Information Governance group and concluded that it was no longer meeting its objectives. Therefore, to better meet needs a Strategic Information Governance Group has been introduced to look at policy and an Operational Group to consider day to day issues. The groups meet on regular bases 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 operational group are reported to the strategic group and these 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 Executive and reported to the Cabinet.

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

As outlined earlier, 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.

At service level there has continued to be regular regulatory inspections of Adult and Children's Services and reports are provided to the Audit Committee to inform members of the findings of inspections and provide assurance of how the actions resulting from inspections are implemented and monitored.

Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service (HMICFRS) has conducted an assessment of Northumberland Fire and Rescue Service during 2018-19 focusing on:

- Effectiveness - Including prevention, protection, resilience, and response;

## **Written Statements and Narrative Report**

### **Annual Governance Statement**

- Efficiency - How well it provides value for money, allocates resources to match risk, and collaborates with the police and ambulance services; and
- How well does it look after people - How well it promotes its values and culture, trains its staff and ensures they have the necessary skills, ensures fairness and diversity for the workforce and develops leadership and service capability.

The final report by HMICFRS is expected in June 2019.

## Written Statements and Narrative Report

### Annual Governance Statement

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

In line with best practice, the Corporate Governance Group has scored the Council's level of compliance with each of the seven principles:

**Grade 1 : Outstanding** - A principle rated as outstanding is highly effective in supporting the delivery of outcomes that provide exceptionally well for all Council services. This ensures that the Council is very well equipped to continue to make best use of resources in meeting the needs of Northumberland.

**Grade 2 : Good** - A principle rated as good is effective in supporting the delivery of outcomes that provide well for all Council services. This ensures that the Council is well prepared to make best use of resources in meeting the needs of Northumberland.

**Grade 3 : Requires improvement to become good** - A principle that requires improvement has some gaps in its performance framework or is not being applied consistently across all Council services. Appropriate activity has been identified in the corporate or service governance improvement plan to effect development.

**Grade 4 : Inadequate** - A principle that has serious weaknesses is inadequate overall and requires significant improvement. Remedial action has been identified in the corporate governance improvement plan.

| Principle  | 2017-18 Score | Evidence summary   | 2018-19 Score |
|--|---------------|--|---------------|
| Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law | 3             | Systems and processes are generally considered to be well documented, robust and consistently applied across most of the Council. Significant work has been carried out during 2018-19 to address previous failings in governance in relation to The Arch Group and Active Northumberland.   | 2             |
| Ensuring openness and comprehensive stakeholder engagement   | 3             | There are many examples of good stakeholder engagement on an individual service basis, for example development of the Core Strategy and options for schools reorganisation. There is a gap, however, in the consistent publication of all engagement to support understanding of the aggregate impact of potential policy change across the Council. This gap has previously been identified and is still outstanding. | 3             |
| Defining outcomes in terms of sustainable economic, social and environmental benefits                      | 2             | Processes in terms of developing proposals and building robust business cases are well embedded across the Council.  | 2             |
| Determining the interventions necessary to optimise the achievement of the intended outcomes               | 2             | There is a clear link between the Corporate Plan, Service Statements and the Council's performance framework which are all publicly available. Effective decision making is supported by Overview and Scrutiny Committees, Risk Appraisal Panels, Planning Committee, Audit Committee and Local Area Councils.   | 2             |
| Developing the entity's capacity, including the capability of its leadership and the individuals within it | 2             | Performance levels in conducting appraisals and completing statutory and mandatory training have continued to improve during 2018-19. Significant investment has been agreed for apprenticeships and engagement through the annual staff survey has increased. The increase in agile working has supported capacity within the Council.  | 2             |
| Managing risks and performance through robust internal control and strong public financial management      | 2             | Performance management is seen to be consistent across the Council and is reported via the Council's website. There is robust internal control of financial management.  | 2             |
|  | 3             | The risk management process has been refreshed and developed during 2018-19 and will become embedded over the next 12 months.  | 3             |
| Implementing good practices in transparency, reporting and audit to deliver effective accountability       | 3             | Strategic reviews of The Arch Group and Active Northumberland, the audit programme, the Council's committee structure, service specific consultation and publication of information on the website demonstrate transparency.   | 2             |



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#### Improvement planning.

Last year's AGS included a high level improvement plan which is attached at Appendix B along with commentary on progress. All actions have been progressed appropriately with the exception of a framework for the consistent publication of all Council public consultation which has been carried forward into 2019-20.

25 services were required to provide returns reviewing compliance with Council's corporate governance framework summarising changes and improvements to governance during 2018-19 and identifying further improvements to be implemented in 2019-20. As well as service-specific issues, a number of common themes have emerged from these improvement plans:

- Engagement with users through better communication, consultation and dealing with complaints;
- Engagement with staff in achieving a more rigorous approach to carrying out performance appraisals and acting on results from the staff survey;
- Information governance;
- Reviewing performance indicators to better reflect priorities and customer interests;

A corporate governance improvement plan for 2019-20 forms Appendix C to this AGS.

#### Conclusion.

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 Executive has taken the view that, as a whole, the governance arrangements in operation during 2018-19 within the Authority were adequate. The Chief Internal Auditor's Annual Report provides further assurance. There are areas where improvements can be made, however, and these have been identified in the corporate and service improvement plans for 2019-20.

Signed:

Peter Jackson

Leader of the County Council

Daljit Lally

Chief Executive  
and Head of Paid Service

## Written Statements and Narrative Report

### Annual Governance Statement

#### Appendix A – Northumberland County Council Corporate Governance Framework

The International Framework defines governance as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The Framework also states that to deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times. In local government, the governing body is the full council.

| Core Principles                    | A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law | B. Ensuring openness and comprehensive stakeholder engagement | C. Defining outcomes in terms of sustainable economic, social and environmental benefits | D. Determining the interventions necessary to optimise the achievement of the intended outcomes | E. Developing the entity's capacity, including the capability of its leadership and the individuals within it | F. Managing risks and performance through robust internal control and strong public financial management | G. Implementing good practices in transparency, reporting and audit to deliver effective accountability |
|------------------------------------|---|---|--|---|---|--|---|
| Evidence of Good Governance        | Member Code of Conduct  | Annual report   | Corporate vision   | Option appraisals   | Regular reviews of activities, outputs and planned outcomes   | Risk management protocol   | Northumberland County Council website   |
|                                    | Officer Code of Conduct   | Freedom of Information Act publication scheme                 | Corporate Plan   | Financial strategy  | Research and benchmarking-Northumberland Knowledge  | Risk management strategy   | Annual report   |
|                                    | Induction for new Members and staff on standard of conduct expected   | Online council tax information                                | Service Statements   | Calendar of dates for developing and submitting programme/project plans                         | Workforce Plan  | Agendas and minutes of meetings  | Annual financial statements   |
|                                    | Performance appraisals  | Northumberland County Council website                         | Performance reports  | Internal communication strategy   | Organisational Development Plan   | Terms of reference for Committees  | Head of Internal Audit's Annual Report  |
|                                    | Communicating shared values with members, staff, the community and partners                                   | Record of decision making                                     | Risk management protocol   | Risk management protocol  | Job descriptions  | Audit Plan   | External Audit of Accounts  |
|                                    | Declarations of interests made at meetings  | Northumberland County Council Constitution                    | Service standards  | Planning protocol   | Scheme of delegation  | Audit reports  | Audit Committee   |
|                                    | Conduct at meetings   | Report pro-formas   | Capital programme  | Performance reports   | Standing orders and financial regulations   | Annual Governance Statement  | Independent Remuneration Panel  |
|                                    | Effective standards committee   | Meeting reports show details of advice given                  | Capital investment strategy  | Medium term financial plan  | Induction programme   | Internal Audit Function  | Open data and transparency code   |
| Anti-fraud and corruption policies | Calendar of dates for submitting, publishing and distributing timely reports                                  | Fair access protocols   | Budget management  | Update/courses on new legislation   | Audit Committee   | Freedom of Information Act publication scheme  |   |

**Written Statements and Narrative Report  
Annual Governance Statement**

| Core Principles                             | A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law | B. Ensuring openness and comprehensive stakeholder engagement  | C. Defining outcomes in terms of sustainable economic, social and environmental benefits | D. Determining the interventions necessary to optimise the achievement of the intended outcomes | E. Developing the entity's capacity, including the capability of its leadership and the individuals within it | F. Managing risks and performance through robust internal control and strong public financial management | G. Implementing good practices in transparency, reporting and audit to deliver effective accountability |
|---|---|--|--|---|---|--|---|
| Evidence of Good Governance                 | Register of interests (members and staff)   | Consultation feedback  | Cabinet business   | Service Statements  | Policy digest   | Data management framework and procedures   |   |
|   | Register of gifts and hospitality   | Citizen survey   |  | Operating agreements with partners  | Personal development plans for members and officers   | Data protection policies and procedures  |   |
|   | Whistleblowing policy   | External communication strategy                                |  |   | Training and development programme  | Designated data protection officer   |   |
|   | Safecall  |  |  |   |   |  |   |
|   | Complaints policy   | Local Area Councils  |  |   | Succession planning   | Data quality procedures and reports  |   |
|   | Ethical awareness training  | Database of stakeholders with whom the authority should engage |  |   | Residents' panel  | Budget monitoring reports  |   |
|   | Staff appointments policy   | Partnership framework  |  |   | Stakeholder forums  | Financial rules and regulations  |   |
|   | Procurement policy  | Record of public consultations                                 |  |   | Peer reviews  |  |   |
|   | Protocol for partnership working  | Joint strategic needs assessment                               |  |   | Human Resource policies   |  |   |
|   | Northumberland County Council Constitution  | Management of complaints and customer service standards        |  |   |   |  |   |
|   | Job description/specification for statutory officers and other key post holders                               |  |  |   |   |  |   |
|   | Job description/specifications for Members  |  |  |   |   |  |   |
| Record of legal advice provided by officers |   |  |  |   |   |  |   |

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**Appendix B – Review of 2018-19 Improvement Plan**

| Area for Improvement  | Agreed action  | Responsible Officer                 | Progress  |
|-----------------------|--|-------------------------------------|---|
| Active Northumberland | Implement the recommendations of the strategic review as endorsed by the Council at its meeting on 21 February 2018.                       | Daljit Lally                        | The jointly commissioned review of Active Northumberland (AN) presented to Council in February 2018 identified significant failings of governance and numerous gaps in the expected level of strategic and operational capability and capacity in the organisation. It was stated that these poor oversight arrangements had severely impacted on the organisation's capacity and day to day operational capacity. A large number of the recommendations from the review have been implemented during 2018-2019 with an understanding of the remaining measures to be finalised. A clear Operating Agreement has been developed and will be in place by 1 April 2019. As per the recommendation NCC has provided clarity of purpose to AN by decommissioning their involvement with Libraries and Visitor Information. Transfer of staff involved in Libraries, Visitor Information, the County Sport Partnership and Sport Development into NCC took place in June 2018. A recruitment exercise resulted in the appointment of a new Chief Executive for the Trust in May 2018. The appointed individual has proven leisure trust management and business transformation experience. Active Northumberland have launched a three year strategy (2019-22) to transform their services and operating model. The strategy is based on a new vision and values with clearly specified deliverables and financial goals. The senior management team has been reconfigured with a clear structure comprising an Executive Leadership Team, General management Team, Corporate Lead responsibilities and Corporate Lead support. The three year strategy has been considered by the NCC Health and Wellbeing OSC - Improving Health and Fitness Working Group. A Finance, Audit and Performance Sub Committee has been created within AN to strengthen governance and Board oversight. The Operating Agreement will include a requirement to provide detailed quarterly performance information to NCC and report progress against management of cost reduction, performance against budget and contribution towards increasing health and wellbeing. A comprehensive outcomes framework will be developed during 2019-20 to clearly demonstrate progress against key NCC strategic health and wellbeing objectives. A leisure client unit has been established within NCC to oversee development and monitoring of AN performance. |
| Arch                  | Implement the recommendations of the strategic review as endorsed by the County Council at its meeting on 3 January 2018.                  | Daljit Lally                        | Complete – transition to Advance Northumberland completed in November 2018.   |
| Service Statements    | Publish Service Statements for all services to provide detail and accountability for delivery of the Corporate Plan in the period to 2021. | All Executive and Service Directors | Service Statements were published to the Council's website. A refreshed suite of Service Statements is currently being prepared for publication in May 2019.  |
| Local Plan            | Maintain progress in development of a revised Local for consultation and submission within a timescale acceptable to the Government.       | Paul Johnston                       | Preparation of the Local Plan has now reached the 'Publication' stage. Representations on the soundness and legal compliance of the Local Plan were invited from 30 January 2019 to 13 March 2019 prior to the proposed submission of the Local Plan to government for independent examination in May 2019.   |

**Written Statements and Narrative Report**  
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|  |   |                 |  |
|--|---|-----------------|--|
| Constitution and scheme of officer delegations | Ensure that the Council's Constitution and scheme of officer delegations maintain step with organisational change.  | Liam Henry      | Constitution and scheme of officer delegations amended as appropriate.<br><br>A Constitution Working Group has been established by the Council which will meet from March 2019.  |
| Devolution                                     | Review the Council's governance arrangements in relation to the North East Combined Authority, establishment of the North of Tyne Combined Authority and the Borderlands Growth Deal. | Paul Johnston   | Dedicated member working group on "Economic Deals" established and meets regularly. It includes the Leaders of all the parties as well as the Council's scrutiny representative to the North of Tyne Combined Authority.<br><br>A member group has been established to maintain an overview of developments in the North of Tyne, Borderlands and Brexit.<br><br>An inter-departmental officer group is also in place and meeting regularly to allow information exchange across the various thematic work streams associated with both North of Tyne and Borderlands. |
| Consultation                                   | Establish a framework for the consistent publication of all Council consultation.   | Kelly Angus     | Consultation at service level is effective but there is no common framework or corporate publication of feedback. This action has been carried forward to the 2019-20 improvement plan at Appendix C.  |
| Data Protection                                | Ensure the Council and all of its services comply with the requirements of the General Data Protection Regulations (GDPR).  | Neil Arnold     | The Council successfully managed the introduction of GDPR in May 2018 and has introduced a new role of Information Governance Manager to take on the role of the Council's Data Protection Officer.  |
| International                                  | Carry out an audit of compliance of service systems and processes.  | Allison Joynson | Northumbria Healthcare Foundation Trust carried out an Audit of Transformation Team in 2018. No concerns were raised. The County Council's shared audit service has been requested to include an audit on their plan for 2019-20.  |

**Written Statements and Narrative Report**  
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**Appendix C – 2019-20 Improvement Plan**

| Area for Improvement         | Proposed action  | Responsible Officer |
|------------------------------|--|---------------------|
| Local Plan                   | Submit the Local Plan to the government in May 2019 for independent examination with a view to the Plan being adopted in March 2020.   | Paul Johnston       |
| Consultation                 | Establish a framework for the consistent publication of all Council consultation (carried forward from 2018-19).   | Kelly Angus         |
| Active Northumberland        | Ensure an Operating Agreement is in place for 2019-20 for Active Northumberland with appropriate monitoring arrangements in place. Ensure a formal process is in place for measuring customer satisfaction with an annual report to the Council.   | Kelly Angus         |
| Advance Northumberland       | Ensure an Operating Agreement is in place for 2019-20 for Advance Northumberland with appropriate monitoring arrangements in place.  | Paul Johnston       |
| Operational delivery         | Establish a framework for strategic and operational performance which demonstrates delivery and assurance of key operational and strategic indicators and which gives assurance on delivery of the Corporate Plan and in delivery of physical processes including Local Transport Plan, Capital Programme and Regeneration projects. | Daljit Lally        |
| Programme of Service Reviews | Establish a series of service reviews to challenge current service delivery arrangements and provide assurance that value for money is being achieved.   | Daljit Lally        |
| Partnership with NHS bodies  | Consider whether there is need to be changes to current partnership arrangements as the restructuring of the NHS set out in the Long-Term Plan takes shape   | Cath McEvoy-Carr    |

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# Core Financial Statements

## Core Financial Statements

### Comprehensive Income and Expenditure Statement

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 and the Movement in Reserves Statement.

| Gross Expenditure<br>£000 | Gross Income<br>£000 | 2017-18<br>Restated | Net Expenditure<br>£000 |  | Note | Gross Expenditure<br>£000 | Gross Income<br>£000 | 2018-19                 |
|---------------------------|----------------------|---------------------|-------------------------|--|------|---------------------------|----------------------|-------------------------|
|                           |                      |                     |                         |  |      |                           |                      | Net Expenditure<br>£000 |
| 182,848                   | (103,935)            | 78,913              |                         | Adult Services   |      | 198,106                   | (107,666)            | 90,440                  |
| 608                       | (209)                | 399                 |                         | Chief Executive  |      | 1,288                     | (492)                | 796                     |
| 274,469                   | (215,005)            | 59,464              |                         | Children's Services  |      | 262,459                   | (201,922)            | 60,537                  |
| 140,273                   | (91,808)             | 48,465              |                         | Finance  |      | 165,472                   | (88,637)             | 76,835                  |
| 22,018                    | (2,477)              | 19,541              |                         | Human Resources & Organisational Development   |      | 24,886                    | (2,895)              | 21,991                  |
| 24,847                    | (45,361)             | (20,514)            |                         | Local Authority Housing (HRA)  |      | 25,006                    | (37,636)             | (12,630)                |
| 112,270                   | (36,926)             | 75,344              |                         | Place  |      | 111,839                   | (39,814)             | 72,025                  |
| 6,563                     | (307)                | 6,256               |                         | Corporate Expenditure & Income   |      | 12,564                    | (498)                | 12,066                  |
| <b>763,896</b>            | <b>(496,028)</b>     | <b>267,868</b>      |                         | <b>Cost of Services</b>  |      | <b>801,620</b>            | <b>(479,560)</b>     | <b>322,060</b>          |
| 49,563                    | (18,331)             | 31,232              |                         | Other Operating Income and Expenditure   | 3    | 88,017                    | (39,413)             | 48,604                  |
| 46,550                    | (23,478)             | 23,072              |                         | Financing and Investment Income and Expenditure  | 4    | 56,788                    | (30,932)             | 25,856                  |
| -                         | (338,696)            | (338,696)           |                         | Taxation and Non-Specific Grant Income   | 5    | -                         | (344,459)            | (344,459)               |
| <b>860,009</b>            | <b>(876,533)</b>     | <b>(16,524)</b>     |                         | <b>(Surplus) or Deficit on Provision of Services</b>   |      | <b>946,425</b>            | <b>(894,364)</b>     | <b>52,061</b>           |
|                           |                      | (10,359)            |                         | Surplus on Revaluation of Non Current Assets   | 16   |                           |                      | (10,592)                |
|                           |                      | 12                  |                         | Deficit/(Surplus) from investments in equity instruments designated at fair value through other comprehensive income | 31   |                           |                      | (127)                   |
|                           |                      | 14,810              |                         | Actuarial (Gains)/Losses on post employment benefits   | 33   |                           |                      | (37,170)                |
|                           |                      | <b>4,463</b>        |                         | <b>Other Comprehensive Income and Expenditure</b>  |      |                           |                      | <b>(47,889)</b>         |
|                           |                      | <b>(12,061)</b>     |                         | <b>Total Comprehensive Income and Expenditure</b>  |      |                           |                      | <b>4,172</b>            |

The 2017-18 analysis of the cost of services has been restated due to a change in the reporting structure within the Council.

## Core Financial Statements

### Movement in Reserves Statement

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.

|  | General Fund Balance<br>£000 | Earmarked General Fund Reserves<br>£000 | Housing Revenue Account<br>£000 | Earmarked HRA Reserves<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Major Repairs Reserve<br>£000 | Total Usable Reserves<br>£000 | Unusable Reserves<br>£000 | Total<br>£000    |
|--|------------------------------|---|---------------------------------|--------------------------------|----------------------------------|----------------------------------|-------------------------------|-------------------------------|---------------------------|------------------|
| <b>Balance brought forward 1 April 2017</b>                                      | <b>(53,036)</b>              | <b>(100,590)</b>                        | <b>(23,552)</b>                 | -                              | <b>(263)</b>                     | <b>(20,383)</b>                  | <b>(2,139)</b>                | <b>(199,963)</b>              | <b>(139,461)</b>          | <b>(339,424)</b> |
| Movement in Reserves during 2017-18:   |                              |   |                                 |                                |                                  |                                  |                               |                               |                           |                  |
| (Surplus) on the provision of services   | (678)                        | -                                       | (15,846)                        | -                              | -                                | -                                | -                             | <b>(16,524)</b>               | -                         | <b>(16,524)</b>  |
| Other Comprehensive Income & Expenditure   | -                            | -                                       | -                               | -                              | -                                | -                                | -                             | -                             | 4,463                     | <b>4,463</b>     |
| <b>Total Comprehensive Income &amp; Expenditure</b>                              | <b>(678)</b>                 | -                                       | <b>(15,846)</b>                 | -                              | -                                | -                                | -                             | <b>(16,524)</b>               | <b>4,463</b>              | <b>(12,061)</b>  |
| Adjustments between accounting basis & funding basis under regulations (Note 14) | (12,114)                     | -                                       | 12,013                          | -                              | (523)                            | (1,956)                          | (1,338)                       | <b>(3,918)</b>                | 3,918                     | -                |
| <b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>            | <b>(12,792)</b>              | -                                       | <b>(3,833)</b>                  | -                              | <b>(523)</b>                     | <b>(1,956)</b>                   | <b>(1,338)</b>                | <b>(20,442)</b>               | <b>8,381</b>              | <b>(12,061)</b>  |
| Transfers to/(from) Earmarked Reserves (Note 15)                                 | 10,395                       | (10,395)                                | -                               | -                              | -                                | -                                | -                             | -                             | -                         | -                |
| <b>(Increase)/Decrease in 2017-18</b>  | <b>(2,397)</b>               | <b>(10,395)</b>                         | <b>(3,833)</b>                  | -                              | <b>(523)</b>                     | <b>(1,956)</b>                   | <b>(1,338)</b>                | <b>(20,442)</b>               | <b>8,381</b>              | <b>(12,061)</b>  |
| <b>Balance at 31 March 2018 carried forward</b>                                  | <b>(55,433)</b>              | <b>(110,985)</b>                        | <b>(27,385)</b>                 | -                              | <b>(786)</b>                     | <b>(22,339)</b>                  | <b>(3,477)</b>                | <b>(220,405)</b>              | <b>(131,080)</b>          | <b>(351,485)</b> |
| <b>Balance brought forward 1 April 2018</b>                                      | <b>(55,433)</b>              | <b>(110,985)</b>                        | <b>(27,385)</b>                 | -                              | <b>(786)</b>                     | <b>(22,339)</b>                  | <b>(3,477)</b>                | <b>(220,405)</b>              | <b>(131,080)</b>          | <b>(351,485)</b> |
| Movement in Reserves during 2018-19:   |                              |   |                                 |                                |                                  |                                  |                               |                               |                           |                  |
| (Surplus)/Deficit on the provision of services                                   | 60,569                       | -                                       | (8,508)                         | -                              | -                                | -                                | -                             | <b>52,061</b>                 | -                         | <b>52,061</b>    |
| Other Comprehensive Income & Expenditure   | -                            | -                                       | -                               | -                              | -                                | -                                | -                             | -                             | (47,889)                  | <b>(47,889)</b>  |
| <b>Total Comprehensive Income &amp; Expenditure</b>                              | <b>60,569</b>                | -                                       | <b>(8,508)</b>                  | -                              | -                                | -                                | -                             | <b>52,061</b>                 | <b>(47,889)</b>           | <b>4,172</b>     |
| Adjustments between accounting basis & funding basis under regulations (Note 14) | (69,732)                     | -                                       | 5,073                           | -                              | (820)                            | (5,535)                          | 591                           | <b>(70,423)</b>               | 70,423                    | -                |
| <b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>            | <b>(9,163)</b>               | -                                       | <b>(3,435)</b>                  | -                              | <b>(820)</b>                     | <b>(5,535)</b>                   | <b>591</b>                    | <b>(18,362)</b>               | <b>22,534</b>             | <b>4,172</b>     |
| Transfers to/(from) Earmarked Reserves (Note 15)                                 | 9,163                        | (9,163)                                 | 2,000                           | (2,000)                        | -                                | -                                | -                             | -                             | -                         | -                |
| <b>(Increase)/Decrease in 2018-19</b>  | <b>-</b>                     | <b>(9,163)</b>                          | <b>(1,435)</b>                  | <b>(2,000)</b>                 | <b>(820)</b>                     | <b>(5,535)</b>                   | <b>591</b>                    | <b>(18,362)</b>               | <b>22,534</b>             | <b>4,172</b>     |
| <b>Balance at 31 March 2019 carried forward</b>                                  | <b>(55,433)</b>              | <b>(120,148)</b>                        | <b>(28,820)</b>                 | <b>(2,000)</b>                 | <b>(1,606)</b>                   | <b>(27,874)</b>                  | <b>(2,886)</b>                | <b>(238,767)</b>              | <b>(108,546)</b>          | <b>(347,313)</b> |

## Core Financial Statements

### Balance Sheet

The Balance Sheet shows the value as at 31 March 2019 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'.

| 31 March 2018    |                                    | Note  | 31 March 2019    | 31 March 2018      | Note                               | 31 March 2019      |
|------------------|------------------------------------|-------|------------------|--------------------|------------------------------------|--------------------|
| £000             |                                    |       | £000             | £000               |                                    | £000               |
| 1,333,842        | Property, Plant and Equipment      | 16    | 1,339,357        | (10,465)           | Bank Overdraft                     | (12,897)           |
| 7,603            | Heritage Assets                    | 18    | 7,773            | (113,948)          | Short Term Borrowing               | (77,576)           |
| 1,479            | Investment Property                | 17    | 1,531            | (70,060)           | Short Term Creditors               | (66,897)           |
| 1,850            | Intangible Assets                  | 20    | 1,889            | (11,221)           | Short Term Provisions              | (9,424)            |
| 430              | Assets Held for Sale - non current | 26    | 430              | (805)              | Revenue Grants Receipts in Advance | (1,484)            |
| 49,990           | Long Term Investments              | 21    | 51,115           | <b>(206,499)</b>   | <b>Current Liabilities</b>         | <b>(168,278)</b>   |
| 417,132          | Long Term Debtors                  | 21,24 | 412,085          | (76,345)           | Long Term Creditors - PFI          | (74,415)           |
| <b>1,812,326</b> | <b>Long Term Assets</b>            |       | <b>1,814,180</b> | (662,775)          | Long Term Borrowing                | (658,254)          |
| 113              | Intangible Assets                  | 20    | 113              | (707,460)          | Other Long Term Liabilities        | (713,940)          |
| 65,513           | Short Term Investments             | 21    | 272              | (490)              | Long Term Provisions               | (78)               |
| 7,238            | Assets Held for Sale - current     | 26    | 7,645            | (9,953)            | Capital Grants Receipts in Advance | (6,028)            |
| 715              | Inventories                        |       | 1,697            | <b>(1,457,023)</b> | <b>Long Term Liabilities</b>       | <b>(1,452,715)</b> |
| 74,900           | Short Term Debtors                 | 24    | 79,709           | <b>351,485</b>     | <b>Net Assets</b>                  | <b>347,313</b>     |
| 54,202           | Cash and Cash Equivalents          | 21,25 | 64,690           |                    |                                    |                    |
| <b>202,681</b>   | <b>Current Assets</b>              |       | <b>154,126</b>   | 220,405            | Usable Reserves                    | 238,767            |
|                  |                                    |       |                  | 131,080            | Unusable Reserves                  | 108,546            |
|                  |                                    |       |                  | <b>351,485</b>     | <b>Total Reserves</b>              | <b>347,313</b>     |

## Core Financial Statements

### Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2019 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.

| 2017-18<br>£000  |   | Note | 2018-19<br>£000 |
|------------------|---|------|-----------------|
| 16,524           | Net surplus/(deficit) on the provision of services  |      | (52,061)        |
| (85,437)         | Adjustments to net surplus or deficit on the provision of services for non-cash movements   | 34   | 127,720         |
| (56,848)         | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 34   | (58,037)        |
| <b>(125,761)</b> | <b>Net cash flows from Operating Activities</b>   |      | <b>17,622</b>   |
| 135,793          | Investing Activities  | 35   | 33,873          |
| 6,867            | Financing Activities  | 36   | (43,439)        |
| <b>16,899</b>    | <b>Net increase in cash and cash equivalents</b>  |      | <b>8,056</b>    |
| 26,838           | Cash and cash equivalents at the beginning of the reporting period  |      | 43,737          |
| <b>43,737</b>    | <b>Cash and cash equivalents at the end of the reporting period</b>   |      | <b>51,793</b>   |

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# Notes to the Accounts



## Notes to the Accounts

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Notes

Supporting the  
Comprehensive  
Income and  
Expenditure  
Statement

## 1. 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 (CIES).

| Net Expenditure Chargeable to the General Fund and HRA Balances<br>£000 | Adjustments between Funding and Accounting Basis<br>£000 | As Restated<br>2017-18 | Net Expenditure in the CIES<br>£000                          |  | Net Expenditure Chargeable to the General Fund and HRA Balances<br>£000 | Adjustments between Funding and Accounting Basis<br>£000 | 2018-19                             |
|---|--|------------------------|--|--|---|--|-------------------------------------|
|   |  |                        |  |  |   |  | Net Expenditure in the CIES<br>£000 |
| 77,649  | 1,264  | 78,913                 | Adult Services   |  | 85,144  | 5,296  | 90,440                              |
| 392   | 7  | 399                    | Chief Executive  |  | 775   | 21   | 796                                 |
| 49,684  | 9,780  | 59,464                 | Children's Services  |  | 52,425  | 8,112  | 60,537                              |
| 37,001  | 11,465   | 48,466                 | Finance  |  | 32,384  | 44,451   | 76,835                              |
| 15,945  | 3,596  | 19,541                 | Human Resources & Organisational Development                 |  | 17,287  | 4,704  | 21,991                              |
| (8,501)   | (12,013)   | (20,514)               | Local Authority Housing (HRA)                                |  | (7,557)   | (5,073)  | (12,630)                            |
| 49,963  | 25,380   | 75,343                 | Place  |  | 48,629  | 23,396   | 72,025                              |
| 4,816   | 1,440  | 6,256                  | Corporate Expenditure & Income                               |  | (64,332)  | 76,398   | 12,066                              |
| <b>226,949</b>  | <b>40,919</b>  | <b>267,868</b>         | <b>Net Cost of services</b>                                  |  | <b>164,755</b>  | <b>157,305</b>   | <b>322,060</b>                      |
| (243,574)   | (40,818)   | (284,392)              | Other Income And Expenditure                                 |  | (177,353)   | (92,646)   | (269,999)                           |
| <b>(16,625)</b>   | <b>101</b>   | <b>(16,524)</b>        | <b>Total (Surplus) or Deficit General Fund and HRA</b>       |  | <b>(12,598)</b>   | <b>64,659</b>  | <b>52,061</b>                       |
| (177,178)   |  |                        | Opening General Fund and HRA Balance at 31 March 2018        |  | (193,803)   |  |                                     |
| (16,625)  |  |                        | Add: Surplus on General Fund and HRA Balance in Year         |  | (12,598)  |  |                                     |
| <b>(193,803)</b>  |  |                        | <b>Closing General Fund and HRA Balance at 31 March 2019</b> |  | <b>(206,401)</b>  |  |                                     |

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

## Notes to the Accounts

### 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 deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices; and,
- 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 employers pension contributions made by the authority as allowed by statute; and, the replacement with current service costs and past service costs; and,
- 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 General Fund for the timing differences for premiums and discounts;
- For Services - this represents the change in accrued employee benefits such as annual leave; and,
- 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 Accounts

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

| As Restated<br>2017-18                 |  |                      |                      |  | 2018-19                                |  |                      |                      |
|--|--|----------------------|----------------------|--|--|--|----------------------|----------------------|
| Adjustments for<br>Capital<br>Purposes | Net Change for<br>the Pensions<br>Adjustment | Other<br>Differences | Total<br>Adjustments |  | Adjustments for<br>Capital<br>Purposes | Net Change for<br>the Pensions<br>Adjustment | Other<br>Differences | Total<br>Adjustments |
| £000                                   | £000   | £000                 | £000                 |  | £000                                   | £000   | £000                 | £000                 |
| 731                                    | 501  | 32                   | 1,264                | Adult Services                               | 4,568                                  | 736  | (8)                  | 5,296                |
| -                                      | 7  | -                    | 7                    | Chief Executive                              | -                                      | 21   | -                    | 21                   |
| 11,018                                 | (1,519)                                      | 281                  | 9,780                | Children's Services                          | 9,848                                  | (1,062)                                      | (674)                | 8,112                |
| 13,562                                 | (2,211)                                      | 114                  | 11,465               | Finance                                      | 21,094                                 | 23,519                                       | (162)                | 44,451               |
| 3,465                                  | 127  | 4                    | 3,596                | Human Resources & Organisational Development | 4,485                                  | 216  | 3                    | 4,704                |
| (11,800)                               | (213)  | -                    | (12,013)             | Local Authority Housing (HRA)                | (5,447)                                | 374  | -                    | (5,073)              |
| 24,478                                 | 811  | 91                   | 25,380               | Place  | 22,246                                 | 1,102  | 48                   | 23,396               |
| 1,417                                  | (17)   | 39                   | 1,439                | Corporate Expenditure & Income               | 75,493                                 | 905  | -                    | 76,398               |
| <b>42,871</b>                          | <b>(2,514)</b>                               | <b>561</b>           | <b>40,918</b>        | <b>Net Cost of services</b>                  | <b>132,287</b>                         | <b>25,811</b>                                | <b>(793)</b>         | <b>157,305</b>       |
| (59,075)                               | 16,480                                       | 1,778                | (40,817)             | Other Income And Expenditure                 | (113,602)                              | 17,760                                       | 3,196                | (92,646)             |
| <b>(16,204)</b>                        | <b>13,966</b>                                | <b>2,339</b>         | <b>101</b>           | <b>(Surplus) or Deficit</b>                  | <b>18,685</b>                          | <b>43,571</b>                                | <b>2,403</b>         | <b>64,659</b>        |

The 2017-18 analysis has been restated due to a change in the reporting structure within the Council.

## 2. Expenditure and Income Analysed by Nature

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

| 2017-18<br>£000  |   | 2018-19<br>£000  |
|------------------|---|------------------|
| Expenditure:     |   |                  |
| 48,773           | Depreciation, amortisation, impairment                | 49,393           |
| 310,191          | Employee Benefits Expenses                            | 330,015          |
| 93               | (Gain) or Loss on the Disposal of Assets              | (5)              |
| 29,827           | Interest Payments                                     | 33,013           |
| 436,340          | Other Services Expenditure                            | 482,867          |
| 1,062            | Payments to Housing Capital Receipts Pool             | 1,103            |
| 15,390           | Precepts and Levies                                   | 15,733           |
| 18,333           | Support Services Recharges                            | 34,306           |
| <b>860,009</b>   | <b>Total Expenditure</b>                              | <b>946,425</b>   |
| Income:          |   |                  |
| (265,749)        | Fees Charges and Other Services Income                | (286,744)        |
| (376,569)        | Government Grants                                     | (357,534)        |
| (210,862)        | Income from Council Tax and Non-domestic Rates        | (219,403)        |
| (23,353)         | Interest and Investment Income                        | (30,683)         |
| <b>(876,533)</b> | <b>Total Income</b>                                   | <b>(894,364)</b> |
| <b>(16,524)</b>  | <b>(Surplus)/Deficit on the Provision of Services</b> | <b>52,061</b>    |

## 3. Other Operating Income and Expenditure

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| 15,390          | Parish and other precepts                                | 15,733          |
| 1,062           | Payments to the Government Housing Capital Receipts Pool | 1,103           |
| 1,431           | (Upward)/Downward Valuation of Assets Held for Sale      | (32)            |
| 13,349          | Losses on the disposal of non-current assets             | 31,800          |
| <b>31,232</b>   | <b>Total net operating expenditure</b>                   | <b>48,604</b>   |

## 4. Financing and Investment Income and Expenditure

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| 29,966          | Interest payable and similar charges  | 35,014          |
| 16,480          | Pensions interest cost and expected return on pensions assets                         | 17,840          |
| (23,436)        | Interest receivable and similar income  | (26,941)        |
| 62              | Income and expenditure in relation to investment properties and changes in fair value | (57)            |
| <b>23,072</b>   | <b>Total Financing and Investment Income and Expenditure</b>                          | <b>25,856</b>   |

## 5. Taxation and Non-Specific Grant Income

| 2017-18<br>£000  |   | 2018-19<br>£000  |
|------------------|---|------------------|
| (169,118)        | Council tax income                                  | (178,940)        |
| (41,744)         | Non domestic rates income                           | (40,462)         |
| (76,050)         | Non-ring fenced government grants                   | (71,420)         |
| (51,784)         | Capital grants and contributions                    | (53,637)         |
| <b>(338,696)</b> | <b>Total Taxation and Non Specific Grant Income</b> | <b>(344,459)</b> |

## 6. Better Care Fund

National policy requires local authorities and NHS Clinical Commissioning Groups (CCGs) to establish a pooled fund under Section 75 of the NHS Act 2006, and to make joint decisions about how to use the fund to promote integration between health and social care services. A Better Care Fund Plan for 2017-19, submitted to NHS England in September 2017, set out in detail how the funds, which the Council and Northumberland CCG were required to include in the pooled fund, would be allocated to specific purposes. The CCG was required under national rules to transfer a total of £14.45 million from its contribution to the local authority; the local authority was required to include in the fund "Improved Better Care Fund" (iBCF) grant funding paid directly to the Council, as well as capital funding for adaptations to the homes of disabled people.

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
|                 | Funding Provided to the pooled budget:      |                 |
| (8,987)         | Northumberland County Council               | (11,376)        |
| (22,749)        | Northumberland Clinical Commissioning Group | (23,181)        |
| <b>(31,736)</b> |   | <b>(34,557)</b> |
|                 | Expenditure met from the pooled budget:     |                 |
| 23,034          | Northumberland County Council               | 26,324          |
| 8,223           | Northumberland Clinical Commissioning Group | 8,233           |
| <b>31,257</b>   |   | <b>34,557</b>   |
| <b>(479)</b>    | <b>Net surplus</b>                          | <b>-</b>        |

## 7. Members' Allowances

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

| 2017-18<br>£000 |              | 2018-19<br>£000 |
|-----------------|--------------|-----------------|
| 113             | Salaries     | 106             |
| 1,311           | Allowances   | 1,341           |
| 43              | Expenses     | 44              |
| <b>1,467</b>    | <b>Total</b> | <b>1,491</b>    |



## 8. 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.

The note excludes senior employees whose individual remuneration is in the remuneration of senior officers disclosure.

| 2017-18       |                      | 2018-19       |
|---------------|----------------------|---------------|
| All Employees | Remuneration Band    | All Employees |
| 102           | £50,000 to £54,999   | 82            |
| 52            | £55,000 to £59,999   | 56            |
| 54            | £60,000 to £64,999   | 57            |
| 13            | £65,000 to £69,999   | 18            |
| 7             | £70,000 to £74,999   | 14            |
| 7             | £75,000 to £79,999   | 6             |
| 4             | £80,000 to £84,999   | 4             |
| 5             | £85,000 to £89,999   | 7             |
| 3             | £90,000 to £94,999   | 3             |
| 3             | £95,000 to £99,999   | 3             |
| 1             | £100,000 to £104,999 | 2             |
| 1             | £105,000 to £109,999 | -             |
| -             | £110,000 to £114,999 | -             |
| -             | £115,000 to £119,999 | 1             |
| <b>252</b>    | <b>Total</b>         | <b>253</b>    |

## Notes to the Accounts

The Accounts and Audit Regulations 2015 require authorities to disclose the remuneration of Senior Officers. There have been no bonuses paid to any of the senior officers in 2017-18 or 2018-19.

| 2018-19  | Note | Salary & Allowances<br>£ | Compensation for loss of office**<br>£ | Benefits in kind*<br>£ | Total Remuneration<br>£ | Pension Contributions<br>£ | Total Remuneration incl. Pension Contributions<br>£ |
|--|------|--------------------------|--|------------------------|-------------------------|----------------------------|---|
| Post Holder Information  |      |                          |  |                        |                         |                            |   |
| Senior Officers emoluments – salary is £150,000 or more per year             |      |                          |  |                        |                         |                            |   |
| Chief Executive and Head of Paid Service - Daljit Lally                      | 1    | 138,139                  | -                                      | -                      | <b>138,139</b>          | 25,326                     | <b>163,465</b>                                      |
| Senior Officers emoluments – salary is between £50,000 and £150,000 per year |      |                          |  |                        |                         |                            |   |
| Executive Director of Adults and Children's Services                         | 2    | 149,100                  | -                                      | -                      | <b>149,100</b>          | 27,488                     | <b>176,588</b>                                      |
| Executive Director of Place  |      | 139,624                  | -                                      | -                      | <b>139,624</b>          | 25,830                     | <b>165,454</b>                                      |
| Executive Director of Finance and Deputy Chief Executive                     | 3    | 97,299                   | 72,812                                 | -                      | <b>170,111</b>          | 20,067                     | <b>190,178</b>                                      |
| Director of Transformation   | 4    | 144,161                  | -                                      | 13,352                 | <b>157,513</b>          | 26,656                     | <b>184,169</b>                                      |
| Director of Public Health  |      | 93,978                   | -                                      | -                      | <b>93,978</b>           | 17,386                     | <b>111,364</b>                                      |
| Deputy Director of Community Services  | 5    | 96,745                   | -                                      | -                      | <b>96,745</b>           | 13,912                     | <b>110,657</b>                                      |
| Service Director - Finance   | 6    | 113,061                  | -                                      | 12,939                 | <b>126,000</b>          | 20,916                     | <b>146,916</b>                                      |
| Service Director - Partnerships and Devolution                               | 7    | 68,514                   | -                                      | 20,806                 | <b>89,320</b>           | 18,336                     | <b>107,656</b>                                      |
| Project Director   | 8    | 63,230                   | -                                      | 5,368                  | <b>68,598</b>           | 11,697                     | <b>80,295</b>                                       |
| Executive Director of HR and OD and Deputy Chief Executive                   | 9    | 146,676                  | -                                      | 12,080                 | <b>158,756</b>          | 21,092                     | <b>179,848</b>                                      |
| Executive Director of Adult Social Care & Strategic Commissioning            | 10   | 48,602                   | -                                      | 1,696                  | <b>50,298</b>           | 6,989                      | <b>57,287</b>                                       |
| Service Director - Strategic Commissioning and Finance                       | 11   | 54,024                   | -                                      | 3,657                  | <b>57,681</b>           | 7,769                      | <b>65,450</b>                                       |
| Chief Fire Officer   |      | 116,696                  | -                                      | -                      | <b>116,696</b>          | 23,722                     | <b>140,418</b>                                      |

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

\*\*Note - The amount included within this column includes the cost of legal fees paid by the Council in connection with the termination of the officer's employment.

## Notes to the Accounts

| Note | From      | To        | Post Holder   | Information  |
|------|-----------|-----------|---|--|
| 1    | 01-Apr-18 | 31-Mar-19 | Chief Executive and Head of Paid Service                            | This post is 0.50 FTE.   |
| 2    | 01-Apr-18 | 30-Nov-18 | Executive Director of Children's Services                           |  |
|      | 01-Dec-18 | 31-Mar-19 | Executive Director of Adults and Children's Services                |  |
| 3    | 01-Jun-18 | 08-Feb-19 | Executive Director of Finance and Deputy Chief Executive            | New Appointment.   |
| 4    | 01-Apr-18 | 30-Nov-18 | Director of International Projects and System Transformation        | Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation pays 50%.  |
|      | 01-Dec-18 | 31-Mar-19 | Director of Transformation  | Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation pays 50%.  |
| 5    | 01-Apr-18 | 23-Jul-18 | Head of Adult Social Care   | Employee is paid by Northumberland County Council. Salary recharged 100% to Northumbria Healthcare NHS Foundation Trust.   |
|      | 24-Jul-18 | 31-Mar-19 | Deputy Director of Community Services                               | Employee is paid by Northumberland County Council. Salary recharged 100% to Northumbria Healthcare NHS Foundation Trust.   |
| 6    | 01-Apr-18 | 31-May-18 | Service Director - Finance and Interim Section 151 Officer          |  |
|      | 01-Jun-18 | 07-Feb-19 | Service Director - Finance  |  |
|      | 08-Feb-19 | 31-Mar-19 | Service Director - Finance and Interim Section 151 Officer          |  |
| 7    | 01-Apr-18 | 31-Mar-19 | Service Director – Partnerships and Devolution                      | Jointly funded Post with North Tyneside Council and Newcastle City Council. Each organisation pays 33.33%.   |
| 8    | 01-Apr-18 | 10-May-18 | Project Director  | This post is 1.00 FTE  |
|      | 11-May-18 | 31-Mar-19 | Project Director  | This post is 0.40 FTE  |
| 9    | 01-Apr-18 | 31-Mar-19 | Executive Director of HR and OD and Deputy Chief Executive          | Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. Salary recharged 100% to Northumberland County Council   |
| 10   | 01-Apr-18 | 30-Nov-18 | Executive Director of Adult Social Care and Strategic Commissioning | Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Employee paid by Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs. Leaving date 30 November 2018. |
| 11   | 01-Apr-18 | 31-Mar-19 | Service Director - Strategic Commissioning and Finance              | Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Employee paid by Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs.                                |

## Notes to the Accounts

| 2017-18<br>Post Holder Information   | Note | Salary &<br>Allowances<br>£ | Compensation<br>for loss of<br>office*<br>£ | Benefits in<br>kind**<br>£ | Total<br>Remuneration<br>£ | Pension<br>Contributions<br>£ | Total<br>Remuneration<br>incl. Pension<br>Contributions<br>£ |
|--|------|-----------------------------|---|----------------------------|----------------------------|-------------------------------|--|
| Senior Officers emoluments - salary is £150,000 or more per year             |      |                             |   |                            |                            |                               |  |
| Chief Executive - Steven Mason   | 1    | 31,378                      | 369,999                                     | 6,310                      | <b>407,687</b>             | 5,805                         | <b>413,492</b>   |
| Chief Executive - Daljit Lally   | 2    | 175,239                     | -   | 16,106                     | <b>191,345</b>             | 31,666                        | <b>223,011</b>   |
| Senior Officers emoluments - salary is between £50,000 and £150,000 per year |      |                             |   |                            |                            |                               |  |
| Service Director - Partnerships and Devolution                               | 3    | 97,070                      | -   | 18,664                     | <b>115,734</b>             | 17,931                        | <b>133,665</b>   |
| Service Director - Finance   | 4    | 117,683                     | -   | 12,068                     | <b>129,751</b>             | 21,771                        | <b>151,522</b>   |
| Project Director   | 5    | 133,624                     | -   | 2,406                      | <b>136,030</b>             | 24,720                        | <b>160,750</b>   |
| Director of Public Health  | 6    | 10,190                      | -   | -                          | <b>10,190</b>              | 1,457                         | <b>11,647</b>  |
| Director of Public Health  | 7    | 4,954                       | -   | -                          | <b>4,954</b>               | 916                           | <b>5,870</b>   |
| Service Director - Local Services  | 8    | 114,680                     | -   | -                          | <b>114,680</b>             | 21,216                        | <b>135,896</b>   |
| Executive Director of Children's Services                                    | 9    | 121,583                     | -   | -                          | <b>121,583</b>             | 22,264                        | <b>143,847</b>   |
| Executive Director of Place  | 10   | 12,629                      | -   | -                          | <b>12,629</b>              | 2,336                         | <b>14,965</b>  |
| Director of International Projects and System Transformation                 | 11   | 145,263                     | -   | -                          | <b>145,263</b>             | 26,646                        | <b>171,909</b>   |
| Executive Director of HR and OD and Deputy Chief Executive                   | 12   | 120,984                     | -   | 15,885                     | <b>136,869</b>             | 17,398                        | <b>154,267</b>   |
| Executive Director of Adult Social Care & Strategic Commissioning            | 13   | 54,793                      | -   | 6,214                      | <b>61,007</b>              | 7,879                         | <b>68,886</b>  |
| Head of Finance, IT and Estates  | 14   | 38,916                      | -   | 4,559                      | <b>43,475</b>              | 5,475                         | <b>48,950</b>  |
| Chief Fire Officer   |      | 114,817                     | -   | -                          | <b>114,817</b>             | 23,314                        | <b>138,131</b>   |

\* Note - The amount included within this column includes the cost of legal fees paid by the Council in connection with the termination of the officer's employment.

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

## Notes to the Accounts

| Note | From      | To        | Post Holder   | Information   |
|------|-----------|-----------|---|---|
| 1    | 01-Apr-17 | 31-May-17 | Chief Executive   | Leaving date 31 May 2017.   |
| 2    | 01-Apr-17 | 31-May-17 | Deputy Chief Executive  | Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation pays 50%, including an International Allowance. Total cost funded by Northumberland County Council is £17,378.            |
|      | 01-Jun-17 | 30-Nov-17 | Interim Chief Executive   | Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation pays 50%, including an International Allowance. Total cost funded by Northumberland County Council is £67,259.            |
|      | 01-Dec-17 | 31-Mar-18 | Chief Executive and Head of Paid Service                            | This post is 0.50 FTE. The Chief Executive also receives an International Allowance paid by Northumberland County Council. Total cost funded by Northumberland County Council £53,738.                            |
| 3    | 01-Apr-17 | 30-Nov-17 | Director of Planning and Economy                                    | Jointly funded Post with North Tyneside Council and Newcastle City Council, each organisation pays 33.3%.   |
|      | 01-Dec-17 | 31-Mar-18 | Service Director – Partnerships and Devolution                      |   |
| 4    | 01-Apr-17 | 31-May-17 | Director of Corporate Resources                                     |   |
|      | 01-Jun-17 | 30-Nov-17 | Director of Corporate Resources and Interim Section 151 Officer     |   |
|      | 01-Dec-17 | 31-Mar-18 | Service Director - Finance and Interim Section 151 Officer          |   |
| 5    | 01-Apr-17 | 31-May-17 | Director of Education and Skills                                    |   |
|      | 01-Jun-17 | 30-Nov-17 | Interim Director of Children's Services                             |   |
|      | 01-Dec-17 | 31-Mar-18 | Project Director  |   |
| 6    | 01-Apr-17 | 09-May-17 | Director of Public Health   | Leaving date 9 May 2017.  |
| 7    | 12-Mar-18 | 31-Mar-18 | Director of Public Health   | New Appointment.  |
| 8    | 01-Apr-17 | 30-Nov-17 | Director of Local Services and Housing Delivery                     |   |
|      | 01-Dec-17 | 31-Mar-18 | Service Director – Local Services                                   |   |
| 9    | 01-Apr-17 | 30-Nov-17 | Service Director - Children's Social Care                           |   |
|      | 01-Dec-17 | 31-Mar-18 | Executive Director of Children's Services                           |   |
| 10   | 26-Feb-18 | 31-Mar-18 | Executive Director of Place   | New Appointment.  |
| 11   | 03-Apr-17 | 31-Mar-18 | Director of International Projects and System Transformation        | Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation pays 50%.   |
| 12   | 01-Apr-17 | 30-Nov-17 | Director of Human Resources   | Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. Salary recharged 100% to Northumberland County Council.   |
|      | 01-Dec-17 | 31-Mar-18 | Executive Director of HR and OD and Deputy Chief Executive.         | Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. Salary recharged 100% to Northumberland County Council.   |
| 13   | 01-Apr-17 | 30-Nov-17 | Director of Adult and Community Care Services                       | Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Employee paid by Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs. |
|      | 01-Dec-17 | 31-Mar-18 | Executive Director of Adult Social Care and Strategic Commissioning | Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Employee paid by Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs. |
| 14   | 01-Apr-17 | 31-Mar-18 | Head of Finance, IT and Estates                                     | Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Employee paid by Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs. |

## Notes to the Accounts

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<br>2017-18 | Number of Compulsory Redundancies<br>2018-19 | Number of Other Departures Agreed<br>2017-18 | Number of Other Departures Agreed<br>2018-19 | Total Number of Exit Packages by cost band<br>2017-18 | Total Number of Exit Packages by cost band<br>2018-19 | Total Cost of Exit packages in each band<br>2017-18<br>£ | Total Cost of Exit packages in each band<br>2018-19<br>£ |
|---|--|--|--|--|---|---|--|--|
| £0 - £20,000  | 91   | 21   | 59   | 53   | 150   | 74  | 758,410  | 495,177  |
| £20,001 - £40,000   | 11   | 2  | 9  | 9  | 20  | 11  | 539,023  | 315,291  |
| £40,001 - £60,000   | -  | -  | 5  | 1  | 5   | 1   | 246,240  | 42,958   |
| £60,001 - £80,000   | -  | -  | 1  | 4  | 1   | 4   | 73,391   | 264,930  |
| £80,001 - £100,000  | -  | -  | 1  | -  | 1   | -   | 81,581   | -  |
| £100,001 - £150,000   | -  | -  | -  | -  | -   | -   | -  | -  |
| £150,001 - £200,000   | -  | -  | -  | -  | -   | -   | -  | -  |
| £200,001 - £250,000   | -  | -  | -  | -  | -   | -   | -  | -  |
| £250,001 - £300,000   | -  | -  | -  | -  | -   | -   | -  | -  |
| £300,001 - £350,000   | -  | -  | -  | -  | -   | -   | -  | -  |
| £350,001 - £400,000   | -  | -  | 1  | -  | 1   | -   | 369,999  | -  |
|   | <b>102</b>                                   | <b>23</b>                                    | <b>76</b>                                    | <b>67</b>                                    | <b>178</b>  | <b>90</b>   | <b>2,068,644</b>   | <b>1,118,356</b>   |
| Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings |  |  |  |  | 97  | 10  | 271,000  | 118,343  |
| <b>Total cost included in Comprehensive Income and Expenditure Statement</b>                        | <b>102</b>                                   | <b>23</b>                                    | <b>76</b>                                    | <b>67</b>                                    | <b>275</b>  | <b>100</b>  | <b>2,339,644</b>   | <b>1,236,699</b>   |

The Council's Comprehensive Income and Expenditure Statement includes a provision for £0.12 million which has been agreed and is payable to 10 officers. These costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement.

## 9. 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:

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| 191             | Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year | 119             |
| 9               | Fees payable to the appointed auditor for the certification of grant claims and returns for the year                           | -               |
| 24              | Fees payable in respect of any other services provided by the appointed auditor during the year                                | 2               |
| <b>224</b>      | <b>Total</b>   | <b>121</b>      |

Note: Fees payable in respect of other services provided by the appointed auditor are in relation to fees paid relating to VAT advice (2017-18 only) and an assurance report for the pooling of housing capital receipts return.

## 10. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Skills Funding Agency (ESFA), 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 2018. 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 2018-19 are as follows:

| Schools' Budget Funded by DSG                  | Central<br>Expenditure<br>£000 | Individual<br>Schools'<br>Budget<br>£000 | Total<br>£000  |
|--|--------------------------------|--|----------------|
| Final DSG for 2018-19                          |                                |  | 232,153        |
| Academy figure recouped for 2018-19            |                                |  | (82,470)       |
| <b>Total DSG after Academy Recoupment</b>      |                                |  | <b>149,683</b> |
| Brought forward from 2017-18                   |                                |  | (2,062)        |
| <b>Agreed budgeted distribution in 2018-19</b> | <b>42,677</b>                  | <b>104,944</b>                           | <b>147,621</b> |
| In Year Adjustments *                          | 221                            | -  | 221            |
| <b>Final Budget Distribution for 2018-19</b>   | <b>42,898</b>                  | <b>104,944</b>                           | <b>147,842</b> |
| Less Actual Central Expenditure                | 44,134                         | -  | 44,134         |
| Less Actual ISB deployed to Schools            | -                              | 104,944                                  | 104,944        |
| <b>Carried forward to 2019-20</b>              | <b>(1,236)</b>                 | <b>-</b>                                 | <b>(1,236)</b> |

\* Note: £221k relates to estimated, additional 2018-19 Early Years block funding due from the Department of Education in June 2019 based upon the January 2019 census.

## 11. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018-19:

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
|                 | Credited to Taxation and Non Specific Grant Income |                 |
|                 | Revenue  |                 |
| 1,528           | Adult Social Care Support Grant                    | 1,593           |
| 5,280           | Business Rates Section 31 Grants                   | 7,991           |
| 855             | Education Services Grant                           | -               |
| 6,463           | Improved Better Care Fund                          | 7,935           |
| 6,213           | New Homes Bonus Grant                              | 5,777           |
| 320             | Other  | 308             |
| 25,714          | Retained Business Rates Top up Grant               | 26,486          |
| 27,799          | Revenue Support Grant                              | 18,990          |
| 1,878           | Rural Services Delivery Grant                      | 2,340           |
| <b>76,050</b>   | <b>Total Revenue</b>                               | <b>71,420</b>   |

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
|                 | Grants Credited to Services:                   |                 |
|                 | Revenue :                                      |                 |
| 81,766          | Council Tax / Housing Benefit Subsidy Grants   | 78,900          |
| 157,846         | Dedicated Schools Grant (DSG)                  | 149,115         |
| 10,678          | Education and Skills Funding Agency (ESFA)     | 9,409           |
| 13,083          | Grants in Support of Individual School Budgets | 13,866          |
| 6,217           | North East Combined Authority Grant            | 6,146           |
| 10,906          | Other Grants                                   | 11,812          |
| 16,654          | Public Health Grant                            | 16,226          |
| 1,260           | Supporting Families Grant                      | 878             |
| 4,760           | The Private Finance Initiative (PFI)           | 4,760           |
| <b>303,170</b>  | <b>Total Revenue Grants</b>                    | <b>291,112</b>  |
|                 | Donations and Contributions                    |                 |
| 4,300           | Contribution from Other Local Authorities      | 4,722           |
| 12,365          | Health Service                                 | 13,153          |
| 6,074           | Other Donations and Contributions              | 5,936           |
| 6,271           | S117 Health Contribution                       | 7,104           |
| <b>29,010</b>   | <b>Total Donations and Contributions</b>       | <b>30,915</b>   |
| <b>332,180</b>  | <b>Total Credited to Services</b>              | <b>322,027</b>  |



## Notes to the Accounts

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
|                 | Capital   |                 |
| 1,209           | Department for Culture, Media and Sport - BDUK Broadband                                | -               |
| 2,744           | Department for Education - Basic Need   | 3,496           |
| 8,686           | Department for Education - Capital Maintenance  | 8,408           |
| -               | Department for Education - Early Years  | 1,886           |
| 2,648           | Department for Education - Kylee House Refurbishment                                    | 215             |
| 2,080           | Department for Transport - Challenge Fund / Masonry Arch Programme                      | 48              |
| -               | Department for Transport - Challenge Fund / Rural Roads                                 | 4,020           |
| 16,998          | Department for Transport - Local Transport Plan   | 26,347          |
| 3,634           | Department for Transport - Pot Hole Grant   | 474             |
| 1,903           | Ministry of Housing, Communities & Local Government (MHCLG) - Disabled Facilities Grant | 2,163           |
| 1,198           | MHCLG - Rural Growth Network Local Growth Fund  | 1,070           |
| 1,633           | North East Combined Authority (NECA) - Integrated Transport                             | -               |
| 2,990           | North East Combined Authority (NECA) - NPIF   | -               |
| 6,061           | Other   | 5,510           |
| <b>51,784</b>   | <b>Total Capital</b>  | <b>53,637</b>   |

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 can require the monies or property to be returned to the Grant Awarding Body. The balances at the year end are as follows:

| 31 March 2018<br>£000 |   | 31 March 2019<br>£000 |
|-----------------------|---|-----------------------|
|                       | Capital Grant Receipts in Advance:                                |                       |
| -                     | Affordable Warmth Solutions - Warm Homes Fund                     | 303                   |
| 1,906                 | Department for Education - Devolved Formula Capital (DFC)         | 2,685                 |
| 1,886                 | Department for Education - Early Years Grant                      | -                     |
| 4,020                 | Department for Transport - Challenge Fund - Rural Roads Programme | -                     |
| -                     | Department for Transport - Pot Hole Grant                         | 900                   |
| -                     | Environment Agency - Seahouses Main Pier Refurbishment            | 425                   |
| 2,141                 | Other   | 1,715                 |
| <b>9,953</b>          | <b>Total Capital Grant Receipts in Advance</b>                    | <b>6,028</b>          |
|                       | Revenue Grant Receipts in Advance:                                |                       |
| -                     | Department of Education   | 66                    |
| -                     | Environment Agency  | 144                   |
| 394                   | Heritage Lottery Fund   | 75                    |
| -                     | Historic England  | 3                     |
| 140                   | Home Office   | 685                   |
| 14                    | Local Government Association                                      | -                     |
| 244                   | MHCLG   | 469                   |
| -                     | National Archives   | 42                    |
| 13                    | North East Migration Partnership                                  | -                     |
| <b>805</b>            | <b>Total Revenue Grant Receipts in Advance</b>                    | <b>1,484</b>          |
| <b>10,758</b>         | <b>Total Receipts in Advance</b>                                  | <b>7,512</b>          |

## 12. 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:

| 2017-18        |              |                     |   | 2018-19         |              |                     |  |
|----------------|--------------|---------------------|---|-----------------|--------------|---------------------|--|
| Income         | Cost         | (Surplus) / Deficit |   | Income          | Cost         | (Surplus) / Deficit |  |
| £000           | £000         | £000                |   | £000            | £000         | £000                |  |
| (1,350)        | 697          | (653)               | Building, Pest Control and Land Charges     | (1,239)         | 793          | (446)               |  |
| (1,041)        | 1,303        | 262                 | Car Parks                                   | (1,225)         | 1,511        | 286                 |  |
| (248)          | 286          | 38                  | Catering                                    | (232)           | 309          | 77                  |  |
| (1,763)        | 933          | (830)               | Cemeteries and Crematorium                  | (1,821)         | 938          | (883)               |  |
| (2,778)        | 2,500        | (278)               | Highways Maintenance                        | (3,429)         | 3,368        | (61)                |  |
| (142)          | 119          | (23)                | Markets                                     | (143)           | 152          | 9                   |  |
| (58)           | 94           | 36                  | Public Buildings available for Private Hire | (134)           | 232          | 98                  |  |
| (1,712)        | 1,555        | (157)               | Trade Waste                                 | (1,858)         | 1,765        | (93)                |  |
| <b>(9,092)</b> | <b>7,487</b> | <b>(1,605)</b>      | <b>Total Trading Operations</b>             | <b>(10,081)</b> | <b>9,068</b> | <b>(1,013)</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.

### 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 115 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.

### Catering

The Council's main restaurant has generated a deficit in the last two financial years. The restaurant operated by the Fire and Rescue Service is subsidised by the service.

### Cemeteries and Crematorium

The service manages 23 cemeteries throughout the County and 1 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 11 locations throughout the County.

## Public Buildings available for Private Hire

The service operates three buildings as wedding venues 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.

## 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.

## Schools' Service Level Agreements

In the addition to the above 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 £7.20 million in 2018-19 (£7.80 million 2017-18). The basis of the majority of these SLA agreements is the recharge of costs incurred; therefore this income has been excluded.

## 13. 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 2018-19 is £56.16 million (£37.15 million 2017-18), calculated as follows:

- £14.48 million (£14.90 million 2017-18) - 'regulatory' and 'asset life' methods from the guidance set;
- £6.91 million (£6.01 million 2017-18) - voluntary set aside;
- £31.51 million (£13.07 million 2017-18) – set aside in relation to capital long term debtors; and,
- £3.26 million (£3.17 million 2017-18) – principal repayment of PFI and finance lease arrangements.

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Notes  
Supporting the  
Movement in  
Reserves  
Statement

## 14. 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.

| 2018-19  | General Fund Balance<br>£000 | Housing Revenue Account<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Major Repairs Reserve<br>£000 | Movement in Unusable Reserves<br>£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  | (43,121)                     | (8,937)                         | -                                | -                                | -                             | 52,058                                |
| Revaluation (losses)/gains on Property Plant and Equipment   | (14,421)                     | 5,920                           | -                                | -                                | -                             | 8,501                                 |
| Movements in the fair value of Investment Properties   | 47                           | 5                               | -                                | -                                | -                             | (52)                                  |
| Amortisation of intangible assets  | (674)                        | -                               | -                                | -                                | -                             | 674                                   |
| Capital grants and contributions applied   | 42,166                       | 200                             | -                                | -                                | -                             | (42,366)                              |
| Revenue expenditure funded from capital under statute  | (12,249)                     | -                               | -                                | -                                | -                             | 12,249                                |
| 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 | (70,808)                     | -                               | -                                | -                                | -                             | 70,808                                |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                              |                                 |                                  |                                  |                               |                                       |
| Statutory provision for the financing of capital investment  | 24,656                       | -                               | -                                | -                                | -                             | (24,656)                              |
| Capital expenditure charged against the General Fund and HRA balances  | 5,945                        | -                               | -                                | -                                | -                             | (5,945)                               |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>   |                              |                                 |                                  |                                  |                               |                                       |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement  | 11,271                       | -                               | -                                | (11,271)                         | -                             | -                                     |
| Application of grants to capital financing transferred to the Capital Adjustment Account   | -                            | -                               | -                                | 5,736                            | -                             | (5,736)                               |
| <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                       | 39,381                       | -                               | (39,381)                         | -                                | -                             | -                                     |
| Use of the Capital Receipts Reserve to finance new capital expenditure   | -                            | -                               | 8,917                            | -                                | -                             | (8,917)                               |
| Voluntary set aside of Capital Receipts to repay debt  | -                            | -                               | 31,508                           | -                                | -                             | (31,508)                              |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals   | (133)                        | -                               | 133                              | -                                | -                             | -                                     |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.  | (1,104)                      | -                               | 1,104                            | -                                | -                             | -                                     |
| Transfer from Deferred Capital Receipts Reserve  | -                            | -                               | (3,101)                          | -                                | -                             | 3,101                                 |

| 2018-19   | General Fund Balance<br>£000 | Housing Revenue Account<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Major Repairs Reserve<br>£000 | Movement in Unusable Reserves<br>£000 |
|---|------------------------------|---------------------------------|----------------------------------|----------------------------------|-------------------------------|---------------------------------------|
| <b>Adjustment primarily involving the Major Repairs Reserve:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Posting of HRA resources from revenue to the Major Repairs Reserve  | -                            | 8,937                           | -                                | -                                | (8,937)                       | -                                     |
| Use of the Major Repairs Reserve to finance new capital expenditure   | -                            | -                               | -                                | -                                | 9,528                         | (9,528)                               |
| <b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements                           | (5,473)                      | -                               | -                                | -                                | -                             | 5,473                                 |
| <b>Adjustments primarily involving the Pensions Reserve:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | (83,101)                     | (3,109)                         | -                                | -                                | -                             | 86,210                                |
| Employer's pension contributions and direct payments to pensioners payable in the year  | 40,531                       | 2,029                           | -                                | -                                | -                             | (42,560)                              |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements                   | (3,439)                      | -                               | -                                | -                                | -                             | 3,439                                 |
| <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 | 794                          | 28                              | -                                | -                                | -                             | (822)                                 |
| <b>Total Adjustments</b>  | <b>(69,732)</b>              | <b>5,073</b>                    | <b>(820)</b>                     | <b>(5,535)</b>                   | <b>591</b>                    | <b>70,423</b>                         |

| 2017-18   | General Fund Balance<br>£000 | Housing Revenue Account<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Major Repairs Reserve<br>£000 | Movement in Unusable Reserves<br>£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   | (38,366)                     | (8,924)                         | -                                | -                                | -                             | 47,290                                |
| Revaluation (losses)/gains on Property Plant and Equipment  | (4,367)                      | 13,087                          | -                                | -                                | -                             | (8,720)                               |
| Movements in the fair value of Investment Properties  | (94)                         | (2)                             | -                                | -                                | -                             | 96                                    |
| Amortisation of intangible assets   | (1,483)                      | -                               | -                                | -                                | -                             | 1,483                                 |
| Capital grants and contributions applied  | 45,479                       | (7)                             | -                                | -                                | -                             | (45,472)                              |
| Revenue expenditure funded from capital under statute   | (15,058)                     | -                               | -                                | -                                | -                             | 15,058                                |
| 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                                    | (31,347)                     | -                               | -                                | -                                | -                             | 31,347                                |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Statutory provision for the financing of capital investment   | 24,083                       | -                               | -                                | -                                | -                             | (24,083)                              |
| Capital expenditure charged against the General Fund and HRA balances   | 1,488                        | -                               | -                                | -                                | -                             | (1,488)                               |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement   | 6,312                        | -                               | -                                | (6,312)                          | -                             | -                                     |
| Application of grants to capital financing transferred to the Capital Adjustment Account  | -                            | -                               | -                                | 4,356                            | -                             | (4,356)                               |
| <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  | 18,332                       | -                               | (18,332)                         | -                                | -                             | -                                     |
| Use of the Capital Receipts Reserve to finance new capital expenditure  | -                            | -                               | 3,479                            | -                                | -                             | (3,479)                               |
| Voluntary set aside of Capital Receipts to repay debt   | -                            | -                               | 13,064                           | -                                | -                             | (13,064)                              |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals  | (204)                        | -                               | 204                              | -                                | -                             | -                                     |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.   | (1,062)                      | -                               | 1,062                            | -                                | -                             | -                                     |
| <b>Adjustment primarily involving the Major Repairs Reserve:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Posting of HRA resources from Revenue to the Major Repairs Reserve  | -                            | 8,924                           | -                                | -                                | (8,924)                       | -                                     |
| Use of the Major Repairs Reserve to finance new capital expenditure   | -                            | -                               | -                                | -                                | 7,586                         | (7,586)                               |
| <b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (395)                        | -                               | -                                | -                                | -                             | 395                                   |



| 2017-18   | General Fund Balance<br>£000 | Housing Revenue Account<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Major Repairs Reserve<br>£000 | Movement in Unusable Reserves<br>£000 |
|---|------------------------------|---------------------------------|----------------------------------|----------------------------------|-------------------------------|---------------------------------------|
| <b>Adjustments primarily involving the Pensions Reserve:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | (52,465)                     | (3,195)                         | -                                | -                                | -                             | 55,660                                |
| Employer's pension contributions and direct payments to pensioners payable in the year  | 38,977                       | 2,153                           | -                                | -                                | -                             | (41,130)                              |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>  |                              |                                 |                                  |                                  |                               |                                       |
| Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements                   | (1,383)                      | -                               | -                                | -                                | -                             | 1,383                                 |
| <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 | (561)                        | (23)                            | -                                | -                                | -                             | 584                                   |
| <b>Total Adjustments</b>  | <b>(12,114)</b>              | <b>12,013</b>                   | <b>(523)</b>                     | <b>(1,956)</b>                   | <b>(1,338)</b>                | <b>3,918</b>                          |

## 15. 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 2018-19.

| 2017-18                |                 |               |                |   |                |                 |               |                | 2018-19 |  |  |  |      |
|------------------------|-----------------|---------------|----------------|---|----------------|-----------------|---------------|----------------|---------|--|--|--|------|
| 1 April 2017           | Transfers Out   | Transfers In  | 31 March 2018  |   | 1 April 2018   | Transfers Out   | Transfers In  | 31 March 2019  |         |  |  |  |      |
| £000                   | £000            | £000          | £000           |   | £000           | £000            | £000          | £000           |         |  |  |  | £000 |
| General Fund Reserves: |                 |               |                |   |                |                 |               |                |         |  |  |  |      |
| 6,588                  | (2,501)         | 948           | 5,035          | Balances held by schools under a scheme of delegation | 5,035          | (743)           | 518           | 4,810          |         |  |  |  |      |
| 1,315                  | (66)            | -             | 1,249          | Community Led Housing                                 | 1,249          | (150)           | -             | 1,099          |         |  |  |  |      |
| -                      | -               | -             | -              | Council Transformation Fund                           | -              | -               | 8,177         | 8,177          |         |  |  |  |      |
| 13,593                 | (1,904)         | 911           | 12,600         | Estates Rationalisation                               | 12,600         | (2,198)         | 1,117         | 11,519         |         |  |  |  |      |
| 28                     | (28)            | -             | -              | Homefinders   | -              | -               | -             | -              |         |  |  |  |      |
| 6,545                  | (4,022)         | 4,704         | 7,227          | Insurance Reserve                                     | 7,227          | (4,070)         | 5,106         | 8,263          |         |  |  |  |      |
| 3,242                  | (676)           | 9,732         | 12,298         | Invest to Save  | 12,298         | (1,514)         | -             | 10,784         |         |  |  |  |      |
| 424                    | -               | -             | 424            | Local Authority Mortgage Scheme                       | 424            | -               | -             | 424            |         |  |  |  |      |
| 4                      | -               | -             | 4              | Market Traders' Levy                                  | 4              | (4)             | -             | -              |         |  |  |  |      |
| 82                     | -               | 1             | 83             | NCC Economic Regeneration Reserve                     | 83             | -               | -             | 83             |         |  |  |  |      |
| -                      | -               | -             | -              | Northumberland Newcastle Rail Line                    | -              | -               | 3,460         | 3,460          |         |  |  |  |      |
| -                      | -               | -             | -              | Northumberland Sport                                  | -              | -               | 355           | 355            |         |  |  |  |      |
| 453                    | -               | -             | 453            | Planning Delivery Grant                               | 453            | -               | -             | 453            |         |  |  |  |      |
| -                      | -               | -             | -              | Regeneration Additional Capacity Reserve              | -              | -               | 660           | 660            |         |  |  |  |      |
| -                      | -               | -             | -              | Regeneration Development Reserve                      | -              | -               | 2,550         | 2,550          |         |  |  |  |      |
| 8,901                  | (7,064)         | 7,470         | 9,307          | Revenue Grants Reserve                                | 9,307          | (9,523)         | 9,437         | 9,221          |         |  |  |  |      |
| 57                     | -               | -             | 57             | Rural Growth Network                                  | 57             | -               | -             | 57             |         |  |  |  |      |
| -                      | -               | -             | -              | School Libraries                                      | -              | -               | 25            | 25             |         |  |  |  |      |
| 4,549                  | (1,044)         | 2,124         | 5,629          | Section 106 Reserve                                   | 5,629          | (2,558)         | 2,743         | 5,814          |         |  |  |  |      |
| 2,500                  | -               | -             | 2,500          | Severe Weather Reserve                                | 2,500          | -               | -             | 2,500          |         |  |  |  |      |
| -                      | -               | -             | -              | Social Fund   | -              | -               | 900           | 900            |         |  |  |  |      |
| -                      | -               | -             | -              | Sports Development                                    | -              | -               | 141           | 141            |         |  |  |  |      |
| 52,164                 | (912)           | 735           | 51,987         | Strategic Management Reserve                          | 51,987         | (5,234)         | -             | 46,753         |         |  |  |  |      |
| -                      | -               | 2,000         | 2,000          | Winter Services Reserve                               | 2,000          | -               | -             | 2,000          |         |  |  |  |      |
| <b>100,445</b>         | <b>(18,217)</b> | <b>28,625</b> | <b>110,853</b> |   | <b>110,853</b> | <b>(25,994)</b> | <b>35,189</b> | <b>120,048</b> |         |  |  |  |      |

| 2017-18   |                 |               |                |                                    |                |                 |               |                | 2018-19 |  |  |  |      |
|---|-----------------|---------------|----------------|------------------------------------|----------------|-----------------|---------------|----------------|---------|--|--|--|------|
| 1 April 2017  | Transfers Out   | Transfers In  | 31 March 2018  |                                    | 1 April 2018   | Transfers Out   | Transfers In  | 31 March 2019  |         |  |  |  |      |
| £000  | £000            | £000          | £000           |                                    | £000           | £000            | £000          | £000           |         |  |  |  | £000 |
| Transferred from the Borough and District Councils: |                 |               |                |                                    |                |                 |               |                |         |  |  |  |      |
| 64  | (11)            | -             | 53             | ADC Parks & Open Spaces            | 53             | (11)            | -             | 42             |         |  |  |  |      |
| 81  | (2)             | -             | 79             | ADC Section 106 Monies             | 79             | (21)            | -             | 58             |         |  |  |  |      |
| <b>145</b>  | <b>(13)</b>     | <b>-</b>      | <b>132</b>     |                                    | <b>132</b>     | <b>(32)</b>     | <b>-</b>      | <b>100</b>     |         |  |  |  |      |
| <b>100,590</b>                                      | <b>(18,230)</b> | <b>28,625</b> | <b>110,985</b> | <b>Total General Fund Reserves</b> | <b>110,985</b> | <b>(26,026)</b> | <b>35,189</b> | <b>120,148</b> |         |  |  |  |      |
| HRA Account Reserves:                               |                 |               |                |                                    |                |                 |               |                |         |  |  |  |      |
| -   | -               | -             | -              | HRA - Capital Investment Reserve   | -              | -               | 2,000         | 2,000          |         |  |  |  |      |
| -   | -               | -             | -              | <b>Total HRA Account Reserves</b>  | -              | -               | <b>2,000</b>  | <b>2,000</b>   |         |  |  |  |      |

## Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £4.81 million includes school balances of £4.50 million (£4.52 million in 2017-18), 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 £0.31 million (£0.52 million in 2017-18). The school balances are made up as follows :

| 31 March 2018<br>£000 |                    | 31 March 2019<br>£000 |
|-----------------------|--------------------|-----------------------|
| 7,155                 | Unspent Balances   | 7,057                 |
| (2,085)               | Overspent Balances | (2,099)               |
| (553)                 | Loans Outstanding  | (454)                 |
| <b>4,517</b>          |                    | <b>4,504</b>          |

The Council has agreed a Loan Scheme to enable First, Middle, High and Special Schools to borrow money from the aggregate balances of delegated budgets. At 31 March 2019 there were 4 loans outstanding of £0.45 million (£0.55 million in 2017-18):

- Swansfield Park Primary School £0.01 million;
- Hipsburn First School £0.02 million;
- Stakeford First School £0.03 million; and,
- Alnwick Duchess High School £0.39 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 house builders 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.

## Council Transformation Fund

This reserve was established to fund projects that will realise the transformation ambitions of the Council.

## Estates Rationalisation

This reserve has been reviewed by the Head of Property Services and Capital Programming and is required to cover the future costs arising from the Council's estates rationalisation programme.

## Homefinders

This reserve was created to fund the development of the Homefinder Service including the management of the Housing Register and Homelessness module. This was fully utilised during 2017-18.

## 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 at 31 March 2019 is £8.26 million (£7.23 million in 2017-18) and is assessed as sufficient to cover unforeseen levels of claim settlements in future years.

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

Additional funds have been provided for in earmarked reserves since 2010-11 to cover potential liabilities arising from the Council's exposure resulting from the deterioration in Municipal Mutual Insurance Limited (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 reserve is now at £0.08 million at 31 March 2019 (note 30).

#### **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 in which business is conducted. This reserve now totals £10.78 million for which £10.00 million is available to fund new projects.

#### **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 participate in 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.

#### **Market Traders' Levy**

This reserve was fully utilised during the year and is no longer required.

#### **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 existing companies, key projects in communities, and, development opportunities for major projects.

It is anticipated that the remaining balance of £0.08 million will be fully utilised during 2019-20.

#### **Northumberland Newcastle Rail Line**

This reserve has been established to fund the feasibility costs of the next stage of the business case.

#### **Northumberland Sport**

Northumberland Sport is hosted by the Council but is governed by an independent Board which operates under agreed Terms of Reference. The hosting arrangements for Northumberland Sport transferred from Active Northumberland on 1 June 2018.

Northumberland Sport is one of 43 active partnerships operating across England which are funded by Sport England, with additional contributions from other agencies, to deliver specific projects through co-ordinated action with local partners linked to national sport policy aims and outcomes.

As at 31 March 2019 the funds held by Northumberland Sport totalled £0.36 million.

#### **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.

#### **Regeneration Additional Capacity Reserve**

This reserve was established to fund additional capacity in regeneration for 3 years from 2018-19.

#### **Regeneration Development Reserve**

This reserve was established to fund the development of priority regeneration and economic growth projects.

#### **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 2019-20.

### **School Libraries**

The responsibility for the School Library service transferred from Active Northumberland to the Council on 1 June 2018. Funds which are not spent in year are held in reserve and are committed to support the future service delivery of school libraries. As at 31 March 2019 the funds held in reserve totalled £0.03 million.

### **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 2018-19 £2.74 million was received from developers with £2.56 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

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caused by incidents such as extreme weather that may occur from time to time.

### **Social Fund**

This reserve was established during 2018-19 to replace the recurrent revenue budget which has funded this service in the past. The reserve represents funds set aside to provide one-off crisis support to families in Northumberland. This can be in the form of Emergency Support where there is an immediate need for items or services as a result of an exceptional event or unforeseen circumstances, or, for transitional support in periods of change, such as helping families remain in the community or move back into the community after a period in supported or unsettled accommodation. As at 31 March 2019 the funds held in reserve totalled £0.90 million.

### **Sports Development**

The responsibility for the Sports Development service transferred from Active Northumberland to the Council on 1 June 2018. Funds which are not spent in year are held in reserve and are committed to support the future service delivery of Sports Development. As at 31 March 2019 the funds held in reserve totalled £0.14 million.

### **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 and £0.74 million was added in 2017-18 following a review of the Estates Rationalisation Provision, with £0.91 million being utilised in the same year following a review of the Estates Rationalisation Reserve.

A total of £5.24 million was utilised in 2018-19 comprising £3.24 million in order to balance the budget as agreed as part of the setting of the 2018-19 budget, and, £2.00 million was set aside to create a Regeneration Development Reserve.

The Council approved the use of £2.10 million of this reserve to fund non-recurrent pressures over the term of the Medium Term Financial Plan 2019-22 at its budget meeting on 20 February 2019.

### **Winter Services Reserve**

This reserve has been created following the severe winter weather encountered during 2017-18.

### **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 2018-19.

### **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 – Earmarked Reserve HRA**

An Earmarked Reserve has been created in line with the HRA budget approved by the Council on 21 February 2018 to fund the development and delivery of a housing development plan.

Movements in the Capital Investment Reserve are detailed in note 10 of the Notes to the Housing Revenue Account Income and Expenditure Statement.

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Notes

Supporting the  
Balance Sheet

## 16. Property, Plant and Equipment

| Movements in 2018-19:  | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets Under Construction<br>£000 | Total Property, Plant and Equipment<br>£000 | PFI Assets Included in Property, Plant and Equipment<br>£000 |
|--|---------------------------|----------------------------------|--|-------------------------------|--------------------------|------------------------|-----------------------------------|---|--|
| Cost or Valuation:   |                           |                                  |  |                               |                          |                        |                                   |   |  |
| <b>At 1 April 2018</b>   | <b>312,464</b>            | <b>497,759</b>                   | <b>149,878</b>                                 | <b>539,426</b>                | <b>9,799</b>             | <b>16,848</b>          | <b>45,228</b>                     | <b>1,571,402</b>                            | <b>109,556</b>   |
| Additions  | 8,758                     | 10,746                           | 12,105   | 32,822                        | 23                       | -                      | 27,887                            | 92,341                                      | 1,583  |
| Reclassifications  | 3,003                     | (432)                            | 57   | 17,237                        | 253                      | 16,316                 | (36,939)                          | (505)                                       | -  |
| Revaluation Increases/(Decreases) recognised in the Revaluation Reserve                          | -                         | 6,559                            | -  | -                             | -                        | (413)                  | -                                 | 6,146                                       | 1,326  |
| Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services | (2,937)                   | (4,708)                          | -  | -                             | -                        | (13,391)               | -                                 | (21,036)                                    | -  |
| De-recognition - Disposals   | (2,097)                   | (34,888)                         | (7,108)  | -                             | (1)                      | (382)                  | (194)                             | (44,670)                                    | -  |
| De-recognition - Other   | -                         | (1,849)                          | -  | -                             | -                        | -                      | -                                 | (1,849)                                     | -  |
| Assets reclassified (to)/from Held for Sale  | -                         | (695)                            | -  | -                             | -                        | (1,097)                | -                                 | (1,792)                                     | -  |
| <b>At 31 March 2019</b>  | <b>319,191</b>            | <b>472,492</b>                   | <b>154,932</b>                                 | <b>589,485</b>                | <b>10,074</b>            | <b>17,881</b>          | <b>35,982</b>                     | <b>1,600,037</b>                            | <b>112,465</b>   |
| Accumulated Depreciation:  |                           |                                  |  |                               |                          |                        |                                   |   |  |
| <b>At 1 April 2018</b>   | <b>-</b>                  | <b>31,569</b>                    | <b>62,263</b>                                  | <b>142,052</b>                | <b>1,676</b>             | <b>-</b>               | <b>-</b>                          | <b>237,560</b>                              | <b>31,311</b>  |
| Depreciation charge  | 8,848                     | 13,933                           | 10,130   | 15,686                        | 122                      | -                      | -                                 | 48,719                                      | 4,796  |
| Reclassifications  | -                         | (1,767)                          | -  | -                             | -                        | 1,767                  | -                                 | -   | -  |
| Depreciation written out to the Revaluation Reserve  | -                         | (4,234)                          | -  | -                             | -                        | (212)                  | -                                 | (4,446)                                     | (3,180)  |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                     | (8,848)                   | (2,220)                          | -  | -                             | -                        | (1,555)                | -                                 | (12,623)                                    | -  |
| De-recognition - Disposals   | -                         | (1,769)                          | (6,565)  | -                             | -                        | -                      | -                                 | (8,334)                                     | -  |
| De-recognition - Other   | -                         | (196)                            | -  | -                             | -                        | -                      | -                                 | (196)                                       | -  |
| <b>At 31 March 2019</b>  | <b>-</b>                  | <b>35,316</b>                    | <b>65,828</b>                                  | <b>157,738</b>                | <b>1,798</b>             | <b>-</b>               | <b>-</b>                          | <b>260,680</b>                              | <b>32,927</b>  |
| Net Book Value:  |                           |                                  |  |                               |                          |                        |                                   |   |  |
| <b>At 31 March 2019</b>  | <b>319,191</b>            | <b>437,176</b>                   | <b>89,104</b>                                  | <b>431,747</b>                | <b>8,276</b>             | <b>17,881</b>          | <b>35,982</b>                     | <b>1,339,357</b>                            | <b>79,538</b>  |
| At 31 March 2018   | 312,464                   | 466,190                          | 87,615   | 397,374                       | 8,123                    | 16,848                 | 45,228                            | 1,333,842                                   | 78,245   |

## Notes to the Accounts

| Movements in 2017-18:  | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets Under Construction<br>£000 | Total Property, Plant and Equipment<br>£000 | PFI Assets Included in Property, Plant and Equipment<br>£000 |
|--|---------------------------|----------------------------------|--|-------------------------------|--------------------------|------------------------|-----------------------------------|---|--|
| Cost or Valuation:   |                           |                                  |  |                               |                          |                        |                                   |   |  |
| <b>At 1 April 2017</b>   | <b>305,301</b>            | <b>481,464</b>                   | <b>145,058</b>                                 | <b>468,379</b>                | <b>9,799</b>             | <b>16,217</b>          | <b>73,534</b>                     | <b>1,499,752</b>                            | <b>107,906</b>   |
| Additions  | 4,504                     | 7,437                            | 5,942  | 29,690                        | -                        | 648                    | 29,265                            | 77,486                                      | 1,650  |
| Reclassifications  | 48                        | 11,607                           | 1,531  | 41,357                        | -                        | 699                    | (55,242)                          | -   | -  |
| Revaluation Increases/(Decreases) recognised in the Revaluation Reserve                          | -                         | 11,741                           | -  | -                             | -                        | (4,719)                | -                                 | 7,022                                       | -  |
| Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services | 4,287                     | (2,752)                          | -  | -                             | -                        | (937)                  | -                                 | 598   | -  |
| De-recognition - Disposals   | (1,676)                   | (9,085)                          | (2,653)  | -                             | -                        | -                      | (2,329)                           | (15,743)                                    | -  |
| De-recognition - Other   | -                         | (2,253)                          | -  | -                             | -                        | -                      | -                                 | (2,253)                                     | -  |
| Assets reclassified (to)/from Held for Sale  | -                         | (400)                            | -  | -                             | -                        | 4,940                  | -                                 | 4,540                                       | -  |
| <b>At 31 March 2018</b>  | <b>312,464</b>            | <b>497,759</b>                   | <b>149,878</b>                                 | <b>539,426</b>                | <b>9,799</b>             | <b>16,848</b>          | <b>45,228</b>                     | <b>1,571,402</b>                            | <b>109,556</b>   |
| Accumulated Depreciation:  |                           |                                  |  |                               |                          |                        |                                   |   |  |
| <b>At 1 April 2017</b>   | <b>-</b>                  | <b>22,042</b>                    | <b>54,535</b>                                  | <b>128,051</b>                | <b>1,548</b>             | <b>-</b>               | <b>-</b>                          | <b>206,176</b>                              | <b>26,862</b>  |
| Depreciation charge  | 8,858                     | 14,256                           | 10,047   | 14,001                        | 128                      | -                      | -                                 | 47,290                                      | 4,449  |
| Reclassifications  | -                         | (108)                            | -  | -                             | -                        | 108                    | -                                 | -   | -  |
| Depreciation written out to the Revaluation Reserve  | -                         | (3,282)                          | -  | -                             | -                        | (55)                   | -                                 | (3,337)                                     | -  |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                     | (8,858)                   | (642)                            | -  | -                             | -                        | (53)                   | -                                 | (9,553)                                     | -  |
| De-recognition - Disposals   | -                         | (489)                            | (2,319)  | -                             | -                        | -                      | -                                 | (2,808)                                     | -  |
| De-recognition - Other   | -                         | (208)                            | -  | -                             | -                        | -                      | -                                 | (208)                                       | -  |
| <b>At 31 March 2018</b>  | <b>-</b>                  | <b>31,569</b>                    | <b>62,263</b>                                  | <b>142,052</b>                | <b>1,676</b>             | <b>-</b>               | <b>-</b>                          | <b>237,560</b>                              | <b>31,311</b>  |
| Net Book Value:  |                           |                                  |  |                               |                          |                        |                                   |   |  |
| <b>At 31 March 2018</b>  | <b>312,464</b>            | <b>466,190</b>                   | <b>87,615</b>                                  | <b>397,374</b>                | <b>8,123</b>             | <b>16,848</b>          | <b>45,228</b>                     | <b>1,333,842</b>                            | <b>78,245</b>  |
| At 31 March 2017   | 305,301                   | 459,422                          | 90,523   | 340,328                       | 8,251                    | 16,217                 | 73,534                            | 1,293,576                                   | 81,044   |

## Notes to the Accounts

### Valuation of Fixed Assets

Land and buildings are revalued according to a 5 year rolling programme, at 1 April. In addition to this, valuations are carried out on assets which have had a material change in year, that is, if assets have had additions of over £1.00 million or have a new build cost in excess of £2.50 million. Material change valuations are dated 31 March.

Surplus Properties were valued at 31 December 2018.

The valuation work has been undertaken by BNP Paribas Real Estate UK, One Trinity Gardens Broad Chare, Newcastle upon Tyne, NE1 2HF.

The valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors, RICS Valuation - Professional Standards 2014, (the "Red Book").

The sources of information and assumptions made in producing the individual property valuations are set out in the valuation report.

In addition to carrying out valuations on the selected properties, this firm 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 2018-19.

### Valuation of Fixed Assets Carried at Current Value

Of the Property, Plant and Equipment not held at cost on the Balance Sheet, 54% was valued in year. Those properties which have not been valued in this financial year were valued as at the date of the last valuation report.

The following statement shows the current net book value of the Council's Property, Plant and Equipment by financial year of revaluation.

|                             | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets *<br>£000 | Surplus Assets<br>£000 | Assets Under Construction<br>£000 | Total<br>£000    |
|-----------------------------|---------------------------|----------------------------------|--|-------------------------------|----------------------------|------------------------|-----------------------------------|------------------|
| Valued at Historical Cost   | -                         | 21,813                           | 89,104   | 431,747                       | 8,276                      | -                      | 35,982                            | 586,922          |
| Valued at Current Value in: |                           |                                  |  |                               |                            |                        |                                   |                  |
| 2018-19                     | 319,191                   | 82,332                           | -  | -                             | -                          | 17,881                 | -                                 | 419,404          |
| 2017-18                     | -                         | 52,085                           | -  | -                             | -                          | -                      | -                                 | 52,085           |
| 2016-17                     | -                         | 155,702                          | -  | -                             | -                          | -                      | -                                 | 155,702          |
| 2015-16                     | -                         | 73,409                           | -  | -                             | -                          | -                      | -                                 | 73,409           |
| 2014-15                     | -                         | 51,835                           | -  | -                             | -                          | -                      | -                                 | 51,835           |
| <b>Total</b>                | <b>319,191</b>            | <b>437,176</b>                   | <b>89,104</b>                                  | <b>431,747</b>                | <b>8,276</b>               | <b>17,881</b>          | <b>35,982</b>                     | <b>1,339,357</b> |

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

## 17. 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:

| 2017-18<br>£000   | 2018-19<br>£000 |
|---|-----------------|
| (42) Rental income from investment property                   | (21)            |
| 10 Direct operating expenses arising from investment property | 11              |
| <b>(32) Net Gain</b>  | <b>(10)</b>     |

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 of disposal. The Council has no contractual obligation 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:

| 2017-18<br>£000                                     | 2018-19<br>£000 |
|---|-----------------|
| 1,575 Balance at the start of the year              | 1,479           |
| - Assets reclassified (to)/from Held For Sale       | -               |
| - Disposals   | -               |
| (96) Net (losses)/gains from fair value adjustments | 52              |
| <b>1,479 Balance at the end of the year</b>         | <b>1,531</b>    |

### Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see accounting policies 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 at 31 December 2018 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 BNP Paribas Real Estate UK, the Council's valuing agents.

## 18. Heritage Assets

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

|   | Museum, Art<br>and Artefact<br>Collection<br>£000 | Public<br>Sculptures and<br>Memorials<br>£000 | Historic<br>Buildings<br>£000 | Total<br>£000 |
|---|---|---|-------------------------------|---------------|
| Cost or Valuation:                        |   |   |                               |               |
| <b>As at 1 April 2018</b>                 | <b>5,452</b>                                      | <b>1,276</b>                                  | <b>950</b>                    | <b>7,678</b>  |
| Additions                                 | -   | 50  | 1                             | 51            |
| Reclassifications                         | -   | -   | 119                           | 119           |
| <b>As at 31 March 2019</b>                | <b>5,452</b>                                      | <b>1,326</b>                                  | <b>1,070</b>                  | <b>7,848</b>  |
| Accumulated Depreciation and Impairment : |   |   |                               |               |
| As at 1 April 2018                        | -   | 52  | 23                            | 75            |
| <b>As at 31 March 2019</b>                | <b>-</b>  | <b>52</b>                                     | <b>23</b>                     | <b>75</b>     |
| <b>Net Book Value 31 March 2019</b>       | <b>5,452</b>                                      | <b>1,274</b>                                  | <b>1,047</b>                  | <b>7,773</b>  |
| Net Book Value 31 March 2018              | 5,452   | 1,224   | 927                           | 7,603         |

### 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, which is periodically reviewed the last time being three years ago.

The museum collections are all on loan to the Woodhorn Trust and include the collections from:

Woodhorn Museum; the Berwick Museum and Art Gallery; and the Hexham Old Gaol.

The archive collection is split between Woodhorn and Berwick-upon-Tweed Records Office. Further details can be found on the Woodhorn Museum website [www.experiencewoodhorn.com](http://www.experiencewoodhorn.com).

The Art collection includes oil paintings on display in public libraries. These were last valued by fine art auctioneers Anderson & Garland as at 1 April 2012.

### Public Sculptures and Memorials

Carried at cost on the Balance Sheet, the Council is custodian of Public Art much of which is the result of the Inspire Initiative established in 2003.

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 National 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 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. They are carried at cost on the Balance Sheet and include Blyth Battery and Morpeth Clock Tower.

The County Historic Environment Record (HER) database holds records of all of the historic buildings within the County. The majority of historic buildings owned by the Council are in operational use and are therefore included in the main Property Plant and Equipment section of the Balance sheet.

### Archaeology

The Council owns the County Historic Environment Record (HER) which is a database and associated GIS data sets, which records all known archaeology sites and historic buildings within the County including Northumberland National Park. This is a public information service and can be found on the Archaeology Data Service website (<http://ads.ahds.ac.uk/catalogue>) and a shortened version is available on the Keys to the Past website ([www.keystothepast.info](http://www.keystothepast.info)).

This is not recognised on the Balance sheet.

## 19. 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.

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| <b>922,831</b>  | <b>Opening Capital Financing Requirement</b>   | <b>951,984</b>  |
|                 | Capital Investment:  |                 |
| 75,850          | Property, Plant and Equipment  | 91,136          |
| 36,123          | Capital Long Term Debtors  | 27,909          |
| -               | Advance Northumberland Share Capital   | 4,338           |
| 1,650           | PFI / Finance Lease Additions  | 1,583           |
| 15,058          | Revenue Expenditure Funded From Capital under Statute (REFCUS)                         | 12,249          |
|                 | Sources of Finance:  |                 |
| (3,479)         | Capital receipts   | (8,917)         |
| (49,828)        | Government grants and other contributions  | (48,102)        |
|                 | Sums set aside from revenue/Major Repairs Reserve:                                     |                 |
| (7,586)         | Major Repairs Reserve  | (9,528)         |
| (1,488)         | Direct revenue contributions   | (5,945)         |
| (13,064)        | Capital Long Term Debtors Amortisation   | (31,508)        |
| (24,083)        | Minimum Revenue Provision  | (24,656)        |
| <b>951,984</b>  | <b>Closing Capital Financing Requirement</b>   | <b>960,543</b>  |
|                 | Explanation of movements in year:  |                 |
| 64,650          | Increase in underlying need to borrow (unsupported by government financial assistance) | 63,140          |
| (37,147)        | Minimum Revenue Provision  | (56,164)        |
| 1,650           | Assets acquired under PFI / PPP contracts  | 1,583           |
| <b>29,153</b>   | <b>Increase in Capital Financing Requirement</b>                                       | <b>8,559</b>    |

## 20. 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:

| Estimated Useful life | Asset  |
|-----------------------|--|
| 5 years               | Applications Software                                  |
| 5 years               | Library Management System & Housing Management System  |
| 5 years               | Fire Service call taking and mobilising system         |
| 3 years               | Vehicle Tracking System & Parking Enforcement Software |

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.67 million was charged to revenue in 2018-19.

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

| 2017-18                          |              |   | 2018-19                          |              |
|----------------------------------|--------------|---|----------------------------------|--------------|
| Total Intangible Assets (Other)* |              |   | Total Intangible Assets (Other)* |              |
| Current                          | Long Term    |   | Current                          | Long Term    |
| £000                             | £000         |   | £000                             | £000         |
| Balance at start of year:        |              |   |                                  |              |
| 442                              | 6,679        | Gross carrying amounts                          | 113                              | 6,561        |
| -                                | (3,359)      | Accumulated amortisation                        | -                                | (4,711)      |
| <b>442</b>                       | <b>3,320</b> | <b>Net carrying amount at the start of year</b> | <b>113</b>                       | <b>1,850</b> |
| Additions:                       |              |   |                                  |              |
| -                                | 13           | - Purchases                                     | -                                | 327          |
| (329)                            | -            | Revaluations increase or decreases              | -                                | 386          |
| -                                | (131)        | Other Disposals - cost                          | -                                | (968)        |
| -                                | 131          | Other Disposals - amortisation                  | -                                | 968          |
| -                                | (1,483)      | Amortisation for the period                     | -                                | (674)        |
| <b>113</b>                       | <b>1,850</b> | <b>Net carrying amount at the end of year</b>   | <b>113</b>                       | <b>1,889</b> |
| Comprising:                      |              |   |                                  |              |
| 113                              | 6,561        | Gross carrying amounts                          | 113                              | 6,306        |
| -                                | (4,711)      | Accumulated amortisation                        | -                                | (4,417)      |
| <b>113</b>                       | <b>1,850</b> |   | <b>113</b>                       | <b>1,889</b> |

\*Note - The Council has no internally generated assets.



## 21. Financial Instruments

### Categories of Financial Instruments

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

| 31 March 2018  |               |               |                | 31 March 2019 |               |               |                |
|--|---------------|---------------|----------------|---------------|---------------|---------------|----------------|
| Current  |               | Long Term     |                | Current       |               | Long Term     |                |
| Investments  | Debtors       | Investments   | Debtors        | Investments   | Debtors       | Investments   | Debtors        |
| £000   | £000          | £000          | £000           | £000          | £000          | £000          | £000           |
| Amortised Cost:  |               |               |                |               |               |               |                |
| 65,000   | 66,590        | 33,251        | 417,132        | -             | 70,424        | 33,250        | 135,966        |
| 513  | -             | -             | -              | 272           | -             | -             | -              |
| <b>65,513</b>  | <b>66,590</b> | <b>33,251</b> | <b>417,132</b> | <b>272</b>    | <b>70,424</b> | <b>33,250</b> | <b>135,966</b> |
| Fair value through other comprehensive income - designated equity Instruments (ii) |               |               |                |               |               |               |                |
| -  | -             | 16,739        | -              | -             | -             | 13,527        | -              |
| <b>65,513</b>  | <b>66,590</b> | <b>49,990</b> | <b>417,132</b> | <b>272</b>    | <b>70,424</b> | <b>46,777</b> | <b>135,966</b> |
| -  | -             | -             | -              | -             | 9,285         | 4,338         | 276,119        |
| <b>65,513</b>  | <b>66,590</b> | <b>49,990</b> | <b>417,132</b> | <b>272</b>    | <b>79,709</b> | <b>51,115</b> | <b>412,085</b> |

The above note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting. (i) 'Loans and receivables at amortised costs' are now referred to as 'financial assets measured at amortised cost'; and (ii) those previously identified as 'Available-for-sale financial assets' and 'Unquoted equity investment at cost' are now 'fair value through other comprehensive income – designated equity instruments'.



## Notes to the Accounts

### Investments in equity instruments designated at fair value through other comprehensive income

With the introduction of IFRS 9, the Authority has designated the following equity at 31 March 2019 as fair value through other comprehensive income:

|                   | Nominal Value<br>£000 | Fair Value<br>31 March 2019<br>£000 | Movement in<br>Fair Value<br>during 2018-19<br>£000 |
|-------------------|-----------------------|-------------------------------------|---|
| Newcastle Airport | 295                   | 13,527                              | 127   |

### 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  | Term<br>(Years) | Contracted<br>Rate<br>% | Fair Value<br>Rate<br>% | Opening<br>Balance<br>(Fair Value)<br>1 April 2018<br>£000 | New<br>Advances in<br>Year<br>£000 | Fair Value<br>adjustment<br>on initial<br>recognition<br>£000 | Loans<br>Repaid<br>£000 | Increase in<br>discounted<br>amount<br>£000 | Closing<br>Balance<br>(Fair Value)<br>31 March 2019<br>£000 | Closing<br>Balance<br>(Nominal)<br>31 March 2019<br>£000 |
|---|-----------------|-------------------------|-------------------------|--|------------------------------------|---|-------------------------|---|---|--|
| Berwick Core - Solar Panels   | 9               | 4.00                    | 9.34                    | 25   | -                                  | -   | (13)                    | 2   | 14  | 15   |
| Northumberland Aged Miners Housing Association - Solar Panels                 | 20              | 3.54                    | 5.87                    | 1,664  | -                                  | -   | (113)                   | 27  | 1,578   | 1,830  |
| Northumbria Healthcare NHS Foundation Trust - Local Government Pension Scheme | 15              | 1.50                    | 5.00                    | 1,823  | -                                  | -   | (650)                   | 68  | 1,241   | 1,407  |
| The Maltings - LED Technologies Investment                                    | 10              | 3.87                    | 5.85                    | 122  | -                                  | -   | (26)                    | 6   | 102   | 109  |

\*Note - The Council applies a de minimis level of £25,000 for new soft loans adjustments.

### 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.

### Loans to Other Organisations

In addition to the above, the following loans were made 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<br>Value Rate | New Advances in<br>Year<br>£000 |
|--------------------------------|--------------------|-----------------|-----------------------------|---------------------------------|
| Advance Northumberland Limited | Property Purchases | 3.54%           | 2.92%                       | 27,749                          |

## Notes to the Accounts

### 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:

| 2017-18  |   |   |                 |  | 2018-19  |  |   |                 |  |
|--|---|---|-----------------|--|--|--|---|-----------------|--|
| Financial Liabilities measured at Amortised Cost<br>£000 | Financial Assets at Amortised Cost<br>(i)<br>£000 | Investments in equity instruments designated as fair value through other comprehensive income (i)<br>£000 | Total<br>£000   |  | Financial Liabilities measured at Amortised Cost<br>£000 | Financial Assets at Amortised Cost<br>£000 | Investments in equity instruments designated as fair value through other comprehensive income<br>£000 | Total<br>£000   |  |
| (30,052)   | -   | -   | (30,052)        | Interest expense   | (27,895)   | -  | -   | (27,895)        |  |
| (43)   | -   | -   | (43)            | Fee Expense  | (113)  | -  | -   | (113)           |  |
| <b>(30,095)</b>  | -   | -   | <b>(30,095)</b> | <b>Total expense in surplus or deficit on the provision of services</b>                                    | <b>(28,008)</b>  | -  | -   | <b>(28,008)</b> |  |
| -  | 23,939  | 14  | <b>23,953</b>   | Interest income  | -  | 26,966                                     | -   | <b>26,966</b>   |  |
| -  | <b>23,939</b>                                     | <b>14</b>   | <b>23,953</b>   | <b>Total income in surplus or deficit on the provision of services</b>                                     | -  | <b>26,966</b>                              | -   | <b>26,966</b>   |  |
| -  | -   | (12)  | (12)            | Gain/(Loss) on Revaluation   | -  | -  | 127   | 127             |  |
| -  | -   | (12)  | (12)            | Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure | -  | -  | 127   | 127             |  |
| <b>(30,095)</b>  | <b>23,939</b>                                     | <b>2</b>  | <b>(6,154)</b>  | <b>Net gain/(loss) for the year</b>  | <b>(28,008)</b>  | <b>26,966</b>                              | <b>127</b>  | <b>(915)</b>    |  |

The above note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting. (i) Items previously categorised as 'Financial assets: Loans and Receivable' are now referred to 'Financial assets at amortised cost', and 'Financial assets: Available for Sale' and now referred to as 'Investments in equity instruments designated as fair value through other comprehensive income.'

## Notes to the Accounts

### 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.

| 31 March 2018<br>Fair Value<br>£000 | Recurring Fair Value Measurements  | Input Level in Fair<br>Value Hierarchy | Valuation technique used to measure fair value   | 31 March 2019<br>Fair Value<br>£000 |
|-------------------------------------|--|--|--|-------------------------------------|
| 13,399                              | Equity shareholding in Newcastle Airport Local Authority Holding Company Limited | Level 3                                | Combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations. | 13,527                              |
| -                                   | Unquoted equity investment at cost Advance Northumberland Ltd                    | Level 3                                | Equity shares with no quoted market prices   | 4,338                               |
| 3,340                               | Unquoted equity investment at cost Arch Corporate Holdings Ltd                   | Level 3                                | Equity shares with no quoted market prices   | -                                   |
| <b>16,739</b>                       |  | <b>Total Liabilities</b>               |  | <b>17,865</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 Related Parties note 37. The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation.

The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS 13 and IFRS 9. This represents a change from previous years where the value was based on the last active trading of shares in 2012.

Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares next year.

Arch (Corporate Holdings) Limited 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 owned 100% of the called up shares of Arch (Corporate Holdings) Limited - each with a nominal value of £1 each. During November 2018 the called up share capital of Arch (Corporate Holdings) Limited reduced from £3,340,102 to £300 following the cancellation and extinguishment of 3,339,802 £1 ordinary shares. The amount by which the share capital reduced was credited to a reserve.

All assets, liabilities and shares of the Arch Group were transferred to Advance Northumberland Limited on the 13 November 2018.

The Council owns the called-up share in Advance Northumberland Limited with a nominal value of £1. This was purchased, at a premium, for £4,337,840. The premium was to acquire the investments in all of the other subsidiaries and the retained earnings (Profit & Loss reserve) of Arch (Corporate Holdings) Limited, which is now a merger reserve within Advance Northumberland Limited.

The Advance Group brings together services in housing, commercial property, regeneration and business growth.

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

## Notes to the Accounts

### 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;
- 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; and,
- 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 2018   |                  |                                    | 31 March 2019   |                  |
|-----------------|------------------|------------------------------------|-----------------|------------------|
| Carrying Amount | Fair Value       |                                    | Carrying Amount | Fair Value       |
| £000            | £000             |                                    | £000            | £000             |
| 256,776         | 393,428          | PWLB - Maturity                    | 321,862         | 482,418          |
| 701             | 1,202            | PWLB - Annuity                     | 675             | 1,153            |
| 39,279          | 40,910           | PWLB - EIP                         | 30,722          | 31,937           |
| 211,362         | 336,333          | LOBOs                              | 178,190         | 352,452          |
| 10,465          | 10,465           | Cash Overdrawn                     | 12,897          | 12,897           |
| 268,605         | 402,043          | Market Loans                       | 204,381         | 273,253          |
| 9,953           | 9,953            | Long-Term Creditors                | 6,028           | 6,028            |
| <b>797,141</b>  | <b>1,194,334</b> | <b>Total Financial Liabilities</b> | <b>754,755</b>  | <b>1,160,138</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 at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

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.

| 31 March 2018   |                |                               | 31 March 2019   |                |
|-----------------|----------------|-------------------------------|-----------------|----------------|
| Carrying Amount | Fair Value     |                               | Carrying Amount | Fair Value     |
| £000            | £000           |                               | £000            | £000           |
| 54,202          | 54,202         | Cash and Cash Equivalents     | 64,690          | 64,690         |
| 65,513          | 65,513         | Short Term Investments        | 272             | 272            |
| 49,990          | 52,415         | Long Term Investments         | 46,777          | 53,540         |
| 417,132         | 417,132        | Long Term Debtors             | 135,966         | 135,966        |
| <b>586,837</b>  | <b>589,262</b> | <b>Total Financial Assets</b> | <b>247,705</b>  | <b>254,468</b> |

## 22. 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; and,
- 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 sets out the limits for investments.

### Specified Investments

| Type of Organisation  | Minimum Credit Rating Criteria |        | Maximum Investment Amount   | Maximum Period of Investment |
|---|--------------------------------|--------|-----------------------------|------------------------------|
|   | Fitch                          | Moody  |                             |                              |
| UK Local Authorities (Including the North East Combined Authority)  | 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<br>(Group Limit £70m)  | 12 months                    |
| Money Market Funds  | AAA                            | Aaa    | £25m<br>(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 | £25m<br>(Group Limit £50m)  | 12 months                    |
| High Upper Medium Grade UK Clearing Banks/ Building Societies   | ST:F1                          | ST:P-1 | £15m<br>(Group Limit £30m)  | 12 months                    |
| High Grade Foreign Banks  | ST:F1                          | ST:P-1 | £10m<br>(Group Limit £30m)  | 6 months                     |

## Notes to the Accounts

### Non-specified Investments

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

| Type of Organisation   | Minimum Credit Rating Criteria |         | Maximum Investment Amount     | Maximum Period of Investment |
|--|--------------------------------|---------|-------------------------------|------------------------------|
|  | Fitch                          | Moody   |                               |                              |
| UK Local Authorities (Including the North East Combined Authority)           | 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  | £10m per institution          | 5 Years                      |
|  | LT:A-                          | LT:A3   |                               |                              |
| Deposits or Corporate Bonds with institutions which meet the rating criteria | ST:F2                          | ST:P-2  | £5m per institution           | 12 months                    |
|  | LT:A-                          | LT:A3   |                               |                              |
| 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                     |

### Amounts Arising from Expected Credit Losses

Allowances for impairment losses have been assessed for amortised cost assets (including long term debtors), applying the expected credit losses model. It has been concluded that the expected credit losses are either not material or that the cash flows from the sale of collateral held would negate any such losses. As a result, no allowances for expected credit losses have been made.

Loans to the Council's wholly owned subsidiary, Advance Northumberland Limited, are excluded from the requirements of financial instruments (and therefore the above assessment) as they are covered by more specific provisions about their recognition, measurement and disclosure within the authority's group accounts. A summary of the credit quality of the Council's investments at 31 March 2019 is shown on the next page, along with the potential maximum exposure to credit risk, based on experience of default or collectability.



## Notes to the Accounts

### Customer Debt

The Council has £9.55 million (2017-18 £4.29 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

| 31 March 2018 |                        | 31 March 2019 |
|---------------|------------------------|---------------|
| £000          |                        | £000          |
| 1,830         | Less than three months | 4,329         |
| 769           | Three to six months    | 2,746         |
| 434           | Six months to one year | 887           |
| 1,256         | More than one year     | 1,586         |
| <b>4,289</b>  | <b>Total</b>           | <b>9,548</b>  |

At 31 March 2019 the Council held a provision of £0.59 million (2017-18 £0.46 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 three external employers participating in the Local Government Pension Scheme. Three formal agreements are in place in respect of Queens Hall Arts, The Association of North East Councils and Active Northumberland, but the risk of the guarantees 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 borrow 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:

| 31 March 2018                 |                          | 31 March 2019  |
|-------------------------------|--------------------------|----------------|
| £000                          |                          | £000           |
| Analysis by Loan Type         |                          |                |
| 275,125                       | Public Works Loans Board | 316,617        |
| 178,150                       | Other Market Loans       | 165,137        |
| 209,500                       | LOBO (Market Loans)      | 176,500        |
| <b>662,775</b>                |                          | <b>658,254</b> |
| Analysis of Loans by Maturity |                          |                |
| -                             | Less than 1 year         | -              |
| 51,521                        | Between 1 and 2 years    | 99,522         |
| 109,565                       | Between 2 and 5 years    | 16,563         |
| 5,861                         | Between 5 and 10 years   | 29,374         |
| 19,906                        | Between 10 and 20 years  | 1,822          |
| 12,110                        | Between 20 and 30 years  | 12,077         |
| 70,212                        | Between 30 and 40 years  | 70,296         |
| 229,600                       | Between 40 and 50 years  | 279,600        |
| 149,000                       | Between 50 and 60 years  | 149,000        |
| 15,000                        | In excess of 60 years    | -              |
| <b>662,775</b>                |                          | <b>658,254</b> |

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

## Notes to the Accounts

### 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; and,
- 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 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 at 31 March 2019 with all other variables held constant, the effect would have been:

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|  | 31 March 2019<br>£000 |
|--|-----------------------|
| Increase in Interest Payable on Variable Rate Borrowings           | 980                   |
| Increase in Interest Receivable on Variable Rate Investments       | (1,112)               |
| Increase in Government Grant receivable for financing costs        | (5,620)               |
| <b>Impact on (Surplus) or Deficit on the Provision of Services</b> | <b>(5,752)</b>        |
| Decrease in Fair Value of fixed rate borrowing (no impact on CIES) | (223,241)             |

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 £78.00 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. If a loan were called, the Council would be exposed to a potential change in interest rate. The Council also took out £20.00 million of short term borrowing in 2018-19 which will mature within 1 year.

### Market Risk – Price Risk

The Council does not invest in equity shares but does have shareholdings in Newcastle Airport Local Authority Holding Company, Arch (Corporate Holdings) Limited and Advance Northumberland Limited. Further information on these shareholdings is contained in Note 37 Related Parties.

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 "Fair Value through other Comprehensive Income" and are included at fair value. The shares in Arch (Corporate Holdings) Limited and Advance Northumberland Limited are included at historic cost.

## 23. Leases

### Council as Lessee

#### Finance Leases

The Council had a number of vehicles and firefighting equipment under finance leases, all of which have come to an end.

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

| 31 March 2018                               | 31 March 2019 |
|---|---------------|
| £000  | £000          |
| 22 Vehicles, Plant, Furniture and Equipment | -             |

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

| 31 March 2018  | 31 March 2019 |
|--|---------------|
| £000   | £000          |
| Finance lease liabilities (net present value of minimum lease payments): |               |
| 22 Current   | -             |
| - Finance costs payable in future years                                  | -             |
| <b>22 Minimum lease payments</b>   | <b>-</b>      |

The minimum lease payments were payable over the following periods:

| Minimum Lease Payments | Finance Lease Liabilities  | Minimum Lease Payments | Finance Lease Liabilities |
|------------------------|----------------------------|------------------------|---------------------------|
| 31 March 2018          | 31 March 2018              | 31 March 2019          | 31 March 2019             |
| £000                   | £000                       | £000                   | £000                      |
| 22                     | 22 Not later than one year | -                      | -                         |
| <b>22</b>              | <b>22</b>                  | <b>-</b>               | <b>-</b>                  |

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

### Council as Lessee

#### 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 6 years.

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

| 31 March 2018   | 31 March 2019 |
|---|---------------|
| £000  | £000          |
| 1,024 Not later than one year                           | 911           |
| 1,461 Later than one year and not later than five years | 1,113         |
| 383 Later than five years                               | 295           |
| <b>2,868</b>  | <b>2,319</b>  |

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

| 31 March 2018                | 31 March 2019 |
|------------------------------|---------------|
| £000                         | £000          |
| 1,981 Minimum lease payments | 1,682         |

## Notes to the Accounts

### Council as Lessor Finance Leases

| 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 | -                |

There are no lease payments received for the above properties.

In addition to the above, schools previously controlled by the Local Authority which have converted to Academy Schools are now on 125 year leases.

### Operating Leases

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

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

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

| 31 March 2018<br>£000 |   | 31 March 2019<br>£000 |
|-----------------------|---|-----------------------|
| 552                   | Not later than one year                           | 533                   |
| 439                   | Later than one year and not later than five years | 374                   |
| 199                   | Later than five years                             | 175                   |
| <b>1,190</b>          |   | <b>1,082</b>          |

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.

## 24. Debtors

| 31 March 2018  |  | 31 March 2019  |
|----------------|--|----------------|
| £000           |  | £000           |
|                | Short Term:  |                |
| 15,685         | Central government bodies  | 20,654         |
| 10,390         | NHS Bodies   | 8,518          |
| 39,023         | Other entities and individuals   | 41,769         |
| 4,309          | Other local authorities  | 5,580          |
| 5,493          | Public corporations and trading funds  | 3,188          |
| <b>74,900</b>  | <b>Total Short Term</b>  | <b>79,709</b>  |
|                | Long Term:   |                |
| -              | Advance Northumberland Commercial  | 192,195        |
| -              | Advance Northumberland Development   | 35,044         |
| -              | Advance Northumberland Housing   | 38,390         |
| -              | Advance Northumberland Housing - Executive                                     | 10,489         |
| 9,519          | ARCH Loan - Assets Tranche 1   | -              |
| 182,845        | ARCH Loan - Other Commercial Properties  | -              |
| 36,974         | ARCH Loan - Development Projects   | -              |
| 32,673         | ARCH Loan - Housing  | -              |
| 11,742         | ARCH Loan - Executive Housing  | -              |
| 11,916         | NCC - Airport Loan Notes   | 10,888         |
|                | Northumberland Aged Miners Housing Association - Solar Panel Loan              | 1,465          |
| 1,390          |  | 1,465          |
| 1,455          | Northumberland College   | 1,082          |
| 6,013          | Northumberland College Loan 2014   | 5,688          |
| 21,000         | Northumbria Healthcare NHS Foundation Trust Berwick Hospital Loan              | 21,000         |
| 10,000         | Northumbria Healthcare NHS Foundation Trust Cramlington Capital Equipment Loan | 10,000         |
| 89,036         | Northumbria Healthcare NHS Foundation Trust Hexham Hospital Loan               | 83,468         |
| 1,173          | Northumbria Healthcare NHS Foundation Trust LGPS Loan                          | 1,020          |
| 1,396          | Other Loans  | 1,356          |
| <b>417,132</b> | <b>Total Long Term</b>   | <b>412,085</b> |
| <b>492,032</b> | <b>Total Debtors</b>   | <b>491,794</b> |

## 25. Cash and Cash Equivalents

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

| 31 March 2018 |  | 31 March 2019 |
|---------------|--|---------------|
| £000          |  | £000          |
| 54,202        | Cash and Cash Equivalents              | 64,690        |
| (10,465)      | Bank overdraft                         | (12,897)      |
| <b>43,737</b> | <b>Total Cash and Cash Equivalents</b> | <b>51,793</b> |

## 26. Assets Held for Sale

| Current       | Non Current |   | Current      | Non Current |
|---------------|-------------|---|--------------|-------------|
| 2017-18       | 2017-18     |   | 2018-19      | 2018-19     |
| £000          | £000        |   | £000         | £000        |
| <b>15,737</b> | <b>415</b>  | <b>Balance at 1 April</b>                 | <b>7,238</b> | <b>430</b>  |
|               |             | Assets newly classified as held for sale: |              |             |
| 450           | -           | Property, Plant and Equipment             | 2,807        | -           |
| (1,511)       | -           | Revaluation losses                        | (163)        | -           |
| 65            | 15          | Revaluation gains                         | 76           | -           |
|               |             | Assets declassified as held for sale:     |              |             |
| (4,990)       | -           | Property, Plant and Equipment             | (1,015)      | -           |
| (2,513)       | -           | Assets sold                               | (1,298)      | -           |
| <b>7,238</b>  | <b>430</b>  | <b>Balance at 31 March</b>                | <b>7,645</b> | <b>430</b>  |

## 27. 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 2018   |                                      | 31 March 2019   |
|-----------------|--------------------------------------|-----------------|
| £000            |                                      | £000            |
|                 | Long term finance lease liability:   |                 |
| (54,296)        | Waste PFI                            | (53,349)        |
| (11,375)        | Fire PFI                             | (11,059)        |
| <b>(65,671)</b> | <b>Total Finance Lease Liability</b> | <b>(64,408)</b> |
|                 | Long term deferred credits:          |                 |
| (10,674)        | Waste PFI                            | (10,007)        |
| <b>(10,674)</b> | <b>Total Deferred Credits</b>        | <b>(10,007)</b> |
| <b>(76,345)</b> | <b>Total Long Term Creditors</b>     | <b>(74,415)</b> |

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

### Waste PFI

2018-19 was the twelfth 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 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.

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

## Notes to the Accounts

The figures below provide information on the movement of the Waste PFI assets held on the Council's Balance Sheet during 2018-19:

|  | 2017-18<br>£000 | 2018-19<br>Plant Shell<br>£000 | 2018-19<br>Project Assets<br>£000 | 2018-19<br>£000 |
|--|-----------------|--------------------------------|-----------------------------------|-----------------|
| Cost brought forward 1 April                     | 94,352          | 13,566                         | 82,436                            | 96,002          |
| Additions in year                                | 1,650           | -                              | 1,583                             | 1,583           |
| Revaluation Gain                                 | -               | -                              | 1,091                             | 1,091           |
| <b>Cost carried forward 31 March</b>             | <b>96,002</b>   | <b>13,566</b>                  | <b>85,110</b>                     | <b>98,676</b>   |
| Accumulated depreciation brought forward 1 April | (25,516)        | (4,511)                        | (25,005)                          | (29,516)        |
| Revaluations in year                             | -               | -                              | 1,385                             | 1,385           |
| Depreciation charge for year                     | (4,000)         | (532)                          | (3,808)                           | (4,340)         |
| <b>Depreciation at 31 March</b>                  | <b>(29,516)</b> | <b>(5,043)</b>                 | <b>(27,428)</b>                   | <b>(32,471)</b> |
| <b>Net book value carried forward 31 March</b>   | <b>66,486</b>   | <b>8,523</b>                   | <b>57,682</b>                     | <b>66,205</b>   |

The following table provides information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2018-19:

|   | 2017-18<br>£000 | 2018-19<br>Plant Shell<br>£000 | 2018-19<br>Project Assets<br>£000 | 2018-19<br>£000 |
|---|-----------------|--------------------------------|-----------------------------------|-----------------|
| Lease liability brought forward 1 April   | 55,979          | 11,054                         | 44,118                            | 55,172          |
| Payments made in year                     | (807)           | (198)                          | (678)                             | (876)           |
| <b>Liability carried forward 31 March</b> | <b>55,172</b>   | <b>10,856</b>                  | <b>43,440</b>                     | <b>54,296</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.

|                                | 31 March 2018<br>£000 | Lifecycle<br>Replacement<br>£000 | Repayment of<br>Liability<br>£000 | Interest<br>Charges<br>£000 | Service<br>Charges<br>£000 | 31 March 2019<br>£000 |
|--------------------------------|-----------------------|----------------------------------|-----------------------------------|-----------------------------|----------------------------|-----------------------|
| Within one year                | 23,275                | 1,214                            | 947                               | 7,577                       | 14,272                     | <b>24,010</b>         |
| Within two to five years       | 99,389                | 5,105                            | 5,758                             | 30,895                      | 61,257                     | <b>103,015</b>        |
| Within six to ten years        | 140,911               | 6,977                            | 14,011                            | 38,795                      | 86,439                     | <b>146,222</b>        |
| Within eleven to fifteen years | 162,402               | 7,704                            | 26,218                            | 35,511                      | 98,960                     | <b>168,393</b>        |
| Within sixteen to twenty years | 71,587                | 1,635                            | 7,362                             | 6,208                       | 21,393                     | <b>36,598</b>         |
|                                | 497,564               | 22,635                           | 54,296                            | 118,986                     | 282,321                    | <b>478,238</b>        |



## Notes to the Accounts

### Fire & Rescue PFI

2018-19 was the ninth year of a twenty-five year PFI contract for the construction, maintenance and operation of 2 Fire Stations, in Pegswood and West Hartford. The Council has the rights under the Agreement to use the stations for the provision of the Fire and Rescue Services.

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

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

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

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

The figures below provide information on the movement of the Fire and Rescue PFI assets held on the Council's Balance Sheet during 2018-19:

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| 13,555          | Costs brought forward 1 April                  | 13,555          |
| -               | Revaluation Gain                               | 234             |
| <b>13,555</b>   | <b>Cost carried forward 31 March</b>           | <b>13,789</b>   |
| (1,347)         | Depreciation brought forward 1 April           | (1,796)         |
| -               | Revaluations in Year                           | 1,796           |
| (449)           | Depreciation charge for year                   | (456)           |
| <b>(1,796)</b>  | <b>Depreciation at 31 March</b>                | <b>(456)</b>    |
| <b>11,759</b>   | <b>Net book value carried forward 31 March</b> | <b>13,333</b>   |

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2018-19:

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| 11,929          | Lease liability brought forward 1 April   | 11,664          |
| (265)           | Payments made in year                     | (289)           |
| <b>11,664</b>   | <b>Liability carried forward 31 March</b> | <b>11,375</b>   |



## Notes to the Accounts

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.

|                                | 31 March 2018 | Lifecycle Replacement | Repayment of Liability | Interest Charges | Service Charges | 31 March 2019 |
|--------------------------------|---------------|-----------------------|------------------------|------------------|-----------------|---------------|
|                                | £000          | £000                  | £000                   | £000             | £000            | £000          |
| Within one year                | 2,428         | 221                   | 316                    | 1,238            | 799             | <b>2,574</b>  |
| Within two to five years       | 9,984         | 939                   | 1,598                  | 4,605            | 3,472           | <b>10,614</b> |
| Within six to ten years        | 13,150        | 1,312                 | 3,066                  | 4,634            | 5,036           | <b>14,048</b> |
| Within eleven to fifteen years | 13,984        | 1,485                 | 4,992                  | 2,604            | 5,945           | <b>15,026</b> |
| Within sixteen to twenty years | 6,226         | 498                   | 1,403                  | 76               | 1,709           | <b>3,686</b>  |
|                                | <b>45,772</b> | <b>4,455</b>          | <b>11,375</b>          | <b>13,157</b>    | <b>16,961</b>   | <b>45,948</b> |

## 28. Creditors

| 31 March 2018   |                                       | 31 March 2019   |
|-----------------|---------------------------------------|-----------------|
| £000            |                                       | £000            |
| (17,929)        | Central government bodies             | (15,802)        |
| (2,255)         | NHS bodies                            | (2,166)         |
| (46,817)        | Other entities and individuals        | (46,390)        |
| (1,710)         | Other local authorities               | (1,654)         |
| (1,349)         | Public corporations and trading funds | (885)           |
| <b>(70,060)</b> | <b>Total</b>                          | <b>(66,897)</b> |

## 29. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council at 31 March 2019:

|   | Total Cost | Future Payments |
|---|------------|-----------------|
|   | £000       | £000            |
| County Hall Refurbishment                                   | 17,000     | 15,285          |
| Darras Hall Primary School New Build                        | 7,800      | 1,219           |
| Morpeth First School New Build                              | 6,700      | 2,821           |
| Ponteland Secondary School, Leisure Centre and Fire Station | 48,200     | 39,946          |

## 30. Provisions

| Provisions                            | Redundancy Costs<br>£000 | Equal Pay Back Pay<br>£000 | MMI Liability<br>£000 | Repairs & Maintenance<br>£000 | NNDR Appeals<br>£000 | Estates Rationalisation<br>£000 | Active Northumberland Job Evaluation<br>£000 | Other<br>£000 | Total<br>£000   |
|---------------------------------------|--------------------------|----------------------------|-----------------------|-------------------------------|----------------------|---------------------------------|--|---------------|-----------------|
| <b>Balance at 1 April 2017</b>        | <b>(271)</b>             | <b>(1,083)</b>             | <b>(78)</b>           | <b>(6,045)</b>                | <b>(4,229)</b>       | <b>(1,717)</b>                  | -  | <b>(147)</b>  | <b>(13,570)</b> |
| Amounts used in 2017-18               | 181                      | 88                         | -                     | 45                            | 3,483                | 231                             | -  | 122           | <b>4,150</b>    |
| Additional provisions made in 2017-18 | (316)                    | -                          | -                     | -                             | (4,115)              | -                               | -  | -             | <b>(4,431)</b>  |
| Unused amounts reversed in 2017-18    | 90                       | 53                         | -                     | 1,236                         | -                    | 736                             | -  | 25            | <b>2,140</b>    |
| <b>Balance at 1 April 2018</b>        | <b>(316)</b>             | <b>(942)</b>               | <b>(78)</b>           | <b>(4,764)</b>                | <b>(4,861)</b>       | <b>(750)</b>                    | -  | -             | <b>(11,711)</b> |
| Amounts used in 2018-19               | 286                      | 21                         | -                     | 3,116                         | 2,334                | 173                             | -  | -             | <b>5,930</b>    |
| Additional provisions made in 2018-19 | (118)                    | (1,843)                    | -                     | -                             | (2,575)              | -                               | (863)  | -             | <b>(5,399)</b>  |
| Unused amounts reversed in 2018-19    | 30                       | -                          | -                     | 1,648                         | -                    | -                               | -  | -             | <b>1,678</b>    |
| <b>Balance at 31 March 2019</b>       | <b>(118)</b>             | <b>(2,764)</b>             | <b>(78)</b>           | -                             | <b>(5,102)</b>       | <b>(577)</b>                    | <b>(863)</b>                                 | -             | <b>(9,502)</b>  |
| Comprising:                           |                          |                            |                       |                               |                      |                                 |  |               |                 |
| Short Term                            | (118)                    | (2,764)                    | -                     | -                             | (5,102)              | (577)                           | (863)  | -             | <b>(9,424)</b>  |
| Long Term                             | -                        | -                          | (78)                  | -                             | -                    | -                               | -  | -             | <b>(78)</b>     |
| <b>Total Provisions</b>               | <b>(118)</b>             | <b>(2,764)</b>             | <b>(78)</b>           | -                             | <b>(5,102)</b>       | <b>(577)</b>                    | <b>(863)</b>                                 | -             | <b>(9,502)</b>  |

**Redundancy Costs**

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2018-19 (and for comparative amounts during 2017-18) 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.

**Equal Pay Back Pay**

This provision represents the estimated liability to HMRC relating to employer tax contributions, penalties and interest charges.

## Notes to the Accounts

### 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.

As at 30 September 2018, the total amount of the Council's claims to date subject to reclamation was £5.49 million (£5.48 million at 31 March 2018). 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 reserve is now £0.08 million at 31 March 2019 to cover potential outstanding claims.

### Repairs and Maintenance

A claim for dilapidation repairs was settled during the year and the unused balance of £1.65 million was returned to revenue as this was no longer required.

### 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 2019.

### Estates Rationalisation

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

### Active Northumberland Job Evaluation

This provision has been created in 2018-19 to cover, the anticipated outstanding costs in relation to job evaluation (1 April 2016 to 31 March 2019) for Active Northumberland, which was agreed by the Council's Cabinet on 24 May 2019. The amount included is the best estimate of the liability as at the Balance Sheet date.

### Other Provisions

This provision was originally created to meet future liabilities and property snagging issues arising from GB Building Solutions entering into administration in February 2015. Any future issues will be managed through the Council's budgets

### 31. Unusable Reserves

| 31 March 2018  |   | 31 March 2019  |
|----------------|---|----------------|
| £000           |   | £000           |
| (6,327)        | Accumulated Absences Adjustment Account   | (5,505)        |
| 686,427        | Capital Adjustment Account                | 679,454        |
| 3,594          | Collection Fund Adjustment Account        | 155            |
| 3,101          | Deferred Capital Receipts Reserve         | -              |
| (1,583)        | Financial Instruments Adjustment Account  | (7,056)        |
| 13,104         | Financial Instruments Revaluation Reserve | 13,231         |
| (707,460)      | Pensions Reserve                          | (713,940)      |
| 140,224        | Revaluation Reserve                       | 142,207        |
| <b>131,080</b> | <b>Total Unusable Reserves</b>            | <b>108,546</b> |

#### 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.

| 2017-18 |                | 2018-19   |                |
|---------|----------------|---|----------------|
| £000    | £000           | £000  | £000           |
|         | <b>(5,743)</b> | <b>Balance at 1 April</b>   | <b>(6,327)</b> |
| 5,743   |                | Settlement or cancellation of accrual made at the end of the preceding year   | 6,327          |
| (6,327) |                | Amounts accrued at the end of the current year  | (5,505)        |
|         | (584)          | 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 | 822            |
|         | <b>(6,327)</b> | <b>Balance at 31 March</b>  | <b>(5,505)</b> |

#### 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.

| 2017-18        |  | 2018-19 |                |
|----------------|--|---------|----------------|
| £000           |  | £000    |                |
| <b>643,056</b> | <b>Balance at 1 April</b>  |         | <b>686,427</b> |
|                | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                               |         |                |
| (47,290)       | Charges for depreciation and impairment of non current assets  |         | (48,719)       |
| (1,431)        | Deficit on Available-for-Sale financial assets   |         | (3,427)        |
| 10,151         | Revaluation losses on Property, Plant and Equipment  |         | (8,413)        |
| (1,483)        | Amortisation of intangible assets  |         | (674)          |
| (15,058)       | Revenue expenditure funded from capital under statute  |         | (12,249)       |
| (31,347)       | 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 |         | (70,808)       |
| 30,397         | Adjusting amounts written out of the Revaluation Reserve   |         | 8,609          |
|                | Capital financing applied in the year:   |         |                |
| 3,479          | Use of the Capital Receipts Reserve to finance new capital expenditure   |         | 8,917          |
| 7,586          | Use of the Major Repairs Reserve to finance new capital expenditure  |         | 9,528          |
| 45,472         | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing                |         | 42,366         |
| 4,356          | Application of grants to capital financing from the Capital Grants Unapplied Account   |         | 5,736          |
| 24,083         | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  |         | 24,656         |
| 13,064         | Voluntary set aside of capital receipts  |         | 31,508         |
| 1,488          | Capital expenditure charged against the General Fund and HRA balance   |         | 5,945          |
| (96)           | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement                           |         | 52             |
| <b>686,427</b> | <b>Balance at 31 March</b>   |         | <b>679,454</b> |

## Notes to the Accounts

### 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.

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| <b>4,977</b>    | <b>Balance at 1 April</b>  | <b>3,594</b>    |
| (1,383)         | 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 | (3,439)         |
| <b>3,594</b>    | <b>Balance at 31 March</b>   | <b>155</b>      |

### 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.

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| <b>3,101</b>    | <b>Balance at 1 April</b>                                     | <b>3,101</b>    |
| -               | Transfer to the Capital Receipts Reserve upon receipt of cash | (3,101)         |
| <b>3,101</b>    | <b>Balance at 31 March</b>                                    | <b>-</b>        |

### 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.

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| <b>(1,188)</b>  | <b>Balance at 1 April</b>   | <b>(1,583)</b>  |
| -               | Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement   | (5,716)         |
| (476)           | Proportion of premiums/(discounts) incurred in previous financial years to be charged/(credited) against the General Fund Balance in accordance with statutory requirements                   | 168             |
| 81              | 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 | 75              |
| <b>(1,583)</b>  | <b>Balance at 31 March</b>  | <b>(7,056)</b>  |

### Financial Instruments Revaluation Reserve (Formerly Available for Sale Reserve)

The 2018-19 Code of Practice on Local Authority Accounting has adopted IFRS 9 Financial Instruments. As a result of the implementation of IFRS 9, the Available for Sale Reserve has been decommissioned and any balance held has been transferred to the Financial Instruments Revaluation Reserve.

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments:

- revalued downwards or impaired and the gains are lost; and
- disposed of and the gains are realised.

The reserve reflects the change in value of the Council's shareholding in Newcastle International Airport which increased by £0.13 million.

| 2017-18<br>£000 |                                    | 2018-19<br>£000 |
|-----------------|------------------------------------|-----------------|
| <b>13,116</b>   | <b>Balance at 1 April</b>          | <b>13,104</b>   |
| (12)            | Downward Revaluation of Investment | 127             |
| <b>13,104</b>   | <b>Balance at 31 March</b>         | <b>13,231</b>   |

## Notes to the Accounts

### 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.

| 2017-18<br>£000  |  | 2018-19<br>£000  |
|------------------|--|------------------|
| <b>(678,120)</b> | <b>Balance at 1 April</b>  | <b>(707,460)</b> |
| (5,630)          | Return on plan assets  | 58,770           |
| 1,560            | Actuarial gains or (losses) arising on changes in financial assumptions  | (90,370)         |
| -                | Actuarial gains or (losses) arising on changes in demographic assumptions  | 71,940           |
| (10,740)         | Other  | (3,170)          |
| (55,660)         | 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 | (86,210)         |
| 41,130           | Employer's pensions contributions and direct payments to pensioners payable in the year  | 42,560           |
| <b>(707,460)</b> | <b>Balance at 31 March</b>   | <b>(713,940)</b> |

### 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.

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| <b>160,262</b>  | <b>Balance at 1 April</b>   | <b>140,224</b>  |
| 18,564          | Upward revaluation of assets  | 13,608          |
| (8,205)         | 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 | (3,016)         |
| (3,101)         | Difference between fair value depreciation and historical cost depreciation   | (7,119)         |
| (27,296)        | Accumulated gains on assets sold or scrapped  | (1,486)         |
| -               | Amount written off to the Capital Adjustment Account  | (4)             |
| <b>140,224</b>  | <b>Balance at 31 March</b>  | <b>142,207</b>  |



## 32. 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 2018-19 the County Council paid £9.34 million (£10.20 million in 2017-18) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 16.5% of teachers' pensionable pay for the period 1 April 2018 to 31 March 2019.

The Scheme is a defined benefit final salary scheme. It is not possible for the Council to identify its share of the underlying liabilities in the scheme and it is therefore classified as a defined contribution scheme for the purposes of the accounting requirements of IAS 19 and does not form part of the pensions' deficit described in note 33.

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 33.

## 33. 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 principal risks to the authority of the post-employment schemes are the longevity assumptions, statutory changes to the schemes, structural changes to the membership of the schemes (i.e. large-scale withdrawals from the schemes), changes to inflation and, performance of the investments held by the Northumberland County Council Pension Fund. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund

and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

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 32.

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

The 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.

**The Firefighters' Pension Scheme (FPS)**, also known as the 1992 Scheme, is administered by Northumberland County Council. This is an unfunded

## Notes to the Accounts

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.



## Notes to the Accounts

### 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 the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund (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:

| 2017-18   |                       |                      |                           |                | 2018-19   |                |                       |                      |                           |                |
|---|-----------------------|----------------------|---------------------------|----------------|---|----------------|-----------------------|----------------------|---------------------------|----------------|
| LGPS  | Firefighters' Schemes | LGPS unfunded Scheme | Teachers' unfunded Scheme | Total          |   | LGPS           | Firefighters' Schemes | LGPS unfunded Scheme | Teachers' unfunded Scheme | Total          |
| £m  | £m                    | £m                   | £m                        | £m             |   | £m             | £m                    | £m                   | £m                        | £m             |
| Actuarial gains and losses arising on changes in demographic assumptions                    |                       |                      |                           |                |   |                |                       |                      |                           |                |
| Comprehensive Income and Expenditure Statement  |                       |                      |                           |                |   |                |                       |                      |                           |                |
| Cost of Services:   |                       |                      |                           |                |   |                |                       |                      |                           |                |
| (35.89)   | (2.80)                | -                    | -                         | <b>(38.69)</b> | Current service cost  | (37.58)        | (2.72)                | -                    | -                         | <b>(40.30)</b> |
| (0.47)  | -                     | -                    | (0.02)                    | <b>(0.49)</b>  | Past service cost   | (21.21)        | (6.86)                | -                    | -                         | <b>(28.07)</b> |
| Financing and Investment Income and Expenditure:  |                       |                      |                           |                |   |                |                       |                      |                           |                |
| (9.91)  | (4.80)                | (0.86)               | (0.91)                    | <b>(16.48)</b> | Net interest expense  | (11.04)        | (5.05)                | (0.86)               | (0.89)                    | <b>(17.84)</b> |
| <b>(46.27)</b>  | <b>(7.60)</b>         | <b>(0.86)</b>        | <b>(0.93)</b>             | <b>(55.66)</b> | <b>Total post employment benefit charged to the surplus/deficit on the provision of services</b>              | <b>(69.83)</b> | <b>(14.63)</b>        | <b>(0.86)</b>        | <b>(0.89)</b>             | <b>(86.21)</b> |
| Other post employment benefit charged to the Comprehensive Income and Expenditure Statement |                       |                      |                           |                |   |                |                       |                      |                           |                |
| Remeasurement of the net defined liability comprising:                                      |                       |                      |                           |                |   |                |                       |                      |                           |                |
| (5.63)  | -                     | -                    | -                         | <b>(5.63)</b>  | Return on plan assets (excluding the amount included in the net interest expense)                             | 58.77          | -                     | -                    | -                         | <b>58.77</b>   |
| 1.33  | 0.19                  | 0.01                 | 0.03                      | <b>1.56</b>    | Actuarial gains and (losses) arising on changes in financial assumptions                                      | (79.30)        | (10.45)               | (0.31)               | (0.31)                    | <b>(90.37)</b> |
| -   | -                     | -                    | -                         | -              | Actuarial gains and (losses) arising on changes in demographic assumptions                                    | 61.68          | 7.34                  | 1.38                 | 1.54                      | <b>71.94</b>   |
| (8.53)  | (1.08)                | (0.57)               | (0.56)                    | <b>(10.74)</b> | Other   | (2.64)         | (0.33)                | (0.10)               | (0.10)                    | <b>(3.17)</b>  |
| <b>(12.83)</b>  | <b>(0.89)</b>         | <b>(0.56)</b>        | <b>(0.53)</b>             | <b>(14.81)</b> | <b>Total other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>      | <b>38.51</b>   | <b>(3.44)</b>         | <b>0.97</b>          | <b>1.13</b>               | <b>37.17</b>   |
| <b>(59.10)</b>  | <b>(8.49)</b>         | <b>(1.42)</b>        | <b>(1.46)</b>             | <b>(70.47)</b> | <b>Total charge to the Comprehensive Income and Expenditure Statement</b>                                     | <b>(31.32)</b> | <b>(18.07)</b>        | <b>0.11</b>          | <b>0.24</b>               | <b>(49.04)</b> |
| Movement in Reserves - General Fund Balance:  |                       |                      |                           |                |   |                |                       |                      |                           |                |
| 46.27   | 7.60                  | 0.86                 | 0.93                      | <b>55.66</b>   | Reversal of net charges made to the surplus/deficit for the provision of services for post employment benefit | 69.83          | 14.63                 | 0.86                 | 0.89                      | <b>86.21</b>   |
| Actual amount charged against the General Fund Balance for pensions in the year:            |                       |                      |                           |                |   |                |                       |                      |                           |                |
| (30.86)   | -                     | -                    | -                         | <b>(30.86)</b> | Employer's contributions payable to the scheme  | (31.73)        | -                     | -                    | -                         | <b>(31.73)</b> |
| -   | (5.41)                | (2.26)               | (2.60)                    | <b>(10.27)</b> | Net retirement benefits payable to pensioners   | -              | (6.04)                | (2.19)               | (2.60)                    | <b>(10.83)</b> |

## Notes to the Accounts

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

| 2017-18   |                                  |                                   |                                  |               | 2018-19   |                                  |                                   |                                  |               |                |
|---|----------------------------------|-----------------------------------|----------------------------------|---------------|---|----------------------------------|-----------------------------------|----------------------------------|---------------|----------------|
| Firefighters' Pension Scheme  | New Firefighters' Pension Scheme | 2015 Firefighters' Pension Scheme | Injury and Non-Scheme Ill Health | Total         | Firefighters' Pension Scheme  | New Firefighters' Pension Scheme | 2015 Firefighters' Pension Scheme | Injury and Non-Scheme Ill Health | Total         |                |
| £m  | £m                               | £m                                | £m                               | £m            | £m  | £m                               | £m                                | £m                               | £m            |                |
| Comprehensive Income and Expenditure Statement  |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| Cost of Services:   |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| (1.36)  | (0.06)                           | (1.29)                            | (0.09)                           | <b>(2.80)</b> | Current service cost  | (1.09)                           | (0.06)                            | (1.48)                           | (0.09)        | <b>(2.72)</b>  |
| Financing and Investment Income and Expenditure:  |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| (4.40)  | (0.19)                           | (0.08)                            | (0.13)                           | <b>(4.80)</b> | Net interest expense  | (4.59)                           | (0.20)                            | (0.13)                           | (0.13)        | <b>(5.05)</b>  |
| <b>(5.76)</b>   | <b>(0.25)</b>                    | <b>(1.37)</b>                     | <b>(0.22)</b>                    | <b>(7.60)</b> | <b>Total post employment benefit charged to the surplus/deficit on the provision of services</b>              | <b>(7.45)</b>                    | <b>(0.26)</b>                     | <b>(6.70)</b>                    | <b>(0.22)</b> | <b>(14.63)</b> |
| Other post employment benefit charged to the Comprehensive Income and Expenditure Statement |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| Remeasurement of the net defined liability comprising:                                      |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| 0.17  | -                                | 0.01                              | 0.01                             | <b>0.19</b>   | Actuarial gains and (losses) arising on changes in financial assumptions                                      | (8.73)                           | (0.74)                            | (0.70)                           | (0.28)        | <b>(10.45)</b> |
| -   | -                                | -                                 | -                                | -             | Actuarial gains and (losses) arising on changes in demographic assumptions                                    | 6.45                             | 0.37                              | 0.33                             | 0.19          | <b>7.34</b>    |
| (1.02)  | (0.02)                           | -                                 | (0.04)                           | <b>(1.08)</b> | Other   | (0.31)                           | (0.01)                            | -                                | (0.01)        | <b>(0.33)</b>  |
| <b>(0.85)</b>   | <b>(0.02)</b>                    | <b>0.01</b>                       | <b>(0.03)</b>                    | <b>(0.89)</b> | <b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>            | <b>(2.59)</b>                    | <b>(0.38)</b>                     | <b>(0.37)</b>                    | <b>(0.10)</b> | <b>(3.44)</b>  |
| <b>(6.61)</b>   | <b>(0.27)</b>                    | <b>(1.36)</b>                     | <b>(0.25)</b>                    | <b>(8.49)</b> | <b>Total Charged to the Comprehensive Income and Expenditure Statement</b>                                    | <b>(10.04)</b>                   | <b>(0.64)</b>                     | <b>(7.07)</b>                    | <b>(0.32)</b> | <b>(18.07)</b> |
| Movement in Reserves - General Fund Balance:  |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| 5.76  | 0.25                             | 1.37                              | 0.22                             | <b>7.60</b>   | Reversal of net charges made to the surplus/deficit for the provision of services for post employment benefit | 7.45                             | 0.26                              | 6.70                             | 0.22          | <b>14.63</b>   |
| Actual amount charged against the General Fund Balance for pensions in the year:            |                                  |                                   |                                  |               |   |                                  |                                   |                                  |               |                |
| <b>(5.58)</b>   | -                                | <b>0.36</b>                       | <b>(0.19)</b>                    | <b>(5.41)</b> | <b>Net retirement benefits payable to pensioners</b>  | <b>(6.23)</b>                    | <b>(0.01)</b>                     | <b>0.47</b>                      | <b>(0.27)</b> | <b>(6.04)</b>  |

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2019 is a gain of £37.17 million (£14.81 million loss to 31 March 2018).

## Notes to the Accounts

### 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:

| 2017-18         |                       |                      |                           |                   | 2018-19  |                 |                       |                      |                           |                   |
|-----------------|-----------------------|----------------------|---------------------------|-------------------|--|-----------------|-----------------------|----------------------|---------------------------|-------------------|
| LGPS            | Firefighters' Schemes | LGPS unfunded Scheme | Teachers' unfunded Scheme | Total             |  | LGPS            | Firefighters' Schemes | LGPS unfunded Scheme | Teachers' unfunded Scheme | Total             |
| £m              | £m                    | £m                   | £m                        | £m                |  | £m              | £m                    | £m                   | £m                        | £m                |
| (1,540.63)      | (197.60)              | (34.18)              | (35.55)                   | <b>(1,807.96)</b> | Present value of the defined benefit obligation              | (1,626.75)      | (209.63)              | (31.88)              | (32.71)                   | <b>(1,900.97)</b> |
| 1,100.50        | -                     | -                    | -                         | <b>1,100.50</b>   | Fair value of plan assets                                    | 1,187.03        | -                     | -                    | -                         | <b>1,187.03</b>   |
| <b>(440.13)</b> | <b>(197.60)</b>       | <b>(34.18)</b>       | <b>(35.55)</b>            | <b>(707.46)</b>   | <b>Net liability arising from defined benefit obligation</b> | <b>(439.72)</b> | <b>(209.63)</b>       | <b>(31.88)</b>       | <b>(32.71)</b>            | <b>(713.94)</b>   |

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

|  | LGPS<br>£m        | Firefighters'<br>Pension<br>Scheme<br>£m | New<br>Firefighters'<br>Pension<br>Scheme<br>£m | 2015<br>Firefighters'<br>Pension<br>Scheme<br>£m | Firefighters'<br>Injury &<br>non<br>scheme III<br>Health<br>£m | LGPS<br>unfunded<br>Scheme<br>£m | Teachers'<br>unfunded<br>Scheme<br>£m | Total<br>£m       |
|--|-------------------|--|---|--|--|----------------------------------|---------------------------------------|-------------------|
| <b>Opening balance as at 1 April 2018</b>                                    | <b>(1,540.63)</b> | <b>(179.68)</b>                          | <b>(7.80)</b>                                   | <b>(4.89)</b>                                    | <b>(5.23)</b>  | <b>(34.18)</b>                   | <b>(35.55)</b>                        | <b>(1,807.96)</b> |
| Current service cost   | (37.58)           | (1.09)                                   | (0.06)  | (1.48)   | (0.09)   | -                                | -                                     | (40.30)           |
| Interest cost  | (39.65)           | (4.59)                                   | (0.20)  | (0.13)   | (0.13)   | (0.86)                           | (0.89)                                | (46.45)           |
| Contributions from scheme participants                                       | (7.25)            | (0.29)                                   | (0.02)  | (0.47)   | -  | -                                | -                                     | (8.03)            |
| Remeasurement gains and (losses):  |                   |  |   |  |  |                                  |                                       |                   |
| Actuarial gains and (losses) arising from changes in financial assumptions   | (79.30)           | (8.73)                                   | (0.74)  | (0.70)   | (0.28)   | (0.31)                           | (0.31)                                | (90.37)           |
| Actuarial gains and (losses) arising from changes in demographic assumptions | 61.68             | 6.45                                     | 0.37  | 0.33   | 0.19   | 1.38                             | 1.54                                  | 71.94             |
| Other  | (2.64)            | (0.31)                                   | (0.01)  | -  | (0.01)   | (0.10)                           | (0.10)                                | (3.17)            |
| Past service cost  | (21.21)           | (1.77)                                   | -   | (5.09)   | -  | -                                | -                                     | (28.07)           |
| Benefits paid  | 39.83             | 6.52                                     | 0.03  | -  | 0.27   | 2.19                             | 2.60                                  | 51.44             |
| <b>Closing balance as at 31 March 2019</b>                                   | <b>(1,626.75)</b> | <b>(183.49)</b>                          | <b>(8.43)</b>                                   | <b>(12.43)</b>                                   | <b>(5.28)</b>  | <b>(31.88)</b>                   | <b>(32.71)</b>                        | <b>(1,900.97)</b> |
| <b>Opening balance as at 1 April 2017</b>                                    | <b>(1,491.87)</b> | <b>(178.65)</b>                          | <b>(7.53)</b>                                   | <b>(3.17)</b>                                    | <b>(5.17)</b>  | <b>(35.02)</b>                   | <b>(36.69)</b>                        | <b>(1,758.10)</b> |
| Current service cost   | (35.89)           | (1.36)                                   | (0.06)  | (1.29)   | (0.09)   | -                                | -                                     | (38.69)           |
| Interest cost  | (36.91)           | (4.40)                                   | (0.19)  | (0.08)   | (0.13)   | (0.86)                           | (0.91)                                | (43.48)           |
| Contributions from scheme participants                                       | (6.94)            | (0.34)                                   | (0.02)  | (0.40)   | -  | -                                | -                                     | (7.70)            |
| Remeasurement gains and (losses):  |                   |  |   |  |  |                                  |                                       |                   |
| Actuarial gains and (losses) arising from changes in financial assumptions   | 1.33              | 0.17                                     | -   | 0.01   | 0.01   | 0.01                             | 0.03                                  | 1.56              |
| Other  | (8.53)            | (1.02)                                   | (0.02)  | -  | (0.04)   | (0.57)                           | (0.56)                                | (10.74)           |
| Past service cost  | (0.47)            | -  | -   | -  | -  | -                                | (0.02)                                | (0.49)            |
| Benefits paid  | 38.65             | 5.92                                     | 0.02  | 0.04   | 0.19   | 2.26                             | 2.60                                  | 49.68             |
| <b>Closing balance as at 31 March 2018</b>                                   | <b>(1,540.63)</b> | <b>(179.68)</b>                          | <b>(7.80)</b>                                   | <b>(4.89)</b>                                    | <b>(5.23)</b>  | <b>(34.18)</b>                   | <b>(35.55)</b>                        | <b>(1,807.96)</b> |

## Notes to the Accounts

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

| 2017-18<br>£m   | Local Government Pension Scheme  | 2018-19<br>£m   |
|-----------------|--|-----------------|
| 1,079.98        | Opening fair value of scheme assets  | 1,100.50        |
| 27.00           | Interest income  | 28.61           |
|                 | Remeasurement gain and (loss):   |                 |
| (5.63)          | The return on plan assets, excluding the amount included in the net interest expense | 58.77           |
| 30.86           | Contributions by the employer  | 31.73           |
| 6.94            | Contributions by participants  | 7.25            |
| (38.65)         | Benefits paid  | (39.83)         |
| <b>1,100.50</b> | <b>Closing balance of scheme assets</b>  | <b>1,187.03</b> |

Local Government Pension Scheme assets comprised:

| 2017-18<br>Fair Value of<br>Scheme<br>Assets<br>£m |               | LGPS assets comprised:                 | 2018-19<br>Fair Value of<br>Scheme<br>Assets<br>£m |               |
|--|---------------|--|--|---------------|
|  | %             |  |  | %             |
| -  | -             | UK equities unquoted                   | 0.67   | 0.06          |
| 677.28   | 61.54         | UK and overseas equities               | 727.59   | 61.29         |
| 294.06   | 26.72         | Fixed interest and index linked        | 308.04   | 25.95         |
| 43.76  | 3.98          | Property unit trusts                   | 45.36  | 3.82          |
| 82.04  | 7.45          | Ventures and partnerships              | 99.71  | 8.40          |
| 3.36   | 0.31          | Other net current (liabilities)/assets | 5.66   | 0.48          |
| <b>1,100.50</b>                                    | <b>100.00</b> | <b>Total</b>                           | <b>1,187.03</b>                                    | <b>100.00</b> |

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

| 2017-18<br>Fair Value of<br>Scheme<br>Assets<br>£m | UK and overseas equities by<br>geographical area: |                | 2018-19<br>Fair Value of<br>Scheme<br>Assets<br>£m |               |
|--|---|----------------|--|---------------|
|  | %   |                |  | %             |
| 265.77   | 39.24   | United Kingdom | 290.22   | 39.89         |
| 77.37  | 11.42   | Europe         | 85.31  | 11.72         |
| 81.79  | 12.08   | North America  | 86.14  | 11.84         |
| 40.90  | 6.04  | Japan          | 41.37  | 5.69          |
| 39.34  | 5.81  | Pacific        | 42.36  | 5.82          |
| 172.11   | 25.41   | Other          | 182.19   | 25.04         |
| <b>677.28</b>                                      | <b>100.00</b>                                     | <b>Total</b>   | <b>727.59</b>                                      | <b>100.00</b> |

## Notes to the Accounts

### 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 2016. 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 2018.

The significant assumptions used by the actuary have been:

| 31 March 2018                               |                       |                      |                           |                                   | 31 March 2019 |                       |                      |                           |
|---|-----------------------|----------------------|---------------------------|-----------------------------------|---------------|-----------------------|----------------------|---------------------------|
| LGPS  | Firefighters' Schemes | LGPS unfunded scheme | Teachers' unfunded scheme |                                   | LGPS          | Firefighters' Schemes | LGPS unfunded scheme | Teachers' unfunded scheme |
| Mortality assumptions:                      |                       |                      |                           |                                   |               |                       |                      |                           |
| Longevity at age 65 for current pensioners: |                       |                      |                           |                                   |               |                       |                      |                           |
| 22.9  | 22.2                  | 22.9                 | 22.9                      | Men                               | 22.2          | 21.4                  | 22.2                 | 22.2                      |
| 25.0  | 24.7                  | 25.0                 | 25.0                      | Women                             | 24.1          | 23.7                  | 24.1                 | 24.1                      |
| Longevity at age 65 for future pensioners:  |                       |                      |                           |                                   |               |                       |                      |                           |
| 25.1  | 24.3                  | -                    | -                         | Men                               | 23.9          | 23.1                  | -                    | -                         |
| 27.3  | 27.0                  | -                    | -                         | Women                             | 25.9          | 25.6                  | -                    | -                         |
| 2.1%  | 2.1%                  | 2.1%                 | 2.1%                      | Inflation - CPI                   | 2.2%          | 2.2%                  | 2.2%                 | 2.2%                      |
| 3.6%  | 3.6%                  | -                    | -                         | Salary increases                  | 3.7%          | 3.7%                  | -                    | -                         |
| 2.1%  | 2.1%                  | 2.1%                 | 2.1%                      | Pension increases                 | 2.2%          | 2.2%                  | 2.2%                 | 2.2%                      |
| 2.1%  | -                     | -                    | -                         | Pension accounts revaluation rate | 2.2%          | -                     | -                    | -                         |
| 2.6%  | 2.6%                  | 2.6%                 | 2.6%                      | Discount rate                     | 2.4%          | 2.4%                  | 2.4%                 | 2.4%                      |

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 2019.

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analyses changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy

## Notes to the Accounts

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 Scheme                 | Increase in assumption<br>£m | Increase in assumption<br>% | Decrease in assumption<br>£m | Decrease in assumption<br>% |
|--|------------------------------|-----------------------------|------------------------------|-----------------------------|
| <b>Local Government Pension Scheme (LGPS Funded)</b>                   |                              |                             |                              |                             |
| Longevity (increase or decrease in 1 year)                             | 52.57                        | 3.2                         | (52.07)                      | (3.2)                       |
| Rate of increase in salaries (increase or decrease by 0.1%)            | 5.40                         | 0.4                         | (5.40)                       | (0.4)                       |
| Rate of increase in pensions (increase or decrease by 0.1%)            | 23.20                        | 1.4                         | (22.91)                      | (1.4)                       |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (28.24)                      | (1.7)                       | 28.67                        | 1.8                         |
| <b>Firefighters' Pension Scheme (FPS)</b>                              |                              |                             |                              |                             |
| Longevity (increase or decrease in 1 year)                             | 5.93                         | 3.2                         | (5.87)                       | (3.2)                       |
| Rate of increase in salaries (increase or decrease by 0.1%)            | 0.51                         | 0.3                         | (0.51)                       | (0.3)                       |
| Rate of increase in pensions (increase or decrease by 0.1%)            | 2.49                         | 1.4                         | (2.46)                       | (1.3)                       |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (2.97)                       | (1.6)                       | 3.01                         | 1.6                         |
| <b>New Firefighters' Pension Scheme (NFPS)</b>                         |                              |                             |                              |                             |
| Longevity (increase or decrease in 1 year)                             | 0.27                         | 3.2                         | (0.27)                       | (3.2)                       |
| Rate of increase in salaries (increase or decrease by 0.1%)            | 0.11                         | 1.3                         | (0.10)                       | (1.2)                       |
| Rate of increase in pensions (increase or decrease by 0.1%)            | 0.13                         | 1.6                         | (0.13)                       | (1.6)                       |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (0.23)                       | (2.8)                       | 0.24                         | 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 III-Health Pensions scheme has not been included on materiality grounds.

## Notes to the Accounts

### 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.

### Impact on the Council's Cash Flows

The Council anticipates paying the following amounts in 2019-20 in relation to the seven post-employment schemes covered by this note:

|  | LGPS<br>£m   | FPS<br>£m   | NFPS<br>£m    | 2015 FPS<br>£m | Firefighters'<br>Injury<br>£m | LGPS<br>Unfunded<br>£m | Teachers'<br>Unfunded<br>£m | Total<br>£m  |
|--|--------------|-------------|---------------|----------------|-------------------------------|------------------------|-----------------------------|--------------|
| Regular employer contributions payable to Northumberland County Council Pension Fund                               | 32.11        | -           | -             | -              | -                             | -                      | -                           | 32.11        |
| Payments to beneficiaries  | -            | -           | -             | -              | -                             | 2.24                   | 2.66                        | 4.90         |
| Payments to beneficiaries net of member contributions receivable, where contributions include the Government Grant | -            | 6.36        | (0.01)        | (0.48)         | 0.27                          | -                      | -                           | 6.14         |
| <b>Total</b>   | <b>32.11</b> | <b>6.36</b> | <b>(0.01)</b> | <b>(0.48)</b>  | <b>0.27</b>                   | <b>2.24</b>            | <b>2.66</b>                 | <b>43.15</b> |

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2019-20 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.



## Notes to the Accounts

### 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 2018<br>No. of years |   | 31 March 2019<br>No. of years |
|-------------------------------|---|-------------------------------|
| 17.50                         | Weighted average duration for LGPS, LGPS Unfunded and Teachers' Unfunded              | 17.50                         |
| 16.30                         | Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme               | 16.30                         |
| 28.20                         | Weighted average duration for NFPS  | 28.20                         |
| 36.00                         | Weighted average duration for 2015 FPS  | 36.00                         |
| 16.60                         | Weighted average duration for Firefighters' Injury and Non-Scheme III Health Pensions | 16.60                         |

### 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<br>Members<br>% | Deferred<br>Members<br>% | Pensioners<br>% |
|--|------------------------|--------------------------|-----------------|
| Local Government Pension Scheme                          | 31.00                  | 16.00                    | 53.00           |
| 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           |
| Local Government Pension Scheme Unfunded                 | -                      | -                        | 100.00          |
| Teachers' Unfunded                                       | -                      | -                        | 100.00          |

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# Notes Supporting the Cash Flow Statement

### 34. Cash Flows from Operating Activities

The cash flows for operating activities include the following items:

| 2017-18<br>£000 |                   | 2018-19<br>£000 |
|-----------------|-------------------|-----------------|
| (22,645)        | Interest received | (22,844)        |
| 29,597          | Interest paid     | 35,384          |
| (1,101)         | Dividends         | (4,338)         |

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

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| 47,290          | Depreciation  | 48,719          |
| (8,720)         | Impairment and downward valuations  | 8,501           |
| 1,483           | Amortisation  | 674             |
| 742             | Increase/(decrease) in creditors  | (144)           |
| (170,773)       | (Increase)/decrease in debtors  | (41,170)        |
| 507             | (Increase)/decrease in inventories  | (982)           |
| 14,530          | Movement in Pension Liability   | 43,650          |
| 31,347          | Carrying amount of non-current asset and non-current assets held for sale, sold or derecognised | 70,808          |
| (1,843)         | Other non-cash items charged to the net surplus or deficit on the provision of services         | (2,336)         |
| <b>(85,437)</b> | <b>Subtotal of non-cash movements</b>   | <b>127,720</b>  |

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

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| -               | Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 3,340           |
| (5,064)         | Proceeds from the sale of property, plant and equipment, investment property and intangible assets   | (7,740)         |
| (51,784)        | Any other items for which the cash effects are investing or financing cash flows   | (53,637)        |
| <b>(56,848)</b> | <b>Sub total of adjustments included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities</b>                   | <b>(58,037)</b> |

### 35. Cash Flows from Investing Activities

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| (79,407)        | Purchase of property, plant and equipment, investment property and intangible assets               | (94,124)        |
| (265,000)       | Purchase of short term and long term investments   | (90,338)        |
| (33,328)        | Other payments for investing activities  | (23,858)        |
| 5,064           | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 7,740           |
| 270,000         | Proceeds from short term and long term investments   | 151,000         |
| 238,464         | Other receipts from investing activities   | 83,453          |
| <b>135,793</b>  | <b>Net cash flows from investing activities</b>  | <b>33,873</b>   |

### 36. Cash Flows from Financing Activities

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| 164,018         | Cash receipts of short term and long term borrowing  | 135,019         |
| (1,142)         | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (1,188)         |
| (153,546)       | Repayments of short and long term borrowing  | (175,541)       |
| (2,463)         | Other payments for financing activities  | (1,729)         |
| <b>6,867</b>    | <b>Net cash flows from financing activities</b>  | <b>(43,439)</b> |

# Other Notes

### 37. Related Parties

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

#### Central Government

Central Government has 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.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2018-19 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 94 organisations with transactions totalling £123.16 million in respect of goods or services provided to the Council (111 and £122.86 million in 2017-18).

During 2018-19 goods and services amounting £74.76 million were provided by the Council to 82 organisations in which Members had an interest (£68.34 million and 70 in 2017-18).

Included in the above sums are amounts due from the Council of £6.13 million and due to the Council of £9.23 million as at 31 March 2019 (£6.61 million and £1.81 million in 2017-18).

#### Officers

During 2018-19 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 10 organisations with

transactions totalling £36.24 million in respect of goods or services provided to the Council (10 and £33.64 million in 2017-18).

During 2018-19 goods and services amounting £72.76 million were provided by the Council to 10 organisations in which officers had an interest (£66.58 million and 9 in 2017-18).

Included in the above sums are amounts due from the Council of £1.00 million and due to the Council of £8.69 million as at 31 March 2019 (£0.94 million and £1.74 million in 2017-18).

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

#### Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2018-19 the Pension Fund had an average balance of £2.46 million borrowed from the Council for which it paid interest of £15,567 (and an average balance of £0.11 million loaned to the Council during 2017-18 for which it received interest of £358). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2018-19 these costs amounted to £0.35 million (£0.70 million in 2017-18). £3.66 million was due to the Council at 31 March 2019 (£2.52 million at 31 March 2018).

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 at 31 March 2019 (4 at 31 March 2018).

#### Active Northumberland

An assessment of the Council's relationship with Active Northumberland in 2017-18 concluded that there was no requirement to consolidate the financial position of Active Northumberland within the Council's 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

## Notes to the Accounts

group position. The Council paid Active Northumberland a management fee of £2.23 million in 2018-19 (£1.03 million in 2017-18) and other agreed funding of £0.87 million in 2018-19 (£2.62 million in 2017-18).

### Entities Controlled or Significantly Influenced by the Council

#### 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 (subsequently 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 (subsequently Arch (Housing) Limited).

On the 13 November 2018, the Arch Group was re-organised with Arch (Corporate Holdings) Limited being removed as the Group holder and replaced with Advance Northumberland Limited. Arch (Corporate Holdings) Limited ceased trading from this point.

Although Arch (Corporate Holdings) Ltd does not form part of the Advance Northumberland Limited group, it remains a 100% owned company of Northumberland County Council. The company is currently dormant.

The Arch Group brought together services in housing, commercial property, physical regeneration and business growth. The Arch Group consisted of six wholly owned companies and two joint ventures.

During 2018-19 Northumberland County Council incurred revenue expenditure of £4.34 million for the purchase of share capital from the Arch Group. Income to Northumberland County Council for 2018-19 from the Arch Group was £4.34 million for a dividend payment. There were no amounts owing to or from Northumberland County Council and the Arch Group at 31 March 2019. All other transactions were deemed to have taken place between Northumberland County Council and Advance Northumberland Limited.

#### Advance Group

On the 13 November 2018 all assets, liabilities and shares of the Arch Group were transferred to Advance Northumberland Limited.

The Advance Group brings together services in housing, commercial property, regeneration and business growth. The Advance Group consists of five wholly owned companies and one joint venture; its principal activities are as follows:

#### Advance Northumberland Limited

The company acts as a holding entity for the companies that comprise the Advance Group. Advance Northumberland Limited conducts no business in its own right.

The activities of the company group are:

- Company Secretary role;
- Corporate Policy monitoring and creation;
- Financial Control and Monitoring;
- Human Resource services;
- Marketing and Communications;
- Programme Management;
- Secretarial Services;
- Strategic Corporate Objectives;
- Strategic Management overview;
- Tax Advice; and,
- Transactional Finance.

## Notes to the Accounts

**Advance Northumberland (Commercial) Ltd:** The principal activities of the company are:

- to further the needs of the community within the boundaries of the area currently known as Wansbeck (the “Community”) and the wider area of Northumberland;
- to protect, restore and enhance the environment of the Community through the purchase, lease and management of land in the Community;
- to provide land, commercial accommodation and services to the Community and Businesses;
- to promote economic regeneration in the community through the provision of light industrial, retail and office accommodation to small businesses; and,
- to provide business advice and support to businesses through Inward Investment initiatives and the administration of the Regional Growth Fund.

Advance Northumberland (Commercial) Ltd will optimise the performance of the property portfolio by driving down the number and duration of voids, reducing debt and ensuring prompt payment.

**Advance Northumberland (Housing) Ltd:** The principal activity of the company is the provision of rented residential accommodation in South East Northumberland.

**Advance Northumberland (Developments) Ltd:** The principal activities of the company are to provide project management services in connection with capital developments undertaken by the Advance Group and Northumberland County Council. In addition, the launch of the Ascent Homes brand provided new homes for sale throughout Northumberland.

**Advance Northumberland (Financial) Ltd:** There have been minimal transactions for 2018-19 which relate to historic repayment of loans that were previously granted by Northumberland County Council.

### **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.

As at 31 March 2019 the Advance Group owed the Council (the ultimate holding company) £281.33 million (£278.44 million 2017-18) primarily in respect of principal and interest due on a commercial loan facility; whilst, the Council owed Advance Group £1.17 million (£0.20 million in 2017-18) primarily in respect of the Ashington North East Quarter capital scheme. During 2018-19 Northumberland County Council paid the Advance Group £0.22 million (£1.60 million 2017-18). Income to Northumberland County Council from the Advance Group was £13.17 million (£14.32 million 2017-18), mainly due to interest payable on the commercial loan facility.

### **Northumberland Property (NO.1) and (NO.2)**

On 7 and 8 August 2018 Northumberland Property (NO.1) Limited and Northumberland Property (NO.2) Limited were incorporated at Companies House. Both companies are wholly owned and registered with Ward Hadaway Solicitor, Sandgate House, 102 Quayside, Newcastle Upon Tyne, NE1 3DX.

The Council has significant control over both of these companies in that it can appoint and remove Company Directors. Both companies remained dormant throughout 2018-19.

### **Newcastle international Airport**

The Council has decided to redesignate its Newcastle Airport equity instrument, previously held as available for sale assets under IAS 39, as fair value through other comprehensive income under IFRS 9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released. In the Balance Sheet the £13.10 million previously held in the available for sale financial instruments revaluation reserve, in respect of Newcastle Airport, has been released and taken to the financial instruments revaluation reserve.

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in



## Notes to the Accounts

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 £13.53 million (£13.40 million in 2017-18). 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 impair the valuation. No such events have occurred. The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS 13 and IFRS 9.

Through its shares in NALAHCL the Council has an effective shareholding of 7.86% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2018 (£1.10 million for the year ended 31 December 2017).

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 six monthly basis. Other than these loan notes there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £10.44 million and a profit after tax of £7.44 million for the year ended 31 December 2018. In the previous year, the Group made a profit before tax of £6.88 million and a profit after tax of £4.41 million.

## 38. Trust Funds

### Trust Schools

The Council holds funds for the following Trust schools:

| 31 March 2018          |                                    | 31 March 2019 |
|------------------------|------------------------------------|---------------|
| £000                   |                                    | £000          |
| Ashington Partnership: |                                    |               |
| 28                     | Ashington Central Primary School   | 43            |
| <b>28</b>              | <b>Total Ashington Partnership</b> | <b>43</b>     |
| West Partnership:      |                                    |               |
| 43                     | Bellingham First School            | 22            |
| 92                     | Bellingham Middle School           | 9             |
| <b>135</b>             | <b>Total West Partnership</b>      | <b>31</b>     |

### Academies/Agencies

The Council acted as the Payroll provider for nine Academies and one Agency during the 2018-19 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);
- Meadowdale Academy (since 1 April 2012);
- Blyth Quays Trust Academy (since 1 June 2013 however ended on 31 August 2018);
- Pax Christi Catholic Partnership Academy (since 1 March 2015);
- Active Northumberland (since 1 September 2015 with regard to Teachers' Pensions);
- Hadrian Learning Trust Academy (since 1 September 2016);
- Ponteland Academy (since September 2017); and,
- Peel Trust (Since 1 February 2019).

As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2018-19, £3.80 million (2017-18 £3.81 million) employers' contributions for the Academies, 16.48% of pensionable pay for the period 1 April 2018 to 31 March 2019 and £2.18 million (2017-18 £2.34 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 2019 the balance on these accounts was £3.03 million (£3.64 million at 31 March 2018) 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. As at 31 March 2019 this income totalled £0.07 million (£0.07 million at 31 March 2018) and has been excluded from the Council's Balance Sheet.

### Adult Personal Allowances

The Council holds personal allowance money paid to clients in residential care. The balance as at 31 March 2019 was negligible (£0.02 million at 31 March 2018) 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. As at 31 March 2019 these funds totalled £0.39 million (£0.35 million at 31 March 2018) and have been excluded from the Council's Balance Sheet.

### Disability Living Allowances

The Council held Disability Living Allowance money of £0.34 million at the end of 2018-19 (£0.34 million at the end of 2017-18) 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.

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

| 31 March 2018 |   | 31 March 2019 |
|---------------|---|---------------|
| £000          |   | £000          |
| 8             | Blaeberry Hill                              | 8             |
| 9             | Broadband Loan Briskona                     | -             |
| 3             | Choppington Schools' Educational Foundation | 4             |
| 5             | Corbridge Road, Hexham                      | 5             |
| 20            | DP Front Red Row                            | 20            |
| 15            | Horsdonside, Wooler                         | 15            |
| 2             | Joyce Wakenshaw Bequest Fund                | 2             |
| 90            | Lidl - Bedlington                           | 90            |
| 154           | Lidl - Blyth                                | 154           |
| 43            | Lucker Hall, Belford                        | 44            |
| 5             | Meadow Grange Berwick                       | -             |
| 4             | Meg Burdon Library Legacy Fund              | 4             |
| 8             | Network Rail Hexham Goods Yard              | 8             |
| 13            | New Ridley Road Stocksfield                 | 13            |
| 144           | Northsteads Windfarm                        | -             |
| 24            | North Stobswood Open Cast Coal Site         | 24            |
| -             | Olive Grove Ltd, Rose Villa, Seghill        | 25            |
| 1,471         | Portland Park Infrastructure Works          | 1,471         |
| -             | Rent Deposit Client Funds                   | 4             |
| -             | S278 Lightpipe Longframlington              | 11            |
| -             | S38 Able Construction                       | 37            |
| 108           | Sisters Windfarm                            | 11            |
| 40            | Southlane SJ Williams                       | 40            |
| (88)          | The Northumberland Children's Fund          | (44)          |
| 5             | Twickenham Court                            | 5             |
| <b>2,083</b>  | <b>Total</b>                                | <b>1,951</b>  |

### Blaeberry Hill

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

### Broadband Loan Briskona

It was a loan condition that three months repayments be held for each loan in case of default. The company has defaulted therefore the balance has been used to repay the outstanding loan.

### 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 2018-19 through dividends was £157 (£279 in 2017-18). There was no expenditure incurred during 2018-19 or during 2017-18. 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 £3,461.

### 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.

### Horsdonside, Wooler

S38 Bond from Three Rivers Housing Association for adoptable estate roads at Horsdonside, Wooler.

### Joyce Wakenshaw Bequest Fund

The late Joyce Wakenshaw was an avid library customer and left monies 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.

## Notes to the Accounts

### Lucker Hall, Belford

Section S278 Agreement for Lucker Hall, Belford. The balance is to be repaid to the developer upon completion.

### Meadow Grange, Berwick

S38 Bond from G M Craig Building for works at Meadow Grange, Berwick. This has been repaid to the developer as the scheme is now complete.

### 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.

### 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 has been repaid to the developer upon completion.

### North Stobswood Opencast Coal Site

Northumberland County Council is holding the interest on the bond as the site is in the aftercare period. This will be reviewed in 2019.

### Olive Grove Ltd, Rose Villa, Seghill

This is a section 38 Agreement for residential development at Rose Villa, Seghill. The bond will be repaid upon completion.

### Portland Park Infrastructure Works

The Council is currently holding £1.47 million in relation to the on-going works on the Portland Park Infrastructure. The sum will be repayable to the developer on satisfactory completion of the works and after the specified maintenance period.

### Rent Deposit Client Funds

Private Sector tenants contributions towards rent deposits.

### Lightpipe Longframlington

Section S278 Agreement for Lightpipe, Longframlington. The balance is to be repaid to the developer upon completion.

### Able Construction

This is a Section 38 agreement for residential development at Piper Road, Ovingham. The bond will be repaid upon completion.

### Sisters Windfarm

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

### Southlane SJ Williams

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

### The Northumberland Children's Fund

This money is made available for the benefit of young people in Northumberland by way of a grant. Grants totalling £0.24 million have been paid to organisations in 2018-19, and income of £0.28 million has been received from the holders of the Trust Fund. The overdrawn balance is to be recovered in 2019-20 from the holders of the Trust Fund.

### Twickenham Court

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

## 39. Impairment Losses

There have been no impairment losses during 2018-19

## 40. Contingent Liabilities

### Claim for Compensation in relation to land acquired to construct the Morpeth Northern Bypass

There is a provisional claim of significant value against the Council for compensation in relation to the Council's exercise of compulsory purchase powers for land relating to the Morpeth Northern Bypass.

As part of the process to help determine compensation an application has been submitted under Section 17 of the Land Compensation Act 1961. This will determine whether any planning use would have been allowed at the date of the Development Consent Order/Compulsory Purchase Order. The Council has refused the application and is currently defending an appeal at the Upper Tribunal.

### 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 Council was notified on 13 June 2018 that the Performance Deed had been revalued at £0.33 million. This 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. In 2017 the Council consulted with the Environment Agency regarding the potential surrender of the Environmental Permit, and agreed to extend the period of environmental monitoring. The environmental monitoring has been completed and reviewed by the Environment Agency, and the Council has submitted an application to surrender the Environmental Permit in February 2018. The Environment Agency assessed the application and requested further information and an extended period of environmental monitoring before determination of the application can be made. The Council submitted the requested

information to the Environment Agency in March 2019 and awaits the outcome of their assessment.

### Home Housing Association

Future possible payments may be required to Home Housing association, a subsidiary of Home Group Limited, in relation to the guarantee given against loan stock which was used to fund the build of approximately 100 properties. The Council's proportion of the total liability is £2.72 million (3.18%) and may 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 guarantee will expire in 2037, 50 years from the date of original agreement in 1987.

### National Non-Domestic Rates Appeals

From 1 April 2013 new arrangements for the retention of business rates came into effect. Local Authorities in general are allowed to retain a proportion of the business rates collected within their area. For Northumberland this share is 50%. In addition, from 1 April 2013 Local Authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes 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 £10.20 million has been created within the 2018-19 accounts based on the best estimate of the actual liability to meet the cost of known appeals. This has been allocated 50% to Northumberland County Council and 50% to Central Government. It is not possible to quantify



appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts. There is currently a national claim for charitable exemption in relation to NHS properties which could see backdated appeals for a total of seven 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 up to £20.00 million. As with other NNDR appeals the provision would be shared between the Council and Central Government.

### 41. Contingent Assets

#### Compensation claims against waste vehicle price fixing

In April 2017 the Council accepted the Local Government Association's (LGA) offer of support to councils considering the possibility of collectively bringing a claim for compensation against certain truck manufacturers who engaged in price fixing between 1997 and 2011 (a price fixing cartel). This cartel activity was investigated by the European Commission and record fines of almost €2.93 billion were imposed on certain manufacturers in July 2016.

In July 2018, the UK's Road Haulage Association has submitted an application to the Competition Appeal Tribunal in respect of a claim against the European truck manufacturers on behalf of UK road hauliers. We cannot identify at this stage the potential scope of any compensation due to the Council.

## 42. Accounting Policies

### General Principles

The Statement of Accounts summarises the Councils transactions for the 2018-19 financial year and its position at the year-end of 31 March 2019. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018-19, 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.

### 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract;
- 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; and,
- 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.

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.

Accruals are recognised where the value exceeds £0.01 million.

### 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

## Notes to the Accounts

the items are to aid an understanding of the Council's financial performance.

### 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.

### 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 if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

### 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; and,
- 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.

## 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 at 31 March. 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

## Notes to the Accounts

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 nine pension schemes:

- **The Local Government Pension Scheme** (LGPS) administered by Northumberland County Council;
- **The LGPS Unfunded Scheme** administered by Northumberland County Council;
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council;
- **The Firefighters' Pension Scheme** (FPS) administered by Northumberland County Council;
- **The New Firefighters' Pension Scheme** (NFPS) administered by Northumberland County Council;
- **The 2015 Firefighters' Pension Scheme** administered by Northumberland County Council;

- The Firefighters' Injury Pensions and non-scheme Ill-Health Pensions administered by Northumberland County Council;
- **Teachers' Pension Scheme** administered by CAPITA Teachers' Pensions on behalf of the Department for Education; and,
- **The NHS Pension Scheme** administered by NHS Business Services Authority on behalf of the Department of Health.

All of the schemes provide members with defined benefits, earned as employees working for the Council.

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payment of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to these schemes 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; and, property at market value.



## Notes to the Accounts

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

| Component  | Description  |
|--|--|
| Service cost comprising:   |  |
| Current service cost   | The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.  |
| Past service cost  | The increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.  |
| 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. |
| Remeasurement comprising:  |  |
| 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.

## Notes to the Accounts

### 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.

### Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and then carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the

effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and, interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over either the

term of the replacement loan or the remaining term on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and,
- fair value through other comprehensive income (FVOCI).

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore largely classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

## Notes to the Accounts

### Financial Assets Measured at Amortised Cost

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

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the

voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets Measured at Fair Value through Other Comprehensive Income

The Authority has elected to classify its equity shareholdings in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) and Advance Northumberland Limited into a 'fair value through other comprehensive income' treatment, rather than 'fair value through profit or loss', as the assets are not held for trading.

The impact of the election is that movements in fair value will not be debited/credited to the Surplus or Deficit on the Provision of Services as they arise. Instead, movements will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund Balance.

### Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### 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.

### Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as

## Notes to the Accounts

due to the Council when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the

Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### 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; and,

- 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 recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet; and,
- These assets have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

#### Historic Buildings

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

#### Archaeology

- The Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. This is because of the diverse nature of the assets

## Notes to the Accounts

held and lack of comparable market values. Consequently, the Council does not recognise these assets on the Balance Sheet; and,

- 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.

### 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 posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.01 million) the Capital Receipts Reserve.

### 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



## Notes to the Accounts

to difference in accounting treatment. Where material differences are identified, the subsidiary accounts are aligned to the accounting policy of the Council upon consolidation.

### Inventories

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

### Investment Properties

Investment properties are those that are used solely to earn rental income 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 £0.01 million) the Capital Receipts Reserve.

### Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

### The Council as Lessee Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied

to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## Notes to the Accounts

### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased Property, Plant or Equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Council as Lessor Finance Leases

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

### Overheads and Support Services

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

### 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

## Notes to the Accounts

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 £0.01 million 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; and,
- 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);
- surplus assets - current value, determined using the fair value approach by the measurement of the highest and best use value; and,
- 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



## Notes to the Accounts

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.

### 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 £0.01 million are categorised as capital receipts. A proportion of receipts relating to housing 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).

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)

## Notes to the Accounts

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

| Asset  | Depreciation Period                                     |
|--|---|
| <b>Land &amp; Buildings &amp; Community Assets</b><br>(after deducting residual value) | 4 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  |
| Furniture and Fittings, ICT, other equipment   | 3 to 15 years   |
| Grounds maintenance / car parking equipment  | 5 to 10 years   |
| Other vehicles   | 2 to 15 years   |
| Play / sport / gym equipment   | 3 to 20 years   |
| Salt Barns   | 25 years  |
| Solar Panels   | 5 to 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.

## Notes to the Accounts

### 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;
- 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); and,
- 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.

### 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

## Notes to the Accounts

occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### Contingent Assets

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

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

### 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.

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

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.

### 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.

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

The Council participated in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme ended on 31 March 2019. The Council was 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.

### 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

## Notes to the Accounts

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.

### Accounting for Schools

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

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

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

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital

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

### 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, of 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.



### 43. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted and other issues

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

- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020.
- **IAS 40 Investment Property: Transfers of Investment Property** provides further explanation of the instances in which a property can be reclassified as an investment property. This will have no impact on the Council as it already complies.
- **IFRIC 22 Foreign Currency Transactions and Advance Considerations** clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- **IFRIC 23 Uncertainty over Income Tax Treatments** provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the Council's accounts.

### 44. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 42, 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 £66.21 million for Waste and £13.33 million for Fire and Rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet;
- The Council currently has outstanding liabilities relating to equal pay of £2.76 million which is an estimated amount due to HMRC relating to employer tax contributions, penalties and interest;
- When undertaking the valuation of the Council's assets the valuation firm BNP Paribas Real Estates UK 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; and,
- The Council recognises school land and buildings on its Balance Sheet where the Council, the school or the school's Governing Body directly own the asset or have ownership rights and control of the property. 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 in the Council's Balance Sheet.

## Notes to the Accounts

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<br>£000 | No. of Primary Schools<br>£000 | No. of Secondary Schools<br>£000 | No. of Special Schools<br>£000 | No. of All Through Schools<br>£000 | No. of Pupil Referral Units<br>£000 |
|---------------------------------|------------------------------|--------------------------------|----------------------------------|--------------------------------|------------------------------------|-------------------------------------|
| Community                       | 81                           | 62                             | 11                               | 7                              | 1                                  | -                                   |
| Foundation                      | 5                            | 3                              | 2                                | -                              | -                                  | -                                   |
| Pupil Referral Unit             | 1                            | -                              | -                                | -                              | -                                  | 1                                   |
| Voluntary Aided                 | 29                           | 28                             | 1                                | -                              | -                                  | -                                   |
| Voluntary Controlled            | 9                            | 9                              | -                                | -                              | -                                  | -                                   |
| <b>Total Maintained Schools</b> | <b>125</b>                   | <b>102</b>                     | <b>14</b>                        | <b>7</b>                       | <b>1</b>                           | <b>1</b>                            |
| Academies                       | 39                           | 19                             | 16                               | 2                              | 2                                  | -                                   |
| Free Schools                    | 1                            | 1                              | -                                | -                              | -                                  | -                                   |
| <b>Total Schools</b>            | <b>165</b>                   | <b>122</b>                     | <b>30</b>                        | <b>9</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.

The following schools have all converted to academy status during 2018-19:

- Harbottle Church of England First School (April 2018)
- Thropton Village First School (April 2018);
- Dr Thomlinson Church of England Middle School (April 2018);
- Bedlingtonshire Community High School (April 2018);
- Hexham Priory School (September 2018);
- Ponteland Primary School (February 2019);
- Darras Hall Primary School (February 2019);
- Heddon-On-the-Wall, St Andrew's Church of England Primary School (February 2019);
- Richard Coates Church of England School (February 2019);
- Ponteland Community High School (February 2019); and,
- Belsay Primary School (March 2019).



## Notes to the Accounts

The net book value of these assets at the time of disposal was £31.86 million. 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. Ponteland Primary School and Ponteland Community High School land and buildings remain on the Balance Sheet as they were only subject to a 5 year lease to the Academy, when they will move into a new purpose built premises and the Council will retain the current buildings.

### 45. 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 2019 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 2019 was £1,339.36 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 £1.83 million in 2018-19 bringing the total amount provided for since 2008-09 to £14.67 million. Of this, £2.78 million remains on the balance sheet as at 31 March 2019 for the settlement of employer tax contributions relating to payments made since 2008, including any penalties and interest.  | The amount due to HMRC relating to employer tax contributions, penalties and interest is an estimate between PWC and HMRC. This figure is a worst-case scenario; PWC believe a lower penalty will be agreed.   |
| Pensions Liability            | At 31 March 2019, the Council had a net pension liability of £713.94 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 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.   | 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 £28.24 million. However, the assumptions interact in complex ways. During 2018-19, the Council's actuary advised that the net pension liability for funded LGPS benefits had increased by £79.30 million due to changes in the financial assumptions, and decreased by £61.68 million due to changes in the demographic assumptions. There was also an increase of £2.64 million due to changes in liability experience. |
| Arrears                       | At 31 March 2019, the Council had a balance of sundry debtors of £11.56 million. A review of significant balances suggested that an impairment of doubtful debts of 4% (£0.59 million) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.  | If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require £1.18 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.

## 46. Events After the Reporting Period

The Statement of Accounts will be authorised for issue by the Interim Section 151 Officer on 31 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events take place before this date, provided information about conditions existed at 31 March 2019, 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 2019.

### Academy Conversions

There are nine schools currently in the process of converting to the Tyne Community Learning Trust, a multi-academy trust for the Prudhoe partnership. The process is still ongoing and not expected to be complete until September 2019 at the earliest.

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# Supplementary Financial Statements

Housing  
Revenue  
Account

## Supplementary Financial Statements

### Housing Revenue Account (HRA) Income and Expenditure Statement for the year ended 31 March 2019

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.

| 2017-18<br>£000 |   | Note | 2018-19<br>£000 |
|-----------------|---|------|-----------------|
|                 | Expenditure:  |      |                 |
| 7,433           | Repairs and maintenance   |      | 7,936           |
| 6,990           | Supervision and management  |      | 6,750           |
| 895             | Rents, rates, taxes and other charges   |      | 850             |
| 8,924           | Depreciation of Fixed Assets  |      | 8,937           |
| 7               | Debt management costs   |      | 7               |
| 408             | Movement in the allowance for Bad Debt (not specified by the Code)  | 9    | 330             |
| <b>24,657</b>   | <b>Total Expenditure</b>  |      | <b>24,810</b>   |
|                 | Income:   |      |                 |
| (29,850)        | Dwelling rents (gross)  |      | (29,401)        |
| (304)           | Non dwelling rents (gross)  |      | (336)           |
| (1,683)         | Charges for services and facilities   |      | (1,580)         |
| (439)           | Contributions towards expenditure   |      | (394)           |
| (13,085)        | Revaluation gains   |      | (5,925)         |
| <b>(45,361)</b> | <b>Total Income</b>   |      | <b>(37,636)</b> |
| <b>(20,704)</b> | <b>Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement</b>                 |      | <b>(12,826)</b> |
| 190             | HRA services' share of Corporate and Democratic Core costs  |      | 196             |
| <b>(20,514)</b> | <b>Net cost for HRA Services</b>  |      | <b>(12,630)</b> |
|                 | HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement: |      |                 |
| 7               | Capital grants and contributions applied  | 1    | (200)           |
| 4,170           | Interest payable and similar charges  |      | 3,917           |
| (200)           | Interest and investment income  |      | (301)           |
| 691             | Pensions net interest expense   |      | 706             |
| <b>(15,846)</b> | <b>Surplus for the year on HRA Services</b>   |      | <b>(8,508)</b>  |

## Supplementary Financial Statements

### Movement on the Housing Revenue Account Statement

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

| 2017-18<br>£000 |  | Note | 2018-19<br>£000 |
|-----------------|--|------|-----------------|
| <b>(23,552)</b> | <b>Balance on the HRA at the end of the previous year</b>            |      | <b>(27,385)</b> |
| (15,846)        | Surplus for the year on the HRA Income and Expenditure Statement     |      | (8,508)         |
| 12,013          | Adjustments between accounting basis and funding basis under Statute | 1    | 5,073           |
| <b>(3,833)</b>  | <b>Net increase before transfers to or from reserves</b>             |      | <b>(3,435)</b>  |
| -               | Transfer (to) or from earmarked reserves                             | 10   | 2,000           |
| <b>(3,833)</b>  | <b>Increase in year on the HRA</b>                                   |      | <b>(1,435)</b>  |
| <b>(27,385)</b> | <b>Balance on the HRA at the end of the current year</b>             |      | <b>(28,820)</b> |

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

| 2017-18<br>£000  | 2018-19<br>£000 |
|--|-----------------|
| Analysis of adjustments between accounting basis and funding basis under Statute included within the Movement on the HRA Statement |                 |
| 13,085   | 5,925           |
| Transfers to the Capital Adjustment Account  |                 |
| (7)  | 200             |
| Capital grants and contributions applied   |                 |
| (1,042)  | (1,080)         |
| HRA share of contributions to the Pensions Reserve   |                 |
| (23)   | 28              |
| Accumulated Absences   |                 |
| <b>12,013</b>  | <b>5,073</b>    |
| <b>Total</b>   |                 |

## 2. Housing Stock

| 2017-18<br>No.                | 2018-19<br>No. |
|-------------------------------|----------------|
| 7,194                         | 7,154          |
| Houses and Bungalows          |                |
| 1,334                         | 1,344          |
| Flats                         |                |
| 4                             | 4              |
| Shared Ownership              |                |
| 10                            | 10             |
| Houses in Multiple Occupation |                |
| <b>8,542</b>                  | <b>8,512</b>   |
| <b>Total</b>                  |                |

### 2a. An analysis of the change in stock is as follows:

| 2017-18<br>No.           | 2018-19<br>No. |
|--------------------------|----------------|
| <b>8,584</b>             | <b>8,542</b>   |
| <b>Stock at 1 April</b>  |                |
| -                        | 19             |
| Additions                |                |
| (42)                     | (49)           |
| Sales                    |                |
| <b>8,542</b>             | <b>8,512</b>   |
| <b>Stock at 31 March</b> |                |



## 3. Housing Revenue Account Fixed Assets

|  | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | Vehicles, Plant and Equipment<br>£000 | Surplus Assets<br>£000 | Investment Properties<br>£000 | Intangible Assets<br>£000 | Assets under construction<br>£000 | Total<br>£000  |
|--|---------------------------|----------------------------------|---------------------------------------|------------------------|-------------------------------|---------------------------|-----------------------------------|----------------|
| <b>Gross book value at 1 April 2018</b>  | <b>312,464</b>            | <b>2,113</b>                     | <b>75</b>                             | <b>252</b>             | <b>302</b>                    | <b>-</b>                  | <b>3,245</b>                      | <b>318,451</b> |
| Re-categorisation                        | 3,003                     | (14)                             | -                                     | -                      | -                             | 110                       | (3,099)                           | -              |
| Additions                                | 8,758                     | -                                | -                                     | -                      | -                             | 186                       | 1,276                             | 10,220         |
| Disposals                                | (2,097)                   | -                                | -                                     | -                      | -                             | -                         | -                                 | (2,097)        |
| Revaluations                             | (2,937)                   | 504                              | -                                     | -                      | -                             | -                         | -                                 | (2,433)        |
| <b>Gross book value at 31 March 2019</b> | <b>319,191</b>            | <b>2,603</b>                     | <b>75</b>                             | <b>252</b>             | <b>302</b>                    | <b>296</b>                | <b>1,422</b>                      | <b>324,141</b> |
| Depreciation at 1 April 2018             | -                         | 85                               | 15                                    | -                      | -                             | -                         | -                                 | 100            |
| Charged in year                          | 8,848                     | 74                               | 15                                    | -                      | -                             | -                         | -                                 | 8,937          |
| Revaluations                             | (8,848)                   | (50)                             | -                                     | -                      | -                             | -                         | -                                 | (8,898)        |
| Depreciation at 31 March 2019            | -                         | 109                              | 30                                    | -                      | -                             | -                         | -                                 | 139            |
| <b>Net book value at 31 March 2019</b>   | <b>319,191</b>            | <b>2,494</b>                     | <b>45</b>                             | <b>252</b>             | <b>302</b>                    | <b>296</b>                | <b>1,422</b>                      | <b>324,002</b> |
| <b>Net book value at 1 April 2018</b>    | <b>312,464</b>            | <b>2,028</b>                     | <b>60</b>                             | <b>252</b>             | <b>302</b>                    | <b>-</b>                  | <b>3,245</b>                      | <b>318,351</b> |

The value of Council dwellings at 31 March 2019 of £319.19 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £760.25 million. This shows that the economic cost to government of providing council housing at less than open market value is £441.06 million.

The 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 £0.48 million. Surplus Assets consists of land valued at £0.25 million, and investment properties include £0.01 million worth of land.

Following guidance from the Ministry of Housing, Communities and Local Government (MHCLG) on Stock Valuation for Resource Accounting and advice from the Council's valuers, BNP Paribas Real Estate UK, the Existing Use Value – Social Housing adjustment factor continues to be valued at 42% (42% in 2017-18). 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 the local authority area. This is in line with the +/- 5 percentage points tolerance permitted within the MHCLG guidance.

#### 4. Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve (MRR) 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 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 from 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:

| 2017-18        |   | 2018-19        |
|----------------|---|----------------|
| £000           |   | £000           |
|                | Income:                                       |                |
| (8,924)        | Depreciation on Fixed Assets                  | (8,937)        |
| <b>(8,924)</b> | <b>Total Income</b>                           | <b>(8,937)</b> |
|                | Expenditure:                                  |                |
|                | Capital expenditure funded from the Reserve   |                |
| 7,586          | Houses  | 9,528          |
| <b>7,586</b>   | <b>Total Expenditure</b>                      | <b>9,528</b>   |
| <b>(1,338)</b> | <b>(Increase)/Decrease in year on the MRR</b> | <b>591</b>     |
| (2,139)        | Balance brought forward at 1 April            | (3,477)        |
| <b>(3,477)</b> | <b>Balance carried forward at 31 March</b>    | <b>(2,886)</b> |

#### 5. HRA Capital Expenditure and Financing

| 2017-18      |                              | 2018-19       |
|--------------|------------------------------|---------------|
| £000         |                              | £000          |
|              | Expenditure:                 |               |
| 7,639        | Houses                       | 10,034        |
| 110          | Vehicle, Plant and Equipment | 186           |
| <b>7,749</b> | <b>Total Expenditure</b>     | <b>10,220</b> |
|              | Financing:                   |               |
| (7)          | Government Grants            | 200           |
| 170          | Capital Receipts             | 492           |
| 7,586        | Major Repairs Reserve        | 9,528         |
| <b>7,749</b> | <b>Total Financing</b>       | <b>10,220</b> |

## 6. 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<br>£000 | Usable Element<br>£000 | Reserved Element<br>£000 |
|--------|-----------------------|------------------------|--------------------------|
| Houses | 2,298                 | 1,195                  | 1,103                    |

## 7. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a charge of £1.08 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.

## 8. Tenant Arrears

At the end of the final collection week in 2018-19, tenant rent arrears were as follows:

| As at 31 March 2018 |             |                            | As at 31 March 2019 |             |  |
|---------------------|-------------|----------------------------|---------------------|-------------|--|
| £000                | %           |                            | £000                | %           |  |
| Rents:              |             |                            |                     |             |  |
| 624                 | 2.09        | Current tenants            | 591                 | 2.01        |  |
| 1,291               | 4.33        | Former tenants             | 1,292               | 4.40        |  |
| <b>1,915</b>        | <b>6.42</b> | <b>Balance at 31 March</b> | <b>1,883</b>        | <b>6.41</b> |  |

## 9. Provision for Impairment of Debt

The provision for bad debt required at 31 March 2019 is £2.59 million compared with £2.65 million at 31 March 2018, a decrease of £0.06 million.

Bad Debts of £0.39 million were written off during the year and a contribution of £0.33 million was made to the provision.

The provision for bad debts at 31 March 2019 is:

| 2017-18      |                                   | 2018-19      |
|--------------|-----------------------------------|--------------|
| £000         |                                   | £000         |
| <b>2,451</b> | <b>Balance at 1 April</b>         | <b>2,651</b> |
| (208)        | Bad Debts written off during year | (394)        |
| 408          | Increase in provision             | 330          |
| <b>2,651</b> | <b>Balance at 31 March</b>        | <b>2,587</b> |

## 10. Earmarked Reserve - HRA

An Earmarked Reserve has been created in line with the HRA budget approved by the Council on 21 February 2019 to fund the development and delivery of a housing development plan.

The movement in Earmarked Reserve is shown below:

| 2017-18 |                               | 2018-19        |
|---------|-------------------------------|----------------|
| £000    |                               | £000           |
| -       | <b>Balance at 1 April</b>     | -              |
| -       | Transfer to Earmarked Reserve | (2,000)        |
| -       | <b>Balance at 31 March</b>    | <b>(2,000)</b> |

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# Supplementary Financial Statements

## Collection Fund

## Supplementary Financial Statements

### Collection Fund Account

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 and NNDR 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 and the NNDR precepting body is Central Government.

| 2017-18<br>Total<br>£000 |   | Note | Council Tax<br>£000 | NNDR<br>£000    | 2018-19<br>Total<br>£000 |
|--------------------------|---|------|---------------------|-----------------|--------------------------|
|                          | Income:   |      |                     |                 |                          |
| (179,695)                | Council Tax   | 1    | (190,933)           | -               | (190,933)                |
| (78,505)                 | Business Rates                                      | 2    | -                   | (78,821)        | (78,821)                 |
| (1,585)                  | Transitional Protection Payments                    |      | -                   | (2,408)         | (2,408)                  |
| <b>(259,785)</b>         | <b>Total Income</b>                                 |      | <b>(190,933)</b>    | <b>(81,229)</b> | <b>(272,162)</b>         |
|                          | Expenditure:  |      |                     |                 |                          |
|                          | Apportionment of previous year's surplus/(deficit): |      |                     |                 |                          |
| 5,670                    | Northumberland County Council                       |      | 3,460               | 1,082           | 4,542                    |
| 400                      | Police and Crime Commissioner for Northumbria       |      | 217                 | -               | 217                      |
| (693)                    | Central Government - Share                          |      | -                   | 1,082           | 1,082                    |
|                          | Precepts, demands and shares:                       |      |                     |                 |                          |
| 195,306                  | Northumberland County Council                       | 2    | 167,726             | 38,747          | 206,473                  |
| 8,168                    | Parish and Town Councils                            |      | 8,562               | -               | 8,562                    |
| 9,946                    | Police and Crime Commissioner for Northumbria       |      | 11,327              | -               | 11,327                   |
| 37,708                   | Central Government - Share                          | 2    | -                   | 38,747          | 38,747                   |
|                          | Charges to Collection Fund:                         |      |                     |                 |                          |
| 479                      | Costs of collection                                 |      | -                   | 478             | 478                      |
| 486                      | Provision for bad debts                             |      | 489                 | 1,260           | 1,749                    |
| 1,263                    | Provision for appeals                               |      | -                   | 483             | 483                      |
| 3,113                    | Disregarded amounts                                 |      | -                   | 2,432           | 2,432                    |
| <b>261,846</b>           | <b>Total Expenditure</b>                            |      | <b>191,781</b>      | <b>84,311</b>   | <b>276,092</b>           |
| <b>2,061</b>             | <b>(Surplus)/Deficit for year</b>                   |      | <b>848</b>          | <b>3,082</b>    | <b>3,930</b>             |
| (4,126)                  | Opening fund balance                                |      | (3,263)             | 1,198           | (2,065)                  |
| <b>(2,065)</b>           | <b>Closing fund balance</b>                         |      | <b>(2,415)</b>      | <b>4,280</b>    | <b>1,865</b>             |
|                          | Allocated to:                                       |      |                     |                 |                          |
| (2,472)                  | Northumberland County Council                       |      | (2,262)             | 2,140           | (122)                    |
| (192)                    | Police and Crime Commissioner for Northumbria       |      | (153)               | -               | (153)                    |
| 599                      | Central Government                                  |      | -                   | 2,140           | 2,140                    |
| <b>(2,065)</b>           |   |      | <b>(2,415)</b>      | <b>4,280</b>    | <b>1,865</b>             |

## 1. Council Tax

The Council collects Council Tax charged on residential properties based upon property valuations estimated at 1 April 1991. These valuations are classified into 8 valuation bands. The calculation of the tax base (adjusted for discounts and exemptions and expressed as an equivalent number of Band D dwellings) was approved at Full Council in February 2018.

The net Council Tax liability in 2018-19 was £190.93 million (£179.70 million in 2017-18).

| Properties<br>No. | 2017-18                                   |                            |                                     | Proportion | 2018-19           |   |                            |
|-------------------|---|----------------------------|-------------------------------------|------------|-------------------|---|----------------------------|
|                   | Band D<br>equivalent<br>Properties<br>No. | Council Tax<br>Charge<br>£ | Council Tax<br>Band                 |            | Properties<br>No. | Band D<br>equivalent<br>Properties<br>No. | Council Tax<br>Charge<br>£ |
| -                 | 69.92                                     | 920.22                     | A (Disabled)                        | 5/9        | -                 | 66.81                                     | 968.87                     |
| 70,599            | 29,778.13                                 | 1,104.27                   | A                                   | 6/9        | 70,566            | 30,026.35                                 | 1,162.64                   |
| 23,797            | 15,280.74                                 | 1,288.31                   | B                                   | 7/9        | 24,082            | 15,465.95                                 | 1,356.41                   |
| 19,294            | 14,978.99                                 | 1,472.35                   | C                                   | 8/9        | 19,612            | 15,196.04                                 | 1,550.19                   |
| 15,775            | 14,466.93                                 | 1,656.40                   | D                                   | 9/9        | 16,090            | 14,784.04                                 | 1,743.96                   |
| 10,262            | 11,611.14                                 | 2,024.49                   | E                                   | 11/9       | 10,523            | 11,920.90                                 | 2,131.51                   |
| 6,492             | 8,831.82                                  | 2,392.57                   | F                                   | 13/9       | 6,586             | 8,946.67                                  | 2,519.05                   |
| 4,006             | 6,304.22                                  | 2,760.67                   | G                                   | 15/9       | 4,087             | 6,430.80                                  | 2,906.60                   |
| 515               | 867.22                                    | 3,312.80                   | H                                   | 18/9       | 523               | 893.04                                    | 3,487.92                   |
| <b>150,740</b>    | <b>102,189.11</b>                         |                            | <b>Total</b>                        |            | <b>152,069</b>    | <b>103,730.60</b>                         |                            |
|                   | 181.80                                    |                            | Band D<br>equivalent<br>adjustments |            |                   | 179.60                                    |                            |
|                   | <b>102,370.91</b>                         |                            | <b>Gross Tax<br/>Base</b>           |            |                   | <b>103,910.20</b>                         |                            |
|                   | (1,223.21)                                |                            | Adjustment<br>for non<br>collection |            |                   | (1,241.51)                                |                            |
|                   | <b>101,147.70</b>                         |                            | <b>Net Tax<br/>Base</b>             |            |                   | <b>102,668.69</b>                         |                            |

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

The Council collects business rates for its area based on rateable values, set by the Valuation Office Agency, and multipliers, set by Central Government. The two business rates multipliers, expressed as a rate in the pound (pence/£), are shown in the following table:

| 2017-18<br>p/£ |                           | 2018-19<br>p/£ |
|----------------|---------------------------|----------------|
| 47.9           | Standard Multiplier       | 49.3           |
| 46.6           | Small Business Multiplier | 48.0           |

The total non-domestic rateable value of all properties in Northumberland is shown in the table below:

| 2017-18<br>£000 |                            | 2018-19<br>£000 |
|-----------------|----------------------------|-----------------|
| 225,223         | Rateable Value at 31 March | 227,725         |

The Council retains 50% of the rates income collected and the remaining 50% is paid to Central Government. The relevant shares payable for 2018-19 were estimated before the start of the financial year in line with regulations. Those estimates are shown in the following table:

| 2017-18<br>£000 |                               | 2018-19<br>£000 |
|-----------------|-------------------------------|-----------------|
| 37,708          | Northumberland County Council | 38,747          |
| 37,708          | Central Government            | 38,747          |

A system of top ups and tariffs is in place to ensure that authorities receive income in line with their previously assessed '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 the Council received a top up grant in 2018-19 of £26.49 million. A further safety net system acts to ensure that any local authority is protected from a net localised business rate yield of less than 92.5% of its assessed baseline funding.

The provisional Local Government Finance Settlement of 13 December 2018 announced that the Council had been successful in its joint bid, with Newcastle City Council and North Tyneside Council, to become a pilot for retention of 75% Business Rates income for 2019-20. The approval is currently for 2019-20 only.



# Supplementary Financial Statements

Group  
Accounts

## **Supplementary Financial Statements**

### **Group Accounts Explanatory Foreword**

The CIPFA Code of Practice requires that where an authority has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

### **Bodies Consolidated within the Group Accounts**

On 13 November 2018 all assets, liabilities and shares of the Arch Group were transferred to Advance Northumberland Limited.

The Advance Group is classified as a wholly owned subsidiary of the Council and has been consolidated within the group position on a line by line basis, with all intra-group transactions and balances removed.

Arch (Corporate Holdings) Limited remains a fully owned subsidiary of the Council and has been consolidated within the group position on a line by line basis, with all remaining intra-group transactions and balances removed.

Further information in respect of the Council's relationship with Arch (Corporate Holdings) Limited and Advance Northumberland Limited is given within note 37 to the Council's Financial Statements, Related Parties.

### **Bodies Not Consolidated within the Group Accounts**

An assessment of the Council's relationship with Active Northumberland in 2017-18 concluded that there was no requirement to consolidate its financial position within the Council's group position. The assessment concluded that the Council did not have significant control over Active Northumberland. There has been no change in the relationship between Active Northumberland and the Council during 2018-19. Further information in respect of the Council's relationship with Active Northumberland is contained within note 37 to the Council's Financial Statements, Related Parties.

## Supplementary Financial Statements

### Group Comprehensive Income and Expenditure Statement

This statement sets out the income and expenditure relating to the Group, together with any appropriations to reserves.

| Restated 2017-18          |                      |                         |  | 2018-19 |                           |                      |                         |
|---------------------------|----------------------|-------------------------|--|---------|---------------------------|----------------------|-------------------------|
| Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |  | Note    | Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |
| 182,848                   | (103,935)            | 78,913                  | Adult Services   |         | 198,106                   | (107,666)            | 90,440                  |
| 608                       | (209)                | 399                     | Chief Executive  |         | 1,288                     | (492)                | 796                     |
| 274,408                   | (215,005)            | 59,403                  | Children's Services  |         | 262,389                   | (201,906)            | 60,483                  |
| 140,268                   | (90,167)             | 50,101                  | Finance  |         | 165,407                   | (88,568)             | 76,839                  |
| 20,497                    | (2,477)              | 18,020                  | Human Resources & Organisational Development   |         | 24,885                    | (2,872)              | 22,013                  |
| 24,844                    | (45,361)             | (20,517)                | Local Authority Housing (HRA)  |         | 24,995                    | (37,636)             | (12,641)                |
| 112,264                   | (36,882)             | 75,382                  | Place  |         | 111,769                   | (39,681)             | 72,088                  |
| 6,563                     | (307)                | 6,256                   | Corporate Expenditure & Income   |         | 12,564                    | (486)                | 12,078                  |
| 21,817                    | (37,296)             | (15,479)                | Subsidiary Companies   |         | 50,485                    | (61,544)             | (11,059)                |
| <b>784,117</b>            | <b>(531,639)</b>     | <b>252,478</b>          | <b>Cost Of Services</b>  |         | <b>851,888</b>            | <b>(540,851)</b>     | <b>311,037</b>          |
| 49,563                    | (18,331)             | 31,232                  | Other Operating Income and Expenditure   |         | 88,017                    | (39,413)             | 48,604                  |
| 59,833                    | (10,849)             | 48,984                  | Financing and Investment Income and Expenditure  | 7       | 68,611                    | (18,021)             | 50,590                  |
| -                         | (338,696)            | (338,696)               | Taxation and Non-Specific Grant Incomes  |         | -                         | (346,539)            | (346,539)               |
| <b>893,513</b>            | <b>(899,515)</b>     | <b>(6,002)</b>          | <b>Group (Surplus) or Deficit on Provision of Services</b>   |         | <b>1,008,516</b>          | <b>(944,824)</b>     | <b>63,692</b>           |
|                           |                      | (13,762)                | (Surplus) on Revaluation of Non Current Assets   |         |                           |                      | (16,871)                |
|                           |                      | 12                      | (Surplus)/Deficit from investments in equity instruments designated at fair value through other comprehensive income |         |                           |                      | (127)                   |
|                           |                      | 14,810                  | Actuarial (Gains)/Losses on post employment benefits   |         |                           |                      | (37,170)                |
|                           |                      | <b>1,060</b>            | <b>Other Comprehensive Income and Expenditure</b>  |         |                           |                      | <b>(54,168)</b>         |
|                           |                      | <b>(4,942)</b>          | <b>Total Comprehensive Income and Expenditure</b>  |         |                           |                      | <b>9,524</b>            |

The 2017-18 analysis of the cost of services has been restated due to a change in the reporting structure within the Council.

**Supplementary Financial Statements**  
**Group Movement in Reserves Statement**

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 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 and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes.

|  | General Fund Balance<br>£000 | Earmarked General Fund Reserves<br>£000 | Housing Revenue Account<br>£000 | Earmarked HRA Reserve<br>£000 | Capital Receipts Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Major Repairs Reserve<br>£000 | Total Council Usable Reserves<br>£000 | Total Council Unusable Reserves<br>£000 | Council's share of Group Reserves<br>£000 | Total Group Reserves<br>£000 |
|--|------------------------------|---|---------------------------------|-------------------------------|----------------------------------|----------------------------------|-------------------------------|---------------------------------------|---|---|------------------------------|
| <b>Balance brought forward 1 April 2017</b>                              | <b>(53,036)</b>              | <b>(100,590)</b>                        | <b>(23,552)</b>                 | <b>-</b>                      | <b>(263)</b>                     | <b>(20,383)</b>                  | <b>(2,139)</b>                | <b>(199,963)</b>                      | <b>(139,461)</b>                        | <b>(60,253)</b>                           | <b>(399,677)</b>             |
| Movement in Reserves during 2017-18:                                     |                              |   |                                 |                               |                                  |                                  |                               |                                       |   |   |                              |
| (Surplus)/Deficit on the provision of services                           | (678)                        | -                                       | (15,846)                        | -                             | -                                | -                                | -                             | (16,524)                              | -                                       | 10,522                                    | (6,002)                      |
| Other Comprehensive Income and Exp'd                                     | -                            | -                                       | -                               | -                             | -                                | -                                | -                             | -                                     | 4,463                                   | (3,403)                                   | 1,060                        |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>(678)</b>                 | <b>-</b>                                | <b>(15,846)</b>                 | <b>-</b>                      | <b>-</b>                         | <b>-</b>                         | <b>-</b>                      | <b>(16,524)</b>                       | <b>4,463</b>                            | <b>7,119</b>                              | <b>(4,942)</b>               |
| Adjustments between accounting basis & funding basis under regulations   | (12,114)                     | -                                       | 12,013                          | -                             | (523)                            | (1,956)                          | (1,338)                       | (3,918)                               | 3,918                                   | -   | -                            |
| <b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>    | <b>(12,792)</b>              | <b>-</b>                                | <b>(3,833)</b>                  | <b>-</b>                      | <b>(523)</b>                     | <b>(1,956)</b>                   | <b>(1,338)</b>                | <b>(20,442)</b>                       | <b>8,381</b>                            | <b>7,119</b>                              | <b>(4,942)</b>               |
| Transfers to/(from) Earmarked Reserves                                   | 10,395                       | (10,395)                                | -                               | -                             | -                                | -                                | -                             | -                                     | -                                       | -   | -                            |
| <b>(Increase)/Decrease in 2017-18</b>                                    | <b>(2,397)</b>               | <b>(10,395)</b>                         | <b>(3,833)</b>                  | <b>-</b>                      | <b>(523)</b>                     | <b>(1,956)</b>                   | <b>(1,338)</b>                | <b>(20,442)</b>                       | <b>8,381</b>                            | <b>7,119</b>                              | <b>(4,942)</b>               |
| <b>Balance at 31 March 2018 carried forward</b>                          | <b>(55,433)</b>              | <b>(110,985)</b>                        | <b>(27,385)</b>                 | <b>-</b>                      | <b>(786)</b>                     | <b>(22,339)</b>                  | <b>(3,477)</b>                | <b>(220,405)</b>                      | <b>(131,080)</b>                        | <b>(53,134)</b>                           | <b>(404,619)</b>             |
| <b>Balance brought forward 1 April 2018</b>                              | <b>(55,433)</b>              | <b>(110,985)</b>                        | <b>(27,385)</b>                 | <b>-</b>                      | <b>(786)</b>                     | <b>(22,339)</b>                  | <b>(3,477)</b>                | <b>(220,405)</b>                      | <b>(131,080)</b>                        | <b>(53,134)</b>                           | <b>(404,619)</b>             |
| Movement in Reserves during 2018-19:                                     |                              |   |                                 |                               |                                  |                                  |                               |                                       |   |   |                              |
| (Surplus)/Deficit on the provision of services                           | 60,569                       | -                                       | (8,508)                         | -                             | -                                | -                                | -                             | 52,061                                | -                                       | 11,631                                    | 63,692                       |
| Other Comprehensive Income and Exp'd                                     | -                            | -                                       | -                               | -                             | -                                | -                                | -                             | -                                     | (47,889)                                | (6,279)                                   | (54,168)                     |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>60,569</b>                | <b>-</b>                                | <b>(8,508)</b>                  | <b>-</b>                      | <b>-</b>                         | <b>-</b>                         | <b>-</b>                      | <b>52,061</b>                         | <b>(47,889)</b>                         | <b>5,352</b>                              | <b>9,524</b>                 |
| Adjustments between accounting basis & funding basis under regulations * | (70,730)                     | -                                       | 5,073                           | -                             | (820)                            | (5,535)                          | 591                           | (71,421)                              | 71,421                                  | -   | -                            |
| <b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>    | <b>(10,161)</b>              | <b>-</b>                                | <b>(3,435)</b>                  | <b>-</b>                      | <b>(820)</b>                     | <b>(5,535)</b>                   | <b>591</b>                    | <b>(19,360)</b>                       | <b>23,532</b>                           | <b>5,352</b>                              | <b>9,524</b>                 |
| Transfers to/(from) Earmarked Reserves                                   | 9,163                        | (9,163)                                 | 2,000                           | (2,000)                       | -                                | -                                | -                             | -                                     | -                                       | -   | -                            |
| <b>(Increase)/Decrease in 2018-19</b>                                    | <b>(998)</b>                 | <b>(9,163)</b>                          | <b>(1,435)</b>                  | <b>(2,000)</b>                | <b>(820)</b>                     | <b>(5,535)</b>                   | <b>591</b>                    | <b>(19,360)</b>                       | <b>23,532</b>                           | <b>5,352</b>                              | <b>9,524</b>                 |
| <b>Balance at 31 March 2019 carried forward</b>                          | <b>(56,431)</b>              | <b>(120,148)</b>                        | <b>(28,820)</b>                 | <b>(2,000)</b>                | <b>(1,606)</b>                   | <b>(27,874)</b>                  | <b>(2,886)</b>                | <b>(239,765)</b>                      | <b>(107,548)</b>                        | <b>(47,782)</b>                           | <b>(395,095)</b>             |

\*Note: The General fund balance incorporates the reversal of a group adjustment of £1.00 million.

## Supplementary Financial Statements

### Group Balance Sheet

The Balance Sheet summarises the financial position of the Group as a whole. It shows the value of Group assets and liabilities at the end of the financial year.

| 31 March 2018<br>£000 | Note | 31 March 2019<br>£000 | 31 March 2018<br>£000 | Note | 31 March 2019<br>£000 |
|-----------------------|------|-----------------------|-----------------------|------|-----------------------|
| 1,363,023             |      | 1,348,492             | (10,465)              | 2    | (12,897)              |
| 7,603                 |      | 7,773                 | (114,285)             |      | (77,915)              |
| 282,331               | 1    | 295,448               | (79,113)              |      | (73,067)              |
| 1,850                 |      | 1,889                 | (11,282)              |      | (9,424)               |
| 430                   |      | 430                   | (805)                 |      | (1,484)               |
| 48,697                |      | 47,667                | <b>(215,950)</b>      |      | <b>(174,787)</b>      |
| 142,090               |      | 135,094               | (85,624)              |      | (83,509)              |
| <b>1,846,024</b>      |      | <b>1,836,793</b>      | (664,150)             |      | (659,318)             |
| 113                   |      | 113                   | (707,460)             |      | (713,940)             |
| 65,513                |      | 272                   | (490)                 |      | (78)                  |
| 7,238                 |      | 7,645                 | (14,297)              |      | (10,372)              |
| 715                   |      | 1,697                 | <b>(1,472,021)</b>    |      | <b>(1,467,217)</b>    |
| 24,652                | 8    | 30,834                | <b>404,619</b>        |      | <b>395,095</b>        |
| 76,118                |      | 80,601                |                       |      |                       |
| 72,217                | 2    | 79,144                | 205,517               |      | 205,428               |
| <b>246,566</b>        |      | <b>200,306</b>        | 199,102               | 4    | 189,667               |
|                       |      |                       | <b>404,619</b>        |      | <b>395,095</b>        |

## Supplementary Financial Statements

### Group Cash Flow Statement

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.

| 2017-18<br>£000  | Note  | 2018-19<br>£000 |
|------------------|---|-----------------|
| 6,002            | Net surplus on the provision of services  | (63,692)        |
| (78,018)         | Adjustments to net surplus or deficit on the provision of services for non-cash movements   | 142,494         |
| (56,848)         | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (60,117)        |
| <b>(128,864)</b> | <b>Net cash flows from Operating Activities</b>   | <b>18,685</b>   |
| 150,679          | Investing Activities  | 25,717          |
| 6,867            | Financing Activities  | (39,907)        |
| <b>28,682</b>    | <b>Net increase in cash and cash equivalents</b>  | <b>4,495</b>    |
| 33,070           | Cash and cash equivalents at the beginning of the reporting period  | 61,752          |
| <b>61,752</b>    | <b>Cash and cash equivalents at the end of the reporting period</b>   | <b>66,247</b>   |

### Accounting Policies

The financial results of the Council and its subsidiary at 31 March 2019 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 Advance Group.

### Depreciation

Depreciation is charged on the following basis:

| Asset                                     | Depreciation Period                           |
|---|---|
| Advance Northumberland (Commercial) Ltd:  |   |
| 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                   |
| Advance Northumberland (Subsidiary) Ltd:  |   |
| Plant and Machinery                       | 25% per annum reducing balance                |
| Advance Northumberland (Development) Ltd: |   |
| Plant and Machinery                       | 20 years 5% Straight line                     |
| Advance Northumberland (Housing) Limited: |   |
| Leasehold Property                        | 2% Straight line                              |
| Plant and Machinery                       | 15%-33% reducing balance                      |

In accordance with FRS 102, investment properties are included in the Balance Sheet at their open market value and the aggregate surplus or deficit is transferred to Income and Expenditure. It is the policy of the company for a qualified independent valuer to perform the valuation annually. No depreciation is provided in respect of investment properties.

### 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.

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.

### Explanatory Notes to the Group Accounts

Where figures in the Group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes below give information on the areas that have materially changed on consolidation of the Group entities into the Council's accounts.

## 1. Investment Property

The following table summarises the movement in the fair value of investment properties over the year. The correction to the opening balance is as a result of changes made within Arch Corporate Holdings Limited accounts as part of the final 2017-18 audit, after consolidation into the Council's 2017-18 statements.

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| 286,030         | Balance at 1 April  | 282,331         |
| 9,795           | Additions   | 2,986           |
| -               | Reclassifications   | 12,300          |
| (145)           | Disposals   | (3,931)         |
| (13,349)        | Net (losses)/gains from fair value adjustments                    | (8,187)         |
| -               | Other movements in cost/valuation - correction of opening balance | 9,949           |
| <b>282,331</b>  | <b>Balance at 31 March</b>  | <b>295,448</b>  |

### Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes. Within the Advance Group investment properties, £188.63 million have been valued at level 2 and the remainder of those properties subject to a revaluation during 2018-19 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 Advance 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 at 31 March 2019 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 BNP Paribas, the Advance Group's valuing agents for financial year 2018-19.

## 2. Group Cash and Cash Equivalents

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

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| 54,202          | Cash and Bank Balances                      | 64,690          |
| (10,465)        | Bank Overdraft                              | (12,897)        |
| 18,015          | Cash held by Advance Northumberland Limited | 14,454          |
| <b>61,752</b>   | <b>Total Cash and Cash Equivalents</b>      | <b>66,247</b>   |

## 3. Group Cash Flow Statement – Operating Activities

| 2017-18<br>£000 |                   | 2018-19<br>£000 |
|-----------------|-------------------|-----------------|
| (10,016)        | Interest received | (9,933)         |
| 42,879          | Interest paid     | 35,413          |
| (1,101)         | Dividends         | -               |



#### 4. Group Unusable Reserves

Unusable reserves reflect the Group balances.

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| (6,327)         | Accumulated Absences Adjustment Account   | (5,505)         |
| 697,167         | Capital Adjustment Account                | 697,015         |
| 3,594           | Collection Fund Adjustment Account        | 155             |
| 3,101           | Deferred Capital Receipts Reserve         | -               |
| (1,583)         | Financial Instruments Adjustment Account  | (7,056)         |
| 13,104          | Financial Instruments Revaluation Reserve | 13,231          |
| (707,460)       | Pensions Reserve                          | (713,940)       |
| 197,505         | Revaluation Reserve                       | 205,767         |
| 1               | Share Capital                             | -               |
| <b>199,102</b>  | <b>Total</b>                              | <b>189,667</b>  |

#### Group Capital Adjustment Account

The balance on the Group Capital Adjustment Account represents the timing difference between the amount of historical cost of non current assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| <b>653,687</b>  | <b>Balance at 1 April</b>  | <b>697,167</b>  |
|                 | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                               |                 |
| (47,290)        | Charges for depreciation and impairment of non current assets  | (48,719)        |
| (1,431)         | Deficit on Available-for-Sale financial assets   | (87)            |
| 10,151          | Revaluation losses on Property, Plant and Equipment  | (8,413)         |
| (1,483)         | Amortisation of intangible assets  | (674)           |
| (14,949)        | Revenue expenditure funded from capital under statute  | (12,750)        |
|                 | 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 |                 |
| (31,347)        |  | (70,808)        |
| 30,397          | Adjusting amounts written out of the Revaluation Reserve   | 8,609           |
|                 | Capital financing applied in the year:   |                 |
| 3,479           | Use of the Capital Receipts Reserve to finance new capital expenditure   | 8,917           |
| 7,586           | Use of the Major Repairs Reserve to finance new capital expenditure  | 9,528           |
| 45,472          | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing                | 50,686          |
| 4,356           | Application of grants to capital financing from the Capital Grants Unapplied Account   | 5,736           |
| 24,083          | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  | 24,656          |
| 13,064          | Voluntary set aside of capital receipts  | 31,508          |
| 1,488           | Capital expenditure charged against the General Fund and HRA balance   | 1,607           |
| (96)            | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement                           | 52              |
| <b>697,167</b>  | <b>Balance at 31 March</b>   | <b>697,015</b>  |

### 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 off to the Capital Adjustment Account.

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| 160,262         | Balance at 1 April   | 140,224         |
| 53,878          | Amounts held in Subsidiaries   | 57,281          |
| <b>214,140</b>  | <b>Balance at 1 April</b>  | <b>197,505</b>  |
| 18,564          | Upward revaluation of assets   | 13,608          |
| (4,802)         | (Downward)/upward 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 | 3,263           |
| (3,101)         | Difference between fair value depreciation and historical cost depreciation  | (7,119)         |
| (27,296)        | Accumulated gains on assets sold or scrapped   | (1,486)         |
| -               | Amount written off to the Capital Adjustment Account   | (4)             |
| <b>197,505</b>  | <b>Balance at 31 March</b>   | <b>205,767</b>  |

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

Advance Northumberland (Housing) Limited operates a group personal pension, with defined contributions that meet the requirements of auto enrolment. The assets of the scheme are in a fund independent from those of the company.

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

Dividends will only be paid from the Advance Northumberland Limited subsidiaries to Advance Northumberland Limited. During 2018-19 £0.67 million was paid to Advance Northumberland Limited; £0.17 million from Advance Northumberland (Developments) Limited and £0.50 million from Advance Northumberland (Housing) Limited.

### 7. Group Financing and Investment Income and Expenditure

| 2017-18<br>£000 |   | 2018-19<br>£000 |
|-----------------|---|-----------------|
| 29,994          | Interest payable and similar charges  | 38,598          |
| 16,480          | Pensions interest cost and expected return on pensions assets                         | 17,840          |
| (10,805)        | Interest receivable and similar income  | (14,030)        |
| 13,315          | Income and expenditure in relation to investment properties and changes in fair value | 8,182           |
| <b>48,984</b>   | <b>Total Financing and Investment Income and Expenditure</b>                          | <b>50,590</b>   |

### 8. Group Work in Progress

The following statement shows the value of developments for sale outside of the Advance Group. The correction to the opening balance is as a result of further reclassification of assets from Other Land and Buildings and Investment Properties as part of the final 2017-18 audit, after consolidation into the Council's 2017-18 statements.

| 2017-18<br>£000 |                               | 2018-19<br>£000 |
|-----------------|-------------------------------|-----------------|
| -               | <b>Balance at 1 April</b>     | <b>24,652</b>   |
| -               | Correction of opening Balance | 6,767           |
| 13,494          | Reclassifications             | -               |
| 11,158          | Additions                     | 87              |
| -               | Disposals                     | (672)           |
| <b>24,652</b>   | <b>Balance at 31 March</b>    | <b>30,834</b>   |

# Supplementary Financial Statements

## Pension Fund Accounts

#### Introduction

The purpose of this report is to account for the income, expenditure and net assets of the Northumberland County Council Pension Fund ("the Fund") for the financial year to 31 March 2019. Northumberland County Council is an administering authority for the Local Government Pension Scheme (LGPS), required by the LGPS Regulations to maintain a pension fund for the Scheme.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement, which summarises the net assets of the Fund, on the basis of current market values.

Information about the additions to, withdrawals from, and changes in value of the Fund during the year to 31 March 2019 is shown in the Fund Account.

In the year to 31 March 2019 the total market value of the Fund, net of liabilities, has increased from £1,344.26 million to £1,400.36 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 £29.94 million in 2018-19 (£2.69 million in 2017-18) as payments to pensioners and leavers exceed contributions from

members, reflecting the Fund's maturity. This includes the £25.98 million asset transfer relating to Northumberland College which is payable as at 31 March 2019. The net return on investments experienced during 2018-19 of £92.92 million reflects the positive returns experienced by funds generally over that period and follows the positive returns experienced during 2017-18.

The overall annual return on the Fund was 6.9% for the year (3.4% in 2017-18), which compares favourably with the Fund specific benchmark annual return of 6.2%.

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 2019 was 11.2% per annum, which compares with the benchmark annualised return of 10.9%. Fund returns for the ten year period were higher than the growth in average earnings and inflation increases.

The significant change made to Fund investments in 2018-19 was the commencement of the Fund's £40 million infrastructure investment in Pantheon's Global Infrastructure Fund III.

Northumberland County Council made a commitment to join Border to Coast Pensions Partnership (BCPP) pooling arrangement in June 2017. BCPP Ltd commenced operation in July 2018.

None of Northumberland County Council's Pension Fund assets are currently managed by BCPP Ltd. The Fund currently has a long term investment of £0.83 million as one of the twelve shareholders in BCPP Ltd.

A fully integrated shared pensions administration service provided by South Tyneside Council operated throughout 2018-19.

## Supplementary Financial Statements

### Pension Fund

Membership of the Fund at 31 March 2019 is summarised below:

| 31 March 2018 |                   | 31 March 2019 |
|---------------|-------------------|---------------|
| 9,031         | Active members    | 9,248         |
| 8,596         | Pensioner members | 8,806         |
| 8,940         | Deferred members  | 8,682         |
| <b>26,567</b> |                   | <b>26,736</b> |

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 2019.

This Statement shows the Pension Fund Account for the year ended 31 March 2019:

| 2017-18<br>£000  |   | Note | 2018-19<br>£000  |
|------------------|---|------|------------------|
|                  | <b>Dealings with members, employees and others directly involved with the Fund</b>          |      |                  |
| 48,364           | Contributions   | 5    | 49,990           |
| 5,100            | Transfers in from other pension funds   | 6    | 1,972            |
| <b>53,464</b>    |   |      | <b>51,962</b>    |
| (50,321)         | Benefits  | 7    | (54,549)         |
| (5,833)          | Payments to and on account of leavers   | 8    | (27,348)         |
| <b>(56,154)</b>  |   |      | <b>(81,897)</b>  |
| <b>(2,690)</b>   | <b>Net withdrawals from dealings with members</b>   |      | <b>(29,935)</b>  |
| (6,425)          | Management expenses   | 9    | (6,885)          |
| <b>(9,115)</b>   | <b>Net withdrawals after Fund management expenses</b>                                       |      | <b>(36,820)</b>  |
|                  | <b>Returns on investments</b>   |      |                  |
| 8,082            | Investment income   | 10   | 6,927            |
| 36,974           | Profit and losses on disposal of investments and changes in the market value of investments | 11   | 85,992           |
| <b>45,056</b>    | <b>Net returns on investments</b>   |      | <b>92,919</b>    |
| <b>35,941</b>    | <b>Net increase in net assets available for benefits during the year</b>                    |      | <b>56,099</b>    |
| <b>1,308,322</b> | <b>Net assets of the Fund at 1 April</b>  |      | <b>1,344,263</b> |
| <b>1,344,263</b> | <b>At 31 March</b>  |      | <b>1,400,362</b> |

## Supplementary Financial Statements

### Pension Fund

#### Net Assets Statement as at 31 March 2019:

| 31 March 2018<br>£000       | Note                                      | 31 March 2019<br>£000 |
|-----------------------------|---|-----------------------|
| -                           | 11  | 833                   |
| <b>Investment Assets</b>    |   |                       |
| UK Investments              |   |                       |
| Pooled Investment Vehicles: |   |                       |
| 53,430                      | - Property                                | 54,480                |
| 324,274                     | - Equity                                  | 348,697               |
| 255,522                     | - Index Linked                            | 263,642               |
| Overseas Investments        |   |                       |
| Pooled Investment Vehicles: |   |                       |
| 502,166                     | - Equity                                  | 525,553               |
| 103,253                     | - Other Fixed Interest                    | 106,414               |
| 101,580                     | Ventures and Partnerships                 | 119,808               |
| <b>1,340,225</b>            | 11  | <b>1,419,427</b>      |
| 893                         | Other Investment Balances                 | 464                   |
| <b>1,341,118</b>            | 11  | <b>1,419,891</b>      |
| 1,473                       | Cash Deposits                             | 5,774                 |
| 4,596                       | Current Assets                            | 4,922                 |
| (2,924)                     | Current Liabilities                       | (30,225)              |
| <b>1,344,263</b>            | <b>Net Assets of the Fund at 31 March</b> | <b>1,400,362</b>      |

The Fund Account and Net Assets Statement do not take account of obligations to pay pensions and benefits which fall due after 31 March 2019. The actuarial position of the Fund is shown in the “Statement of the Actuary” and the “Whole of Pension Fund Disclosures under IAS 26” shown in Appendices 2 and 3 respectively of the Annual Report and these Financial Statements should be read in conjunction with that.

#### 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 2018-19, which is based on International Financial Reporting Standards as amended for the UK public sector, and incorporate the provisions of Financial Reports of Pension Schemes: A Statement of Recommended Practice (2015).

The accounts summarise the Fund's transactions for the year to 31 March 2019 and the net assets available to pay LGPS pension benefits at 31 March 2019. They do not take account of obligations to pay pensions and benefits which fall due after 31 March 2019. However the actuarial present value of the promised retirement benefits as set out in "Option C" of IAS 26 (calculated on assumptions set in accordance with IAS 19) is disclosed in Appendix 1 to the Annual Report and these Financial Statements should be read in conjunction with that.

#### 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 in BCCP Ltd are valued at transaction price i.e. cost. BCCP commenced trading in July 2018 and no reliable trading results are yet available. Consequently, the Pension Fund's view is that the market value of this investment cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value. All other 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 2019;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2019;
- (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; and,
- (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 2019 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 2019 are credited to the Fund.

##### Investment transactions

Investment transactions arising up to 31 March 2019 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.

##### 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 2019 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.



## Supplementary Financial Statements

### Notes to the Pension Fund Financial Statements

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. Asset transfers due as a result of a Direction Order are accounted for on an accruals 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. A share of the cost of the shared administration

service with South Tyneside Council is 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 2019 which provide evidence of conditions that existed at 31 March 2019 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2019 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 Assets Statement, are classified as financial instruments, and the principal accounting policies applied in accounting for them are described elsewhere in this note.

#### 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 1 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 1, 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 at 31 March 2016. The liability disclosed in Appendix 1 is subject to significant variances depending on the assumptions adopted.
- The investment in BCPP Ltd has been valued at cost as an estimate of fair value as at 31 March 2019.



#### 4. Assumptions made about the future and other major sources of estimation uncertainty

The items in the Net Assets Statement at 31 March 2019 and Appendix 1 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 £120 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 +/- £10 million.  |
| Actuarial present value of promised retirement benefits | Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The Fund actuary provides advice about the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured. | 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 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. |

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

- Amendments to IAS 40 Investment Property: Transfers of Investment Property, however since the Fund does not currently hold direct investment property it does not anticipate any additional disclosure; and,
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation, however since the Fund does not currently hold such instruments it does not anticipate any additional disclosure.

## 5. Contributions

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
|                 | Employers' normal contributions                |                 |
| 20,411          | Administering authority                        | 21,320          |
| 4,555           | Scheduled bodies                               | 4,982           |
| 2,017           | Admitted bodies                                | 1,828           |
|                 | Employers' other contributions                 |                 |
| 11,702          | Deficit funding                                | 11,962          |
| 788             | Strain on the Fund following early retirements | 619             |
|                 | Members  |                 |
| 8,891           | Normal   | 9,279           |
| <b>48,364</b>   |  | <b>49,990</b>   |

## 6. Transfers in from other pension funds

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
| 5,100           | Individual transfers in from other schemes | 1,972           |
| <b>5,100</b>    |  | <b>1,972</b>    |

## 7. Benefits

| 2017-18<br>£000 |  | 2018-19<br>£000 |
|-----------------|--|-----------------|
|                 | Pensions   |                 |
| 38,515          | Administering authority                                  | 41,016          |
| 2,337           | Scheduled bodies   | 1,884           |
| 1,796           | Admitted bodies  | 1,940           |
| 6,561           | Commutation of pensions and lump sum retirement benefits | 8,567           |
| 1,112           | Lump sum death benefits                                  | 1,142           |
| <b>50,321</b>   |  | <b>54,549</b>   |

## 8. Payments to and on account of leavers

| 2017-18<br>£000 |                                       | 2018-19<br>£000 |
|-----------------|---------------------------------------|-----------------|
| 5,756           | Individual transfers to other schemes | 1,211           |
| -               | Group transfers                       | 25,980          |
| 77              | Refunds to members leaving service    | 157             |
| <b>5,833</b>    |                                       | <b>27,348</b>   |

The exit of Northumberland College from the Fund on 22 March 2019 has led to an asset transfer estimated at £25.98 million.

## 9. Management expenses

| 2017-18<br>£000 |                                | 2018-19<br>£000 |
|-----------------|--------------------------------|-----------------|
| 926             | Administrative costs           | 860             |
| 4,852           | Investment management expenses | 5,397           |
| 520             | Oversight and governance costs | 359             |
| 127             | BCPP Ltd build expenses        | 269             |
| <b>6,425</b>    |                                | <b>6,885</b>    |

Investment management expenses can be further analysed as follows:

| 2017-18<br>£000 |                 | 2018-19<br>£000 |
|-----------------|-----------------|-----------------|
| 4,816           | Management fees | 5,359           |
| 36              | Custody fees    | 38              |
| <b>4,852</b>    |                 | <b>5,397</b>    |

Indirect management fees charged within pooled investment vehicles and partnerships have been included in investment management expenses, and management expenses analysed in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

External audit fees of £17,250 (£22,516 in 2017-18) are included in oversight and governance costs.

## Supplementary Financial Statements

### Notes to the Pension Fund Financial Statements

#### 10. Investment income

| 2017-18      |  | 2018-19      |
|--------------|--|--------------|
| £000         |  | £000         |
| 3,040        | Income from pooled investment vehicles | 3,160        |
| 5,041        | Income from ventures and partnerships  | 3,779        |
| 1            | Net interest on cash deposits          | (12)         |
| <b>8,082</b> |  | <b>6,927</b> |

#### 11. Investments

| 31 March 2018    |   | 31 March 2019    |
|------------------|---|------------------|
| £000             |   | £000             |
| -                | Long term investments                                 | 833              |
|                  | Actively managed investments                          |                  |
| 53,430           | Unit trusts (property)                                | 54,480           |
|                  | Other managed funds                                   |                  |
| 103,253          | Other fixed interest                                  | 106,414          |
| 101,580          | Ventures and partnerships                             | 119,808          |
| <b>258,263</b>   |   | <b>281,535</b>   |
|                  | Passively managed investments                         |                  |
| 1,081,962        | Unitised insurance policies (equity and index linked) | 1,137,892        |
| <b>1,340,225</b> |   | <b>1,419,427</b> |
| 893              | Other investment balances                             | 464              |
| <b>1,341,118</b> |   | <b>1,419,891</b> |

The Long term investment £0.83 million, is the equity held by the Fund in BCPP Ltd.

## Supplementary Financial Statements

### Notes to the Pension Fund Financial Statements

Fund investments at 31 March 2019 (and at 31 March 2018) were all externally managed in pooled investment vehicles which can be analysed as follows:

|                               | Value at<br>1 April 2018<br>£000 | Purchases at<br>cost<br>£000 | Sales<br>proceeds<br>£000 | Change in<br>market value<br>£000 | Value at<br>31 March 2019<br>£000 |
|-------------------------------|----------------------------------|------------------------------|---------------------------|-----------------------------------|-----------------------------------|
| Actively managed investments  | 258,263                          | 21,054                       | (19,665)                  | 21,883                            | 281,535                           |
| Passively managed investments | 1,081,962                        | 59,635                       | (67,636)                  | 63,931                            | 1,137,892                         |
|                               | <b>1,340,225</b>                 | <b>80,689</b>                | <b>(87,301)</b>           | <b>85,814</b>                     | <b>1,419,427</b>                  |
| Other investment balances     | 893                              |                              |                           | 178                               | 464                               |
| <b>Total</b>                  | <b>1,341,118</b>                 |                              |                           | <b>85,992</b>                     | <b>1,419,891</b>                  |

|                               | Value at<br>1 April 2017<br>£000 | Purchases at<br>cost<br>£000 | Sales<br>proceeds<br>£000 | Change in<br>market value<br>£000 | Value at<br>31 March 2018<br>£000 |
|-------------------------------|----------------------------------|------------------------------|---------------------------|-----------------------------------|-----------------------------------|
| Actively managed investments  | 255,595                          | 10,474                       | (13,053)                  | 5,247                             | 258,263                           |
| Passively managed investments | 1,050,286                        | 885,828                      | (885,828)                 | 31,676                            | 1,081,962                         |
|                               | <b>1,305,881</b>                 | <b>896,302</b>               | <b>(898,881)</b>          | <b>36,923</b>                     | <b>1,340,225</b>                  |
| Other investment balances     | 993                              |                              |                           | 51                                | 893                               |
| <b>Total</b>                  | <b>1,306,874</b>                 |                              |                           | <b>36,974</b>                     | <b>1,341,118</b>                  |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, 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 £0.04 million (£0.03 million in 2017-18).

## Supplementary Financial Statements

### Notes to the Pension Fund Financial Statements

#### Other investment balances

| 31 March 2018 |  | 31 March 2019 |
|---------------|--|---------------|
| £000          |  | £000          |
| 841           | Cash deposits  | 428           |
| 52            | Outstanding dividends, tax and other investment income | 36            |
| <b>893</b>    |  | <b>464</b>    |

#### 12. Current assets

| 31 March 2018 |  | 31 March 2019 |
|---------------|--|---------------|
| £000          |  | £000          |
|               | Contributions due from employers in respect of |               |
| 321           | Employers                                      | 328           |
| 75            | Members  | 77            |
| 4,200         | Retirement grants prepaid                      | 4,516         |
| -             | Other  | 1             |
| <b>4,596</b>  |  | <b>4,922</b>  |

These can be further analysed as follows:

| 31 March 2018 |                                       | 31 March 2019 |
|---------------|---------------------------------------|---------------|
| £000          |                                       | £000          |
| 168           | Bodies external to general government | 312           |
| 185           | Central government bodies             | 244           |
| 43            | NHS bodies                            | 42            |
| 4,200         | Other local authorities               | 4,324         |
| <b>4,596</b>  |                                       | <b>4,922</b>  |

#### 13. Current Liabilities

| 31 March 2018  |  | 31 March 2019   |
|----------------|--|-----------------|
| £000           |  | £000            |
| (2,516)        | Due to Northumberland County Council         | (3,658)         |
| (265)          | Retirement/death grants due                  | (335)           |
| (81)           | Investment management and custodial fees due | (100)           |
| -              | Asset transfer                               | (25,980)        |
| (62)           | Other  | (152)           |
| <b>(2,924)</b> |  | <b>(30,225)</b> |

These can be further analysed as follows:

| 31 March 2018  |                                       | 31 March 2019   |
|----------------|---------------------------------------|-----------------|
| £000           |                                       | £000            |
| (4)            | Central government bodies             | (78)            |
| (2,516)        | Other local authorities               | (29,638)        |
| (404)          | Bodies external to general government | (509)           |
| <b>(2,924)</b> |                                       | <b>(30,225)</b> |

The exit of Northumberland College from the Fund on 22 March 2019 has led to a liability for an asset transfer estimated at £25.98 million to South Tyneside Council following the College's merger with Sunderland College and a Direction Order from MHCLG substituting South Tyneside Council as the administering authority for Northumberland College.

## 14. Analysis of Investments

The total market value of the Fund at 31 March 2019 was £1,400.36 million (£1,344.26 million at 31 March 2018), which can be analysed as follows:

| 31 March 2018   |              |  | 31 March 2019   |              |
|-----------------|--------------|--|-----------------|--------------|
| £m              | %            |  | £m              | %            |
| 826.44          | 61.5         | UK and overseas equities                           | 874.25          | 62.4         |
| -               | -            | UK equalities unquoted                             | 0.83            | 0.1          |
| 358.78          | 26.7         | Fixed interest and index linked                    | 370.06          | 26.4         |
| 53.43           | 4.0          | Property unit trusts                               | 54.48           | 3.9          |
| 101.58          | 7.5          | Ventures and partnerships                          | 119.81          | 8.6          |
| 0.89            | 0.1          | Other investment balances                          | 0.46            | 0.0          |
| 3.14            | 0.2          | Cash deposits and net current (liabilities)/assets | (19.53)         | (1.4)        |
| <b>1,344.26</b> | <b>100.0</b> |  | <b>1,400.36</b> | <b>100.0</b> |

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

| 31 March 2018 |               |                | 31 March 2019 |              |
|---------------|---------------|----------------|---------------|--------------|
| £m            | %             |                | £m            | %            |
| 324.28        | 39.3          | United Kingdom | 348.70        | 39.9         |
| 94.39         | 11.4          | Europe         | 102.53        | 11.7         |
| 99.83         | 12.1          | North America  | 103.54        | 11.8         |
| 49.87         | 6.0           | Japan          | 49.65         | 5.7          |
| 48.01         | 5.8           | Pacific        | 50.92         | 5.8          |
| 210.06        | 25.4          | Other          | 218.91        | 25.1         |
| <b>826.44</b> | <b>100.00</b> |                | <b>874.25</b> | <b>100.0</b> |

The analysis above does not include the long term investment in BCPP Ltd.

## Fund Value and Proportions

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

| 31 March 2018   |              |                                       | 31 March 2019   |              |
|-----------------|--------------|---------------------------------------|-----------------|--------------|
| £m              | %            |                                       | £m              | %            |
| 1,081.96        | 80.7         | Legal & General Investment Management | 1,137.89        | 80.2         |
| 103.25          | 7.7          | Wellington Management International   | 106.41          | 7.5          |
| 23.80           | 1.8          | Morgan Stanley (private equity)       | 17.44           | 1.2          |
| 20.44           | 1.5          | NB Alternatives (private equity)      | 21.73           | 1.5          |
| 5.94            | 0.4          | Pantheon (private equity)             | 9.85            | 0.7          |
| 27.41           | 2.0          | Schroder Investment Management        | 28.04           | 2.0          |
| 26.14           | 2.0          | BlackRock Investment Management (UK)  | 26.54           | 1.9          |
| 19.46           | 1.5          | Antin (infrastructure)                | 23.10           | 1.6          |
| 32.71           | 2.4          | GIP (infrastructure)                  | 38.88           | 2.7          |
| -               | -            | Pantheon (infrastructure)             | 9.18            | 0.7          |
| <b>1,341.11</b> | <b>100.0</b> |                                       | <b>1,419.06</b> | <b>100.0</b> |

Net current liabilities of £19.53 million (net current assets of £3.14 million in 2017-18) are not externally managed and therefore not shown in the analysis above. Also not shown in the analysis above is the long term investment by NCC Pension Fund in the equity of BCPP Ltd of £0.83 million.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

## 15. Significant Holdings

At 31 March 2019, 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:

- £348.70 million (24.6%) in the UK Equity Index Fund managed by Legal and General Investment Management. (£324.27 million or 24.2% as at 31 March 2018);
- £263.64 million (18.6%) in the Over Five Year Index Linked Gilts Fund managed by Legal and General Investment Management. (£255.52 million or 19.1% as at 31 March 2018);
- £116.27 million (8.2%) in the RAFI All World 3000 Equity Fund managed by Legal and General Investment Management. (£109.72 million or 8.2% as at 31 March 2018);
- £102.64 million (7.2%) in the Emerging Markets Overseas Equity Fund managed by Legal and General Investment Management. (£100.33 million or 7.5% as at 31 March 2018); and,
- £70.23 million (5.0%) in the Multi Sector Credit Portfolio managed by Wellington Management International. (£68.93 million or 5.1% as at 31 March 2018).

## 16. 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 2018-19 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 2018-19 to AVC investments were £301,067 (£265,075 in 2017-18) to Prudential, and £1,573 (£1,513 in 2017-18) to Phoenix Life Limited. There were no contributions made to Equitable Life during the last two years.

As at 31 March 2019, the aggregate value of the AVC investments with Prudential was £2,023,157 (£1,952,634 as at 31 March 2018), with Equitable Life was £47,577 (£46,806 as at 31 March 2018), and with Phoenix Life Limited was £13,339 (£13,274 as at 31 March 2018).

## 17. Related party transactions

Northumberland County Council administers the Pension Fund. During 2018-19 the Pension Fund had an average balance of £2.46 million borrowed from the Council for which it paid interest of £15,567 (and an average balance of £0.11 million loaned to the Council during 2017-18 for which it received interest of £358). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2018-19 these costs amounted to £0.35 million (£0.70 million in 2017-18). £3.66 million was due to the Council at 31 March 2019 (£2.52 million at 31 March 2018).

Part of the recharge to the Fund relates to the Council's Section 151 Officer, who comprises the key management personnel of the Fund. Remuneration recharged is as follows:

| 31 March 2018   |                          | 31 March 2019  |
|-----------------|--------------------------|----------------|
| £               |                          | £              |
| (9,237)         | Short term benefits      | (4,929)        |
| (1,337)         | Post-employment benefits | (1,300)        |
| <b>(10,574)</b> |                          | <b>(6,229)</b> |

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



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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 at 31 March 2019 (four at 31 March 2018).

#### 18. 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 can include a tax-free lump sum, with the option to commute pension for lump sum.

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 at 31 March 2019 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 2014 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 and South Tyneside 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 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.

At 31 March 2019 there were four external investment managers, namely Legal and General Investment Management, Wellington Management International, BlackRock Investment Management (UK), and Schroder Investment Management.

At 31 March 2019 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Pantheon, and infrastructure investments with Global Infrastructure Partners, Antin Infrastructure Partners and Pantheon.

The Northern Trust Company provides custodial services for the Fund.

#### 19. 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 Service Director – Finance.



## 20. Outstanding commitments

At 31 March 2019 the Fund had outstanding commitments to nine investments.

|   | Year of<br>commitment | Initial<br>commitment<br>m | Capital<br>payments<br>made<br>m | Outstanding commitment as at<br>31 March 2019<br>m | £m           |
|---|-----------------------|----------------------------|----------------------------------|--|--------------|
| Antin Infrastructure Partners II        | 2013                  | €24.00                     | €20.74                           | €3.26  | 2.81         |
| Global Infrastructure Partners II-C     | 2011                  | \$43.00                    | \$38.79                          | \$4.21   | 3.23         |
| Morgan Stanley GDO Fund                 | 2006                  | \$10.00                    | \$9.76                           | \$0.24   | 0.19         |
| Morgan Stanley Private Markets III      | 2005                  | \$50.00                    | \$48.33                          | \$1.67   | 1.28         |
| Morgan Stanley Private Markets IV       | 2007                  | \$30.00                    | \$29.73                          | \$0.27   | 0.21         |
| NB Crossroads Fund XVIII                | 2007                  | \$27.00                    | \$22.41                          | \$4.59   | 3.52         |
| NB Crossroads Fund XX                   | 2014                  | \$26.00                    | \$18.46                          | \$7.54   | 5.79         |
| Pantheon Global Infrastructure Fund III | 2018                  | \$54.00                    | \$12.00                          | \$42.00  | 32.23        |
| Pantheon Global Select                  | 2017                  | \$65.23                    | \$12.92                          | \$52.31  | 40.15        |
| <b>Total outstanding commitments</b>    |                       |                            |                                  |  | <b>89.41</b> |

Outstanding capital commitments totalled £89.41 million at 31 March 2019 (£49.14 million at 31 March 2018). 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.

## 21. 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:

|              |                  |                |                  | 31 March<br>2018                                       |                 |                  |                |                  | 31 March<br>2019 |
|--------------|------------------|----------------|------------------|--|-----------------|------------------|----------------|------------------|------------------|
| Level 1      | Level 2          | Level 3        | Total            |  | Level 1         | Level 2          | Level 3        | Total            |                  |
| £000         | £000             | £000           | £000             |  | £000            | £000             | £000           | £000             |                  |
| -            | 1,238,646        | 101,580        | 1,340,226        | Financial assets at fair value through profit and loss | -               | 1,298,786        | 120,641        | 1,419,427        |                  |
| 6,961        | -                | -              | 6,961            | Financial assets at amortised cost (i)                 | 11,160          | -                | -              | 11,160           |                  |
| (2,924)      | -                | -              | (2,924)          | Financial liabilities at amortised cost                | (30,225)        | -                | -              | (30,225)         |                  |
| <b>4,037</b> | <b>1,238,646</b> | <b>101,580</b> | <b>1,344,263</b> | <b>Net financial assets</b>                            | <b>(19,065)</b> | <b>1,298,786</b> | <b>120,641</b> | <b>1,400,362</b> |                  |

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting. (i) 'Loans and Receivables at amortised costs' are now referred to as 'financial assets measured at amortised costs'. Level 1 means

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financial instruments valued using unadjusted quoted prices in active markets for identical assets or liabilities; level 2 means financial instruments valued using mainly observable market data but publicly quoted market prices are not available and level 3 means financial instruments valued using unobservable inputs. Level 3 instruments include unquoted investments which are valued using various techniques requiring significant judgement in determining appropriate assumptions. The Fund's level 3 investments comprise infrastructure and private equity partnerships which are valued in the Net Assets Statement based on unaudited valuations at either 31 December 2018 or 31 March 2019 provided by the managers controlling the partnerships.

The Fund has no investment assets classified as level 1. No financial instruments have been reclassified during the year.

The basis of valuations of each class of investment asset is as follows:

| Asset  | Valuation Hierarchy | Basis of Valuation  | Observable and unobservable inputs  | Key sensitivities affecting the valuation   |
|--|---------------------|---|---|---|
| Pooled investment vehicles including unitised insurance policies, unit trusts and other managed funds (fixed interest) | Level 2             | NAV based prices published at each dealing point  | Price of recent transactions for an identical instrument  | N/A   |
| Ventures and partnerships (infrastructure and private equity)  | Level 3             | Valuations prepared by the managers of those controlling the partnerships (i.e. the general partners) in accordance with International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP | The general partners' assessments of cash flow, growth and profitability expectations and other appropriate financial information | Material events affecting the valuations may occur between the date of the financial information provided by the general partners and the Fund's reporting date   |
| Unquoted equities in Border to Coast Pensions Partnership Limited  | Level 3             | Valued at cost, i.e. transaction price, as an appropriate estimate of fair value  | Transaction cost  | A fair value cannot otherwise be established for these assets as at 31 March 2019 because shares in BCPP Ltd are not traded and subject to restrictions set out in the inter-authority agreement and shareholder agreements signed in June 2017 |

A reconciliation of fair value measurements within level 3 is as follows:

|                     | Value at<br>1 April 2018<br>£000 | Purchases at Cost<br>£000 | Sales Proceeds<br>£000 | Change in<br>market value<br>£000 | Value at<br>31 March 2019<br>£000 |
|---------------------|----------------------------------|---------------------------|------------------------|-----------------------------------|-----------------------------------|
| Level 3 Investments | 101,580                          | 21,007                    | (19,843)               | 17,897                            | 120,641                           |

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Net gains and losses on financial instruments can be analysed as follows:

| 2017-18       |  | 2018-19       |
|---------------|--|---------------|
| £000          |  | £000          |
| 36,923        | Financial assets at fair value through profit and loss | 85,814        |
| 51            | Financial assets at amortised costs (i)                | 178           |
| <b>36,974</b> | <b>Total net gains on financial instruments</b>        | <b>85,992</b> |

## 22. 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 at Appendix 1.

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 Investment Strategy Statement and in the Funding Strategy Statement, both maintained as separate documents which can be obtained from the Service Director - Finance.

The key controls are:

- the actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates;

- the asset liability modelling study which is carried out every three years or more frequently if necessary, to consider alternative asset allocations for the Fund and the long term impact on employer contribution rates; and,
- quarterly monitoring by the Pension Fund Panel of the Fund investments and of the updated estimated funding position.

The remainder of this note only considers risk in relation to the financial instruments disclosed on the Net Assets Statement.

### 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 ISAE 3402 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 Treasury Management 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 at 31 March 2019. The LGPS Regulations require that a risk assessment of any

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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 £1,137.89 million at 31 March 2019, can be realised at short notice and at minimal cost. In eight out of the last ten years the Fund has experienced net withdrawals from dealings with members, with the maximum withdrawal in a single year being £10.30 million prior to the exceptional item in 2018-19 from the group transfer of Northumberland College leading to a net withdrawal from members of £29.94 million in 2018-19.

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 20 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 Investment Strategy Statement maintained as a separate document which can be obtained from the Service Director - Finance.

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.

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#### 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:

| 31 March 2018    | Percentage change | Value on increase | Value on decrease |                                | 31 March 2019    | Percentage change | Value on increase | Value on decrease |
|------------------|-------------------|-------------------|-------------------|--------------------------------|------------------|-------------------|-------------------|-------------------|
| £000             | %                 | £000              | £000              |                                | £000             | %                 | £000              | £000              |
| 324,274          | 9.3               | 324,529           | 294,020           | UK equities                    | 349,530          | 9.3               | 381,897           | 317,164           |
| 502,166          | 12.3              | 561,773           | 442,558           | Overseas equities              | 525,553          | 11.4              | 585,634           | 465,473           |
| 255,522          | 10.9              | 283,298           | 227,747           | Index linked                   | 263,642          | 12.4              | 296,281           | 231,003           |
| 103,253          | 5.7               | 109,179           | 97,326            | Other fixed interest           | 106,414          | 8.6               | 115,586           | 97,240            |
| 53,430           | 2.2               | 54,590            | 52,271            | Property                       | 54,480           | 2.3               | 55,706            | 53,254            |
| 101,580          | 8.4               | 110,059           | 93,101            | Ventures and partnerships      | 119,808          | 8.6               | 130,131           | 109,486           |
| 893              | 0.0               | 893               | 893               | Other investment balances      | 464              | 0.0               | 464               | 464               |
| <b>1,341,118</b> | <b>6.7</b>        | <b>1,431,509</b>  | <b>1,250,727</b>  | <b>Total investment assets</b> | <b>1,419,891</b> | <b>6.9</b>        | <b>1,517,153</b>  | <b>1,322,628</b>  |

The percentage change for total investment assets at 31 March 2019 and at 31 March 2018 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:

| 31 March 2018  | Value following 1% decrease in interest rates | Value following 1% increase in interest rates |   | 31 March 2019  | Value following 1% decrease in interest rates | Value following 1% increase in interest rates |
|----------------|---|---|---|----------------|---|---|
| £000           | £000  | £000  |   | £000           | £000  | £000  |
| 255,522        | 319,250                                       | 191,795                                       | Index linked                            | 263,642        | 328,498                                       | 198,786                                       |
| 101,253        | 105,435                                       | 97,070  | Other fixed interest                    | 106,414        | 110,800                                       | 102,026                                       |
| <b>356,775</b> | <b>424,685</b>                                | <b>288,865</b>                                | <b>Total fixed interest investments</b> | <b>370,056</b> | <b>439,298</b>                                | <b>300,812</b>                                |

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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 and some currency hedging. Currency risk can be quantified as follows:

| 31 March 2018  | Percentage change | Value on increase | Value on decrease |                                   | 31 March 2019  | Percentage change | Value on increase | Value on decrease |
|----------------|-------------------|-------------------|-------------------|-----------------------------------|----------------|-------------------|-------------------|-------------------|
| £000           | %                 | £000              | £000              |                                   | £000           | %                 | £000              | £000              |
| Equities       |                   |                   |                   |                                   |                |                   |                   |                   |
| 94,394         | 9.1               | 102,961           | 85,827            | Europe                            | 102,531        | 9.5               | 112,282           | 92,780            |
| 99,834         | 9.7               | 109,520           | 90,147            | North America                     | 103,535        | 10.3              | 114,209           | 92,860            |
| 49,870         | 15.6              | 57,663            | 42,076            | Japan                             | 49,655         | 16.5              | 57,863            | 41,447            |
| 48,011         | 11.0              | 53,306            | 42,715            | Pacific                           | 50,919         | 12.0              | 57,009            | 44,829            |
| 210,057        | 12.3              | 235,811           | 184,304           | Other                             | 218,913        | 12.6              | 246,386           | 191,439           |
| 103,252        | 8.1               | 111,616           | 94,889            | Other fixed interest              | 106,414        | 11.0              | 118,140           | 94,687            |
| 100,140        | 9.6               | 109,734           | 90,546            | Ventures and partnerships         | 119,808        | 10.2              | 131,976           | 107,641           |
| <b>705,558</b> | <b>8.1</b>        | <b>762,708</b>    | <b>648,408</b>    | <b>Total overseas investments</b> | <b>751,775</b> | <b>11.0</b>       | <b>834,620</b>    | <b>668,929</b>    |

The percentage change for total overseas investments at 31 March 2019 and at 31 March 2018 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.

Approximately half of the investment in Legal and General North American passive equities is in currency hedged units amounting to £51.32 million. Approximately half of the investment in Legal and General Europe (ex UK) passive equities is in currency hedged units amounting to £51.44 million. The investment in currency hedged units reduces the funds exposure to currency risk in these markets

### 23. Material items of income and expenditure

The merger of Northumberland College with Sunderland College took place on 22 March 2019 and will lead to a material transfer of assets from the Fund which has been treated as an amount payable in these financial statements. MHCLG issued a Direction Order substituting South Tyneside Council for Northumberland County Council as the administering authority for Northumberland College leading to that employer exiting the Fund on 22 March 2019. The Fund's Actuary has estimated that the value of the asset transfer at 31 March 2019 is £25.98 million and this amount has been included in the financial statements as a group transfer amount payable. The final amount payable will be agreed between the Fund's and South Tyneside Council's actuaries at a future date.

The change in Fund liabilities arising from the exit of Northumberland College will be included in the 31 March 2019 Actuarial Valuation to be included with the Fund's 2019-20 financial statements.



## 24. Fund membership at 31 March 2019

|  | Active members | Pensioner members | Deferred members |
|--|----------------|-------------------|------------------|
| <b>Northumberland County Council</b>   |                |                   |                  |
| Employees  | 6,912          | 8,034             | 7,751            |
| Councillors  | -              | 21                | 22               |
| <b>Local Government Pension Scheme Employers (known as "Scheduled Bodies")</b> |                |                   |                  |
| Ashington Town Council   | 4              | 1                 | -                |
| Berwick Academy  | 54             | 14                | 12               |
| Blyth Academy (part of Northern Education Trust)                               | 51             | 19                | 42               |
| Choppington Parish Council   | 3              | -                 | -                |
| Corbridge Parish Council   | 1              | -                 | 1                |
| Cramlington Learning Village Academy   | 103            | 14                | 38               |
| Cramlington Village Primary School (free school)                               | 18             | 1                 | 5                |
| Emmanuel Schools Foundation (formerly Bede Academy)                            | 144            | 20                | 57               |
| Hadrian Learning Trust   | 164            | 1                 | 18               |
| Hexham Priory Special School (Eden Trust)                                      | 58             | -                 | -                |
| Hexham Town Council  | 6              | 5                 | -                |
| Meadowdale Academy   | 36             | 5                 | 20               |
| Morpeth Town Council   | 4              | 4                 | 2                |
| North East Learning Trust Academies  | 133            | 6                 | 1                |
| Northumberland Church of England Academy                                       | 317            | 71                | 140              |
| Northumberland Inshore Fisheries and Conservation Authority                    | 16             | 6                 | 5                |
| Northumberland National Park Authority   | 77             | 42                | 86               |
| Northumbria Magistrates Courts Committee                                       | -              | 96                | 44               |
| Pax Christi Catholic Academy Trust   | 70             | 13                | 16               |
| Pele Academy Trust   | 186            | -                 | -                |
| Ponteland Academy Trust  | 28             | -                 | 8                |

|   | Active members | Pensioner members | Deferred members |
|---|----------------|-------------------|------------------|
| Ponteland Town Council  | 3              | 1                 | -                |
| Seaton Valley Council   | -              | -                 | 1                |
| St. Matthew's Catholic Academy (part of St.Thomas More Partnership) | 15             | 2                 | 7                |
| Three Rivers Learning Trust Academy                                 | 292            | 22                | 95               |
| West Bedlington Town Council  | 1              | 1                 | -                |
| Wise Group Academies  | 236            | 26                | 90               |
| <b>Admitted Bodies</b>  |                |                   |                  |
| Action for Children   | 7              | 3                 | 16               |
| Active Northumberland   | 126            | 69                | 64               |
| Age UK Northumberland   | 1              | 15                | 15               |
| Barnardo's Services Ltd   | 5              | 2                 | 14               |
| Berwick Borough Housing Ltd (part of Bernicia Group)                | 6              | 12                | 4                |
| Bullough Cleaning Services Ltd                                      | 9              | 2                 | 1                |
| Compass Chartwells  | 4              | 1                 | -                |
| Feversham School  | -              | 26                | 11               |
| Karbon Homes Ltd  | 14             | 62                | 21               |
| Northumberland Aged Mineworkers Homes Association                   | 7              | 6                 | -                |
| Northumbria Healthcare NHS Foundation Trust                         | 39             | 89                | 42               |
| Queens Hall Arts  | 2              | 3                 | 2                |
| The Disabilities Trust  | -              | 4                 | 3                |
| Wansbeck Homes (part of Bernicia Group)                             | 82             | 69                | 22               |
| Woodhorn Charitable Trust   | 14             | 9                 | 6                |
| Other bodies pre 1974   | -              | 9                 | -                |
|   | <b>9,248</b>   | <b>8,806</b>      | <b>8,682</b>     |

## Supplementary Financial Statements

### Pension Fund Performance

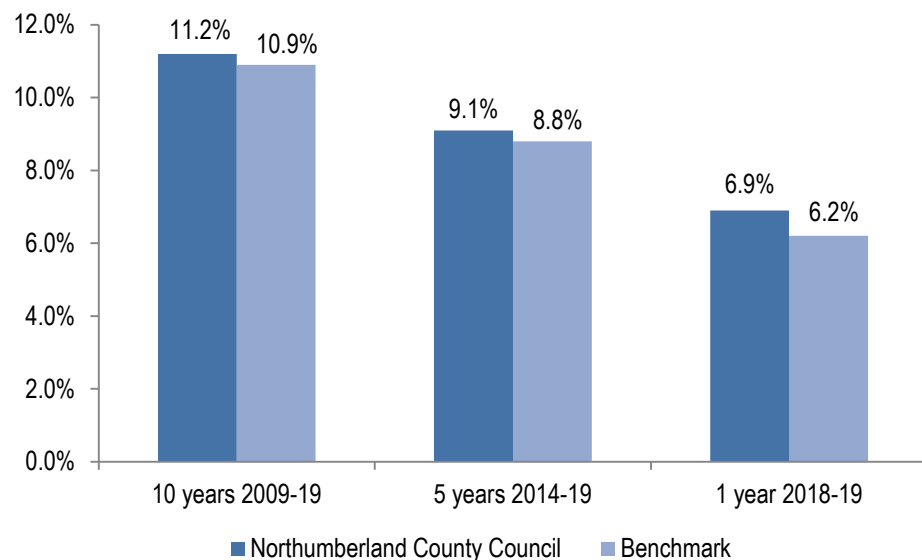
#### Annual returns

Over the year to 31 March 2019, the Northumberland County Council Pension Fund's return was 6.9%, outperforming its benchmark of 6.2%.

| Year ending 31 March | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------|------|------|------|------|------|
|                      | %    | %    | %    | %    | %    |
| Fund performance     | 13.4 | -0.7 | 24.2 | 3.4  | 6.9  |
| Benchmark            | 13.4 | -1.2 | 24.1 | 3.3  | 6.2  |

#### Annualised returns

The following shows the Northumberland County Council Pension Fund's longer-term returns compared with the Fund specific benchmark.



#### Analysis of returns

Returns for the year ending 31 March 2019, net of fees, are shown in the table below.

| Investment category               | Fund %     | Benchmark % |
|-----------------------------------|------------|-------------|
| Antin (infrastructure)            | 23.8       | 8.0         |
| BlackRock (property)              | 4.9        | 5.1         |
| G.I.P (infrastructure)            | 30.6       | 8.0         |
| Legal and General (index tracker) | 5.9        | 6.1         |
| Morgan Stanley (private equity)   | 11.8       | 11.1        |
| NB Alternatives (private equity)  | 16.9       | 11.1        |
| Pantheon (private equity)         | 14.9       | 11.1        |
| Schroder (property)               | 5.9        | 5.1         |
| Wellington (bonds)                | 3.0        | 0.7         |
| <b>Combined Fund</b>              | <b>6.9</b> | <b>6.2</b>  |

#### Market Commentary

2018-19 was a year of reasonable returns for local authority pension funds with the average being 6.0% (from the Portfolio Evaluation Ltd LGPS Information Service).

Over the year all primary asset classes had a positive performance. The highest returns were achieved by Equity Markets, dominated by the US high returns at approximately 18%, the UK having a return of approximately 6% and global equities a return of almost 11%. Fixed income and Property achieved returns of approximately 5%. Alternative assets such as Private Equity had a return of 17% in many cases, Absolute Return funds and Infrastructure funds typically exceeded 12%.

Over the year ended March 2019 equity markets valuations increased with US equities achieving the highest returns. Positive developed market returns have been due to continuing global growth coupled with low inflation and low interest rates together with reasonably accommodative monetary policies from the primary central banks. UK Investors saw positive returns primarily from UK large market capital companies that have a multi-national profile. Primary concerns occurring from the lack of resolution and confusion caused by Brexit continue to lower the economic growth outlook for the UK. Additionally the markets responded favourably in the last quarter of the year to the Chinese authorities undertaking measures to reduce the decline in economic growth experienced previously due to monetary tightening and the US authorities reducing the likelihood of short term interest rate hikes. Risks do remain for global markets. These include the continuing Brexit issue for the UK. On a more global basis there are concerns about the US and Chinese trade wars, slower economic growth in Europe, the increase in populist based political parties and rising interest rates.

Both UK and Global Markets returns were very sector specific with both being led by Technology and Basic Materials. Specifically UK markets have seen mixed results over the last 12 months with Healthcare and Oil & Gas sectors being strong performers, whilst Financials, Industrials, Consumer Goods and Consumer Services have dragged on performance.

#### The Fund's returns

The Northumberland County Council Pension Fund produced a return of 6.9% in 2018-2019.

The Fund return was 0.6% above its benchmark in 2018-19; this outperformance has been dominated by the Infrastructure pool. Positive manager contributions via the high returning GIP that generated a return of 30.6%, and Antin that generated a return of 23.8% dominated positive excess return contributions. Other areas of a positive note have been via Private Equity; NB Alternatives and Pantheon. Equity assets and Total Fixed Interest slightly reduced the excess return of the Fund. Index funds have performed as expected and are similar to the returns of their respective benchmarks with minor outperformance from UK and US Equities, as well as, under performance from Pacific ex. Japan and Emerging Market Equities. Note that the minor under/out performance via the index funds is typically generated by differences in valuation dates and will have little impact over time.

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

Over three years the Fund returned 11.2% p.a. which was 0.3% p.a. above the benchmark return of 10.8% p.a. The return has been significantly above returns from cash, salary and retail inflation. The excess return has been generated by the Infrastructure pool and also by the equity assets.

Over five years the Fund returned 9.1% p.a. which was 0.3% p.a. above the benchmark return of 8.8% p.a. The return has been significantly above returns from cash, salary and retail inflation.

Over ten years the Fund achieved a return of 11.2% p.a. The return has been significantly above returns from cash, salary and retail inflation.

Portfolio Evaluation Ltd

**May 2019**

### 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 was:
  - 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'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:

|  |                |
|--|----------------|
| Discount rate for periods in service   |                |
| Scheduled Bodies   | 4.4% per annum |
| Ongoing Orphan employers   | 4.4% per annum |
| Discount rate for periods after leaving service  |                |
| 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 scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.

\*\*In addition the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.

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. Other than as permitted or required by the Regulations, employer 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. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):
  - Increases to GMPs:  
HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.
  - Cost Management Process and McCloud judgement:  
Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.
9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.
10. This Statement has been prepared by the current Actuary to the Fund, Aon, 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 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.
11. 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 - May 2019**

**Supplementary Financial Statements**

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**



## Supplementary Financial Statements

### Firefighters' Pension Fund

Details of the Firefighters' Pension Fund is shown in the table below:

| 2017-18        | Fund Account                                  | 2018-19        |
|----------------|---|----------------|
| £000           |   | £000           |
|                | Contributions:                                |                |
| 973            | From employer - normal                        | 950            |
| 23             | From employer – ill health                    | -              |
| 755            | From members                                  | 778            |
| <b>1,751</b>   |   | <b>1,728</b>   |
|                | Transfers in:                                 |                |
| 63             | Individual transfers from other schemes       | -              |
| <b>1,814</b>   |   | <b>1,728</b>   |
|                | Benefits:                                     |                |
| (5,000)        | Pensions                                      | (5,330)        |
| (872)          | Commutations and lump sum retirement benefits | (1,625)        |
| (101)          | Lump sum death benefits                       | -              |
| <b>(5,973)</b> |   | <b>(6,955)</b> |
|                | Payments to and on account of leavers:        |                |
| -              | Individual transfers to other schemes         | (5)            |
| <b>4,159</b>   | <b>Net amount payable before top-up grant</b> | <b>5,232</b>   |
| (4,159)        | Top-up grant payable by central Government    | (5,232)        |
| <b>-</b>       | <b>Net Amount Payable for the year</b>        | <b>-</b>       |

| 31 March 2018 | Net Assets Statement                            | 31 March 2019 |
|---------------|---|---------------|
| £000          |   | £000          |
|               | Current assets:                                 |               |
| 418           | Top-up grant receivable from central Government | 1,448         |
|               | Current liabilities:                            |               |
| (418)         | Amount payable to the General Fund              | (1,448)       |
| <b>-</b>      |   | <b>-</b>      |



#### 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 33 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. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

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.

#### 4. Pension Administration

The pension administration for the Firefighters' Pension Scheme was transferred to a shared service with West Yorkshire Pension Fund on 1 March 2018.

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# Glossary of Terms

### **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 or as part of 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.

### **Arm's Length Company**

An Arm's Length Company or Arm's Length Management Organisation is a not for profit company that provides services on behalf of a local authority.

### **Available-for-sale Financial 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.

### **Business Rates**

See National Non-Domestic rates (NNDR).

### **Capital Adjustment Account**

A reserve set aside from revenue resources or capital receipts to fund capital expenditure or the repayment of external loans and certain other capital financing transactions.

### **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. CIPFA publishes the code.

## Collection Fund

The fund administered by an authority collecting council tax and business rates.

## Comprehensive Income and Expenditure Statement

A statement which details the total income received and expenditure incurred by the Council during the year in line with IFRS reporting as required by the Code.

## 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 there will be an

associated cost, or the amount of the obligation cannot be measured accurately.

## 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.

## 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.

## Debtors

Amounts owed to the Council at the year end where services have been delivered but payment has not been received.

## Deferred Capital Receipts

Deferred Capital Income comprises amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses, which form the main part of mortgages under loans for purchase and improvement of property.

## 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 fixed contributions 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.

### **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.

### **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.

### **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.

### **Heritage Assets**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### **Housing Revenue Account (HRA)**

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.

### **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**

This financial statement presents the movement in useable and unusable reserves (the Council's total reserves balances).

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

National Non-Domestic Rates, also known as Business Rates, is a tax on non-domestic properties based on property valuations and multipliers set by government.

### **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.

### **Operating Leases**

This is a method of financing assets which allows the Council to use, but not own the asset and therefore is not capital expenditure. A third party purchases the asset on behalf of the Council, who then pays the lessor an annual rental charge for the use of the asset.

### **Past Service Cost**

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

### **Pension Liabilities**

See scheme liabilities.

### **Precept**

The amount of money levied on the County Council's collection fund by other public bodies to finance services.

### **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.

### **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 monetary value of any other benefits received by an employee otherwise than in cash.

### **Reserves**

An amount set aside for a specific purpose in one year and carried forward to meet future obligations.

### **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 (REFCUS)**

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.

### **Soft Loan**

Loans, normally to voluntary sector organisations, below the market rate of interest.



# Contact Information

## Glossary and Contacts

### Contact Information

This document is also available on the Council's website at the following link

<http://www.northumberland.gov.uk/About/Finance/Statement-of-accounts.aspx#statementofaccounts>

Contact for further information on the statement of accounts:

Alison Elsdon

Service Director – Finance

Northumberland County Council

County Hall

Morpeth

NE61 2EF

Telephone: 0845 600 6400

Appendix 1 -  
Whole of  
Pension Fund  
IAS 26  
Disclosure



# 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.

**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.

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### 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<br>31 March 2016<br>£M | Value as at<br>31 March 2013<br>£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)                            |

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**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:

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|   | 31 March 2016 | 31 March 2013 |
|---|---------------|---------------|
|   | (% p.a.)      | (% 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           |

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*\* 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.*

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## 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 | CMI 2012 with a long term rate of improvement of |
| 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 | CMI 2012 with a long term rate of improvement of |
| 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>                              |

<sup>(1)</sup> The mortality tables shown apply to normal health retirements. Different rates apply to retirements in ill health.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

|                    | 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:

| Change in assumption  | Increase in defined benefit obligation |
|---|--|
| 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

|                   |             | <i>Number</i> | <i>Average age</i> | <i>Total pension (£000 p.a.)</i> | <i>Average pension (£ p.a.)</i> |
|-------------------|-------------|---------------|--------------------|----------------------------------|---------------------------------|
| <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.

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### 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.

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### Assumptions

IAS 19 sets out the following general requirements for the setting of assumptions:

- Actuarial assumptions shall be unbiased and mutually compatible; and
- Financial assumptions shall be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

Furthermore IAS 19 requires that the assumed discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds and in countries where there is no deep market in such bonds, the market yield (at the balance sheet date) on government bonds shall be used.

CIPFA have informed us that under 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.

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.

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**Method and calculations**

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.

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**Assets**

IAS 19 requires that assets be valued at Fair Value which is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. For the purposes of this exercise we have taken the asset values directly from the Fund's audited annual accounts as at 31 March 2016.

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**Treatment of Risk Benefits**

To value the risk benefits we have valued service related benefits based on service completed to the date of calculation only.

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**Expenses**

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.

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**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.

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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.



**Pension Scheme Tax Reference Number:**

(for the LGPS in England and Wales)

**PSTR 00329946RE**

**Pension Scheme Tax Reference Number:**

(for the LGPS administered by Northumberland County Council)

**PSTR 00328721RH**

