

Statement of Accounts 2017-18



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Leader's Introduction

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



In May 2017, you gave us a clear mandate as to the Northumberland in which you want to live.

We are committed to ensuring that all of you:

- feel safe, valued, and part of your community;
- live in distinctive vibrant places, which you value and in which you feel proud;
- can easily get to work, to learning, and to the various facilities and services you want to use; and,
- regardless of your age, have the right qualifications and skills to secure a good job that pays well and provides the prospect of a rewarding career.

We are determined to work with every one of you to deliver this vision. During our first year in office I hope you feel we have made a positive start.

One of the key priorities during our first 12 months has been to get to grips with the Council's finances. We have already committed to a capital spending programme of £580 million

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over the next three years - the biggest ever delivered in the county.

We have established a clear position regarding the funding of our essential services and are working on a detailed financial plan to address the issues we face until the next County Council elections in 2021.

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

We need to tackle these issues and know sound financial decision making is critical to this.

Our future success is largely set by what we achieve through our education. To transform education is our top priority. This has to be followed through by supporting our businesses to create more skilled jobs.

We will work to support existing businesses to invest and grow, whilst also seeking to attract major investment externally to create not just more jobs but better, higher earning opportunities across our county.

There are some existing success stories with businesses in Northumberland and we will work to make sure that there are many more over the course of the term of our Administration. Our county needs to be fit to measure up to the challenges of Brexit.

Thankfully we have a unique set of circumstances to drive a step change to our

economy. A devolution deal is close which will bring additional funds and powers to the county that will help in making us more competitive and in ensuring that everyone benefits from that economic growth.

Work is also continuing at pace on a 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.

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.

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

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Narrative Report

1. Introduction

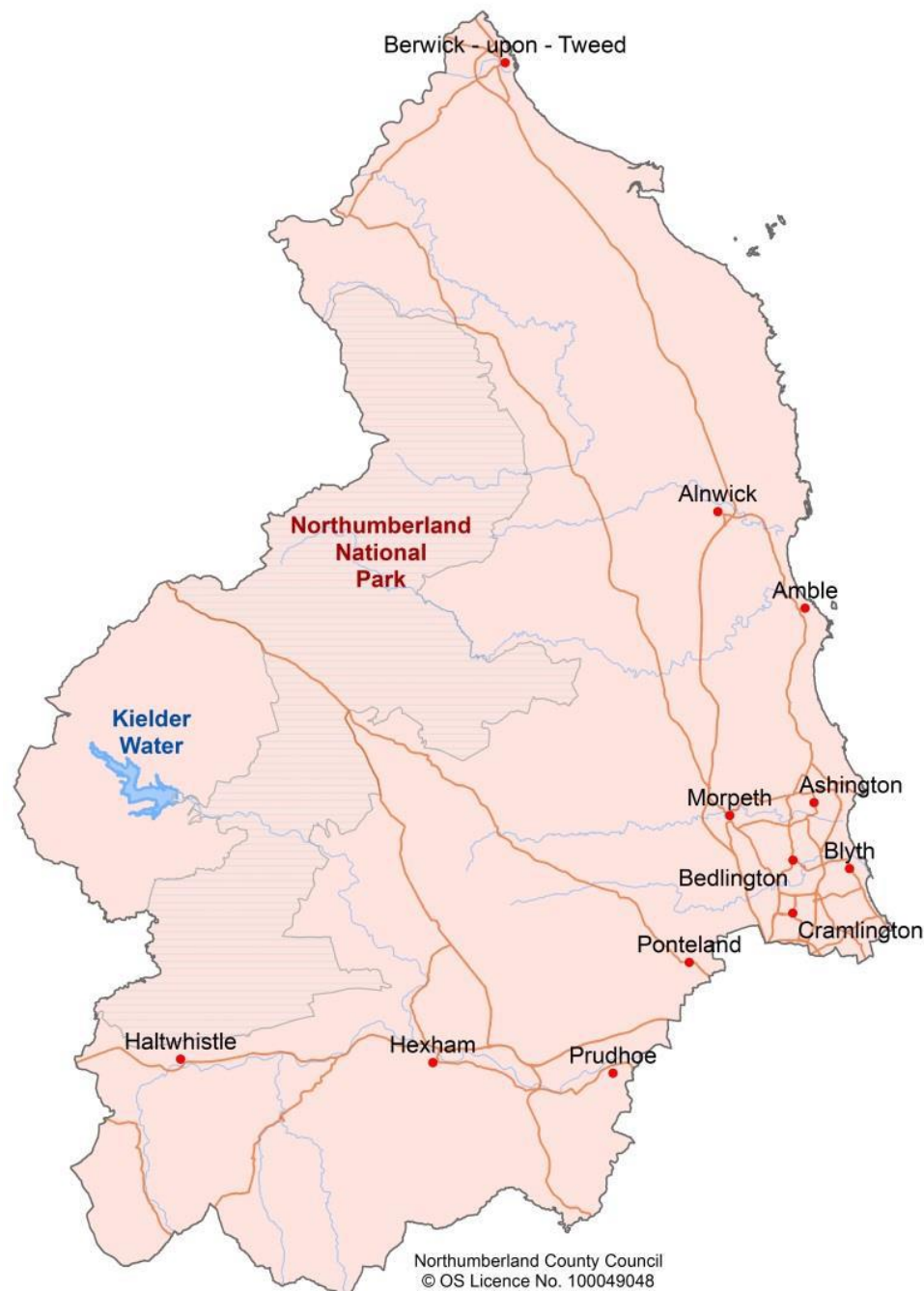
Northumberland is the northernmost county in England, bordering Cumbria to the west, County Durham and Tyne and Wear to the south and Scotland to the north. The county is home to 316,000 people and covers an area of 5,013 km², of which 96.7% is classed as rural. The county is sparsely populated with 63 people per km² compared with 411 people per km² throughout England. 49.0% of the population live in rural areas, compared to a national figure of 18.9%, with the remaining 51.0% of the population living in the 3.3% of urban land based mainly in the south east of the county.

Population

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

Northumberland has an ageing population with the percentage of older residents increasing year on year.

The number of Northumberland residents aged 0-15 was 57,800 in 2001 compared to 52,000 in 2016. Looking at older residents, there were 54,100 aged 65 and over in 2001 and this has risen to 74,500 in 2016. This ageing population has led to an increased demand for Council services, and, reflects the ongoing pressures within the Adult Services budget. It is expected that this trend will continue.



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Economy

The median pay of those living in the county has risen sharply recently, from £480 per week in 2015 to £522 in 2017 which brings residents' wages more in line with regional and national levels. The unemployment rate for Northumberland is 5.3% which is broadly in line with the England average, and the employment rate in Northumberland is 70.6% compared to the national average of 74.6%.

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

There are 152,180 dwellings in Northumberland with an average (mean) house price of £150,460; which is substantially lower than the average England figure of £237,860.

Gross Value Added (GVA) is much lower in Northumberland at £15,950 per head compared to £26,159 per head for England.

Political Structure

Northumberland County Council is made up of 67 elected members, each representing constituents within an area of Northumberland. The political structure of the Council at 31 March 2018 is shown below:

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

Management Structure

The management structure of the Council can be accessed at the following link:

<http://www.northumberland.gov.uk/About/Structure.aspx>

Council Employees

At 31 March 2018 the Council employed 8,551 staff in full and part-time contracts (excluding casual employees) with 4,426 of these being based in schools. Also included in the total number of staff are 219 apprentices employed in various roles throughout the Council.

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 of £208.42 million between 2009-10 and 2017-18. A further £8.18 million reduction has been approved for 2018-19 with an additional £56.94 million reduction required to balance the budget up to 2021-22.

2. Corporate Plan 2018-21

Our new 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 next three years and informs both the Medium Term Financial Plan and the Service Statements against which the Council’s performance service by service will be 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 which will form the basis of a new organisation cultural strategy. The key themes of this emerging strategy include:

- 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;
- Creating a healthy and positive working environment; and,

- The Corporate Plan is built around our operating principles; five key traits that we want to ensure are consistently applied.

The first is **financial prudence**. We are 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. We will therefore adopt a robust business planning approach to how we make future investment decisions. We will also take a proportionate approach to our use of reserves, our level of borrowing, the scale of our capital programme, and our propensity for awarding grants and loans. This will be built from the independent review of the Council’s finances.

We also want to be regarded as having been **resourceful**. We appreciate the need to make every pound count. We will therefore constantly challenge all of our service delivery to be lean and efficient and to embrace new ways of working that minimise waste and remove duplication. This will include entering into shared services with other public sector agencies where this makes sense and does not weaken our ability to meet your needs as Northumberland residents - with our arrangements with Northumbria Healthcare NHS Foundation Trust acting as a benchmark. We will also take an ambitious approach to promoting our services and products to other agencies - again provided that this does not prejudice our capacity to respond to your needs. Equally, we want to get the most out of our arms-length organisations. We will fundamentally review how Arch, Active

Northumberland, and Northumberland Tourism work so that they are delivering the right activities and offering value for money, whilst recognising they can access funding that is closed to councils. In all of this, the views and ideas of our staff will be of paramount interest.

Despite this, we know that we will still face tough decisions that will not be universally popular. We will not take these lightly and pledge that we will always **listen to and consider** your views. We believe that the key actions we have taken in our first few months demonstrate that we will pay attention to and act on your concerns. So, we are not moving our headquarters out of the current County Hall; we have withdrawn the Local Plan to allow a reappraisal of the housing growth numbers; we have already released more funds for highway improvements; and we are reviewing our approach to home to school transport. This will continue throughout our term of office - and where there are conflicting opinions, we will explain why we took the decision we did.

We also want to be seen as **empowering**. At the heart of this is our commitment to take more decisions at a more local level. Our five new Local Area Councils (covering North Northumberland; Castle Morpeth; Ashington and Blyth; Cramlington, Bedlington and Seaton Valley; and Tynedale) already have delegated authority for certain planning and transport decisions and we anticipate that over the coming years their powers, budgets and influence will grow. We also appreciate that our networks of parish and town councils, and voluntary and

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community sector organisations are best placed to deliver certain services and activities. We will work with both to ensure that community-led solutions and approaches are taken forward.

Finally, we will seek to **collaborate** where it is in Northumberland's interests to do so. Our unstinting participation in securing a North of Tyne Devolution Deal (with Newcastle and North Tyneside) and a Borderlands Growth Deal (with Carlisle, Cumbria, Dumfries & Galloway, and Scottish Borders) illustrate our drive in this regard. To complement this and ensure that our residents benefit from any economic growth these deals generate, we want to enter into new partnerships with our businesses and the region's universities. We need to harness their insight and enterprise to our collective horizons in what we are all capable of achieving.

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

<http://www.northumberland.gov.uk/About/Policy.aspx#corporateplan>

3. Medium Term Financial Plan and Future Financial Prospects

The Council approved the Medium Term Financial Plan for 2018-19 to 2021-22 in February 2018 to support the objectives contained within the Corporate Plan whilst implementing budget reduction measures of £65.12 million over the same period. The first two years of the plan are 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:

<http://www.northumberland.gov.uk/About/Finance/Budget-updates.aspx>

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4. Revenue Budget and Outturn 2017-18

The Council approved a net revenue budget of £280.82 million for 2017-18. Budget reduction measures and other savings totalling £6.01 million were needed in order to arrive at a balanced position. Revenue budget monitoring is reported to the Corporate Services and Economic Growth Overview and Scrutiny Committee (as requested) and is regularly reviewed by the Corporate Leadership Team. The final outturn is a net contribution to general reserves of £2.40 million as shown in the table below:

Service	Original Budget £000	Final Budget £000	Outturn £000	Variance £000
Adult Services	81,047	87,397	80,493	(6,904)
Children's Social Care	34,875	34,575	38,159	3,584
Corporate Resources	38,304	39,030	37,827	(1,203)
Education and Skills	17,651	18,556	21,474	2,918
Fire and Rescue	19,569	17,249	16,752	(497)
Human Resources	2,253	2,449	2,652	203
Leisure Services	1,954	4,283	4,283	-
Local Services and Housing	82,690	79,418	80,008	590
Planning and Economy	3,195	3,910	4,197	287
Public Health	91	91	(179)	(270)
Total Services	281,629	286,958	285,666	(1,292)
Capital Financing/Treasury Management	(47,599)	(31,803)	(32,825)	(1,022)
Corporate and Democratic Core	8,156	10,059	8,645	(1,414)
General Contingency	23,333	6,728	8,790	2,062
Precepts	15,296	15,296	15,302	6
Total Net Expenditure	280,815	287,238	285,578	(1,660)
Funded by:				
Collection Fund Surplus	(6,363)	(6,363)	(6,363)	-
Council Tax	(165,767)	(165,767)	(165,767)	-
Other Corporate Grants	(10,809)	(17,232)	(17,326)	(94)
Retained Business Rates	(41,048)	(41,048)	(45,007)	(3,959)
Revenue Support Grant	(27,799)	(27,799)	(27,799)	-
Top Up Grant	(25,756)	(25,756)	(25,714)	42
Transfer from Reserves	(3,273)	(3,273)	-	3,273
Total Funding	(280,815)	(287,238)	(287,976)	(738)
Net Total	-	-	(2,398)	(2,398)

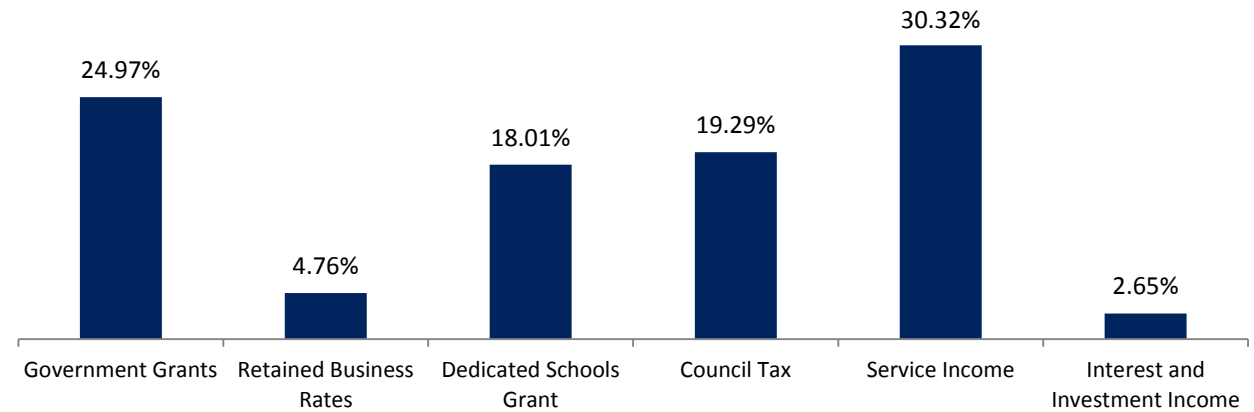
The main reasons for the underspend are:

- An underspend on commissioned services along with high staff turnover resulted in an underspend in Adult Services;
- Continuing pressures in Children's Social Care resulted in an overspend in this area;
- Corporate Resources underspent due to the recovery of overpaid benefits and an underspend on salaries;
- Unallocated savings targets and overspends on School Organisation and Home to School Transport resulted in an overspend within Education and Skills;
- A £2.50 million overspend due to the severe weather over the winter period offset by the release of £1.23 million of funds from the Repair and Maintenance Provision led to an overspend within Local Services;
- Treasury Management activities underspent due to the receipt of a £1.10 million dividend in relation to the Airport;
- The in-year contribution to the Local Government Pension Scheme deficit was £0.90 million lower than budgeted; and,
- The unspent contingency budget and general underspend on services was utilised to top up the Invest to Save Reserve (£9.73 million). Additional income from Business Rates meant that the planned transfer from reserves was not required.

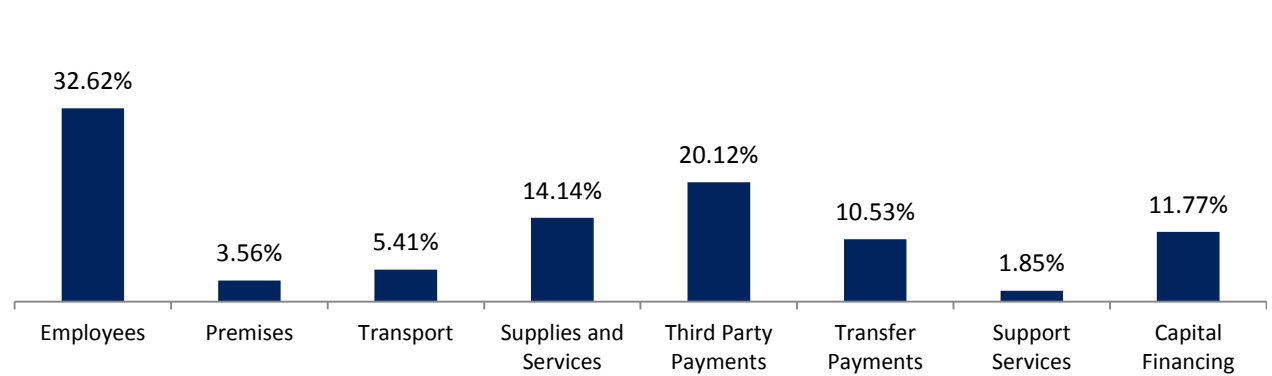
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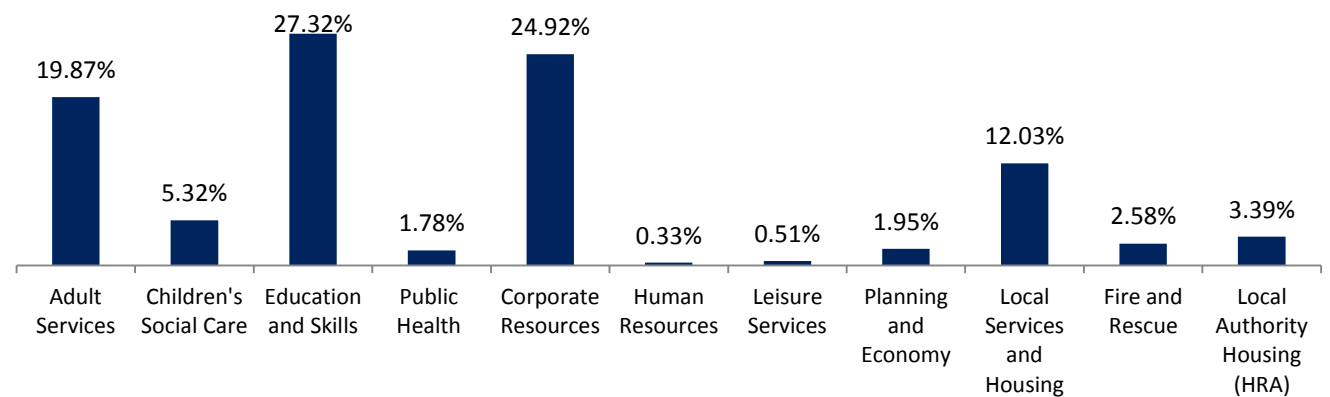
Where the money comes from



What the money was spent on



What services were provided?



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5. Capital

Capital Outturn and Three Year Budget Plan

The following table shows capital expenditure by service area for 2017-18 and the Council's three year plan as per the new Administration from 2018-19 to 2020-21:

	Outturn 2017-18 £000	Budget 2018-19 £000	Budget 2019-20 £000	Budget 2020-21 £000	Total Budget £000
Expenditure					
Adult Services	1,928	1,118	737	-	1,855
Arch	2,385	13,943	10,392	-	24,335
Children's Social Care	2,541	689	400	400	1,489
Corporate Resources	7,550	41,299	31,740	31,000	104,039
Education and Skills	24,336	59,162	50,058	22,000	131,220
Fire and Rescue	263	1,543	1,223	1,114	3,880
Housing Revenue Account	7,749	10,890	9,855	10,134	30,879
Leisure Services	140	3,387	4,000	8,000	15,387
Local Services and Housing	43,952	64,044	47,525	54,813	166,382
Other Capital Expenditure	36,172	-	-	-	-
Planning and Economy	15	6,400	12,500	81,499	100,399
Total Capital Expenditure	127,031	202,475	168,430	208,960	579,865
Funding					
Borrowing	64,650	130,495	116,142	96,270	342,907
Capital Receipts	3,479	6,008	5,339	1,700	13,047
External Grants	49,828	55,494	37,197	100,955	193,646
HRA Contributions	7,586	10,478	9,752	10,035	30,265
Revenue Contributions	1,488	-	-	-	-
Total Funding	127,031	202,475	168,430	208,960	579,865

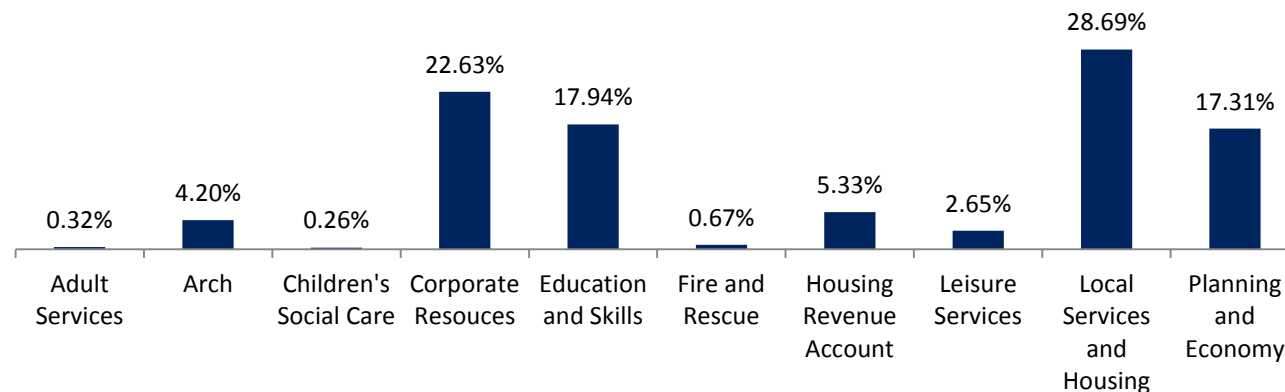
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Three Year Capital Programme

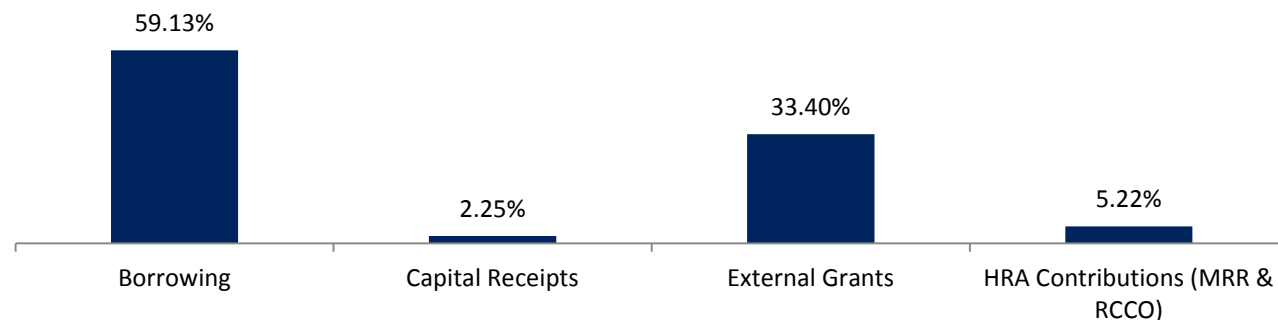
The Council agreed to embark on a three year capital programme totalling £579.87 million to show its commitment to boosting the local economy, assist in the creation of employment opportunities and create new infrastructure, transport links, regeneration and a wider choice of housing. A comprehensive schedule of capital schemes is included in Appendix 13 of the Council's Medium Term Financial Plan 2018-22 and Budget for 2018-19 report at:

http://committeedocs.northumberland.gov.uk/MeetingDocs/32720_M7725.pdf



Capital Funding 2018-19 to 2020-21

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



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Capital Expenditure 2018-19 to 2020-21

Some examples of our major schemes are:

- Local Transport Plan £58.14 million to improve the condition of the highways network;
- Fleet Replacement Programme £24.72 million to renew the Council's vehicles;
- Schools' Reorganisations and Improvements £115.38 million to include ongoing work at Ponteland; potential further reorganisations, and proposed provision of new special schools;
- Car Parking facilities £10.00 million. As part of the investment in market towns, the Council is proposing to improve and increase car parking facilities in towns to manage the growing numbers of workers, shoppers and visitors;
- Leisure Buildings Improvements £16.38 million. The proposals involve improving leisure centres in Berwick, Blyth and Morpeth, providing local residents with access to state of the art equipment and modern facilities;
- Major Repairs Reserve £28.39 million. A continued programme of upgrading existing Council dwellings through a series of improvement projects that include kitchen and bathroom refurbishments, electrical rewiring, replacement of doors and windows, the installation of new heating systems and replacement of roofing;
- County Hall Refurbishment £17.00 million. Following the reversal of the previous administration's decision to relocate the Council's headquarters to Ashington, it is now necessary to address backlog maintenance at County Hall and create an environment suitable for modern working and improved public access;
- Newcastle to Northumberland Rail Line £94.25 million. The project is looking to provide passenger rail services on the current freight only line between Newcastle and Ashington. The scheme will provide improved connectivity between South East Northumberland and Tyne and Wear; increase capacity on the South East Northumberland transport network to assist with the facilitation of additional dwellings; and, improve the rail infrastructure along the line to assist key industry along the route;
- East Sleekburn Enterprise Zone £19.87 million. East Sleekburn is a strategic employment site located within the Port of Blyth cluster of the North East Enterprise Zone. It represents a critical investment opportunity as one of few large quayside sites with a dedicated dock facility within the north east. It is however recognised that in order to secure a large scale investor, significant enabling works must be undertaken to make the former power station site development ready and to maximise its potential to generate jobs;
- Union Chain Bridge £5.99 million. The Council along with the Scottish Borders Council and the Friends of Union Chain Bridge are working together on an ambitious project to safeguard the future of the Union Chain Bridge near Berwick - the world's oldest single span suspension bridge still open to traffic. The internationally significant bridge, constructed in 1820 and spanning the River Tweed on the Anglo-Scottish border requires urgent conservation and engineering repairs to secure its future; and,
- Property Stewardship Fund £6.00 million. The annual fund seeks to help alleviate some of the more pressing issues surrounding the condition of the Council's property estate. The fund is used to carry out larger scale, urgent, essential works to prevent service closure and protect the Council from prosecution under the general 'duty of care' requirements as well as specific legislation.

6. Performance

The Council set five core priorities in its Corporate Plan for 2013-17: Economic Growth; Places and Environment; Stronger Communities and Families; Health and Wellbeing; and Developing the Organisation. During 2017-18 there have been significant achievements against these priorities.

Economic Growth

a great place to work.

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. The Council is securing new support through devolution as part of the recently announced North of Tyne Devolution Deal including the £20 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 is negotiating a deal with both the UK and Scottish Governments to secure major infrastructure and enabling measures to deliver growth in rural places.

The Council, either directly or through its dedicated Development Company, is supporting local growth across the County in towns and communities. This includes developing major economic infrastructure projects such as the Northumberland Enterprise Zone (EZ) package which includes sites in Blyth, Ashington, Berwick and Morpeth.

In 2017-18 Arch and the Port of Blyth officially launched Energy Central – an initiative to help attract new investment projects linked to the global offshore energy and subsea sectors into Blyth. The wider package of EZ sites is being developed as part of the North East Enterprise Zone investment programme.

Town centres are a major focus with bespoke support in partnership with local stakeholders, for instance Bedlington town centre is subject to new plans for a major mixed use retail development delivered by Arch, and, the

Council is working with a wide range of partners to deliver a new signage scheme to boost tourism in Berwick town centre.

The Council delivered community regeneration support to assist the development of over 100 social enterprises across Northumberland annually.

Arch provides direct business support across the County with a network of on the ground advisors and support to access funding. During 2017-18 Arch has worked with industry and partners to secure over 170 new jobs in Northumberland through inward investment and growth projects. The Business Northumberland European Regional Development Fund programme has engaged with over 600 Small and Medium Enterprise businesses across a range of key sectors by delivering one-to-one business support, training and specialist events across Northumberland.

Rural businesses are a critical part of the business base in the County. In 2017-18, the Rural Growth Network managed by Arch completed 11 rural growth projects in Northumberland, providing grant of £1.8 million, and leveraging private sector investment totalling £11 million resulting in the creation of 254 jobs and an additional 5,244 square metres of business space to create the right environment for growing rural businesses.

150,000 households and businesses in Northumberland are now able to connect to fibre broadband as a result of the Council's £23 million iNorthumberland programme and BT's commercial roll-out of the high-speed technology.

Following a restructure of Northumberland County Council's planning processes there has been a significant improvement in the performance of the service. The percentage of major planning applications determined within target time has risen from 45% in 2013-14 to 79% in 2017-18; with minor planning applications rising from 53% to 81% in the same period. 'Other' planning applications, which include those from individuals or householders have also increased from 77% to 88%.

97.6% of supplier invoices were paid within 30 days of receipt, an increase of 1.3% when compared to 2015-16.

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Places and environment

a beautiful place.

The Council is preserving and improving Northumberland; embracing diversity from the rural areas, the coastline, national park, market towns and other urban areas. The Council's parks continue to achieve Green Flag status and the Tour of Britain cycle race swept through Northumberland in September 2017 showcasing the County internationally, attracting teams, visitors and television viewers from across the world.

Eight Parks were awarded Green Flag status: Carlisle Park, Hexham Park, Dr Pit Park, Ridley Park, Bolam Lake Country Park, Plessey Woods Country Park, Alexandra Park and Berwick Park.

Over the last 12 months approximately 1,500 new homes have been built in Northumberland. The Council has placed a strong emphasis on building new Council houses and has financed the build of 300 properties over the last three years. 180 affordable family homes have been built in Blyth at South Newsham, Tynedale Drive and Hodgson's Road together with 80 new homes in north Northumberland across Amble, Shilbottle and Embleton.

The proportion of fly-tips removed from public areas within four days has increased from 88% in 2016-17 to 90% in 2017-18. 85% of hazardous potholes were filled within 24 hours of identification. The rate of missed bin collections has continued to reduce from 95 per 100,000 in 2015-16 to 49 in 2016-17 and 35 in 2017-18. The percentage of street lighting faults attended to within three days increased from 84% in 2015-16 to 93.5% in 2017-18.

Stronger communities and families

a great place to live.

Working with parents, governors and schools the Council is helping to drive improvements in Northumberland's schools. There is a significant schools capital investment programme to ensure children receive the best possible education. Despite the national move for schools to become academies the Council has remained committed to challenging and supporting schools to

improve. The Council sees its role as acting as a champion for children and parents in a time of significant cuts to national funding for schools.

103 out of the 121 primary schools (85%) were judged as Good or Outstanding at their most recent Ofsted inspection. This is a decrease on the 2016-17 year, but the picture has shown improvement recently. This is below the North East average of 93% and the national average of 90%. There have been 19 published primary school inspection reports between September 2017 and February 2018. Of those, none were judged to be Outstanding, 16 to be Good, 3 to be Requires Improvement and none to be Inadequate. As more primary schools convert to academies and therefore become new schools without an inspection rating, this will have a significant impact on these results.

22 of the 32 secondary (including middle) schools were judged as Good or Outstanding at their most recent Ofsted inspection (69%). This remains below the national average of 82% (March 2017) and the regional average of 70% (March 2017). There have been 6 published secondary and middle school inspection reports between September 2017 and February 2018. Of those, none were judged to be Outstanding, 4 to be Good, 2 to be Requires Improvement and none to be Inadequate.

Children's centre services have supported 84% of children under the age of five in our most deprived communities.

The number of cases per full time social worker has remained at 25 in 2017-18 and whilst improvements have been made in most areas, there are some workers and some teams whose caseloads remain higher than targeted. The number of cases per independent reviewing officer reduced for most of the 2017-18 year to below 70, but was 80 at the end of the financial year due to a vacancy which was filled in March. When the service is fully staffed, the average caseload will once again be below 70.

The percentage of foster care children placed with County Council foster carers increased from 81% in 2016-17 to 82% in 2017-18. The average time between a child entering care and moving in with an adoptive family reduced from 597 days in 2016-17 to 552 days in 2017-18.

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Health and Wellbeing

a healthy place to live and work.

Following the transfer of Public Health from the NHS to the Council in 2012, the health and wellbeing of people living in Northumberland continues to improve. As well as increases in life expectancy and years of life in good health, people in Northumberland in general have high levels of happiness and low levels of anxiety. Investment has continued in a range of public health services including sexual health and contraception services, 0-19 years public health services, exercise referral, drug and alcohol services and stop smoking schemes. Leisure and cultural activity contributes to both the wellbeing and quality of life of local communities. Between 2013 and 2017, with Active Northumberland, the Council has invested over £40.00 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 spent £65.40 million in 2017-18 on commissioned and in-house services to support vulnerable people in Northumberland. Examples include £1.30 million on short term support services to enable people to recover their independence after a major health crisis or accident and direct payments totalling £9.40 million enabling 1,058 people to take full control of their own support arrangements.

There were no accidental dwelling fire deaths in 2017-18.

Developing the Organisation

an organisation for the future.

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

£12.38 million was invested in the period 2014-18 in renewal of vehicles and plant used in the delivery of key frontline services and the Council is planning a further £31.92 million in the next four year period to 2022.

Average time for processing new housing and council tax benefit applications remained at around 15.5 days in 2017-18; and performance in dealing with changes of circumstances remained around 3.4 days.

Sickness absence has deteriorated with an average of 10.84 days lost to sickness per full time employee during the year. Completion rates for statutory and mandatory training has increased in 2017-18 and is now meeting targets.

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7. Treasury Management Activities

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

	31 March 2018	
	Principal £000	Average Rate %
Public Works Loans Board	295,397	3.30
Local Authority Loans	198,000	0.93
Other Market Loans	278,667	3.94
Total Debt	772,064	3.29
Total Investments	150,350	1.14

During the year the Council repaid £153.55 million of maturing borrowing and took out replacement borrowing of £164.00 million in line with authorised limits - made up of £17.00 million short term borrowing and £147.00 million of long term borrowing. This resulted in a net increase in total borrowing of £10.45 million.

Core treasury management investment balances increased during the year by £18.30 million, largely as result of increased reserves and year-end balances. Part of the increase was however offset by the 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.

8. Pension Deficit

At 31 March 2018 the County Council's net liability for future pension costs was £707.46 million. Sixty two 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 2017-18 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.

9. 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 30 March 2017 Homes for Northumberland transferred the remaining assets, liabilities and reserves of the company to the Council. No transactions took place within the company in 2017-18. Homes for Northumberland was dissolved with Companies House on 23 January 2018.

Generation and Innovation remained dormant during 2017-18 and was dissolved with Companies House on 24 October 2017.

The Group results show a surplus on the provision of service after taxation of £6.00 million (£60.89 million in 2016-17, incorporating a net deficit for the

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Arch group after group consolidation adjustments of £10.52 million (£7.53 million deficit in 2016-17). Prior to consolidation adjustments Arch showed a deficit of £6.84 million (£5.96 million surplus in 2016-17). Within this balance there is an unrealised net loss of £8.92 million on Land and Buildings and Investment Properties as a result of a net downward revaluation.

The Group balance sheet shows the value of assets and liabilities recognised by the Group at 31 March 2018 and the level of reserves, split into usable and unusable.

31 March 2017		31 March 2018
£m		£m
1,823.50	Long Term Assets	1,846.02
(43.25)	Net Current Assets	30.62
(1,380.57)	Long Term Liabilities and Provisions	(1,472.02)
399.68	Net Assets	404.62
	Represented by:	
195.71	Usable Reserves	205.52
203.97	Unusable Reserves	199.10
399.68	Total Reserves	404.62

Arch Group owed £278.44 million (£246.10 million 2016-17) to the Council (the ultimate parent company) primarily in respect of principal and interest due on a commercial loan facility, whilst the Council owed Arch group £0.20 million (Nil 2016-17).

10. 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 were planned during 2017-18 and will be 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 and is subject to review by the Audit Committee.

Key risks currently identified and being managed at the corporate level includes 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.

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11. Significant Charges in the Accounts

There have been two significant items charged as an expense to the Comprehensive Income and Expenditure Statement in the year.

A request was made to the Council by Active Northumberland for financial assistance up to a maximum of £2.64 million for 2017-18. A report was presented to a meeting of the County Council on 2 May 2018 where financial assistance was agreed. The sum paid to Active Northumberland in 2017-18 was £2.55 million. The report can be accessed in full at:

http://committeedocs.northumberland.gov.uk/MeetingDocs/35162_M7727.pdf

During 2017-18 the Council agreed not to relocate the Council Headquarters to Ashington but instead to refurbish County Hall in Morpeth. This decision was based on a report presented to Cabinet on 12 September 2017.

Work on the headquarters building ceased and the Council settled the contractor's loss and expense claim. In addition following a review of the costs that have been incurred it has been necessary to transfer abortive costs from capital construction in progress to revenue. The overall impact of these costs on the General Fund is £5.53 million.

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12. 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 2018 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 content of the Council's economic activities by reflecting the Group's activities.

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

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Northumberland County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Notes to the Accounts 1 to 46;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 10;
- Collection Fund Account and the related notes 1 to 2;
- Group Comprehensive Income and Expenditure Statement;
- Group Movement in Reserves Statement;
- Group Balance Sheet;
- Group Cash Flow Statement;
- Group Accounting Policies;
- Notes to the Group Accounts 1 to 10;
- and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Northumberland County Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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Independent Auditor's Report

Other information

The other information comprises the information included in the narrative report set out on pages 4 to 20, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- Informed decision making

Management commissioned a review of the Arch Group (a wholly owned group of subsidiary companies) in June 2017 in response to allegations of impropriety concerning transactions entered into during the financial year 2016-17. The review identified that there were some significant weaknesses in proper arrangements for acting in the public interest and that there was

evidence that the principles and values of sound governance were not appropriately applied for decisions taken.

During 2017-18 work has been undertaken by management to strengthen the governance arrangements of the Arch Group. As these changes were subject to implementation during 2017-18, proper arrangements were not operating effectively for the entire year covered by this opinion.

Our opinion was also qualified in respect of this matter for the year ended 31 March 2017.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Northumberland County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or

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- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Northumberland County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Northumberland County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Northumberland County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Independent Auditor's Report
Certificate

We certify that we have completed the audit of the accounts of Northumberland County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Northumberland County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Northumberland County Council and Northumberland County Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Edinburgh
30 July 2018

The maintenance and integrity of the Northumberland County Council web site is the responsibility of the directors; the work carried out by the auditors does

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.

Executive Director of Finance & Deputy Chief Executive - 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 2018 and their income and expenditure for the year ended 31 March 2018.



Barry Scarr

Executive Director of Finance & Deputy Chief Executive

25 July 2018

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 wholly owned subsidiary, The Arch Group, an arm's length company which acts as the development vehicle dedicated to economic development, regeneration and housing market renewal throughout Northumberland. Last year's AGS referred to two other wholly owned subsidiaries: Generation and Innovation Ltd which was established to develop a range of proposals to deliver cohesive business and commercial capacity with the objective of identifying opportunities to generate revenue and which was dissolved in October 2017; and Homes for Northumberland whose remaining assets were transferred to the Council on 30 March 2017 and was removed from the Companies Register in January 2018.

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

- Active Northumberland, a registered charity delivering Northumberland's leisure and cultural 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 North Cumbria University Hospitals NHS Trust); Occupational Health (with Northumbria Healthcare NHS Foundation Trust); pension administration (with South Tyneside Council with effect from 29 January 2018); and, fire pensions administration (with the West Yorkshire Pension fund with effect from 1 March 2018).

The Council is working collaboratively with other authorities in the region in a number of ways and is currently a member of the North East Combined Authority comprising Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland.

The Chief Executive was appointed as the Accountable Officer for the Northumberland Clinical Commissioning Group in December 2016 and the role was subsequently taken on by the Executive Director of Adult Social Care and Strategic Health Commissioning in June 2017. The Council will participate in the Northumberland Accountable Care Organisation with health partners subject to the outcome of the strategic review currently being carried out by NHS England.

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Annual Governance Statement

The process

The County Council is responsible for conducting at least annually a review of the effectiveness of its governance framework. A Corporate Governance Group was established this year in line with the Improvement Plan adopted as part of the 2016-17 AGS. That Group reviewed the Council's corporate governance framework which is shown at Appendix A and proposed a process for preparation of the AGS for 2017-18. The revised framework and the proposed process were endorsed by the Corporate Leadership Team. Heads of Service together with the Chief Operating Officer for Arch and lead officers in provision of shared services for Procurement and Internal Audit have completed returns summarising their compliance with the governance framework during the financial year 2017-18. From the information contained within the returns, an initial draft AGS was prepared by the chair of the Group as a basis for discussion and amendment and the Group also considered and agreed draft scoring for each of the seven principles. A final draft was agreed by the Group and was subsequently submitted to the Executive, the Corporate Leadership Team and 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 for the new Council elected in May 2017 established and maintained the Councillors' register of interests as required under the Localism Act 2011 which is available online for public inspection. The register includes the declaration of gifts and hospitality received by members in connection with their official duties.

Advice has been given throughout the year to Members with regard to the need to make appropriate declarations of interests under both the 2011 Act and the local members' code of conduct. As of the middle of February 2018 thirteen member code of conduct complaints were received under the arrangements adopted by the Council under the 2011 Act. The number of complaints received represented a reduction of almost 19% on the number of complaints received in the previous year. The work which had been commissioned in the previous year from a leading firm of ethical framework consultants to support a local council which had been experiencing ongoing governance problems was completed satisfactorily and progress reports on the accompanying action plan made to the Council's Standards Committee who have also expressed their satisfaction with the work undertaken by the local council in response to the consultants' work. The work undertaken was supported by both the Monitoring Officer and the Chair of the Standards Committee with an improvement plan being agreed with the authority concerned which provided for regular monitoring reports to be made to the Monitoring Officer and onwards to the Standards Committee. It is considered that the County Council's willingness to commission and pay for such work is a clear indication of the seriousness with which it takes its statutory responsibilities under the 2011 Act as they pertain to member standards of conduct.

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

Written Statements and Narrative Report

Annual Governance Statement

Roles and responsibilities of executive, non-executive, scrutiny and officer functions are clearly defined through terms of reference and job descriptions, ensuring effective leadership. Regular appraisals for staff ensure an awareness of the requirements and expectations of each role.

Terms of reference for all Committees can be found on the Council's website. Clear delegation arrangements are set out in the Finance and Contract Rules, which form part of the Council's Constitution. In relation to finance, the Council's management arrangements conform to the requirements of CIPFA's "Statement on the role of the Chief Financial Officer in Local Government".

A constructive working relationship exists between officers and elected members which ensures that both are able to operate 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

normally dealt with by specific committees established for the purpose. Reports are provided to a standard template.

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

An engagement strategy has been developed for the authority, to ensure that services are developed and delivered in an appropriate manner. With regard to public engagement, the Council has a consultation toolkit for officers, and the Economic and Inclusion Policy Team offer support with regard to compiling questionnaires, identifying appropriate sample sizes, and evaluating feedback. The Economic and Inclusion Policy Team also co-ordinate the Council's People's Panel of 2,000 citizens which can be used to seek views on specific strategic issues – examples in recent years include consultation on budget proposals, seeking views on the Devolution Agreement for the North East and awareness of Arch's role in Northumberland.

The Council last carried out an extensive Resident Perception Survey of 8,000 residents in 2015 which provided a range of quality of life perception data statistically valid at Area Committee level. It is intended to repeat the Resident Perception survey in 2018 and in 2021 using a methodology which will provide valid data at the level of the five Local Area Councils established in June 2017 and covering North Northumberland; Castle Morpeth; Ashington and Blyth; Cramlington, Bedlington and Seaton Valley; and Tynedale.

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.

Written Statements and Narrative Report

Annual Governance Statement

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

The Council's former Corporate Plan was adopted in November 2013 focusing on four outward facing priorities – Economic Growth; Places and Environment; Stronger Communities and Families; and Health and Well Being – complemented by an internal priority of Developing the Organisation. The Plan covered the period up to 2017 and was supported by the Council's vision and values statement. Each service prepares a Service Statement annually setting out its priorities in delivering the Council's Corporate Plan together with a performance framework identifying key measures of performance, current performance levels and targeted performance levels. Measures of performance are captured in the Council's web-enabled performance management system which is regularly updated with current performance so that the information is readily accessible to members, managers, staff, the public, partners and other stakeholders. The Council's performance is regularly monitored by the Corporate Leadership Team and by the Overview and Scrutiny Committees.

The Council's Core Strategy sets out the long term spatial vision and strategic planning policies of the Council. It identifies the scale and distribution of new development which is required to deliver the Council's economic growth ambitions. It also provides the strategic planning principles that will be used to inform Neighbourhood Development Plans across Northumberland. The Core Strategy was submitted to the Secretary of State for approval in March 2017 and was subsequently withdrawn in July 2017. The Council is now working towards a new strategy which will be issued for further public consultation.

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 2018.

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 are described in greater detail in specific strategies and delivery plans. The Medium Term Financial Plan for the period 2018-22 was approved by the Council at its meeting on 21 February 2018.

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

A Workforce Committee (at officer level) has been established and provides regular scrutiny, challenge and accountability for all workforce related improvement initiatives. Monthly workforce intelligence data and performance reports are produced and used to monitor and steer improvement actions. Significant Improvements in organisational compliance have been recorded during 2017-18. The data set will continue to be developed to include equality monitoring data.

The Council continues to deliver against the priorities identified within the Organisational Development Strategy to achieve its strategic objectives and deliver people and organisational improvement. Results for the 2017 staff survey show improvements across many of the elements and the engagement measure score of 3.76 for all responses is higher than the national average and higher than those of comparable public sector organisations in the region.

An HR policy review group has been established to manage a programme of policy development and review, ensuring all legislative changes are tracked and incorporated within key people management policies. Over thirty policies have been reviewed and approved by the Joint Consultative Committee and a further twenty four policies are planned to be reviewed during 2018-19.

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A focused approach on improving employee performance management has led to the prioritised review of a number of key policies and procedures. The appraisal documentation has been refreshed for 2018 and incorporates improvement suggestions from employee engagement events and staff survey findings. Compliance levels for appraisal completions continue to rise above the 70.89% achieved in 2016-17 with an expected confidence assurance level of 90% in 2018.

The Workforce Committee continues to monitor compliance levels for all mandatory required learning. Overall performance for 2017-18 has improved from 75.83% in 2017 with an 89% compliance rate across all directorates recorded January 2018. To support preparations for the General Data Protection Regulations all employees will be assigned an additional mandatory piece of required learning in April 2018.

The positive introduction of the 'Welcome to Northumberland' corporate induction programme will be further strengthened in 2018 by the addition of two performance measures monitored through the Workforce Committee. The two mandatory performance indicators measures will monitor the compliance level for employees attending a corporate induction within 12 weeks and completion of a local induction within 8 weeks will demonstrate effective on-boarding and induction practice.

Significant investment has been agreed for apprenticeships during 2017-18 and the initial preparatory work has been undertaken to ensure that the Council fulfils its public service duty and utilises its share of the Apprenticeship Levy. Current performance exceeds the 2.4% public service duty requirement for apprentices within the workforce (3.9%) and a commitment of 88% of available funds within the digital account.

A review of the Council's recruitment process will be carried out in 2018 to improve the level of assurance for safer recruitment practice and identify improvements to ensure a more efficient and expedient on-boarding experience. Managing risks and performance through robust internal control and strong public financial management

The Council's risk management framework provides a structured approach to the management of risk. The objectives of this framework are to: provide

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

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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 new Council from May 2017.

A dedicated resource is available within the Corporate Fraud Team to lead investigations into breaches of policy and suspected irregularities, with an element of the role being dedicated to pro-active work, and developing an anti-fraud culture. The Audit Committee receives regular updates on all fraud investigations.

The Council's Internal Audit Service plays a key role in the assessment of the control environment, and will make suggestions for improvement where necessary. The Service operates in accordance with the Accounts and Audit (England) Regulations 2015, the Public Sector Internal Audit Standards (revised 1 April 2016) and the related Local Government Application Note published jointly by the Chartered Institute of Public Finance and Accountancy and Institute of Internal Auditors (April 2013). Following wide consultation with stakeholders and assessment of risk, a Strategic Audit Plan is presented annually to the Audit Committee to consider and review the planned work and proposed coverage of Internal Audit. From 2016-17, an increased focus on 'assurance mapping' – using the Authority's own assessment of risks, and focusing assurance on the effectiveness of the controls in place – has been reflected in our audit planning.

The Council established a shared arrangement with North Tyneside Council for Internal Audit and Risk Management Services. The Shared Service

Management Board which includes the respective Chief Executive and 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 Annual Report for 2017-18 comments specifically in relation to the AGS:

Overall Opinion on the organisation's internal systems of governance, risk management and control:

The overall opinion of the Chief Internal Auditor on the organisation's internal systems of governance, risk management and control, was found to be satisfactory. However, a qualification to this opinion – relating to significant concerns regarding the adequacy of directive controls within the wholly owned Arch group of companies should be noted.

Areas where the framework of governance, risk management and control is working well include the key financial system audits finalised during 2017-18, and those in the process of being finalised.

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Four key financial system reports (including those in the process of being finalised) have been issued with a 'significant assurance' audit opinion and one, the Housing Benefit and Council Tax Support system, with a 'full assurance' audit opinion.

This 'full assurance' opinion is based on a high level review of key systems and processes which found the controls in place were well established and consistently applied to ensure the service is delivered to a high standard, including managing significant challenges such as the introduction of Universal Credit which will replace Housing Benefit in Northumberland in Autumn 2018. This provides assurance that the framework of governance, risk management and control is working well in respect of key financial systems (ref. point 4.9).

Areas where the framework of governance, risk management and control requires improvement, identified during audits carried out during 2017-18.

Two audit reports have been issued with a 'limited assurance' audit opinion. The Housing Income Collection identified inaccuracies in the profile of former tenant debt; no documented or approved mechanism to write off former tenant arrears; and a lack of documentary evidence to support the write off of some former tenant debt (ref. point 4.11).

A thematic review of ICT with a sample of the County's schools identified a number of areas where controls should be strengthened. Areas covered as part of the thematic review (and detailed at ref. point 4.12) were:

- Malware Controls (controls over malicious software, including virus protection);
- Mobile Device Management (managing iPads, tablets, laptops);
- Network Security (passwords, access permissions);
- Data Security (encryption, data access permissions); and
- Disaster Recovery and Business Continuity Planning (backing up and restoring systems and data).

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

Finance officers meet regularly with budget holders across the Council and prepare a monthly financial monitoring statement which is shared with the Corporate Leadership Team and reported to Overview and Scrutiny Committee.

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

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

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

At Service level there has continued to be regular regulatory inspections of Adult and Children's Services and reports are provided to the Audit Committee to provide assurance of how the actions resulting from inspections are implemented and monitored. An annual report was also submitted to the relevant Overview and Scrutiny Committee on all external inspections of Council services.

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Developments in 2017-18

There have been significant changes in the organisation and direction of the Council during 2017-18 which are relevant to the Council's governance arrangements. County Council elections were held in May 2017 which resulted in a change of administration from a Labour led minority administration to a Conservative led minority administration. There has also been change in the officer structure with the previous Chief Executive leaving the Council in May 2017 and the appointment of a new Chief Executive in November 2017. The Council agreed a new executive management structure at its meeting on 1 November 2017. Recruitment to that structure is now in its final stages.

The previous Corporate Plan had been agreed in 2013 and a new Corporate Plan for the period up to 2021 was agreed by the Council at its meeting on 21 February 2018 along with the Medium Term Financial Plan for 2018-2022 and the budget for 2018-19. These decisions will enable the Executive Directors, Service Directors and Heads of Service in conjunction with relevant Portfolio Holders to publish Service Statements setting out how each service will contribute to delivery of the Corporate Plan over the next three years. This work is due to be completed in May 2018 and will include amendments to the Council's performance framework which will continue to be monitored via the web-enabled corporate performance system.

Two strategic reviews have been carried out during the course of the year on The Arch Group and the Council's relationship with Active Northumberland. Both during and since the internal audit investigations into Arch a number of changes have been put in place to strengthen governance and control within the organisation. There is a comprehensive review of all of Arch's corporate policies on-going. The key intention has been to bring policies more in line with those adopted by the Council. A number of key functions within the business are now supported or undertaken by the Council to strengthen governance and control within those areas. These include, Human Resources, Procurement, Health and Safety, IT, and Communications. During the period of investigation several key posts within the organisation, including Interim Chief Executive and Interim Director of Finance have been filled by Council appointments on a secondment basis. In addition, the Board

has been reconstituted during this time. Since the previous year end, the Arch Board has reviewed the activities and future plans for the Arch Group. In November 2017, the Board decided that their favoured option was that the Arch Group would be dissolved and a new company will be created which will solely focus on Northumberland based regeneration, job creation and economic growth. The new company is not expecting to invest in more executive homes, but is likely to look towards a greater emphasis on more affordable housing schemes. There will be a reduced focus on retail investment but continued emphasis on industrial and commercial infrastructure which will deliver more jobs in Northumberland. This new company will continue proactive management and potential growth of a portfolio of commercial and residential assets to maximise return to ensure the development of jobs and investment alongside assisting in delivering appropriate housing solutions for Northumberland. All staff will transfer into this newly created company. It is at this point intended that the Arch Group of companies will undergo a process of dissolution in line with the shareholder's expectations, with the resultant creation of a new company, sometime over the next twelve months. The group will realise its assets and settle its obligations in the normal course of the business. As a result of the above plans, the 2017-18 accounts were prepared on a basis other than going concern basis, given that it is expected that the above changes will be made within twelve months of the date of approval of these financial statements.

An independent strategic review of the Council's relationship with Active Northumberland commenced in May 2017 and was presented to the Audit Committee on 6 December 2017 and County Council at its meeting on 21 February 2018. Following that, the Board has drafted an implementation plan in respect of the recommendations made in the strategic review. This will be monitored and reviewed by the Board. The Board has voluntarily agreed that this will be presented to the Council's Audit Committee as required as an assurance mechanism to ensure that the Council's Management Fee is used appropriately. Going forward there will be a formally documented commissioner/provider contractual relationship between the Council and Active Northumberland for the provision of Leisure Services only.

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As reported earlier in the AGS, the Council's Core Strategy was withdrawn in July 2017 and the Council is now working towards a new strategy.

In November 2017 Newcastle, North Tyneside and Northumberland councils agreed with Government a 'minded to approve' devolution deal for the North of Tyne. In order for the three councils to accept and implement the deal they must:

- come out of the current North East Combined Authority (NECA), which comprises Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland; and,
- create a new mayoral combined authority for the North of Tyne area; and,
- create a joint transport committee in conjunction with NECA as revised to oversee public transport arrangements across the whole of the North East.

It is anticipated that The North of Tyne Combined Authority will be established in the summer of 2018 and an interim Mayor will be appointed to oversee the authority until a Mayor is elected in 2019. In addition the Council is working with the Government to achieve a Borderlands Growth Deal along with Carlisle, Cumbria, Dumfries & Galloway, and Scottish Borders councils. Other developments with health and social care partners include the introduction of the Multi Agency Safeguarding Hub to streamline access to Council and health services and progress towards a Regional Adoption Agency in conjunction with Newcastle, North Tyneside, South Tyneside and Gateshead Councils.

In relation to staffing, the Council agreed in January 2018 to establish a shared service with Newcastle City Council for a range of transactional financial services (including Council Tax, Business Rates, Business Improvement District Levy (BID), Housing Benefit, Council Tax Reduction, Crisis Support Scheme and Northumberland Emergency and Transition Scheme (NETS), Blue Badges, Concessionary Travel, Free School Meal Assessment, Sundry Debt Income and Recovery, Accounts Payable, Payroll and Income Management) with effect from 1 April 2018.

The Council also decided that it would not relocate its principal administrative headquarters from County Hall in Morpeth to a new building in Ashington.

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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	Evidence summary	Score
Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Systems and processes are generally considered to be well documented, robust and consistently applied across most of the Council. There have, however, been some clear failings as reported through the strategic reviews of The Arch Group and Active Northumberland.	3
Ensuring openness and comprehensive stakeholder engagement	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.	3
Defining outcomes in terms of sustainable economic, social and environmental benefits	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	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	A comprehensive induction programme was delivered following the County Council elections in May 2017. Performance levels in conducting appraisals and completing statutory and mandatory training have improved during 2017-18. 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	Performance management is seen to be consistent across the Council and is regularly reported to management and Member meetings as well as being available on the Council's website. There is robust internal control of financial management and an independent review of the Council's finances was conducted in 2017.	2
	The risk management process is not as well integrated with business delivery and performance. Improvements have been developed during the year and will be introduced early in 2018-19.	3
Implementing good practices in transparency, reporting and audit to deliver effective accountability	Strategic reviews, the audit programme, the Council's committee structure, service specific consultation and publication of information on the website demonstrate transparency. Services recognise that improvements are required in communication and dealing with complaints.	3

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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 2018-19.

21 services have provided returns on how they comply with Council's corporate governance framework and have identified improvements which they will implement in 2018-19. 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
- General Data Protection Regulations (GDPR) to ensure that the Council and individual services are adequately prepared for introduction of the new regulations relative to data protection
- Updating schemes of delegation to ensure that they reflect changes to the management structure

A corporate governance improvement plan for 2018-19 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 Corporate Leadership Team has taken the view that, as a whole, the governance arrangements in operation during 2017-18 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 2018-19.

Signed:

Peter Jackson

Leader of the County Council

Daljit Lally

Chief Executive
and Head of Paid Service

Barry Scarr

Executive Director of Finance & Deputy
Chief Executive

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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 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
	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
Evidence of Good Governance	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

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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			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	
	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 2017-18 Improvement Plan

Area for Improvement	Proposed action	Responsible Officer	Progress
Corporate approach to governance	<p>To establish a governance group which will meet 4 times a year in:</p> <ul style="list-style-type: none"> • June - to plan delivery of corporate improvements. • September - to review delivery of corporate improvements. • December - to review progress of corporate improvements and issue guidance for preparation of service AGSs. • April - to review service submissions and prepare the corporate AGS, score each of the seven principles and recommend areas for improvement in the following 12 months. 	Alison Elsdon	Group established and reviewed delivery of corporate improvements, reviewed and updated the Council's governance framework, issued guidance on completion of service assessments for 2017-18, drafted the 2017-18 AGS and recommended an improvement plan to the Corporate Leadership Team.
Constitution	To review and update the Constitution	Liam Henry	Constitution updated by County Council in November 2017.
Consultation	To establish a framework for the consistent publication of all Council public consultation.	Janice Rose	Engagement toolkit updated. Corporate Leadership Team agreed that activity and resource should be contained within the Communications Team and escalated to the Chief Executive for consideration in the revised management structure.
Risk Management	To introduce a streamlined approach to corporate risk management.	Allison Mitchell	Progressed during the year for implementation early in 2018-19.
Scheme of Officer Delegations	To review the scheme of officer delegations in all directorates to ensure they are aligned to the updated Constitution and current management structure	All Directors	Ongoing in light of further organisational change.
Corporate Plan	To prepare a new Corporate Plan to cover the period 2017-21.	Daljit Lally	Considered by Cabinet and Overview and Scrutiny Committee in November/December 2017 and by Local Area Councils in January 2018 prior to adoption by the County Council at its meeting on 21 February 2018.
NECA and devolution	To review the Council's governance arrangements in relation to the North East Combined Authority and to devolution.	Geoff Paul	Being progressed in line with the timescales agreed with the Government.
Accountable Care Organisation	To review the Council's governance arrangements in relation to the development of the Accountable Care Organisation.	Vanessa Bainbridge	Proposals for the Accountable Care Organisation are still under development and consideration by NHS England.

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Area for Improvement	Proposed action	Responsible Officer	Progress
The Arch Group	To review the Council's governance arrangements in relation to The Arch Group's activities as an arm's length company which acts as the development vehicle dedicated to economic development, regeneration and housing market renewal throughout Northumberland.	Daljit Lally	Strategic Review of Arch reported to County Council on 3 January 2018.

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Appendix C – 2018-19 Improvement Plan

Area for Improvement	Proposed action	Responsible Officer
Active Northumberland	Implement the recommendations of the strategic review as endorsed by the Council at its meeting on 21 February 2018.	Daljit Lally
Arch	Implement the recommendations of the strategic review as endorsed by the County Council at its meeting on 3 January 2018.	Daljit Lally
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
Core Strategy	Maintain progress in development of a revised Core Strategy for consultation and submission within a timescale acceptable to the Government.	Paul Johnston
Constitution and scheme of officer delegations	Ensure that the Council's Constitution and scheme of officer delegations maintain step with organisational change.	Liam Henry
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
Consultation	Establish a framework for the consistent publication of all Council consultation.	Kelly Angus
Data Protection	Ensure the Council and all of its services comply with the requirements of the General Data Protection Regulations (GDPR).	Neil Arnold
International	Carry out an audit of compliance of service systems and processes.	Allison Joynson

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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.

2016-17				2017-18			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
173,499	(87,659)	85,840	Adult Services		168,429	(87,517)	80,912
46,538	(8,021)	38,517	Children's Social Care		45,430	(7,137)	38,293
125,296	(93,305)	31,991	Corporate Resources		135,611	(90,804)	44,807
235,832	(215,582)	20,250	Education and Skills		229,038	(207,868)	21,170
20,219	(5,271)	14,948	Fire and Rescue		19,347	(5,352)	13,995
3,069	(224)	2,845	Human Resources		2,845	(157)	2,688
14,136	(525)	13,611	Leisure Services		4,329	(46)	4,283
23,185	(60,228)	(37,043)	Local Authority Housing (HRA)		24,847	(45,361)	(20,514)
96,460	(25,607)	70,853	Local Services and Housing		102,361	(21,834)	80,527
14,519	(15,064)	(545)	Planning and Economy		16,579	(13,268)	3,311
16,860	(17,155)	(295)	Public Health		15,080	(16,684)	(1,604)
769,613	(528,641)	240,972	Cost of Services		763,896	(496,028)	267,868
62,577	(22,189)	40,388	Other Operating Expenditure	3	49,563	(18,331)	31,232
51,099	(22,176)	28,923	Financing and Investment Income and Expenditure	4	46,550	(23,478)	23,072
-	(378,699)	(378,699)	Taxation and Non-Specific Grant Income	5	-	(338,696)	(338,696)
883,289	(951,705)	(68,416)	Surplus on Provision of Services		860,009	(876,533)	(16,524)
		(15,197)	Surplus on Revaluation of Non-Current Assets	16			(10,359)
		154	Deficit on Revaluation of Available-for-Sale Financial Assets	31			12
		14,580	Actuarial Losses on pension Assets/Liabilities	33			14,810
		(32)	Transfer of HfN Balances				-
		(495)	Other Comprehensive Income and Expenditure				4,463
		(68,911)	Total Comprehensive Income and Expenditure				(12,061)

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 £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total £000
Balance brought forward 1 April 2016	(36,852)	(97,563)	(17,809)	(337)	(25,036)	(991)	(178,588)	(91,925)	(270,513)
Movement in Reserves during 2016-17:									
Surplus on the provision of services	(34,938)	-	(33,478)	-	-	-	(68,416)	-	(68,416)
Other Comprehensive Income & Expenditure	(32)	-	-	-	-	-	(32)	(463)	(495)
Total Comprehensive Income & Expenditure	(34,970)	-	(33,478)	-	-	-	(68,448)	(463)	(68,911)
Adjustments between accounting basis & funding basis under regulations (Note 14)	15,485	-	28,009	74	4,653	(1,148)	47,073	(47,073)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(19,485)	-	(5,469)	74	4,653	(1,148)	(21,375)	(47,536)	(68,911)
Transfers to/(from)Earmarked Reserves (Note 15)	3,301	(3,027)	(274)	-	-	-	-	-	-
(Increase)/Decrease in 2016-17	(16,184)	(3,027)	(5,743)	74	4,653	(1,148)	(21,375)	(47,536)	(68,911)
Balance at 31 March 2017 carried forward	(53,036)	(100,590)	(23,552)	(263)	(20,383)	(2,139)	(199,963)	(139,461)	(339,424)
Balance brought forward 1 April 2017	(53,036)	(100,590)	(23,552)	(263)	(20,383)	(2,139)	(199,963)	(139,461)	(339,424)
Movement in Reserves during 2017-18:									
Surplus on the provision of services	(678)	-	(15,846)	-	-	-	(16,524)	-	(16,524)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	4,463	4,463
Total Comprehensive Income & Expenditure	(678)	-	(15,846)	-	-	-	(16,524)	4,463	(12,061)
Adjustments between accounting basis & funding basis under regulations (Note 14)	(12,114)	-	12,013	(523)	(1,956)	(1,338)	(3,918)	3,918	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(12,792)	-	(3,833)	(523)	(1,956)	(1,338)	(20,442)	8,381	(12,061)
Transfers to/(from)Earmarked Reserves (Note 15)	10,395	(10,395)	-	-	-	-	-	-	-
(Increase)/Decrease in 2017-18	(2,397)	(10,395)	(3,833)	(523)	(1,956)	(1,338)	(20,442)	8,381	(12,061)
Balance at 31 March 2018 carried forward	(55,433)	(110,985)	(27,385)	(786)	(22,339)	(3,477)	(220,405)	(131,080)	(351,485)

Core Financial Statements

Balance Sheet

The Balance Sheet shows the value as at 31 March 2018 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 2017 £000		Note	31 March 2018 £000
1,293,576	Property, Plant and Equipment	16	1,333,842
8,383	Heritage Assets	18	7,603
1,575	Investment Property	17	1,479
3,320	Intangible Assets	20	1,850
415	Assets Held for Sale - non current	26	430
49,990	Long Term Investments	21	49,990
394,787	Long Term Debtors	21,24	417,132
1,752,046	Long Term Assets		1,812,326
442	Intangible Assets	20	113
70,835	Short Term Investments	21	65,513
15,737	Assets Held for Sale - current	26	7,238
1,222	Inventories		715
85,586	Short Term Debtors	24	74,900
30,995	Cash and Cash Equivalents	21,25	54,202
204,817	Current Assets		202,681

31 March 2017 £000		Note	31 March 2018 £000
(4,157)	Bank Overdraft	21,25	(10,465)
(159,597)	Short Term Borrowing	21	(113,948)
(70,685)	Short Term Creditors	28	(70,060)
(12,964)	Short Term Provisions	30	(11,221)
(35)	Revenue Grants Receipts in Advance	11	(805)
(247,438)	Current Liabilities		(206,499)
(78,178)	Long Term Creditors - PFI	27	(76,345)
(606,298)	Long Term Borrowing	21,22	(662,775)
(678,120)	Other Long Term Liabilities	31	(707,460)
(606)	Long Term Provisions	30	(490)
(6,799)	Capital Grants Receipts in Advance	11,21	(9,953)
(1,370,001)	Long Term Liabilities		(1,457,023)
339,424	Net Assets		351,485
199,963	Usable Reserves		220,405
139,461	Unusable Reserves	31	131,080
339,424	Total Reserves		351,485

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 2018 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.

2016-17 £000		Note	2017-18 £000
68,416	Net surplus on the provision of services		16,524
63,468	Adjustments to net surplus or deficit on the provision of services for non-cash movements	34	(85,437)
(111,223)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	34	(56,848)
20,661	Net cash flows from Operating Activities		(125,761)
(131,774)	Investing Activities	35	135,793
122,937	Financing Activities	36	6,867
11,824	Net increase in cash and cash equivalents		16,899
15,014	Cash and cash equivalents at the beginning of the reporting period	25	26,838
26,838	Cash and cash equivalents at the end of the reporting period	25	43,737

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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).

As Restated 2016-17			2017-18		
Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the CIES £000
77,753	8,087	85,840	79,656	1,256	80,912
38,226	291	38,517	38,176	117	38,293
23,037	8,954	31,991	28,286	16,521	44,807
12,478	7,772	20,250	11,508	9,662	21,170
14,948	-	14,948	14,030	(35)	13,995
2,877	(32)	2,845	2,649	39	2,688
6,726	6,885	13,611	4,281	2	4,283
(9,034)	(28,009)	(37,043)	(8,501)	(12,013)	(20,514)
49,576	21,277	70,853	55,017	25,510	80,527
(406)	(139)	(545)	3,467	(156)	3,311
(280)	(15)	(295)	(1,620)	16	(1,604)
215,901	25,071	240,972	226,949	40,919	267,868
(240,823)	(68,565)	(309,388)	(243,574)	(40,818)	(284,392)
(24,922)	(43,494)	(68,416)	(16,625)	101	(16,524)
(32)			-		
(24,954)			(16,625)		
(152,224)			(177,178)		
(24,954)			(16,625)		
(177,178)			(193,803)		

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.

2016-17					2017-18			
Adjustments for capital Purposes £000	Net Change for the Pensions Adjustment £000	Other Differences £000	Total Adjustments £000		Adjustments for capital Purposes £000	Net Change for the Pensions Adjustment £000	Other Differences £000	Total Adjustments £000
8,351	(284)	20	8,087	Adult Services	732	500	24	1,256
381	(219)	130	292	Children's Social Care	(308)	425	-	117
11,040	(2,149)	63	8,954	Corporate Resources	16,096	388	37	16,521
10,429	(3,810)	1,154	7,773	Education and Skills	11,324	(1,944)	282	9,662
3,459	(3,349)	(111)	(1)	Fire and Rescue	2,350	(2,499)	114	(35)
-	(35)	3	(32)	Human Resources	-	36	3	39
6,885	-	-	6,885	Leisure Services	-	-	2	2
(27,796)	(213)	-	(28,009)	Local Authority Housing (HRA)	(11,800)	(213)	-	(12,013)
21,562	(352)	67	21,277	Local Services and Housing	24,772	660	78	25,510
(112)	(49)	22	(139)	Planning and Economy	(295)	125	13	(157)
-	(10)	(5)	(15)	Public Health	-	8	8	16
34,199	(10,470)	1,343	25,072	Net Cost of services	42,871	(2,514)	561	40,918
(89,353)	21,530	(743)	(68,566)	Other Income And Expenditure	(59,075)	16,480	1,778	(40,817)
(55,154)	11,060	600	(43,494)	(Surplus) or Deficit	(16,204)	13,966	2,339	101

2. Expenditure and Income Analysed by Nature

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

2016-17 £000		2017-18 £000
Expenditure:		
84,494	Depreciation, amortisation, impairment	48,773
317,409	Employee Benefits Expenses	310,191
(592)	(Gain) or Loss on the Disposal of Assets	93
33,204	Interest Payments	29,827
415,500	Other Services Expenditure	436,340
1,120	Payments to Housing Capital Receipts Pool	1,062
15,136	Precepts and Levies	15,390
17,018	Support Services Recharges	18,333
883,289	Total Expenditure	860,009
Income:		
(339,096)	Fees Charges and Other Services Income	(265,749)
(392,332)	Government Grants	(376,569)
(198,135)	Income from Council Tax and Non-domestic Rates	(210,862)
(22,142)	Interest and Investment Income	(23,353)
(951,705)	Total Income	(876,533)
(68,416)	Surplus on the Provision of Services	(16,524)

3. Other Operating Expenditure

2016-17 £000		2017-18 £000
15,136	Parish and other precepts	15,390
1,120	Payments to the Government Housing Capital Receipts Pool	1,062
(15)	Downward Valuation of Assets Held for Sale	1,431
24,147	Losses on the disposal of non-current assets	13,349
40,388	Total net operating expenditure	31,232

4. Financing and Investment Income and Expenditure

2016-17 £000		2017-18 £000
30,049	Interest payable and similar charges	29,966
21,530	Pensions interest cost and expected return on pensions assets	16,480
(22,141)	Interest receivable and similar income	(23,436)
(515)	Income and expenditure in relation to investment properties and changes in fair value	62
28,923	Total Financing and Investment Income and Expenditure	23,072

5. Taxation and Non-Specific Grant Income

2016-17 £000		2017-18 £000
(159,184)	Council tax income	(169,118)
(38,951)	Non domestic rates	(41,744)
(81,671)	Non-ring fenced government grants	(76,050)
(98,893)	Capital grants and contributions	(51,784)
(378,699)	Total Taxation and Non-Specific Grant Income	(338,696)

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 £14.18 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.

2016-17 £000		2017-18 £000
	Funding Provided to the pooled budget:	
(2,328)	Northumberland County Council	(8,987)
(22,449)	Northumberland Clinical Commissioning Group	(22,749)
(24,777)		(31,736)
	Expenditure met from the pooled budget:	
14,186	Northumberland County Council	23,034
10,459	Northumberland Clinical Commissioning Group	8,223
24,645		31,257
(132)	Net surplus	(479)

7. Members' Allowances

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

2016-17 £000		2017-18 £000
177	Salaries	113
1,352	Allowances	1,311
43	Expenses	43
1,572	Total	1,467

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. The amounts disclosed for 2016-17 have been restated.

Restated 2016-17		2017-18
All Employees	Remuneration Band	All Employees
94	£50,000 to £54,999	102
69	£55,000 to £59,999	52
38	£60,000 to £64,999	54
18	£65,000 to £69,999	13
11	£70,000 to £74,999	7
4	£75,000 to £79,999	7
9	£80,000 to £84,999	4
5	£85,000 to £89,999	5
2	£90,000 to £94,999	3
2	£95,000 to £99,999	3
1	£100,000 to £104,999	1
1	£105,000 to £109,999	1
254	Total	252

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 2016-17 or 2017-18.

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

* 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	New Appointment.
10	26-Feb-18	31-Mar-18	Executive Director of Place	
11	03-Apr-17	31-Mar-18	Director of International Projects and System Transformation	
12	01-Apr-17	30-Nov-17	Director of Human Resources	Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation pays 50%.
	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	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 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.

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

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

Note	Information
1	Jointly funded post with the Northumbria Healthcare NHS Foundation Trust - each organisation pays 50% of the costs.
2	Commenced work with Northumberland County Council 1 September 2016.
3	Leaver 1 January 2017.
4	Director of Human Resources - seconded from Northumbria Healthcare NHS Foundation Trust. Salary is recharged 100% to Northumberland County Council.
5	Director of Adult and Community Care Services - Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs.
6	Head of Finance, IT and Estates - Shared role between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust. Figures represent 50% of the total salary costs.
7	Resigned from post 7 July 2016.
8	Deputy Chief Fire Officer 1 April 2016 to 7 July 2016. Chief Fire Officer from 8 July 2016.

Notes to the 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 2016-17	Number of Compulsory Redundancies 2017-18	Number of Other Departures Agreed 2016-17	Number of Other Departures Agreed 2017-18	Total Number of Exit Packages by cost band 2016-17	Total Number of Exit Packages by cost band 2017-18	Total Cost of Exit packages in each band 2016-17 £	Total Cost of Exit packages in each band 2017-18 £
£0 - £20,000	52	91	77	59	129	150	831,875	758,410
£20,001 - £40,000	2	11	13	9	15	20	404,005	539,023
£40,001 - £60,000	2	-	4	5	6	5	277,935	246,240
£60,001 - £80,000	1	-	5	1	6	1	413,158	73,391
£80,001 - £100,000	-	-	2	1	2	1	181,415	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
	57	102	101	76	158	178	2,108,388	2,068,644
Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings	-	-	-	-	49	97	270,526	271,000
Total cost included in Comprehensive Income and Expenditure Statement	57	102	101	76	207	275	2,378,914	2,339,644

The Council's Comprehensive Income and Expenditure Statement includes a provision for £0.27 million which has been agreed and is payable to 97 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:

2016-17 £000		2017-18 £000
191	Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	191
10	Fees payable to the appointed auditor for the certification of grant claims and returns for the year	9
64	Fees payable in respect of any other services provided by the appointed auditor during the year	24
265	Total	224

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

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 2017. 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 2017-18 are as follows:

Schools' Budget Funded by DSG	Central Expenditure £000	Individual Schools' Budget £000	Total £000
Final DSG for 2017-18			224,484
Academy figure recouped for 2017-18			(68,531)
Total DSG after Academy Recoupment			155,953
Brought forward from 2016-17			(1,728)
Agreed budgeted distribution in 2017-18	35,414	118,811	154,225
In Year Adjustments *	(169)	-	(169)
Final Budget Distribution for 2017-18	35,245	118,811	154,056
Less Actual Central Expenditure	37,307	-	37,307
Less Actual ISB deployed to Schools	-	118,811	118,811
Carried forward to 2018-19	(2,062)	-	(2,062)

* Note: £141k relates to funding clawed back in 2017-18 for 2016-17 final early years block adjustment and an estimated claw back of £28k is included for the 2017-18 final early years block adjustment which will be confirmed by the ESFA in June 2018.

11. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017-18:

2016-17 £000		2017-18 £000
	Credited to Taxation and Non Specific Grant Income	
	Revenue:	
-	Adult Social Care Support Grant	1,528
3,155	Education Services Grant	855
-	Improved Better Care Fund	6,463
6,755	New Homes Bonus Grant	6,213
743	Other	320
24,058	Retained Business Rates Top up Grant	25,714
41,459	Revenue Support Grant	27,799
2,326	Rural Services Delivery Grant	1,878
3,109	Section 31 Grants	5,280
81,605	Total Revenue	76,050

2016-17 £000		2017-18 £000
	Grants Credited to Services:	
	Revenue :	
1,315	Community Housing Fund	-
85,646	Council Tax / Housing Benefit Subsidy Grants	81,766
160,791	Dedicated Schools Grant (DSG)	157,846
10,090	Education Funding Agency	8,548
2,161	Education Skills Funding Agency (ESFA)	2,130
1,023	Flooding Grant	-
12,947	Grants in Support of Individual School Budgets	13,083
7,441	North East Combined Authority Grant	6,217
8,151	Other Grants	10,906
17,075	Public Health Grant	16,654
831	Supporting Families Grant	1,260
4,760	The Private Finance Initiative (PFI)	4,760
312,231	Total Revenue Grants	303,170
	Donations and Contributions	
3,863	Contributions from Other Local Authorities	4,300
11,935	Northumbria Healthcare NHS Foundation Trust	12,365
8,117	Other Donations and Contributions	6,074
5,392	S117 Health Contributions	6,271
29,307	Total Donations and Contributions	29,010
341,538	Total Credited to Services	332,180

Notes to the Accounts

2016-17 £000		2017-18 £000
	Capital:	
	Department for Digital, Culture, Media and Sport - BDUK	
1,790	Broadband	1,209
3,663	Department for Education - Basic Needs	2,744
9,530	Department for Education - Capital Maintenance	8,686
43,481	Department for Education - Donated Assets	-
-	Department for Education - Kylee House Refurbishment	2,648
	Department for Transport - Challenge Fund / Masonry Arch	
2,500	Programme	2,080
18,177	Department for Transport - Local Transport Plan	16,998
2,038	Department for Transport - Morpeth Northern Bypass	-
1,111	Department for Transport - Pothole Grant	3,634
	Department of Energy and Climate Change - Central Heating	
5,989	Fund	-
1,220	Homes and Communities Agency - Allendale Properties	-
	Ministry of Housing, Communities & Local Government -	
1,482	Disabled Facilities Grant	1,903
	Ministry of Housing, Communities & Local Government - Rural	
-	Growth Network Local Growth Fund	1,198
-	North East Combined Authority (NECA) - Integrated Transport	1,633
-	North East Combined Authority (NECA) - NPIF	2,990
7,912	Other	6,061
98,893	Total Capital	51,784

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 2017 £000		31 March 2018 £000
	Capital Grant Receipts in Advance:	
	Department for Education - Devolved Formula Capital	
2,064	(DFC)	1,906
2,070	Department for Education - Early Years Grant	1,886
	Department for Transport - Challenge Fund - Rural	
-	Roads Programme	4,020
2,665	Other	2,141
6,799	Total Capital Grant Receipts in Advance	9,953
	Revenue Grant Receipts in Advance:	
-	Big Lottery Fund	394
35	Education Funding Agency	-
-	Home Office	140
-	Local Government Association	14
-	Ministry of Housing, Communities and Local Government	244
-	North East Migration Partnership	13
35	Total Revenue Grant Receipts in Advance	805
6,834	Total Receipts in Advance	10,758

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:

2016-17				2017-18			
Income £000	Expenditure £000	(Surplus) / Deficit £000		Income £000	Expenditure £000	(Surplus) / Deficit £000	
(1,229)	834	(395)	Building, Pest Control and Land Charges	(1,350)	697	(653)	
(1,060)	2,345	1,285	Car Parks	(1,041)	1,303	262	
(232)	263	31	Catering	(248)	286	38	
(1,676)	1,016	(660)	Cemeteries and Crematorium	(1,763)	933	(830)	
(2,384)	2,356	(28)	Highways Maintenance	(2,778)	2,500	(278)	
(140)	138	(2)	Markets	(142)	119	(23)	
(113)	50	(63)	Public Buildings available for Private Hire	(58)	94	36	
(1,609)	1,436	(173)	Trade Waste	(1,712)	1,555	(157)	
(8,443)	8,438	(5)	Total Trading Operations	(9,092)	7,487	(1,605)	

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 is no longer responsible for the management of catering services within county schools. The Council's main restaurant has generated a marginal surplus in the last 2 financial years. The restaurant operated by the Fire and Rescue Service is subsidised by the service.

Cemeteries and Crematorium

The service manages 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.

Notes to the Accounts

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 £7.80 million in 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 2017-18 is £37.15 million (2016-17 in £24.78 million).

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.

2017-18	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
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
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the repayment of debt	24,083	-	-	-	-	(24,083)
Capital expenditure charged against the General Fund and HRA balances	1,488	-	-	-	-	(1,488)
Adjustments primarily involving the Capital Grants Unapplied Account:						
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)
Adjustments primarily involving the Capital Receipts Reserve:						
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	-	-	-

Notes to the Accounts

2017-18	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Movement in Unusable Reserves £000
Adjustment primarily involving the Major Repairs Reserve:						
Posting of HRA resources to the Major Repairs Reserve	-	8,924	-	-	(8,924)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	7,586	(7,586)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
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
Adjustments primarily involving the Pensions Reserve:						
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)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,383)	-	-	-	-	1,383
Adjustment primarily involving the Accumulated Absences Account:						
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
Total Adjustments	(12,114)	12,013	(523)	(1,956)	(1,338)	3,918

Notes to the Accounts

2016-17	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(36,296)	(8,531)	-	-	-	44,827
Revaluation (losses)/gains on Property Plant and Equipment	(11,805)	27,163	-	-	-	(15,358)
Movements in the fair value of Investment Properties	495	-	-	-	-	(495)
Amortisation of intangible assets	(1,084)	-	-	-	-	1,084
Capital grants and contributions applied	89,125	1,219	-	-	-	(90,344)
Revenue expenditure funded from capital under statute	(17,340)	-	-	-	-	17,340
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(45,667)	(448)	-	-	-	46,115
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the repayment of debt	18,577	-	-	-	-	(18,577)
Capital expenditure charged against the General Fund and HRA balances	1,521	274	-	-	-	(1,795)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8,549	-	-	(8,549)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	13,202	-	(13,202)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	21,594	579	(19,402)	-	-	(2,771)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	9,396	-	-	(9,396)
Voluntary set aside of Capital Receipts to repay debt	-	-	9,286	-	-	(9,286)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(139)	-	139	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1,120)	-	1,120	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(465)	-	-	465
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer to the Capital Receipts Reserve upon receipt of cash	(26)	-	-	-	-	26
Adjustment primarily involving the Major Repairs Reserve:						
Posting of HRA resources to the Major Repairs Reserve	-	8,531	-	-	(8,531)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	7,383	(7,383)

Notes to the Accounts

2016-17	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(429)	-	-	-	-	429
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(47,057)	(2,773)	-	-	-	49,830
Employer's pension contributions and direct payments to pensioners payable in the year	36,758	2,011	-	-	-	(38,769)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,171	-	-	-	-	(1,171)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,342)	(16)	-	-	-	1,358
Total Adjustments	15,485	28,009	74	4,653	(1,148)	(47,073)

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 2017-18.

2016-17				2017-18				
1 April 2016 £000	Transfers Out £000	Transfers In £000	31 March 2017 £000		1 April 2017 £000	Transfers Out £000	Transfers In £000	31 March 2018 £000
General Fund Reserves:								
Balances held by schools under a scheme of delegation								
8,920	(2,616)	284	6,588		6,588	(2,501)	948	5,035
-	-	1,315	1,315	Community Led Housing	1,315	(66)	-	1,249
15,648	(2,286)	231	13,593	Estates Rationalisation	13,593	(1,904)	911	12,600
40	(12)	-	28	Homefinders	28	(28)	-	-
5,836	-	709	6,545	Insurance Reserve	6,545	(4,022)	4,704	7,227
3,546	(304)	-	3,242	Invest to Save	3,242	(676)	9,732	12,298
376	-	48	424	Local Authority Mortgage Scheme	424	-	-	424
7	(4)	1	4	Market Traders' Levy	4	-	-	4
82	-	-	82	NCC Economic Regeneration Reserve	82	-	1	83
612	(159)	-	453	Planning Delivery Grant	453	-	-	453
9,508	(8,822)	8,215	8,901	Revenue Grants Reserve	8,901	(7,064)	7,470	9,307
62	(5)	-	57	Rural Growth Network	57	-	-	57
2,144	(829)	3,234	4,549	Section 106 Reserve	4,549	(1,044)	2,124	5,629
2,500	-	-	2,500	Severe Weather Reserve	2,500	-	-	2,500
48,124	-	4,040	52,164	Strategic Management Reserve	52,164	(912)	735	51,987
-	-	-	-	Winter Services Reserve	-	-	2,000	2,000
97,405	(15,037)	18,077	100,445		100,445	(18,217)	28,625	110,853
Transferred from the Borough and District Councils:								
75	(11)	-	64	ADC Parks & Open Spaces	64	(11)	-	53
83	(2)	-	81	ADC Section 106 Monies	81	(2)	-	79
158	(13)	-	145		145	(13)	-	132
97,563	(15,050)	18,077	100,590	Total General Fund Reserves	100,590	(18,230)	28,625	110,985
HRA Account:								
991	(7,383)	8,531	2,139	Major Repairs Reserve	2,139	(7,586)	8,924	3,477
98,554	(22,433)	26,608	102,729	Total Reserves	102,729	(25,816)	37,549	114,462

Notes to the Accounts

Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £5.04 million includes school balances of £4.52 million (£4.98 million in 2016-17), 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 £0.52 million (£1.61 million in 2016-17). The school balances are made up as follows:

31 March 2017 £000		31 March 18 £000
7,811	Unspent Balances	7,155
(2,305)	Overspent Balances	(2,085)
(528)	Loans Outstanding	(553)
4,978		4,517

The Council has agreed a Loan Scheme to enable all maintained schools to borrow money from the aggregate balances of the delegated budgets of schools. At 31 March 2018 there were 4 loans outstanding of £0.55 million (2016-17 £0.53 million):

- Swansfield Park Primary School £0.02 million;
- Hipsburn First School £0.03 million;
- Stakeford First School £0.04 million; and,
- Alnwick Duchess High School £0.46 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.

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 in year 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 2018 is £7.23 million (31 March 2017 £6.54 million) and is assessed as sufficient to cover unforeseen levels of claim settlements in future years.

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

Additional funds have been provided for in earmarked reserves since 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 2018 (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

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money by investing in new technology or changing the way business is conducted. This reserve now totals £12.30 million of which £2.30 million is earmarked for completion of dilapidation works for the Bailiffgate site; project management costs for iNorthumberland, and, the Newcastle Northumberland Railway Line. The remaining £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

Each week market traders pay an additional levy of £0.50 which will be used to fund future market-related expenditure.

NCC Economic Regeneration Reserve

The reserve was established from the sale of the County Council's waste disposal company. It is used to lever other contributions and add to the Council's initial stake in four key areas within the Economic Regeneration Strategy: inward investment, support for 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 2018-19.

Planning Delivery Grant

This was created using the Planning Delivery Grant received by the former District and Borough Councils and Northumberland County Council prior to Local Government Reorganisation. This is used to contribute towards

expenditure in the preparation of the Northumberland Local Plan, primarily the core strategy.

Revenue Grants Reserve

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

Rural Growth Network

The Rural Growth Network (RGN) Programme is one of five national pilots being funded by The Department for Environment, Food and Rural Affairs (DEFRA). Northumberland County Council is undertaking the applicant and accountable body role for the programme which is being delivered across rural areas in Northumberland, Durham and Gateshead. Funding has been paid to Northumberland County Council under Section 31 of the Local Government Act 2003, and is being used for the development of Rural Business Hubs and business development and networking support as detailed in the annual delivery plans. The scheme commenced on 1 October 2012 and completed in October 2015 with the balance of the funding being used for the Local Growth Fund (LGF) Programme which ends in 2018-19.

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

Notes to the Accounts

Provision. The monies are held until the particular provision is undertaken. During 2017-18 £1.04 million was received from developers with £2.12 million used to fund schemes.

Severe Weather Reserve

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

Strategic Management Reserve

This reserve was established following a review of all usable reserves during 2015-16 in order to support the Council's Medium Term Financial Plan. A further £4.04 million was added to the reserve from the Collection Fund surplus in 2016-17 to support the Medium Term Financial Plan in 2017-18. This funding was approved at the Council's budget meeting in February 2017.

In 2017-18 there was a net reduction in this reserve of £0.18 million following a review of the Estates Rationalisation Provision and Reserve.

The Council approved the use of £8.12 million of this reserve at its budget meeting in February 2018 in order to balance the budget over the term of the Medium Term Financial Plan 2018-22.

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 2017-18.

Alnwick District Council – Section 106 Monies

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

Housing Revenue Account – Major Repairs Reserve

The Major Repairs Reserve movement for the year reflects the variance between depreciation contributions received from dwelling and non-dwelling assets offset by the amount used in financing capital expenditure.

Movements in the Major Repair Reserve are detailed in note 4 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 2017-18:	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation:									
At 1 April 2017	305,301	481,464	145,058	468,379	9,799	16,217	73,534	1,499,752	107,906
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	-
At 31 March 2018	312,464	497,759	149,878	539,426	9,799	16,848	45,228	1,571,402	109,556
Accumulated Depreciation and Impairment:									
At 1 April 2017	-	22,042	54,535	128,051	1,548	-	-	206,176	26,862
Depreciation/Impairment 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)	-
At 31 March 2018	-	31,569	62,263	142,052	1,676	-	-	237,560	31,311
Net Book Value:									
At 31 March 2018	312,464	466,190	87,615	397,374	8,123	16,848	45,228	1,333,842	78,245
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

Movements in 2016-17:	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation:									
At 1 April 2016	270,510	485,233	141,305	424,650	9,839	12,165	59,278	1,402,980	106,324
Additions	12,548	53,446	6,282	33,360	4	128	40,057	145,825	1,582
Reclassifications	5,188	7,226	147	10,369	-	2,550	(25,480)	-	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(7,941)	-	-	10	8,346	-	415	-
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	18,675	(17,941)	-	-	-	(873)	-	(139)	-
De-recognition - Disposals	(1,620)	(28,131)	(2,676)	-	(4)	(76)	(321)	(32,828)	-
De-recognition - Other	-	(3,516)	-	-	-	-	-	(3,516)	-
Assets reclassified (to)/from Held for Sale	-	(6,912)	-	-	(50)	(6,023)	-	(12,985)	-
At 31 March 2017	305,301	481,464	145,058	468,379	9,799	16,217	73,534	1,499,752	107,906
Accumulated Depreciation and Impairment:									
At 1 April 2016	-	34,292	46,898	115,564	1,420	-	-	198,174	22,664
Depreciation/Impairment charge	8,488	13,811	9,913	12,487	128	-	-	44,827	4,198
Reclassifications	-	(627)	-	-	-	627	-	-	-
Depreciation written out to the Revaluation Reserve	-	(14,216)	-	-	-	(566)	-	(14,782)	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(8,488)	(6,863)	-	-	-	(61)	-	(15,412)	-
De-recognition - Disposals	-	(4,056)	(2,276)	-	-	-	-	(6,332)	-
De-recognition - Other	-	(299)	-	-	-	-	-	(299)	-
At 31 March 2017	-	22,042	54,535	128,051	1,548	-	-	206,176	26,862
Net Book Value:									
At 31 March 2017	305,301	459,422	90,523	340,328	8,251	16,217	73,534	1,293,576	81,044
At 31 March 2016	270,510	450,941	94,407	309,086	8,419	12,165	59,278	1,204,806	83,660

Notes to the 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 2017.

The valuation work has been undertaken by Cushman & Wakefield Debenham Tie Leung Limited, Central Square South, Orchard Street, Newcastle upon Tyne, NE1 3AZ.

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 2017-18.

Valuation of Fixed Assets Carried at Current Value

Of the Property, Plant and Equipment not held at cost on the Balance Sheet, 49% 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 £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets * £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Valued at Historical Cost	-	10,386	87,615	397,374	8,123	-	45,228	548,726
Valued at Current Value in:								
2017-18	312,464	57,392	-	-	-	16,738	-	386,594
2016-17	-	204,498	-	-	-	110	-	204,608
2015-16	-	93,566	-	-	-	-	-	93,566
2014-15	-	95,945	-	-	-	-	-	95,945
2013-14	-	4,403	-	-	-	-	-	4,403
Total	312,464	466,190	87,615	397,374	8,123	16,848	45,228	1,333,842

*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:

2016-17 £000	2017-18 £000
(35) Rental income from investment property	(42)
14 Direct operating expenses arising from investment property	10
(21) Net Gain	(32)

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:

2016-17 £000	2017-18 £000
1,723 Balance at the start of the year	1,575
(270) Assets reclassified (to)/from Held For Sale	-
(470) Disposals	-
592 Net (losses)/gains from fair value adjustments	(96)
1,575 Balance at the end of the year	1,479

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 2017 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by Cushman and Wakefield Debenham Tie Leung Limited, the Council's valuing agents.

18. Heritage Assets

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

	Museum, Art and Artefact Collection £000	Public Sculptures and Memorials £000	Historic Buildings £000	Total £000
Cost or Valuation:				
1 April 2017	6,232	1,276	950	8,458
Disposals	(780)	-	-	(780)
31 March 2018	5,452	1,276	950	7,678
Accumulated Depreciation and Impairment :				
1 April 2017	-	52	23	75
31 March 2018	-	52	23	75
Net Book Value 31 March 2018	5,452	1,224	927	7,603
Net Book Value 31 March 2017	6,232	1,224	927	8,383

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 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 Goal.

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.

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 Nation recording project (www.pmsa.org.uk) and the North East War Memorial Project (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).

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.

2016-17 £000		2017-18 £000
730,730	Opening Capital Financing Requirement	922,831
	Capital Investment:	
145,575	Property, Plant and Equipment	75,850
177,560	Capital Long Term Debtors	36,123
1,582	PFI / Finance Lease Additions	1,650
	Revenue Expenditure Funded From Capital under Statute (REFCUS)	
17,340		15,058
27	HRA Downward Revaluation (non-dwelling assets)	-
	Sources of Finance:	
(9,396)	Capital receipts	(3,479)
(103,546)	Government grants and other contributions	(49,828)
	Sums set aside from revenue/Major Repairs Reserve:	
(7,383)	Major Repairs Reserve	(7,586)
(1,795)	Direct revenue contributions	(1,488)
(9,286)	Capital Long Term Debtors Amortisation	(13,064)
(18,577)	Minimum Revenue Provision	(24,083)
922,831	Closing Capital Financing Requirement	951,984
	Explanation of movements in year:	
	Increase in underlying need to borrow (unsupported by government financial assistance)	
218,355		64,650
(27,863)	Minimum Revenue Provision	(37,147)
1,582	Assets acquired under PFI / PPP contracts	1,650
27	HRA Downward Revaluation (non-dwelling assets)	-
192,101	Increase in Capital Financing Requirement	29,153

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	BI Applications Software
5 years	Customer Relationship Management System
5 years	Fire Service call taking and mobilising system
3 years	Vehicle Tracking System

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.48 million was charged to revenue in 2017-18. £0.72 million of this was charged to Information Services, £0.75 million was charged to the Fire & Rescue Service, and £0.01 million to general Housing.

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

2016-17		2017-18	
Total Intangible Assets (Other)*		Total Intangible Assets (Other)*	
Current £000	Long Term £000	Current £000	Long Term £000
Balance at start of year:			
373	7,743	442	6,679
-	(4,498)	-	(3,359)
373	3,245	442	3,320
Additions:			
442	1,159	-	13
-	-	(329)	-
(373)	(2,224)	-	(131)
-	2,224	-	131
-	(1,084)	-	(1,483)
442	3,320	113	1,850
Comprising:			
442	6,679	113	6,561
-	(3,359)	-	(4,711)
442	3,320	113	1,850

*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:

Current 31 March 2017 £000	Long Term 31 March 2017 £000		Current 31 March 2018 £000	Long Term 31 March 2018 £000
Investments:				
60,000	33,251	Loans and receivables (principal)	65,000	33,251
544	-	Add: Accrued Interest	513	-
60,544	33,251	Loans and receivables at amortised cost	65,513	33,251
10,291	-	RBS Certificate of Deposit	-	-
-	13,399	Available-for-sale financial assets	-	13,399
-	3,340	Unquoted equity investment at cost	-	3,340
70,835	49,990	Total Investments	65,513	49,990
Debtors:				
81,593	394,787	Loans and receivables *	66,590	417,132
81,593	394,787	Total Debtors	66,590	417,132
Borrowings:				
(153,546)	(608,064)	Financial liabilities at amortised cost	(107,542)	(664,522)
(6,069)	-	Add: Accrued Interest	(6,425)	-
18	1,766	Add : Amortised premiums	19	1,747
(159,597)	(606,298)	Total Borrowings	(113,948)	(662,775)
Creditors:				
(66,022)	(6,799)	Financial liabilities at amortised cost	(64,834)	(9,953)
(66,022)	(6,799)	Total Creditors	(64,834)	(9,953)

* Note - The debtors figure quoted exclude amounts in respect of Council Tax and Non-Domestic Rates. These items are outside the scope of the accounting provisions as they are statutory debts and do not arise from contracts.

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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 (Years)	Contracted Rate %	Fair Value Rate %	Opening Balance (Fair Value) 1 April 2017 £000	New Advances in Year £000	Fair Value adjustment on initial recognition £000	Loans Repaid £000	Increase in discounted amount £000	Closing Balance (Fair Value) 31 March 2018 £000	Closing Balance (Nominal) 31 March 2018 £000
Berwick Core - Solar Panels	9	4.00	9.34	35	-	-	(12)	2	25	28
Northumberland Aged Miners Housing Association- Solar Panels	20	3.54	5.87	1,842	-	-	(206)	28	1,664	1,943
Northumbria Healthcare NHS Foundation Trust - Local Government Pension Scheme	15	1.50	5.00	1,748	-	-	-	75	1,823	2,036
The Maltings - LED Technologies Investment	10	3.87	5.85	132	-	-	(14)	4	122	131

*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 Value Rate	New Advances in Year £000
Arch Group	Property Purchases	2.91%	2.66%	35,843

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:

2016-17				2017-18			
Financial Liabilities measured at Amortised Cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000	Financial Liabilities measured at Amortised Cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000
(30,044)	-	-	(30,044)	Interest expense	(30,052)	-	(30,052)
(360)	-	-	(360)	Fee Expense	(43)	-	(43)
(30,404)	-	-	(30,404)	Total expense in surplus or deficit on the provision of services	(30,095)	-	(30,095)
-	22,763	147	22,910	Interest income	-	23,939	23,953
-	22,763	147	22,910	Total income in surplus or deficit on the provision of services	-	23,939	23,953
-	-	(155)	(155)	Loss on Revaluation	-	(12)	(12)
-	-	(155)	(155)	Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	(12)	(12)
(30,404)	22,763	(8)	(7,649)	Net gain/(loss) for the year	(30,095)	23,939	(6,154)

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 2017 Fair Value £000	Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation technique used to measure fair value	31 March 2018 Fair Value £000
10,291	Certificates of deposit with Royal Bank of Scotland	Level 2	Unadjusted quoted prices in active markets for identical shares	-
13,399	Equity shareholding in Newcastle Airport Local Authority Holding Company Limited	Level 3	Equity shares with no quoted market prices	13,399
3,340	Unquoted equity investment at cost ARCH	Level 3	Equity shares with no quoted market prices	3,340
27,030		Total Liabilities		16,739

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 last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2017-18 the valuation has remained unchanged.

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

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 2017		31 March 2018		
Carrying Amount	Fair Value	Carrying Amount	Fair Value	
£000	£000	£000	£000	
221,678	343,620	PWLB - Maturity	256,776	393,428
724	1,318	PWLB - Annuity	701	1,202
47,835	51,024	PWLB - EIP	39,279	40,910
191,218	372,392	LOBOs	211,362	336,333
4,157	4,157	Cash Overdrawn	10,465	10,465
304,440	372,855	Market Loans	268,605	402,043
770,052	1,145,366	Financial Liabilities	787,188	1,184,381
6,799	6,799	Long-Term Creditors	9,953	9,953
776,851	1,152,165	Total Liabilities	797,141	1,194,334

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 2018) 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 2017		31 March 2018		
Carrying Amount	Fair Value	Carrying Amount	Fair Value	
£000	£000	£000	£000	
30,995	30,995	Cash	54,202	54,202
70,835	70,835	Short Term Investments	65,513	65,513
49,990	53,816	Long Term Investments	49,990	52,415
151,820	155,646	Loans and Receivables	169,705	172,130
394,787	394,787	Long Term Debtors	417,132	417,132
546,607	550,433	Total Assets	586,837	589,262

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	N/A	N/A	Unlimited	15 years (with annual calls)
Debt Management Organisation	N/A	N/A	Unlimited	6 months
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 months
Nationalised and Semi-Nationalised Banks	N/A	N/A	£35m (Group Limit £70m)	12 months
Money Market Funds	AAA	Aaa	£25m (Group Limit £150m)	Instant access
Deposits and Certificates of Deposit with approved eligible financial institutions which meet the following criteria				
Very High Grade UK Clearing Banks/ Building Societies	ST:F1+	ST:P-1		
	LT:AA-	LT:Aa2	£25m (Group Limit £50m)	12 months
High Upper Medium Grade UK Clearing Banks/ Building Societies	ST:F1	ST:P-1		
	LT:A-	LT:A3	£15m (Group Limit £30m)	12 months
High Grade Foreign Banks	ST:F1	ST:P-1		
	LT:A-	LT:A3	£10m (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	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

Notes to the Accounts

Customer Debt

The Council has £4.29 million (2016-17 £8.93 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

31 March 2017 £000		31 March 2018 £000
7,160	Less than three months	1,830
270	Three to six months	769
189	Six months to one year	434
1,315	More than one year	1,256
8,934	Total	4,289

At 31 March 2018 the Council held a provision of £0.46 million (2016-17 £3.61 million) for doubtful debts against the risk of non-payment.

Financial Guarantees

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

Liquidity Risk

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

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

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

31 March 2017 £000		31 March 2018 £000
Analysis by Loan Type		
243,631	Public Works Loans Board	275,125
173,167	Other Market Loans	178,150
189,500	LOBO (Market Loans)	209,500
606,298		662,775
Analysis of Loans by Maturity		
-	Less than 1 year	
87,523	Between 1 and 2 years	51,521
85,566	Between 2 and 5 years	109,565
7,353	Between 5 and 10 years	5,861
19,982	Between 10 and 20 years	19,906
12,141	Between 20 and 30 years	12,110
70,133	Between 30 and 40 years	70,212
179,600	Between 40 and 50 years	229,600
13,000	Between 50 and 60 years	149,000
131,000	In excess of 60 years	15,000
606,298		662,775

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 2018 with all other variables held constant, the effect would have been:

2017-18 Statement of Accounts

	31 March 2018 £000
Increase in Interest Payable on Variable Rate Borrowings	1,060
Increase in Interest Receivable on Variable Rate Investments	(1,649)
Increase in Government Grant receivable for financing costs	(5,620)
Impact on Surplus on the Provision of Services	(6,209)
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	(214,914)

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 £89.00 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 was called, the Council would be exposed to a potential change in interest rate. The Council also had £17.00 million of short term borrowing maturing in the year.

Market Risk – Price Risk

The Council does not invest in equity shares but does have shareholdings in Newcastle Airport Local Authority Holding Company, and Arch (Corporate Holdings) Ltd. Further information on these shareholdings is contained in Note 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 "available-for-sale" and are included at fair value. The shares in Arch (Corporate Holdings) Ltd are included at historic cost.

23. Leases

Council as Lessee

Finance Leases

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

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

31 March 2017 £000	31 March 2018 £000
93 Vehicles, Plant, Furniture and Equipment	22

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

31 March 2017 £000	31 March 2018 £000
Finance lease liabilities (net present value of minimum lease payments):	
93 Current	22
21 Finance costs payable in future years	-
114 Minimum lease payments	22

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

Minimum Lease Payments 31 March 2017 £000	Finance Lease Liabilities 31 March 2017 £000	Minimum Lease Payments 31 March 2018 £000	Finance Lease Liabilities 31 March 2018 £000
114	93 Not later than one year	22	22
114	93	22	22

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

Operating Leases

The Council uses cars, commercial vehicles, refuse vehicles, fire equipment and appliances and information technology equipment financed by entering into operating leases, with typical lives of 6 years.

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

31 March 2017 £000	31 March 2018 £000
1,189 Not later than one year	1,024
2,852 Later than one year and not later than five years	1,461
2,237 Later than five years	383
6,278	2,868

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

31 March 2017 £000	31 March 2018 £000
2,125 Minimum lease payments	1,981

Notes to the Accounts

Council as Lessor

Finance Leases

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

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

There are no lease payments received for the above leases.

Operating Leases

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

- for provision of community services, such as sports facilities and playgroups; 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 2017 £000		31 March 2018 £000
701	Not later than one year	552
741	Later than one year and not later than five years	439
397	Later than five years	199
1,839		1,190

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 2017 £000		31 March 2018 £000
	Short Term:	
19,653	Central government bodies	15,685
16,640	NHS bodies	10,390
42,706	Other entities and individuals	39,023
3,487	Other local authorities	4,309
3,100	Public corporations and trading funds	5,493
85,586	Total Short Term	74,900
	Long Term:	
9,657	ARCH Loan - Assets Tranche 1	9,519
179,916	ARCH Loan - Other Commercial Properties	182,845
18,260	ARCH Loan - Development Projects	36,974
27,946	ARCH Loan – Housing	32,673
-	ARCH Loan - Executive Housing	11,742
11,916	NCC - Airport Loan Notes	11,916
	Northumberland Aged Miners Housing Association - Solar	
1,637	Panel Loan	1,390
1,657	Northumberland College	1,455
6,012	Northumberland College Loan 2014	6,013
	Northumbria Healthcare NHS Foundation Trust Berwick	
22,000	Hospital Loan	21,000
	Northumbria Healthcare NHS Foundation Trust Cramlington	
10,000	Capital Equipment Loan	10,000
	Northumbria Healthcare NHS Foundation Trust Hexham	
93,775	Hospital Loan	89,036
1,322	Northumbria Healthcare NHS Foundation Trust LGPS Loan	1,173
10,689	Other Loans	1,396
394,787	Total Long Term	417,132
480,373	Total Debtors	492,032

25. Cash and Cash Equivalents

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

31 March 2017 £000		31 March 2018 £000
30,995	Cash and Cash Equivalents	54,202
(4,157)	Bank overdraft	(10,465)
26,838	Total Cash and Cash Equivalents	43,737

26. Assets Held for Sale

Current 2016-17 £000	Non Current 2016-17 £000		Current 2017-18 £000	Non Current 2017-18 £000
9,117	400	Balance at 1 April	15,737	415
		Assets newly classified as held for sale:		
13,705	-	Property, Plant and Equipment	450	-
-	-	Revaluation losses	(1,511)	-
-	15	Revaluation gains	65	15
		Assets declassified as held for sale:		
(450)	-	Property, Plant and Equipment	(4,990)	-
(6,635)	-	Assets sold	(2,513)	-
15,737	415	Balance at 31 March	7,238	430

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 2017 £000		31 March 2018 £000
	Long term finance lease liability:	
(55,173)	Waste PFI	(54,296)
(11,664)	Fire PFI	(11,375)
(66,837)	Total Finance Lease Liability	(65,671)
	Long term deferred credits:	
(11,341)	Waste PFI	(10,674)
(11,341)	Total Deferred Credits	(10,674)
(78,178)	Total Long Term Creditors	(76,345)

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

Waste PFI

2017-18 was the eleventh year of a twenty-eight year integrated Waste PFI contract covering the construction, maintenance and operation of a range of waste treatment facilities and reception, storage, transport, recycling, composting, energy recovery and landfill disposal of household and commercial wastes collected by the County Council. The Council has the rights under the agreement to use the various waste facilities for the provision of Waste Services.

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

The buildings and any plant and equipment at the end of the Agreement will be transferred to the Council for nil consideration, with the exception of an extension to an existing Energy from Waste facility located outside of

the Council's administrative area that will revert to the Contractor as it will be at the end of its useful operational life.

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

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 2017-18:

	2016-17 £000	2017-18 Plant Shell £000	2017-18 Project Assets £000	2017-18 £000
Cost brought forward 1 April	92,770	13,566	80,786	94,352
Additions in year	1,582	-	1,650	1,650
Cost carried forward 31 March	94,352	13,566	82,436	96,002
Accumulated depreciation brought forward 1 April	(21,766)	(3,978)	(21,538)	(25,516)
Depreciation charge for year	(3,750)	(533)	(3,467)	(4,000)
Depreciation at 31 March	(25,516)	(4,511)	(25,005)	(29,516)
Net book value carried forward 31 March	68,836	9,055	57,431	66,486

The following table provides information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2017-18:

	2016-17 £000	2017-18 Plant Shell £000	2017-18 Project Assets £000	2017-18 £000
Lease liability brought forward 1 April	56,728	11,231	44,748	55,979
Payments made in year	(749)	(177)	(630)	(807)
Liability carried forward 31 March	55,979	11,054	44,118	55,172

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 2017 £000	Lifecycle Replacement £000	Repayment of Liability £000	Interest Charges £000	Service Charges £000	31 March 2018 £000
Within one year	22,617	1,180	877	7,443	13,775	23,275
Within two to five years	96,191	4,962	4,901	30,403	59,123	99,389
Within six to ten years	136,179	6,781	12,177	38,544	83,409	140,911
Within eleven to fifteen years	156,960	7,487	23,413	36,249	95,253	162,402
Within sixteen to twenty years	105,275	3,209	13,805	12,479	42,094	71,587
	517,222	23,619	55,173	125,118	293,654	497,564

Notes to the Accounts

Fire & Rescue PFI

2017-18 was the eighth 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 2017-18:

2016-17 £000		2017-18 £000
13,555	Costs brought forward 1 April	13,555
13,555	Cost carried forward 31 March	13,555
(898)	Restated depreciation brought forward 1 April	(1,347)
(449)	Depreciation charge for year	(449)
(1,347)	Depreciation at 31 March	(1,796)
12,208	Net book value carried forward 31 March	11,759

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2017-18:

2016-17 £000		2017-18 £000
12,171	Lease liability brought forward 1 April	11,929
(242)	Payments made in year	(265)
11,929	Liability carried forward 31 March	11,664

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 2017 £000	Lifecycle Replacement £000	Repayment of Liability £000	Interest Charges £000	Service Charges £000	31 March 2018 £000
Within one year	2,489	194	289	1,264	681	2,428
Within two to five years	10,220	824	1,457	4,743	2,960	9,984
Within six to ten years	13,421	1,151	2,787	4,918	4,294	13,150
Within eleven to fifteen years	14,227	1,302	4,524	3,088	5,070	13,984
Within sixteen to twenty years	9,437	715	2,608	378	2,525	6,226
	49,794	4,186	11,665	14,391	15,530	45,772

28. Creditors

31 March 2017 £000		31 March 2018 £000
(11,796)	Central government bodies	(17,929)
(2,878)	NHS bodies	(2,255)
(54,362)	Other entities and individuals	(46,817)
(1,414)	Other local authorities	(1,710)
(235)	Public corporations and trading funds	(1,349)
(70,685)	Total	(70,060)

29. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council at 31 March 2018:

	Total Cost £000	Future Payments £000
Darras Hall Primary School New Build	7,800	3,739
Ponteland Secondary School, Leisure Centre and Fire Station	48,200	44,372
Street lighting Replacement and Modernisation	31,866	3,314

30. Provisions

Provisions	Redundancy Costs £000	Unequal Pay Back Pay £000	MMI Liability £000	Repairs & Maintenance £000	NNDR Appeals £000	Estates Rationalisation £000	Other £000	Total £000
Balance at 1 April 2016	(309)	(557)	(600)	(6,171)	(3,990)	(2,254)	(355)	(14,236)
Amounts used in 2016-17	280	254	522	1,023	1,487	307	208	4,081
Additional provisions made in 2016-17	(271)	(780)	-	(897)	(1,726)	-	-	(3,674)
Unused amounts reversed in 2016-17	29	-	-	-	-	230	-	259
Balance at 1 April 2017	(271)	(1,083)	(78)	(6,045)	(4,229)	(1,717)	(147)	(13,570)
Amounts used in 2017-18	181	88	-	45	3,483	231	122	4,150
Additional provisions made in 2017-18	(316)	-	-	-	(4,115)	-	-	(4,431)
Unused amounts reversed in 2017-18	90	53	-	1,236	-	736	25	2,140
Balance at 31 March 2018	(316)	(942)	(78)	(4,764)	(4,861)	(750)	-	(11,711)
Comprising:								
Short Term	(316)	(942)	(78)	(4,764)	(4,861)	(260)	-	(11,221)
Long Term	-	-	-	-	-	(490)	-	(490)
Total Provisions	(316)	(942)	(78)	(4,764)	(4,861)	(750)	-	(11,711)

Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2017-18 (and for comparative amounts during 2016-17) and as such the Council has a constructive obligation to meet these costs. The amount included is the best estimate of the liability as at the Balance Sheet date.

Unequal Pay Back Pay

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

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.

The County Council has a contingent liability in this respect. At 31 March 2018, the total amount of the Council's claims to date subject to reclamation was £5.48 million (£5.34 million at 31 March 2017). 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 2018.

The outstanding claims estimate for Northumberland County Council is £0.30 million at 31 March 2018. Assuming a further levy of 25% Northumberland County Council would be required to pay (estimate) £0.07 million.

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

Repairs and Maintenance

A sum of £4.76 million has been set aside to provide for future repairs and maintenance liabilities.

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 2018.

Estates Rationalisation

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

Other Provisions

This provision 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 2017 £000		31 March 2018 £000
(5,743)	Accumulated Absences Adjustment Account	(6,327)
13,116	Available-for-Sale Financial Instruments Reserve	13,104
643,056	Capital Adjustment Account	686,427
4,977	Collection Fund Adjustment Account	3,594
3,101	Deferred Capital Receipts Reserve	3,101
(1,188)	Financial Instruments Adjustment Account	(1,583)
(678,120)	Pensions Reserve	(707,460)
160,262	Revaluation Reserve	140,224
139,461	Total Unusable Reserves	131,080

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.

2016-17 £000		2017-18 £000	
	(4,386)	Balance at 1 April	(5,743)
4,386		Settlement or cancellation of accrual made at the end of the preceding year	5,743
(5,743)		Amounts accrued at the end of the current year	(6,327)
		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	(584)
	(1,357)		
	(5,743)	Balance at 31 March	(6,327)

Available-for-Sale Financial Instruments Reserve

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

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

The overall value of the Council's shareholding in the airport is £13.10 million at 31 March 2018 (£13.11 million at 31 March 2017) and is reflected in the Available-for-Sale Financial Instruments Reserve.

2016-17 £000		2017-18 £000	
13,271	Balance at 1 April	13,116	
(155)	Downward Revaluation of Investment	(12)	
13,116	Balance at 31 March	13,104	

The Council also had two Royal Bank of Scotland Certificates of Deposit (totalling £10.00 million) which were acquired in 2015-16 and matured in 2017-18. There was a downward revaluation of these instruments during 2017-18 of £0.01 million, clearing the previous unrealised gain in the reserve in respect of these deposits.

Notes to the Accounts

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.

2016-17 £000		2017-18 £000
573,609	Balance at 1 April	643,056
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(44,827)	Charges for depreciation and impairment of non current assets	(47,290)
15	Deficit on Available-for-Sale financial assets	(1,431)
15,343	Revaluation losses on Property, Plant and Equipment	10,151
(1,084)	Amortisation of intangible assets	(1,483)
(17,340)	Revenue expenditure funded from capital under statute	(15,058)
(46,115)	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)
12,977	Adjusting amounts written out of the Revaluation Reserve	30,397
	Capital financing applied in the year:	
9,396	Use of the Capital Receipts Reserve to finance new capital expenditure	3,479
7,383	Use of the Major Repairs Reserve to finance new capital expenditure	7,586
90,344	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	45,472
13,202	Application of grants to capital financing from the Capital Grants Unapplied Account	4,356
18,577	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	24,083
9,286	Voluntary set aside of capital receipts	13,064
1,795	Capital expenditure charged against the General Fund and HRA balance	1,488
495	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(96)
643,056	Balance at 31 March	686,427

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.

2016-17 £000		2017-18 £000
3,806	Balance at 1 April	4,977
	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	
1,171		(1,383)
4,977	Balance at 31 March	3,594

Deferred Capital Receipts Reserve

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

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

2016-17 £000		2017-18 £000
821	Balance at 1 April	3,101
(355)	Finance Lease receivables principal	-
	Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	
3,100		-
(465)	Transfer to the Capital Receipts Reserve upon receipt of cash	-
3,101	Balance at 31 March	3,101

Financial Instruments Adjustment Account

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

2016-17 £000		2017-18 £000
(758)	Balance at 1 April	(1,188)
	Proportion of premiums/(discounts) incurred in previous financial years to be charged/(credited) against the General Fund Balance in accordance with statutory requirements	
(516)		(476)
	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	
86		81
(1,188)	Balance at 31 March	(1,583)

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.

2016-17 £000		2017-18 £000
(652,480)	Balance at 1 April	(678,120)
172,200	Return on plan assets	(5,630)
(318,390)	Actuarial gains or (losses) arising on changes in financial assumptions	1,560
34,570	Actuarial gains or (losses) arising on changes in demographic assumptions	-
97,040	Other	(10,740)
(49,830)	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	(55,660)
38,770	Employer's pensions contributions and direct payments to pensioners payable in the year	41,130
(678,120)	Balance at 31 March	(707,460)

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.

2016-17 £000		2017-18 £000
158,042	Balance at 1 April	160,262
26,986	Upward revaluation of assets	18,564
(11,789)	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	(8,205)
(3,073)	Difference between fair value depreciation and historical cost depreciation	(3,101)
(9,389)	Accumulated gains on assets sold or scrapped	(27,296)
(515)	Amount written off to the Capital Adjustment Account	-
160,262	Balance at 31 March	140,224

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 2017-18 the County Council paid £10.20 million (£10.96 million in 2016-17) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 16.5% of teachers' pensionable pay for the period 1 April 2017 to 31 March 2018.

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

Notes to the Accounts

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

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

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

2016-17						2017-18				
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	Actuarial gains and losses arising on changes in demographic assumptions	£m	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement										
Cost of Services:										
(25.60)	(1.88)	-	-	(27.48)	Current service cost	(35.89)	(2.80)	-	-	(38.69)
(0.82)	-	-	-	(0.82)	Past service cost	(0.47)	-	-	(0.02)	(0.49)
Financing and Investment Income and Expenditure:										
(13.87)	(5.33)	(1.13)	(1.20)	(21.53)	Net interest expense	(9.91)	(4.80)	(0.86)	(0.91)	(16.48)
(40.29)	(7.21)	(1.13)	(1.20)	(49.83)	Total post employment benefit charged to the surplus/deficit on the provision of services	(46.27)	(7.60)	(0.86)	(0.93)	(55.66)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement										
Remeasurement of the net defined liability comprising:										
172.20	-	-	-	172.20	Return on plan assets (excluding the amount included in the net interest expense)	(5.63)	-	-	-	(5.63)
(278.41)	(33.77)	(2.99)	(3.22)	(318.39)	Actuarial gains and losses arising on changes in financial assumptions	1.33	0.19	0.01	0.03	1.56
32.48	-	0.81	1.28	34.57	Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-
95.75	0.75	0.26	0.28	97.04	Other	(8.53)	(1.08)	(0.57)	(0.56)	(10.74)
22.02	(33.02)	(1.92)	(1.66)	(14.58)	Total other post employment benefit charged to the Comprehensive Income and Expenditure Statement	(12.83)	(0.89)	(0.56)	(0.53)	(14.81)
(18.27)	(40.23)	(3.05)	(2.86)	(64.41)	Total charge to the Comprehensive income and Expenditure Statement	(59.10)	(8.49)	(1.42)	(1.46)	(70.47)
Movement in Reserves - General Fund Balance:										
40.29	7.21	1.13	1.20	49.83	Reversal of net charges made to the deficit for the provision of services for post employment benefit	46.27	7.60	0.86	0.93	55.66
Actual amount charged against the General Fund Balance for pensions in the year:										
(28.63)	-	-	-	(28.63)	Employer's contributions payable to the scheme	(30.86)	-	-	-	(30.86)
-	(5.17)	(2.29)	(2.68)	(10.14)	Net retirement benefits payable to pensioners	-	(5.41)	(2.26)	(2.60)	(10.27)

Notes to the Accounts

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

2016-17					2017-18					
Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Injury and Non-Scheme Ill Health £m	Total £m		Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Injury and Non-Scheme Ill Health £m	Total £m
Comprehensive Income and Expenditure Statement										
Cost of Services:										
(1.02)	(0.04)	(0.75)	(0.07)	(1.88)	Current service cost	(1.36)	(0.06)	(1.29)	(0.09)	(2.80)
Financing and Investment Income and Expenditure:										
(4.97)	(0.18)	(0.04)	(0.14)	(5.33)	Net interest expense	(4.40)	(0.19)	(0.08)	(0.13)	(4.80)
(5.99)	(0.22)	(0.79)	(0.21)	(7.21)	Total post employment benefit charged to the surplus/deficit on the provision of services	(5.76)	(0.25)	(1.37)	(0.22)	(7.60)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement										
Remeasurement of the net defined liability comprising:										
(29.83)	(2.12)	(0.96)	(0.86)	(33.77)	Actuarial gains and losses arising on changes in financial assumptions	0.17	-	0.01	0.01	0.19
0.71	0.01	-	0.03	0.75	Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-
					Other	(1.02)	(0.02)	-	(0.04)	(1.08)
(29.12)	(2.11)	(0.96)	(0.83)	(33.02)	Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(0.85)	(0.02)	0.01	(0.03)	(0.89)
(35.11)	(2.33)	(1.75)	(1.04)	(40.23)	Total Charged to the Comprehensive income and Expenditure Statement	(6.61)	(0.27)	(1.36)	(0.25)	(8.49)
Movement in Reserves - General Fund Balance:										
5.99	0.22	0.79	0.21	7.21	Reversal of net charges made to the deficit for the provision of services for post employment benefit	5.76	0.25	1.37	0.22	7.60
Actual amount charged against the General Fund Balance for pensions in the year:										
(5.32)	-	0.37	(0.22)	(5.17)	Net retirement benefits payable to pensioners	(5.58)	-	0.36	(0.19)	(5.41)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2018 is a loss of £14.81 million (£14.58 million loss to 31 March 2017).

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:

2016-17						2017-18				
LGPS £m	Firefighters' Schemes £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m		LGPS £m	Firefighters' Schemes £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m
(1,491.87)	(194.52)	(35.02)	(36.69)	(1,758.10)	Present value of the defined benefit obligation	(1,540.63)	(197.60)	(34.18)	(35.55)	(1,807.96)
1,079.98	-	-	-	1,079.98	Fair value of plan assets	1,100.50	-	-	-	1,100.50
(411.89)	(194.52)	(35.02)	(36.69)	(678.12)	Net liability arising from defined benefit obligation	(440.13)	(197.60)	(34.18)	(35.55)	(707.46)

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

	LGPS £m	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Firefighters' Injury & non scheme III Health £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m
Opening balance as at 1 April 2017	(1,491.87)	(178.65)	(7.53)	(3.17)	(5.17)	(35.02)	(36.69)	(1,758.10)
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)/losses:								
Actuarial (gains)/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
Closing balance as at 31 March 2018	(1,540.63)	(179.68)	(7.80)	(4.89)	(5.23)	(34.18)	(35.55)	(1,807.96)
Opening balance as at 1 April 2016	(1,303.04)	(148.86)	(5.20)	(1.05)	(4.35)	(34.26)	(36.51)	(1,533.27)
Current service cost	(25.60)	(1.02)	(0.04)	(0.75)	(0.07)	-	-	(27.48)
Interest cost	(43.78)	(4.97)	(0.18)	(0.04)	(0.14)	(1.13)	(1.20)	(51.44)
Contributions from scheme participants	(6.70)	(0.41)	(0.02)	(0.37)	-	-	-	(7.50)
Remeasurement (gains)/losses:								
Actuarial (gains)/losses arising from changes in financial assumptions	(278.41)	(29.83)	(2.12)	(0.96)	(0.86)	(2.99)	(3.22)	(318.39)
Actuarial (gains)/losses arising from changes in demographic assumptions	32.48	-	-	-	-	0.81	1.28	34.57
Other	95.75	0.71	0.01	-	0.03	0.26	0.28	97.04
Past service cost	(0.82)	-	-	-	-	-	-	(0.82)
Benefits paid	38.25	5.73	0.02	-	0.22	2.29	2.68	49.19
Closing balance as at 31 March 2017	(1,491.87)	(178.65)	(7.53)	(3.17)	(5.17)	(35.02)	(36.69)	(1,758.10)

Notes to the Accounts

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

2016-17 £m	Local Government Pension Scheme	2017-18 £m
880.79	Opening fair value of scheme assets	1,079.98
29.91	Interest income	27.00
	Remeasurement gain/(loss):	
172.20	The return on plan assets, excluding the amount included in the net interest expense	(5.63)
28.63	Contributions by the employer	30.86
6.70	Contributions by participants	6.94
(38.25)	Benefits paid	(38.65)
1,079.98	Closing balance of scheme assets	1,100.50

Local Government Pension Scheme assets comprised:

2016-17 Fair Value of Scheme Assets		2017-18 Fair Value of Scheme Assets	
£m	%	£m	%
678.23	62.80	677.28	61.54
271.29	25.12	294.06	26.72
41.26	3.82	43.76	3.98
87.15	8.07	82.04	7.45
2.05	0.19	3.36	0.31
1,079.98	100.00	1,100.50	100.00

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

2016-17 Fair Value of Scheme Assets		UK and overseas equities by geographical area	2017-18 Fair Value of Scheme Assets	
£m	%		£m	%
272.72	40.21	United Kingdom	265.77	39.24
80.50	11.87	Europe	77.37	11.42
78.00	11.50	North America	81.79	12.08
38.25	5.64	Japan	40.90	6.04
40.22	5.93	Pacific	39.34	5.81
168.54	24.85	Other	172.11	25.41
678.23	100.00	Total	677.28	100.00

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 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 at 31 March 2015. For the Injury Pensions and Non-Scheme Ill-Health Pensions the latest full actuarial valuation took place 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 at 31 March 2015.

The significant assumptions used by the actuary have been:

31 March 2017					31 March 2018			
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:				
22.8	22.1	22.8	22.8	Men	22.9	22.2	22.9	22.9
24.9	24.6	24.9	24.9	Women	25.0	24.7	25.0	25.0
				Longevity at age 65 for future pensioners:				
25.0	24.2	-	-	Men	25.1	24.3	-	-
27.2	26.9	-	-	Women	27.3	27.0	-	-
2.0%	2.0%	2.0%	2.0%	Inflation - CPI	2.1%	2.1%	2.1%	2.1%
3.5%	3.5%	-	-	Salary increases	3.6%	3.6%	-	-
2.0%	2.0%	2.0%	2.0%	Pension increases	2.1%	2.1%	2.1%	2.1%
-	-	-	-	Pension accounts revaluation rate	2.1%	-	-	-
2.5%	2.5%	2.5%	2.5%	Discount rate	2.6%	2.6%	2.6%	2.6%

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 2018.

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

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

Notes to the Accounts

Impact on the Defined Benefit Obligation in the Scheme	Increase in assumption £m	Increase in assumption %	Decrease in assumption £m	Decrease in assumption %
Local Government Pension Scheme (LGPS Funded)				
Longevity (increase or decrease in 1 year)	46.39	3.0	(46.04)	(3.0)
Rate of increase in salaries (increase or decrease by 0.1%)	5.50	0.4	(5.44)	(0.4)
Rate of increase in pensions (increase or decrease by 0.1%)	21.64	1.4	(21.32)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(26.71)	(1.7)	27.18	1.8
Firefighters' Pension Scheme (FPS)				
Longevity (increase or decrease in 1 year)	4.85	2.7	(4.85)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.49	0.3	(0.49)	(0.3)
Rate of increase in pensions (increase or decrease by 0.1%)	2.46	1.1	(2.42)	(1.3)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.90)	(1.6)	2.95	1.6
New Firefighters' Pension Scheme (NFPS)				
Longevity (increase or decrease in 1 year)	0.21	2.7	(0.21)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.10	1.2	(0.10)	(1.2)
Rate of increase in pensions (increase or decrease by 0.1%)	0.12	1.6	(0.12)	(1.6)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.22)	(2.8)	0.22	2.9

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

Notes to the 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 whilst minimising the long term cost to participating employers (including Northumberland County Council);
- recognises the advantages of maintaining the stability of contribution rates; and,
- does not subject the Fund to undue risk.

The primary risk upon which the Panel focuses is that arising through a mismatch between the Fund's assets and its liabilities. The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields. The Panel takes advice on the matter at each quarterly meeting, and every 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 2018-19 in relation to the seven post-employment schemes covered by this note:

	LGPS £m	FPS £m	NFPS £m	2015 FPS £m	Firefighters' Injury £m	LGPS Unfunded £m	Teachers' Unfunded £m	Total £m
Regular employer contributions payable to Northumberland County Council Pension Fund	31.11	-	-	-	-	-	-	31.11
Payments to beneficiaries	-	-	-	-	-	2.33	2.68	5.01
Payments to beneficiaries net of member contributions receivable, where contributions include the Government Grant	-	5.69	-	(0.37)	0.19	-	-	5.51
Total	31.11	5.69	-	(0.37)	0.19	2.33	2.68	41.63

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2018-19 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 2017 No. of years		31 March 2018 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 Members %	Deferred Members %	Pensioners %
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:

2016-17 £000		2017-18 £000
(18,926)	Interest received	(22,645)
29,178	Interest paid	29,597
(3,381)	Dividends	(1,101)

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

2016-17 £000		2017-18 £000
44,827	Depreciation	47,290
(15,358)	Impairment and downward valuations	(8,720)
1,084	Amortisation	1,483
(3,643)	Increase/(decrease) in creditors	742
(19,281)	(Increase)/decrease in debtors	(170,773)
(89)	(Increase)/decrease in inventories	507
11,060	Movement in Pension Liability	14,530
46,115	Carrying amount of non-current asset and non-current assets held for sale, sold or derecognised	31,347
(1,247)	Other non-cash items charged to the net surplus or deficit on the provision of services	(1,843)
63,468	Subtotal of non-cash movements	(85,437)

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

2016-17 £000		2017-18 £000
(12,722)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,064)
(98,501)	Any other items for which the cash effects are investing or financing cash flows	(51,784)
(111,223)	Subtotal of adjustments included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities	(56,848)

35. Cash Flows from Investing Activities

2016-17 £000		2017-18 £000
(146,889)	Purchase of property, plant and equipment, investment property and intangible assets	(79,407)
(20,000)	Purchase of short term and long term investments	(265,000)
(180,501)	Other payments for investing activities	(33,328)
12,722	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,064
81,620	Proceeds from short term and long term investments	270,000
121,274	Other receipts from investing activities	238,464
(131,774)	Net cash flows from investing activities	135,793

36. Cash Flows from Financing Activities

2016-17 £000		2017-18 £000
277,017	Cash receipts of short term and long term borrowing	164,018
634	Other receipts from financing activities	-
(1,087)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,142)
(153,627)	Repayments of short and long term borrowing	(153,546)
-	Other payments for financing activities	(2,463)
122,937	Net cash flows from financing activities	6,867

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 2017-18 goods and services were commissioned from organisations in which Members declared an interest. Also funding consists of other grants paid to organisations in which Members declared an interest. Declarations were received from all Members. Members declared interests in 111 organisations with transactions totalling £122.86 million in respect of goods or services provided to the Council (110 and £63.37 million in 2016-17).

During 2017-18 goods and services amounting to £68.34 million were provided by the Council to 70 organisations in which Members declared an interest (£72.24 million and 90 in 2016-17).

Included in the above sums are amounts due from the Council of £6.61 million and due to the Council of £1.81 million at 31 March 2018 (£1.97 million and £8.39 million in 2016-17).

Officers

During 2017-18 goods and services were provided to or commissioned from organisations in which officers declared an interest. Declarations were received from all senior officers. Officers declared interests in 10

organisations with transactions totalling £33.64 million in respect of goods or services provided to the Council (11 and £32.53 million in 2016-17).

During 2017-18 goods and services amounting to £66.58 million were provided by the Council to 9 organisations in which officers declared an interest (£67.91 million and 9 in 2016-17).

Included in the above sums are amounts due from the Council of £0.94 million and due to the Council of £1.74 million at 31 March 2018 (£1.16 million and £7.72 million in 2016-17).

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

Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2017-18 the Pension Fund had an average balance of £0.11 million lent to the Council for which it received interest of £358 (and an average balance of £4.93 million borrowed from the Council during 2016-17 for which it paid interest of £17,214). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2017-18 these costs amounted to £0.70 million (£0.65 million in 2016-17). £2.52 million was due to the Council at 31 March 2018 (£2.46 million at 31 March 2017).

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 2018 (4 at 31 March 2017).

Active Northumberland

An assessment of the Council's relationship with Active Northumberland 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 £1.03 million in 2017-18 (£3.83 million in 2016-17) and other agreed funding of £2.62 million in 2017-18 (£0.24 million in 2016-17).

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 (now Arch (Commercial Enterprise) Limited) which comprised 100% of the ordinary share capital and 50% of the voting share capital. Following changes to the composition of the Board of Directors during 2010-11 it was confirmed that Northumberland County Council, by virtue of these shareholdings and its control of the Board, was in a position to exert control over the entity and its wholly owned subsidiary Northern Coalfields Property Company (now Arch (Housing) Limited).

The Arch Group brings together services in housing, commercial property, physical regeneration and business growth. The Arch Group consists of six wholly owned companies and two joint ventures, its principal activities are as follows:

Arch (Corporate Holdings) Ltd: The company acts as a holding entity for the companies that comprise the Arch Group. Arch (Corporate Holdings) Ltd conducts no business in its own right.

The activities of the company group are:

- 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.

Arch (Commercial Enterprise) Ltd: The principal activities of the company are:

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

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

Arch (Housing) Ltd: The principal activity of the company during the year was the provision of rented residential accommodation in South East Northumberland.

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

Notes to the Accounts

Arch (Financial Services) Ltd: There have been minimal transactions for 2017-18 which relate to historic repayment of loans that were previously granted by Northumberland County Council.

Arch (DigEco) Ltd: The principal activities of the company were to carry out the revenue related projects of digital business support and the development of community digital champions. This revenue element is accounted for within Arch DigEco Ltd and is therefore represented within the accounts.

This scheme completed with effect of 31 December 2015, with no trade having subsequently taken place.

Prudhoe (LLP) Estates Ltd

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

SLJH Ltd

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

As at 31 March 2018 the Arch Group owed the Council (the ultimate holding company) £278.44 million (£246.10 million 2016-17) primarily in respect of principal and interest due on a commercial loan facility; whilst, the Council owed Arch Group £0.20 million (Nil in 2016-17). Revenue expenditure by Northumberland County Council to Arch Group was £1.60 million (£0.27 million 2016-17), mainly due to the payment regarding the compensation settlement to the contractor of the Portland Park development. Income to Northumberland County Council from Arch Group was £14.32 million (£8.97 million 2016-17), mainly due to interest payable on the commercial loan facility.

Homes for Northumberland

Homes for Northumberland was an Arms Length Management Organisation which delivered Northumberland County Council's Landlord Services. It was a company limited by guarantee and the Council was the single shareholder.

The relationship between the Council and Homes for Northumberland was stipulated by a management agreement. The activities were previously

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

On 1 September 2015 the management of the Council's housing stock was brought back in house leaving the Company managing 22 properties which it owned. On 30 March 2017 Homes for Northumberland transferred the remaining assets, liabilities and reserves of the company to the Council. No transactions took place within the company in 2017-18.

On 23 January 2018, Homes for Northumberland Limited was dissolved at Companies House.

Generation and Innovation Limited

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

The company remained dormant in 2017-18 and on 24 October 2017, was dissolved at Companies House.

Newcastle international Airport

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

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

NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 15.42% interest in NALAHCL, valued at £13.40 million (£13.40 million in 2016-17). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last

Notes to the Accounts

valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 7.86% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £1.10 million was received for the year ended 31 December 2017 (£3.38 million for the year ended 31 December 2016).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012-13, issuing £67.67 million shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £6.88 million and a profit after tax of £4.41 million for the year ended 31 December 2017. In the previous year, the Group made a loss before tax of £2.27 million and a loss after tax of £0.50 million.

38. Trust Funds

Thropton First School

The Council no longer holds any funds for Thropton First School which is now an Academy. (£0.03 million at 31 March 2017).

Trust Schools

The Council also held funds for the following Trust schools:

31 March 2017 £000		31 March 2018 £000
Ashington Partnership:		
185	Ashington Central Primary School	28
638	Ashington Community High School	-
52	Ashington Wansbeck First School	-
875	Total Ashington Partnership	28
West Partnership:		
35	Bellingham First School	43
96	Bellingham Middle School	92
(641)	Haydon Bridge High School	-
(510)	Total West Partnership	135

Notes to the Accounts

Academies/Agencies

The Council acted as the Payroll provider for nine Academies and one Agency during the 2017-18 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);
- Haltwhistle Community Academy (since 1 September 2013, ended June 2017);
- 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); and,
- Ponteland Academy (since 1 September 2017).

As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2017-18, £3.81 million (2016-17 £3.43 million) employers' contributions for the Academies; representing 16.48% of pensionable pay for the period 1 April 2017 to 31 March 2018; and, £2.34 million (2016-17 £1.98 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 2018 the balance on these accounts was £3.64 million (£3.48 million at 31 March 2017) and has been excluded from the Council's Balance Sheet.

Non-County Bodies

The Council controls income received from non-County bodies for particular clients and client groups. At the end of 2017-18 this income totalled £0.07 million (£0.06 million at 31 March 2017) and has been excluded from the Council's Balance Sheet.

Adult Personal Allowances

The Council holds personal allowance money paid to clients in residential care. At the end of 2017-18 this totalled £0.02 million (£0.04 million at 31 March 2017) and has been excluded from the Council's Balance Sheet.

Adult Amenity Funds

The Council controls funds which may have been donated or are the result of fund-raising efforts and are to be used for named clients or activities and are classed as Amenity Funds. At the end of 2017-18 these funds totalled £0.35 million (£0.30 million at the end of 2016-17) 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 2017-18 (£0.03 million at the end of 2016-17) paid to children in its care. This money is held until it is spent on the children and is not included in the Balance Sheet.

Notes to the Accounts

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

31 March 2017 £000		31 March 2018 £000
8	Blaeberry Hill	8
10	Broadband Loan Briskona	9
3	Choppington Schools' Educational Foundation	3
5	Corbridge Road, Hexham	5
20	DP Front Red Row	20
-	Horsdonside, Wooler	15
2	Joyce Wakenshaw Bequest Fund	2
90	Lidl - Bedlington	90
154	Lidl - Blyth	154
-	Lucker Hall, Belford	43
-	Meadow Grange Berwick	5
4	Meg Burdon Library Legacy Fund	4
8	Network Rail Hexham Goods Yard	8
14	New Ridley Road Stocksfield	13
144	Northsteads Windfarm	144
24	North Stobswood Opencast Coal Site	24
-	Portland Park Infrastructure Works	1,471
108	Sisters Windfarm	108
40	Southlane SJ Williams	40
19	The Northumberland Children's Fund	(88)
16	Twickenham Court	5
669	Total	2,083

Blaeberry Hill

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

Broadband Loan Briskona

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

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 2017-18 through dividends was £279 (£279 in 2016-17). There was no expenditure incurred during 2017-18 or during 2016-17. 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 £3,305.

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.

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.

Notes to the Accounts

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 is to be repaid to the developer upon completion.

North Stobswood Opencast Coal Site

Northumberland County Council is holding the interest on the bond and this will be reviewed in 2018.

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.

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 £0.23 million have been paid to organisations in 2017-18, the overdrawn balance is to be recovered in 2018-19 from the Northumberland Children's Trust.

Twickenham Court

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

39. Impairment Losses

There have been no new impairment losses during 2017-18. Losses are through downward revaluations in relation to Property, Plant and Equipment balances in 2017-18 and 2016-17.

40. Contingent Liabilities

Denwick Quarry

The Environment Agency required a Performance Deed to be agreed as a condition of the Waste Management Licence being granted for the Denwick Quarry Landfill Site. The Performance Deed was set at £0.29 million and is payable if the Council defaults on the duties and liabilities set out in the Licence. The landfill formally closed on 8 November 2004 but the contingent liability will remain until the Environment Agency issues a formal Site Closed Notice and environmental monitoring ends after a period of at least 5 years and possibly up to 10 years until it is agreed the site is stable. The likelihood of the County Council having to make this payment is rated as extremely low as the costs of restoring the site have been fully provided for in the operational costs of the site. The physical restoration works were substantially completed in July 2005. At a meeting in November 2005 with the Environment Agency and DEFRA the final restoration works were accepted as satisfactory and the 5 year formal aftercare programme has also been successfully completed. The site has therefore been fully restored and undergoing routine pollution monitoring and aftercare for a period of over 10 years, during which time no issues of concern have been identified. Given the usage of the site for the landfill disposal of construction and demolition wastes (which have a relatively low pollution risk), the significant period that has now elapsed following completion of the site restoration works and there being no issues of concern identified through routine pollution control

monitoring activity, it is considered highly unlikely that any issues would arise that would result in a significant financial liability for the Council. 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.

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 will be allowed to retain a proportion of the business rates collected within their area. For Northumberland this will generally be 50%. In addition, from 1 April 2013 Local Authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on

the rating list. This will include amounts that were paid over to Central Government under the old business rates scheme in respect of 2012-13 and prior years. A provision of £9.72 million has been created within the 2017-18 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

Landfill Tax

During 2011-12, the Council filed a claim with the High Court to reclaim from HMRC a proportion of Landfill Tax that the Council had suffered from 1996 to 2012. The claim is based on an argument that some of the material sent to landfill was used for engineering purposes and should not have attracted the tax. The Council's advisors had previously indicated that the claim had a high likelihood of success but the current position is

Notes to the Accounts

that it has been successfully 'stayed' by the High Court behind a few lead cases who recently lost their appeal in favour of HMRC. It is not possible to quantify the level of any recovery of tax at this point or if there will be any recovery at all.

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.

The LGA and other member councils are exploring the possibility of making a claim against truck manufacturers and at present it is not possible to identify the potential scope of any compensation due.

Inenco

The Council changed electricity brokers to Inenco in February 2017, as the previous contract with Npower for electricity via the NEPO contract expired on 31 March 2017. As part of the Inenco contract they had the responsibility to transfer all of the Council's electricity meters to the new suppliers for the 1 April 2017.

During 2017-18 it was established that 46 meters did not transfer to the new contracted suppliers and defaulted to out of contract rates with Npower. Inenco subsequently negotiated new contracts

with Npower to cover the out of contract period (backward looking) and two years going forward. However these rates are not as advantageous as the rates these meters would have attracted had they transferred on the 1 April 2017 with the rest of the Council's estate of meters. The Council is therefore taking legal action through the Inenco contract to recover these costs.

42. Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2017-18 financial year and its position at the year-end of 31 March 2018. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 and the Service Reporting Code of Practice 2017-18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is, principally, historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Other than the Cash Flow Statement, the core statements are prepared on an accruals basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred not as the cash is received or paid.

The Code requires that a Local Authority's Statement of Accounts are prepared on a Going Concern basis. This means that the accounts are

prepared based on the assumption that the Authority will continue in operational existence for the foreseeable future.

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made;
- Interest receivable on investments and payable on borrowings are accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the

Notes to the Accounts

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.

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

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

2017-18 Statement of Accounts

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 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 the Teachers' Pensions Agency; and,

- **The NHS Pension Scheme** administered by NHS Pensions.

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);

Notes to the Accounts

- 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.

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 into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and,
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

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credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for

receivables relevant to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

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

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

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

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

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

Notes to the Accounts

asset's original effective interest rate.

Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

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 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.

Notes to the Accounts

Public Sculptures and Memorials

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

Notes to the Accounts

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 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 current replacement cost.

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:

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased Property, Plant or Equipment. Charges are

made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

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

Notes to the Accounts

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

Where support services are a department in their own right, the Comprehensive Income and Expenditure Statement (CIES) will display them separately in line with the Council's departmental management structure. Otherwise overheads are recharged to services 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 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

Notes to the Accounts

asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

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

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

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

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

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

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

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve; then,
- writing down any remaining carrying amount balance against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

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

Notes to the Accounts

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
Land & Buildings & Community Assets (after deducting residual value)	4 to 45 years (as determined by the valuation officers)
Infrastructure:	
Other	40 years
Surface Dressing	10 years
Vehicles, Plant and Equipment:	
CCTV equipment	5 to 30 years
Fire engines	10 to 15 years
Furniture and Fittings, ICT, other equipment	3 to 10 years
Grounds maintenance / car parking equipment	3 to 15 years
Other vehicles	3 to 10 years
Play / sport / gym equipment	5 to 20 years
Salt Barns	25 years
Solar Panels	25 years
Street Furniture	10 years
Vehicles and equipment under finance lease	10 years
PFI Assets:	
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 is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the fourth year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

Revenue Recognition

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

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

Notes to the Accounts

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

National Non Domestic Rates (NNDR)

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

Council Tax

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

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

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

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

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

Notes to the Accounts

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 of Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cash flows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council’s financial assets does not anticipate any impairment;
- **IFRS 15 Revenue from Contracts with Customers** presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard;

- **IAS 7 Statement of Cash Flows (Disclosure Initiative)** will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 36) in future years. If the standard had applied in 2017-18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure;
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)** applies to deferred tax assets related to debt instruments measured at fair value. The Council’s subsidiary company in the Group Accounts does not have such debt instruments; and,
- **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).

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 £66.49 million for Waste and £11.76 million for Fire and Rescue) are recognised as Property, Plant and Equipment on the Council’s Balance Sheet;

Notes to the Accounts

- The Council currently has outstanding liabilities of £0.94 million resulting from equal pay claims brought by employees seeking compensation for lost back pay. Settlement of these claims is subject to negotiations and there may be other claims that the Council is currently unaware of that may be filed in the future. The provision that has been made in the accounts is based on current legal views and may therefore be subject to revision;
- When undertaking the valuation of the Council's assets the valuation firm Cushman & Wakefield Debenham Tie Leung Limited has made a number of assumptions and has relied on certain sources of information. In the event that any of the assumptions used in valuing the assets prove to be incorrect, the valuation of the assets and hence the Balance Sheet figures could significantly change; 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 £000	No. of Primary Schools £000	No. of Secondary Schools £000	No. of Special Schools £000	No of All Through Schools £000	No. of Pupil Referral Units £000
Community	89	66	14	8	1	-
Foundation	6	4	2	-	-	-
Pupil Referral Unit	1	-	-	-	-	1
Voluntary Aided	33	29	4	-	-	-
Voluntary Controlled	11	11	-	-	-	-
Total Maintained Schools	140	110	20	8	1	1
Academies	27	12	13	-	2	-
Free Schools	1	1	-	-	-	-
Total Schools	168	123	33	8	3	1

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 2017-18:

- Abbeyfields First School (May 2017);
- Prudhoe West First School (July 2017);
- Whitfield Primary School (September 2017);
- Ponteland Middle School (September 2017);
- Ashington High School (November 2017); and,
- Shaftoe Trust Primary School (February 2018).

The net book value of these assets at the time of disposal was £8.44 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.

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 2018 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 2018 was £1,333.84 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 reduced its equal pay provision by £0.14 million in 2017-18 bringing the total amount provided for since 2008-09 to £12.84 million. Of this, £0.94 million remains on the balance sheet at 31 March 2018 for the settlement of claims for back pay arising from the Equal Pay initiative based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £1.28 million to the provision.
Pensions Liability	At 31 March 2018, the Council had a net pension liability of £707.46 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 £26.71 million. However, the assumptions interact in complex ways. During 2017-18, the Council's actuary advised that the net pension liability for funded LGPS benefits had increased by £8.53 million due to changes in liability experience, and decreased by £1.33 million due to changes in actuarial assumptions. There was no change to the demographic assumptions.
Arrears	At 31 March 2018, the Council had a balance of sundry debtors of £10.82 million. A review of significant balances suggested that an impairment of doubtful debts of 4% (£0.46 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 £0.92 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 2018. 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 2018, 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 2018.

Academy Conversions

The following schools converted to an academy on 1 April 2018:

- Harbottle Church of England First School;
- Thropton Village First School;
- Dr Thomlinson Church of England Middle School; and,
- Bedlingtonshire High School.

The Property, Plant and Equipment line in the Balance Sheet contained valuations totalling £15.64 million for the schools which will transfer out of Council ownership.

There are no further academy conversions expected at the present time.

Arch

On 14 June 2018 a report was presented to the Cabinet which recommended the closure of Arch Corporate Holdings; and, the establishment of a replacement holding company to be known as Advance Northumberland and associated subsidiaries which will focus on priorities set by the Council in the Corporate Plan. The Cabinet approved these recommendations.

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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 2018

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.

2016-17 £000		Note	2017-18 £000
	Expenditure:		
6,802	Repairs and maintenance		7,433
5,719	Supervision and management		6,990
824	Rents, rates, taxes and other charges		895
8,505	Depreciation and impairment of Fixed Assets		8,924
15	Debt management costs		7
739	Movement in the allowance for Bad Debt (not specified by the Code)	9	408
22,604	Total Expenditure		24,657
	Income:		
(30,335)	Dwelling rents (gross)		(29,850)
(332)	Non dwelling rents (gross)		(304)
(1,606)	Charges for services and facilities		(1,683)
(791)	Contributions towards expenditure		(439)
(27,163)	Revaluation gains		(13,085)
(1)	HRA Subsidy receivable		-
(60,228)	Total Income		(45,361)
(37,624)	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		(20,704)
581	HRA services' share of Corporate and Democratic Core costs		190
(37,043)	Net cost for HRA Services		(20,514)
	HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:		
(1,219)	Capital grants and contributions applied	1	7
(131)	Gain on sale of HRA non current assets		-
4,208	Interest payable and similar charges		4,170
(268)	Interest and investment income		(200)
975	Pensions net interest expense		691
(33,478)	Surplus for the year on HRA Services		(15,846)

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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.

2016-17 £000		Note	2017-18 £000
(17,809)	Balance on the HRA at the end of the previous year		(23,552)
(33,478)	Surplus for the year on the HRA Income and Expenditure Statement		(15,846)
28,009	Adjustments between accounting basis and funding basis under Statute	1	12,013
(5,469)	Net increase before transfers to or from reserves		(3,833)
(274)	Transfer (to) or from earmarked reserves		-
(5,743)	Increase in year on the HRA		(3,833)
(23,552)	Balance on the HRA at the end of the current year		(27,385)

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

2016-17 £000		2017-18 £000
	Analysis of adjustments between accounting basis and funding basis under Statute included within the Movement on the HRA Statement	
27,163	Transfers to the Capital Adjustment Account	13,085
1,219	Capital grants and contributions applied	(7)
(762)	HRA share of contributions to the Pensions Reserve	(1,042)
(16)	Accumulated Absences	(23)
131	Gain on sale of HRA non current assets	-
274	Capital expenditure charged against the HRA	-
28,009	Total	12,013

2. Housing Stock

2016-17 No.		2017-18 No.
7,233	Houses and Bungalows	7,194
1,337	Flats	1,334
4	Shared Ownership	4
10	Houses in Multiple Occupation	10
8,584	Total	8,542

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

2016-17 No.		2017-18 No.
8,577	Stock at 1 April	8,584
41	Additions	-
(55)	Sales	(42)
22	Appropriations	-
(1)	Conversion	-
8,584	Stock at 31 March	8,542

3. Housing Revenue Account Fixed Assets

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant & Equipment £000	Surplus Assets £000	Investment Properties £000	Assets Under Construction £000	Total £000
Gross book value at 1 April 2017	305,301	2,085	75	252	304	48	308,065
Re-categorisation	48	-	-	-	-	(48)	-
Additions	4,504	-	-	-	-	3,245	7,749
Disposals	(1,676)	-	-	-	-	-	(1,676)
Revaluations	4,287	28	-	-	(2)	-	4,313
Gross book value at 31 March 2018	312,464	2,113	75	252	302	3,245	318,451
Depreciation at 1 April 2017	-	109	-	-	-	-	109
Charged in year	8,858	51	15	-	-	-	8,924
Revaluations	(8,858)	(75)	-	-	-	-	(8,933)
Depreciation at 31 March 2018	-	85	15	-	-	-	100
Net book value at 31 March 2018	312,464	2,028	60	252	302	3,245	318,351
Net book value at 1 April 2017	305,301	1,976	75	252	304	48	307,956

The value of Council dwellings at 31 March 2018 of £312.46 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £744.19 million. This shows that the economic cost to government of providing council housing at less than open market value is £431.73 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 £0.51 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, Cushman & Wakefield Debenham Tie Leung Limited, the Existing Use Value – Social Housing adjustment factor had been increased in 2017-18 to 42% (41% in 2016-17). The regional adjustment factor for the North East Region is 44%. However, based upon the location and condition of the Council's Housing stock portfolio the lower increase has been used to better reflect the value of social housing within 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 for 2017-18 and subsequent years until further guidance is issued.

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

2016-17 £000		2017-18 £000
	Income:	
(8,531)	Depreciation on Fixed Assets	(8,924)
(8,531)	Total Income	(8,924)
	Expenditure:	
	Capital expenditure funded from the Reserve	
7,383	Houses	7,586
7,383	Total Expenditure	7,586
(1,148)	Increase in year on the MRR	(1,338)
(991)	Balance brought forward at 1 April	(2,139)
(2,139)	Balance carried forward at 31 March	(3,477)

5. HRA Capital Expenditure and Financing

2016-17 £000		2017-18 £000
	Expenditure:	
12,592	Houses	7,639
75	Vehicle, Plant and Equipment	110
12,667	Total Expenditure	7,749
	Financing:	
2,023	Borrowing	-
1,220	Government Grants	(7)
1,767	Capital Receipts	170
274	Capital Expenditure charged against the HRA	-
7,383	Major Repairs Reserve	7,586
12,667	Total Financing	7,749

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 £000	Usable Element £000	Reserved Element £000
Houses	1,938	876	1,062

7. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a debit of £1.04 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 last collection week, tenant rent arrears were as follows:

31 March 2017			31 March 2018	
£000	%		£000	%
		Rents:		
545	1.80	Current tenants	624	2.09
1,079	3.56	Former tenants	1,291	4.33
1,624	5.36	Balance at 31 March	1,915	6.42

9. Provision for Impairment of Debt

The provision for bad debt required at 31 March 2018 is £2.65 million compared with £2.45 million at 31 March 2017, an increase of £0.20 million.

Bad Debts of £0.21 million were written off during the year and a contribution of £0.41 million was made to the provision.

The provision for bad debts at 31 March 2018 is:

2016-17 £000		2017-18 £000
1,082	Balance at 1 April	2,451
630	Rechargeable Repairs transferred from Homes for Northumberland	-
-	Bad Debts written off during year	(208)
739	Increase in provision	408
2,451	Balance at 31 March	2,651

10. Homes for Northumberland

Homes for Northumberland was an Arms Length Management Organisation (ALMO) that was paid a management fee by the Council to carry out many of the activities previously performed by HRA employees in the former Alnwick and Blyth local authorities. These activities were brought back in-house on 1 September 2015 and the company only operated in 2016-17 to manage 22 properties in Allendale. The Allendale properties and the remaining assets and liabilities of Homes for Northumberland were transferred to the Council on 30 March 2017. On 23 January 2018, Homes for Northumberland Limited was dissolved at Companies House.

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Collection
Fund

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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.

2016-17 Total £000		Note	Council Tax £000	2017-18 NNDR £000	Total £000
Income:					
(169,048)	Council Tax	1	(179,695)	-	(179,695)
(79,084)	Business Rates	2	-	(78,505)	(78,505)
-	Transitional Protection Payments		-	(1,585)	(1,585)
(248,132)	Total Income		(179,695)	(80,090)	(259,785)
Expenditure:					
Apportionment of previous year's surplus/(deficit):					
2,489	Northumberland County Council		6,363	(693)	5,670
250	Police and Crime Commissioner for Northumbria		400	-	400
(1,552)	Central Government - Share		-	(693)	(693)
Precepts, demands and shares:					
185,620	Northumberland County Council	2	157,598	37,708	195,306
7,823	Parish and Town Councils		8,168	-	8,168
9,245	Police and Crime Commissioner for Northumbria		9,946	-	9,946
38,560	Central Government - Share	2	-	37,708	37,708
Charges to Collection Fund:					
478	Costs of collection		-	479	479
1,369	Provision for bad debts		422	64	486
478	Provision for appeals		-	1,263	1,263
1,406	Disregarded amounts		-	3,113	3,113
246,166	Total Expenditure		182,897	78,949	261,846
(1,966)	(Surplus)/Deficit for year		3,202	(1,141)	2,061
(2,160)	Opening fund balance		(6,465)	2,339	(4,126)
(4,126)	Closing fund balance		(3,263)	1,198	(2,065)
Allocated to:					
(4,913)	Northumberland County Council		(3,071)	599	(2,472)
(382)	Police and Crime Commissioner for Northumbria		(192)	-	(192)
1,169	Central Government		-	599	599
(4,126)			(3,263)	1,198	(2,065)

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 2017-18 was £179.70 million (£169.05 million in 2016-17).

2016-17					2017-18		
Properties No.	Band D equivalent Properties No.	Council Tax Charge £	Council Tax Band	Proportion	Properties No.	Band D equivalent Properties No.	Council Tax Charge £
-	72.11	876.60	A (Disabled)	5/9	-	69.92	920.22
70,428	29,417.15	1,051.92	A	6/9	70,599	29,778.13	1,104.27
23,559	15,087.41	1,227.25	B	7/9	23,797	15,280.74	1,288.31
19,055	14,783.32	1,402.57	C	8/9	19,294	14,978.99	1,472.35
15,453	14,133.44	1,577.89	D	9/9	15,775	14,466.93	1,656.40
10,110	11,406.38	1,928.53	E	11/9	10,262	11,611.14	2,024.49
6,433	8,750.98	2,279.17	F	13/9	6,492	8,831.82	2,392.57
3,939	6,183.25	2,629.81	G	15/9	4,006	6,304.22	2,760.67
515	866.48	3,155.77	H	18/9	515	867.22	3,312.80
149,492	100,700.52		Total		150,740	102,189.11	
			Band D equivalent adjustments				
	166.49					181.80	
	100,867.01		Gross Tax Base			102,370.91	
	(1,809.45)		Adjustment for non collection			(1,223.21)	
	99,057.56		Net Tax Base			101,147.70	

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:

2016-17 p/£	2017-18 p/£
49.7 Standard Multiplier	47.9
48.4 Small Business Multiplier	46.6

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

2016-17 £000	2017-18 £000
205,610 Rateable Value at 31 March	225,223

The Council retains 50% of the rates income collected and the remaining 50% is paid to Central Government. The relevant shares payable for 2017-18 were estimated before the start of the financial year in line with regulations. Those estimates are shown in the following table.

2016-17 £000	2017-18 £000
38,560 Northumberland County Council	37,708
38,560 Central Government	37,708

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 2017-18 of £25.71 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.

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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

The Arch 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. Further information in respect of the Council's relationship with Arch is given within note 37 to the Council's Financial Statements, Related Parties.

On 30 March 2017 Homes for Northumberland transferred the remaining assets, liabilities and reserves of the company to the Council. No transactions took place within the company in 2017-18. Homes for Northumberland was dissolved with Companies House on 23 January 2018.

Generation and Innovation remained dormant in 2017-18 and was dissolved with Companies House on 24 October 2017.

Bodies Not Consolidated within the Group Accounts

An assessment of the Council's relationship with Active Northumberland 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. 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.

Gross Expenditure £000	Gross Income £000	2016-17		Note	Gross Expenditure £000	Gross Income £000	2017-18	
		Net Expenditure £000					Net Expenditure £000	
173,499	(87,659)	85,840	Adult Services		168,429	(87,517)	80,912	
46,517	(8,021)	38,496	Children's Social Care		45,409	(7,137)	38,272	
125,259	(92,960)	32,299	Corporate Resources		135,610	(89,175)	46,435	
235,779	(215,582)	20,197	Education and Skills		228,998	(207,868)	21,130	
20,219	(5,261)	14,958	Fire and Rescue		19,347	(5,341)	14,006	
3,069	(222)	2,847	Human Resources		2,845	(156)	2,689	
14,136	(525)	13,611	Leisure Services		4,324	(46)	4,278	
23,180	(60,227)	(37,047)	Local Authority Housing (HRA)		24,844	(45,361)	(20,517)	
96,309	(25,592)	70,717	Local Services and Housing		100,835	(21,815)	79,020	
14,519	(14,770)	(251)	Planning and Economy		16,579	(13,243)	3,336	
16,860	(17,155)	(295)	Public Health		15,080	(16,684)	(1,604)	
20,576	(21,837)	(1,261)	Subsidiary Companies		21,817	(37,296)	(15,479)	
789,922	(549,811)	240,111	Cost Of Services		784,117	(531,639)	252,478	
62,577	(22,189)	40,388	Other Operating Expenditure		49,563	(18,331)	31,232	
51,133	(13,820)	37,313	Financing and Investment Income and Expenditure	10	59,833	(10,849)	48,984	
-	(378,699)	(378,699)	Taxation and Non-Specific Grant Incomes		-	(338,696)	(338,696)	
903,632	(964,519)	(60,887)	Group (Surplus) or Deficit on Provision of Services		893,513	(899,515)	(6,002)	
		(21,399)	(Surplus) or Deficit on Revaluation of Non Current Assets				(13,762)	
		154	(Surplus) or Deficit on Revaluation of Available-for-Sale Financial Assets				12	
		14,580	Actuarial (Gains)/Losses on pension Assets/Liabilities				14,810	
		(6,665)	Other Comprehensive Income and Expenditure				1,060	
		(67,552)	Total Comprehensive Income and Expenditure				(4,942)	

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 £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Total Council Usable Reserves £000	Total Council Unusable Reserves £000	Council's share of Group Reserves £000	Total Group Reserves £000
Balance brought forward 1 April 2016	(36,852)	(97,563)	(17,809)	(337)	(25,036)	(991)	(178,588)	(91,925)	(61,612)	(332,125)
Movement in Reserves during 2016-17:										
(Surplus)/Deficit on the provision of services	(34,938)	-	(33,478)	-	-	-	(68,416)	-	7,529	(60,887)
Other Comprehensive Income and Expenditure	(32)	-	-	-	-	-	(32)	(463)	(6,170)	(6,665)
Total Comprehensive Income and Expenditure	(34,970)	-	(33,478)	-	-	-	(68,448)	(463)	1,359	(67,552)
Adjustments between accounting basis & funding basis under regulations	15,485	-	28,009	74	4,653	(1,148)	47,073	(47,073)	-	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(19,485)	-	(5,469)	74	4,653	(1,148)	(21,375)	(47,536)	1,359	(67,552)
Transfers (to)/from Earmarked Reserves	3,301	(3,027)	(274)	-	-	-	-	-	-	-
(Increase)/Decrease in 2016-17	(16,184)	(3,027)	(5,743)	74	4,653	(1,148)	(21,375)	(47,536)	1,359	(67,552)
Balance at 31 March 2017 carried forward	(53,036)	(100,590)	(23,552)	(263)	(20,383)	(2,139)	(199,963)	(139,461)	(60,253)	(399,677)
Balance brought forward 1 April 2017	(53,036)	(100,590)	(23,552)	(263)	(20,383)	(2,139)	(199,963)	(139,461)	(60,253)	(399,677)
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 Expenditure	-	-	-	-	-	-	-	4,463	(3,403)	1,060
Total Comprehensive Income and Expenditure	(678)	-	(15,846)	-	-	-	(16,524)	4,463	7,119	(4,942)
Adjustments between accounting basis & funding basis under regulations	(12,114)	-	12,013	(523)	(1,956)	(1,338)	(3,918)	3,918	-	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(12,792)	-	(3,833)	(523)	(1,956)	(1,338)	(20,442)	8,381	7,119	(4,942)
Transfers (to)/from Earmarked Reserves	10,395	(10,395)	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2017-18	(2,397)	(10,395)	(3,833)	(523)	(1,956)	(1,338)	(20,442)	8,381	7,119	(4,942)
Balance at 31 March 2018 carried forward	(55,433)	(110,985)	(27,385)	(786)	(22,339)	(3,477)	(220,405)	(131,080)	(53,134)	(404,619)

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 2017 £000		Note	31 March 2018 £000
1,327,944	Property, Plant & Equipment	1, 8	1,363,023
8,383	Heritage Assets		7,603
286,030	Investment Property	2	282,331
3,319	Intangible Assets		1,850
415	Assets Held for Sale - non current		430
48,701	Long-Term Investments		48,697
148,707	Long-Term Debtors		142,090
1,823,499	Long-Term Assets		1,846,024
442	Intangible Assets		113
70,835	Short Term Investments		65,513
15,736	Assets Held for Sale - current		7,238
1,223	Inventories		715
-	Work in Progress	11	24,652
89,885	Short-Term Debtors		76,118
37,227	Cash and Cash Equivalents	3	72,217
215,348	Current Assets		246,566

31 March 2017 £000		Note	31 March 2018 £000
(4,157)	Bank Overdraft	3	(10,465)
(159,898)	Short Term Borrowing		(114,285)
(81,244)	Short Term Creditors		(79,113)
(13,262)	Short Term Provisions		(11,282)
(35)	Revenue Grants Receipts in Advance		(805)
(258,596)	Current Liabilities		(215,950)
(86,862)	Long Term Creditors - PFI		(85,624)
(608,014)	Long Term Borrowing		(664,150)
(678,120)	Other Long Term Liabilities		(707,460)
(606)	Long Term Provisions		(490)
(6,972)	Capital Grants Receipts in Advance		(14,297)
(1,380,574)	Long-Term Liabilities		(1,472,021)
399,677	Net Assets		404,619
195,706	Usable Reserves		205,517
203,971	Unusable Reserves	6	199,102
399,677	Total Reserves		404,619

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.

2016-17 £000	Note	2017-18 £000
60,887	Net surplus on the provision of services	6,002
64,649	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(78,018)
(111,223)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(56,848)
14,313	Net cash flows from Operating Activities	(128,864)
(123,152)	Investing Activities	150,679
122,937	Financing Activities	6,867
14,098	Net increase in cash and cash equivalents	28,682
18,972	Cash and cash equivalents at the beginning of the reporting period	33,070
33,070	Cash and cash equivalents at the end of the reporting period	61,752

Accounting Policies

The financial results of the Council and its subsidiary at 31 March 2018 have been consolidated in accordance with IFRS 10. All entities within the Group have a reporting date of 31 March. All transactions and balances between the Group companies have been eliminated on consolidation.

The Group accounting policies are specified within the Council only statement. There are some slight divergences from these policies within the Group as stated below:

Capital Expenditure

There is no de-minimis level for capital expenditure for the Arch Group.

Depreciation

Depreciation is charged on the following basis:

Asset	Depreciation Period
Arch (Commercial Enterprise) Limited:	
Leasehold Property	Straight line over lease period (30/50 years)
Plant and Machinery	10% per annum reducing balance
Plant and Machinery	33% per annum straight line
Arch (Corporate Holdings):	
Plant and Machinery	25% per annum reducing balance
Arch (Development Projects):	
Plant and Machinery	20 years 5% Straight line
Arch (Housing) Limited:	
Leasehold Property	2% Straight line
Plant and Machinery	15%-33% reducing balance

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. Group Property, Plant and Equipment

Movements in 2017-18	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation:									
At 1 April 2017	305,301	513,551	148,248	468,379	9,799	16,217	73,534	1,535,029	107,906
Additions	4,504	7,540	5,943	29,690	-	648	33,464	81,789	1,650
Reclassifications	48	11,607	1,531	41,357	-	699	(68,736)	(13,494)	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	15,145	-	-	-	(4,719)	-	10,426	-
Revaluation Increases/(Decreases) recognised in the Surplus on the Provision of Services	4,287	(1,821)	-	-	-	(937)	-	1,529	-
De-recognition - Disposals	(1,676)	(9,085)	(2,826)	-	-	-	(2,329)	(15,916)	-
De-recognition - Other	-	(2,252)	-	-	-	-	-	(2,252)	-
Correction of Opening Balance	-	(18,016)	-	-	-	-	17,934	(82)	-
Assets reclassified (to)/from Held for Sale	-	(400)	-	-	-	4,940	-	4,540	-
At 31 March 2018	312,464	516,269	152,896	539,426	9,799	16,848	53,867	1,601,569	109,556
Accumulated Depreciation/Impairment:									
At 1 April 2017	-	22,369	55,117	128,051	1,548	-	-	207,085	26,862
Depreciation/Impairment charge	8,858	14,297	10,244	14,001	128	-	-	47,528	4,449
Reclassifications	-	(108)	-	-	-	108	-	-	-
Depreciation written out to the Revaluation Reserve	-	(3,282)	-	-	-	(55)	-	(3,337)	-
Depreciation written out to the Surplus on the Provision of Services	(8,858)	(642)	-	-	-	(53)	-	(9,553)	-
De-recognition - Disposals	-	(489)	(2,480)	-	-	-	-	(2,969)	-
De-recognition - Other	-	(208)	-	-	-	-	-	(208)	-
At 31 March 2018	-	31,937	62,881	142,052	1,676	-	-	238,546	31,311
Net Book Value:									
At 31 March 2018	312,464	484,332	90,015	397,374	8,123	16,848	53,867	1,363,023	78,245
At 31 March 2017	305,301	491,182	93,131	340,328	8,251	16,217	73,534	1,327,944	81,044

Upon review of the developments held by the Arch Group it was identified that £24.65 million of assets under construction should have been classified as work in progress as the development was for sale outside of the Group.

Supplementary Financial Statements
Notes to the Group Financial Statements

Movements in 2016-17	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation:									
At 1 April 2016	270,510	503,767	144,376	424,650	9,839	12,165	59,278	1,424,585	106,324
Additions	12,548	68,213	6,402	33,360	4	128	40,057	160,712	1,582
Reclassifications	5,188	9,264	147	10,369	-	2,550	(25,480)	2,038	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(7,941)	-	-	10	8,346	-	415	-
Revaluation Increases/(Decreases) recognised in the Surplus on the Provision of Services	18,675	(17,771)	-	-	-	(873)	-	31	-
De-recognition - Disposals	(1,620)	(31,033)	(2,676)	-	(4)	(76)	(321)	(35,730)	-
De-recognition - Other	-	(3,516)	-	-	-	-	-	(3,516)	-
Impairment	-	(35)	(1)	-	-	-	-	(36)	-
Correction of Opening Balance	-	(485)	-	-	-	-	-	(485)	-
Assets reclassified (to)/from Held for Sale	-	(6,912)	-	-	(50)	(6,023)	-	(12,985)	-
At 31 March 2017	305,301	513,551	148,248	468,379	9,799	16,217	73,534	1,535,029	107,906
Accumulated Depreciation and Impairment:									
At 1 April 2016	-	34,798	47,304	115,564	1,420	-	-	199,086	22,664
Depreciation/Impairment charge	8,488	13,893	10,089	12,487	128	-	-	45,085	4,198
Reclassifications	-	(627)	-	-	-	627	-	-	-
Depreciation written out to the Revaluation Reserve	-	(14,216)	-	-	-	(566)	-	(14,782)	-
Depreciation written out to the Surplus on the Provision of Services	(8,488)	(6,863)	-	-	-	(61)	-	(15,412)	-
De-recognition - Disposals	-	(4,317)	(2,276)	-	-	-	-	(6,593)	-
De-recognition - Other	-	(299)	-	-	-	-	-	(299)	-
At 31 March 2017	-	22,369	55,117	128,051	1,548	-	-	207,085	26,862
Net Book Value:									
At 31 March 2017	305,301	491,182	93,131	340,328	8,251	16,217	73,534	1,327,944	81,044
At 31 March 2016	270,510	468,969	97,072	309,086	8,419	12,165	59,278	1,225,499	83,660

2. Investment Property

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

2016-17 £000		2017-18 £000
121,314	Balance at 1 April	286,030
161,932	Additions	9,795
(2,307)	Reclassifications	-
(549)	Disposals	(145)
5,640	Net (losses)/gains from fair value adjustments	(13,349)
286,030	Balance at 31 March	282,331

Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes. Within Arch investment properties, £94.47 million have been valued at level 2 and the remainder of those properties subject to a revaluation during 2017-18 were valued at level 1.

Valuation Techniques used to determine Level 2 Fair Values for Investment Properties

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

Highest and Best use of Investment Properties

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

Valuers

The investment property portfolio has been valued at 31 March 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, the Arch Group's valuing agents for financial year 2017-18.

Dwelling stock within Arch (Housing) Limited (formerly Northern Coalfields Property Company) has been classified as investment property as the rental charges are in excess of 80% of the rent levels charged within privately rented accommodation.

3. Group Cash and Cash Equivalents

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

2016-17 £000		2017-18 £000
30,995	Cash and Bank Balances	54,202
(4,157)	Bank Overdraft	(10,465)
6,232	Cash held by Arch	18,015
33,070	Total Cash and Cash Equivalents	61,752

4. Group Cash Flow Statement – Operating Activities

2016-17 £000		2017-18 £000
(10,569)	Interest received	(10,016)
29,213	Interest paid	42,879
(3,381)	Dividends	(1,101)

5. Group Cash Flow Statement – Investing Activities

2016-17 £000		2017-18 £000
(314,104)	Purchase of property, plant and equipment, investment property and intangible assets	(93,506)
(21,150)	Purchase of short term and long term investments	(265,000)
(4,178)	Other payments for investing activities	(4,598)
13,386	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,319
81,620	Proceeds from short term and long term investments	270,000
121,274	Other receipts from investing activities	238,464
(123,152)	Net cash flows from investing activities	150,679

6. Group Unusable Reserves

Unusable reserves reflect the Group balances.

2016-17 £000		2017-18 £000
(5,743)	Accumulated Absences Adjustment Account	(6,327)
13,116	Available-for-Sale Financial Instruments Reserve	13,104
653,687	Capital Adjustment Account	697,167
4,977	Collection Fund Adjustment Account	3,594
3,101	Deferred Capital Receipts Reserve	3,101
(1,188)	Financial Instruments Adjustment Account	(1,583)
(678,120)	Pensions Reserve	(707,460)
214,140	Revaluation Reserve	197,505
1	Share Capital	1
203,971	Total	199,102

Revaluation Reserve

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

2016-17 £000		2017-18 £000
158,042	Balance at 1 April	160,262
47,676	Amounts held in Subsidiaries	53,878
205,718	Balance at 1 April	214,140
26,986	Upward revaluation of assets	18,564
	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	(4,802)
(3,073)	Difference between fair value depreciation and historical cost depreciation	(3,101)
(9,389)	Accumulated gains on assets sold or scrapped	(27,296)
(515)	Amount written off to the Capital Adjustment Account	-
214,140	Balance at 31 March	197,505

7. Pension Schemes Accounted for as Defined Contribution Schemes

Northern Coalfields Property Company

One of the County Council's subsidiaries, Northern Coalfields Property Company Limited (now Arch (Housing) Limited), operates a defined contribution scheme for the benefit of all employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

8. Group Valuation of Fixed Assets

Valuation of Fixed Assets Carried at Current Value

The following statement shows the progress of the Group's rolling five year programme for the revaluation of fixed assets. The valuations for Northumberland County Council are carried out by Chartered Surveyors Cushman & Wakefield Debenham Tie Leung Limited. The valuations for ARCH are carried out by BNP Paribas.

	Council Dwellings	Other Land and Buildings	Vehicles, plant, furniture and equipment	Infrastructure Assets	Community Assets*	Surplus Assets	Assets under construction	Group Total
	£000	£000	£000	£000	£000	£000	£000	£000
Valued at Historical Cost	-	12,695	90,015	397,374	8,123	-	53,867	562,074
Valued at Current Value in:								
2013-14	-	4,404	-	-	-	-	-	4,404
2014-15	-	95,945	-	-	-	-	-	95,945
2015-16	-	93,566	-	-	-	-	-	93,566
2016-17	-	206,921	-	-	-	110	-	207,031
2017-18	312,464	70,801	-	-	-	16,738	-	400,003
Total	312,464	484,332	90,015	397,374	8,123	16,848	53,867	1,363,023

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

9. The Nature and Extent of Significant Restrictions within the Group

Prior to the creation of the Arch Group, the payment of dividends was historically restricted between Northern Coalfields Property Company Ltd (now Arch (Housing) Limited) and Wansbeck Life (now Arch (Commercial Enterprises) Limited). In future, should any such payment occur, the dividends will be paid from the subsidiaries to Arch Corporate Holdings Ltd. During 2017-18 £1.11 million was paid to Arch Corporate Holdings Ltd; £0.70 million from Arch Development Projects Ltd and £0.41 million from Arch Housing Ltd.

10. Group Financing and Investment Income and Expenditure

2016-17 £000		2017-18 £000
30,078	Interest payable and similar charges	29,994
21,530	Pensions interest cost and expected return on pensions assets	16,480
(13,779)	Interest receivable and similar income	(10,805)
(516)	Income and expenditure in relation to investment properties and changes in fair value	13,315
37,313	Total Financing and Investment Income and Expenditure	48,984

11. Group Work in Progress

The following statement shows the value of Arch development for sale outside of the Group.

2016-17 £000	2017-18 £000
- Balance at 1 April	-
- Reclassifications	13,494
- Additions	11,158
- Balance at 31 March	24,652

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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 2018. 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 2018 is shown in the Fund Account.

In the year to 31 March 2018 the total market value of the Fund, net of liabilities, has increased from £1,308.32 million to £1,344.26 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 £2.69 million in 2017-18 (£5.73 million in 2016-17) as payments to pensioners and leavers exceed contributions from members, reflecting the Fund's maturity. The net return on investments experienced during 2017-18

of £45.06 million (£265.06 million 2016-17) reflects the positive returns experienced by funds generally over that period and follows the high positive returns experienced during 2016-17.

The overall annual return on the Fund was 3.4% for the year (24.2% in 2016-17), which compares favourably with the Fund specific benchmark annual return of 3.3%.

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 2018 was 7.7% per annum, which compares with the benchmark annualised return of 7.8%. Fund returns for the ten year period were higher than the growth in average earnings and inflation increases.

The significant changes made to Fund investments in 2017-18 were:

- The fund committed £50.00 million to a Private Equity investment with Pantheon;
- currency hedging against half of the Fund's investments in North American publicly quoted equities was introduced; and,
- currency hedging against half of the Fund's investments in European publicly quoted equities was introduced.

LGPS regulations were introduced in 2016-17 to facilitate pooling of investments, and Northumberland County Council made a commitment to join Border to Coast Pensions

Partnership (BCPP) pooling arrangement. It is anticipated that BCPP will commence operations in July 2018.

A fully integrated shared pension administration service with South Tyneside Council commenced in January 2018.

Supplementary Financial Statements

Pension Fund

Membership of the Fund at 31 March 2018 is summarised below:

31 March 2017		31 March 2018
8,867	Active members	9,031
8,304	Pensioner members	8,596
8,724	Deferred members	8,940
25,895		26,567

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 2018.

This Statement shows the Pension Fund Account for the year ended 31 March 2018:

2016-17 £000		Note	2017-18 £000
Dealings with members, employees and others directly involved with the Fund			
44,535	Contributions	5	48,364
3,004	Transfers in from other pension funds	6	5,100
47,539			53,464
(50,696)	Benefits	7	(50,321)
(2,581)	Payments to and on account of leavers	8	(5,833)
(53,277)			(56,154)
(5,738)	Net withdrawals from dealings with members		(2,690)
(6,261)	Management expenses	9	(6,425)
(11,999)	Net withdrawals after Fund management expenses		(9,115)
Returns on investments			
7,241	Investment income	10	8,082
-	Taxes on income		-
257,818	Profit and losses on disposal of investments and changes in the market value of investments	11	36,974
265,059	Net returns on investments		45,056
253,060	Net increase in net assets available for benefits during the year		35,941
1,055,262	Net assets of the Fund at 1 April		1,308,322
1,308,322	At 31 March		1,344,263

Supplementary Financial Statements

Pension Fund

Net Asset Statement as at 31 March 2018:

31 March 2017 £000		Note	31 March 2018 £000
	UK Investments		
	Pooled Investment Vehicles:		
50,031	Property		53,430
330,347	Equity		324,274
228,645	Index Linked		255,522
	Overseas Investments		
	Pooled Investment Vehicles:		
491,294	Equity		502,166
99,911	Other Fixed Interest		103,253
105,653	Ventures and Partnerships		101,580
1,305,881		11	1,340,225
993	Other Investment Balances	11	893
1,306,874		11	1,341,118
3,442	Cash Deposits		1,473
708	Current Assets	12	4,596
(2,702)	Current Liabilities	13	(2,924)
1,308,322	Net Assets of the Fund at 31 March	14	1,344,263

The Fund Account and Net Assets Statement do not take account of obligations to pay pensions and benefits which fall due after 31 March 2018. 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 at Appendix 1 and these accounts 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 2017-18, 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 2018 and the net assets available to pay LGPS pension benefits at 31 March 2018. They do not take account of obligations to pay pensions and benefits which fall due after 31 March 2018. 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 are shown at their fair value which has been determined as follows:

- Quoted securities are valued at the bid price quotations at close of business on 31 March 2018;
- Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2018;
- 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,
- 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 2018 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 2018 are credited to the Fund.

Investment transactions

Investment transactions arising up to 31 March 2018 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 2018 are accrued in the accounts but no provision is made for employees' and employers' contributions relating to sums due on pay awards not yet settled.

Amounts due in year but unpaid are classed as a current financial asset.

Benefits and refunds

Benefits and refunds are accounted for in the year in which they become due for payment. Amounts due in year but unpaid are classed as a current financial liability.

Supplementary Financial Statements

Notes to the Pension Fund Financial Statements

Transfer values

Transfer values are those sums paid to or received from other pension schemes for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administrative expenses

Direct and indirect staff costs for the pension team, together with apportioned costs for the use of Northumberland County Council's premises, systems and services are charged to the Fund.

Investment management expenses

Investment management expenses are accounted for in the year in which they become due for payment. Amounts due in year but unpaid are classed as a current financial liability.

Events after the reporting period

Events that occurred after 31 March 2018 which provide evidence of conditions that existed as at 31 March 2018 are included in the accounts.

Events that are indicative of conditions that arose

after 31 March 2018 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 in the Statement of the Actuary. 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; and,
- 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 the Statement of the Actuary is subject to significant variances depending on the assumptions adopted.

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

The items in the Net Assets Statement at 31 March 2018 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 £102 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 8.4%. This equates to a tolerance of +/- £9 million.
Actuarial present value of promised retirement benefits	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. 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:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments;
- IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard;
- IAS 7 Statement of Cash Flows (Disclosure Initiative), will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure; and,
- IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses), applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

5. Contributions

2016-17 £000		2017-18 £000
	Employers' normal contributions	
16,923	Administering authority	20,411
3,270	Scheduled bodies	4,555
2,119	Admitted bodies	2,017
	Employers' other contributions	
12,263	Deficit funding	11,702
1,439	Strain on the Fund following early retirements	788
	Members	
8,521	Normal	8,891
44,535		48,364

6. Transfers in from other pension funds

2016-17 £000		2017-18 £000
3,004	Individual transfers in from other schemes	5,100
3,004		5,100

7. Benefits

2016-17 £000		2017-18 £000
	Pensions	
37,659	Administering authority	38,515
2,118	Scheduled bodies	2,337
1,698	Admitted bodies	1,796
7,466	Commutation of pensions and lump sum retirement benefits	6,561
1,755	Lump sum death benefits	1,112
50,696		50,321

8. Payments to and on account of leavers

2016-17 £000		2017-18 £000
2,455	Individual transfers to other schemes	5,756
38	Payments for members joining state scheme	-
88	Refunds to members leaving service	77
2,581		5,833

9. Management expenses

2016-17 £000		2017-18 £000
723	Administrative costs	926
5,117	Investment management expenses	4,852
421	Oversight and governance costs	520
-	BCPP Ltd build expenses	127
6,261		6,425

Investment management expenses can be further analysed as follows:

2016-17 £000		2017-18 £000
5,082	Management fees	4,816
35	Custody fees	36
5,117		4,852

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 £22,516 (£22,516 in 2016-17) are included in oversight and governance costs.

10. Investment income

2016-17		2017-18
£000		£000
3,393	Income from pooled investment vehicles	3,040
3,865	Income from ventures and partnerships	5,041
(17)	Net interest on cash deposits	1
7,241		8,082

11. Investments

31 March 2017		31 March 2018
£000		£000
	Actively managed investments	
50,031	Unit trusts (property)	53,430
	Other managed funds	
99,911	Other fixed interest	103,253
105,653	Ventures and partnerships	101,580
255,595		258,263
	Passively managed investments	
1,050,286	Unitised insurance policies (equity and index linked)	1,081,962
1,305,881		1,340,225
993	Other investment balances	893
1,306,874		1,341,118

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Fund investments at 31 March 2018 (and at 31 March 2017) were all externally managed in pooled investment vehicles which can be analysed as follows:

	Value at 1 April 2017 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2018 £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
	1,305,881	896,302	(898,881)	36,923	1,340,225
Other investment balances	993			51	893
Total	1,306,874			36,974	1,341,118

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

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 £0.03 million (£0.14 million in 2016-17).

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Other investment balances

31 March 2017		31 March 2018
£000		£000
908	Cash deposits	841
85	Outstanding dividends, tax and other investment income	52
993		893

12. Current assets

31 March 2017		31 March 2018
£000		£000
	Contributions due from employers in respect of	
291	Employers	321
81	Members	75
335	Retirement grants prepaid	4,200
1	Other	-
708		4,596

These can be further analysed as follows:

31 March 2017		31 March 2018
£000		£000
536	Bodies external to general government	168
127	Central government bodies	185
43	NHS bodies	43
2	Other local authorities	4,200
708		4,596

13. Current Liabilities

31 March 2017		31 March 2018
£000		£000
(2,458)	Due to Northumberland County Council	(2,516)
(61)	Retirement/death grants due	(265)
(60)	Investment management and custodial fees due	(81)
(123)	Other	(62)
(2,702)		(2,924)

These can be further analysed as follows:

31 March 2017		31 March 2018
£000		£000
(40)	Central government bodies	(4)
(2,458)	Other local authorities	(2,516)
(204)	Bodies external to general government	(404)
(2,702)		(2,924)

14. Analysis of Investments

The total market value of the Fund at 31 March 2018 was £1,344.26 million (£1,308.32 million at 31 March 2017), which can be analysed as follows:

31 March 2017		31 March 2018	
£m	%	£m	%
821.64	62.8	826.44	61.5
328.56	25.1	358.78	26.7
50.03	3.8	53.43	4.0
105.65	8.1	101.58	7.5
0.99	0.1	0.89	0.1
1.45	0.1	3.14	0.2
1,308.32	100.0	1,344.26	100.0

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

31 March 2017		31 March 2018	
£m	%	£m	%
330.35	40.2	324.28	39.3
97.57	11.9	94.39	11.4
94.47	11.5	99.83	12.1
46.33	5.6	49.87	6.0
48.73	5.9	48.01	5.8
204.19	24.9	210.06	25.4
821.64	100.00	826.44	100.0

Fund Value and Proportions

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

31 March 2017		31 March 2018	
£m	%	£m	%
1,050.29	80.4	1,081.96	80.7
99.91	7.6	103.25	7.7
32.74	2.5	23.80	1.8
21.29	1.6	20.44	1.5
-	-	5.94	0.4
25.64	2.0	27.41	2.0
24.53	1.9	26.14	2.0
33.51	2.6	32.71	2.4
18.96	1.4	19.46	1.5
1,306.87	100.0	1,341.11	100.0

Net current assets of £3.15 million are not externally managed and therefore not shown in the analysis above.

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

15. Significant Holdings

At 31 March 2018, 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:

- £324.27 million (24.2%) in the UK Equity Index Fund managed by Legal and General Investment Management. (Three separate holdings, each of £110.12 million (8.4%) totalling £330.35 million or 25.2% at 31 March 2017);
- £255.52 million (19.1%) in the Over Five Year Index Linked Gilts Fund managed by Legal and General Investment Management. (Three separate holdings, each of £76.21 million (5.8%), which together total £228.64 million (17.5%) at 31 March 2017);
- £109.72 million (8.2%) in the RAFI 3000 Overseas Equity Fund managed by Legal and General Investment Management;
- £100.33 million (7.5%) in the Emerging Markets Overseas Equity Fund managed by Legal and General Investment Management; and,
- £68.93 million (5.1%) in the Multi Sector Credit Portfolio managed by Wellington Management International. (£66.27 million or 5.1% at 31 March 2017).

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 2017-18 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 2017-18 to AVC investments were £265,075 (£242,549 in 2016-17) to Prudential, and £1,513 (£1,815 in 2016-17) to Phoenix Life Limited. There were no contributions made in 2017-18 to Equitable Life (£87 in 2016-17).

At 31 March 2018, the aggregate value of the AVC investments with Prudential was £1,952,634 (£1,864,693 at 31 March 2017), with Equitable Life was £46,806 (£48,852 at 31 March 2017), and with Phoenix Life Limited was £13,274 (£13,015 at 31 March 2017).

17. Related party transactions

Northumberland County Council administers the Pension Fund. During 2017-18 the Pension Fund had an average balance of £0.11 million loaned to the Council for which it received interest of £358 (and an average balance of £4.93 million borrowed from the Council during 2016-17 for which it paid interest of £17,214). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2017-18 these costs amounted to £699,257 (£653,269 in 2016-17). £2,516,307 was due to the Council at 31 March 2017 (£2,458,263 at 31 March 2017).

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 2017		31 March 2018
£		£
(9,895)	Short term benefits	(9,237)
(1,563)	Post-employment benefits	(1,337)
(11,458)		(10,574)

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 2018 (four at 31 March 2017).

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 include a tax-free lump sum, with the option to commute pension for lump sum, and a guaranteed annual pension.

Local authority employees other than those aged over 75, teachers and fire-fighters, are automatically admitted to the LGPS, unless they opt out. Automatic enrolment legislation also applies to all eligible workers. The list of all participating employers in the Northumberland County Council Pension Fund at 31 March 2018 is shown in note 23.

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 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 2018 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 2018 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Pantheon, and infrastructure investment with Global Infrastructure Partners and Antin Infrastructure Partners.

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 2018 the Fund had outstanding commitments to six investments.

	Year of commitment	Initial commitment m	Capital payments made m	Outstanding commitment at 31 March 2018 m	£m
Antin Infrastructure Partners II	2013	€24.00	€ 20.19	€ 3.81	3.34
Global Infrastructure Partners II-C	2011	\$43.00	\$37.81	\$5.19	3.70
Morgan Stanley GDO Fund	2006	\$10.00	\$9.70	\$0.30	0.22
Morgan Stanley Private Markets III	2005	\$50.00	\$48.48	\$1.52	1.09
Morgan Stanley Private Markets IV	2007	\$30.00	\$29.59	\$0.41	0.29
Pantheon Global Select 2017	2017	\$65.23	\$8.41	\$56.82	40.50
Total outstanding commitments					49.14

Outstanding capital commitments totalled £49.14 million at 31 March 2018 (£11.28 million at 31 March 2017). 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 2017					31 March 2018			
Level 1 £000	Level 2 £000	Level 3 £000	Total £000		Level 1 £000	Level 2 £000	Level 3 £000	Total £000
-	1,200,228	105,653	1,305,881	Financial assets at fair value through profit and loss	-	1,238,646	101,580	1,340,226
5,143	-	-	5,143	Loans and receivables	6,961	-	-	6,961
(2,702)	-	-	(2,702)	Financial liabilities at amortised cost	(2,924)	-	-	(2,924)
2,441	1,200,228	105,653	1,308,322	Net financial assets	4,037	1,238,646	101,580	1,344,263

Level 1 means financial instruments valued using unadjusted quoted prices in active markets for identical assets or liabilities; level 2 means financial instruments valued using mainly observable market data 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 2017 or 31 March 2018 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:

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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

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

	Value at 1 April 2017 £000	Purchases at Cost £000	Sales Proceeds £000	Change in market value £000	Value at 31 March 2018 £000
Level 3 Investments	105,653	10,412	(13,093)	(1,392)	101,580

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

2016-17 £000		2017-18 £000
257,645	Financial assets at fair value through profit and loss	36,923
173	Loans and receivables	51
257,818	Total net gains on financial instruments	36,974

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 on 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 Statement of Investment Principles 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 AAF06/01 report, or equivalent, annually. The Fund's active bond manager, Wellington Management International, considers credit risk as part of its portfolio construction.

Credit risk on cash deposits managed in-house is managed by Northumberland County Council's Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Northumberland County Council's 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 2018. The LGPS Regulations require that a risk assessment of any new employer admitted under paragraph 1(d) of Part 3, Schedule 2 of the

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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 £1,081.96 million at 31 March 2018, 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.

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 Statement of Investment Principles 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.

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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 2017 £000	Percentage change %	Value on increase £000	Value on decrease £000		31 March 2018 £000	Percentage change %	Value on increase £000	Value on decrease £000
330,347	8.9	359,615	301,078	UK equities	324,274	9.3	324,529	294,020
491,294	11.3	546,976	435,612	Overseas equities	502,166	12.3	561,773	442,558
228,645	11.1	254,096	203,194	Index linked	255,522	10.9	283,298	227,747
99,911	7.0	106,855	92,967	Other fixed interest	103,253	5.7	109,179	97,326
50,031	2.9	51,462	48,600	Property	53,430	2.2	54,590	52,271
105,653	8.6	114,703	96,602	Ventures and partnerships	101,580	8.4	110,059	93,101
993	0.0	993	993	Other investment balances	893	0.0	893	893
1,306,874	6.7	1,394,173	1,219,574	Total investment assets	1,341,118	6.7	1,431,509	1,250,727

The percentage change for total investment assets at 31 March 2018 and at 31 March 2017 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 2017 £000	Value following 1% decrease in interest rates £000	Value following 1% increase in interest rates £000		31 March 2018 £000	Value following 1% decrease in interest rates £000	Value following 1% increase in interest rates £000
228,645	254,096	203,194	Index linked	255,522	319,250	191,795
99,911	106,855	92,967	Other fixed interest	101,253	105,435	97,070
328,556	360,951	296,161	Total fixed interest investments	356,775	424,685	288,865

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.

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Market risk - currency risk

Currency risk is the risk of the value of a financial instrument changing as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that were purchased in any currency other than sterling. This risk is mitigated by asset and manager diversification. Currency risk can be quantified as follows:

31 March 2017 £000	Percentage change %	Value on increase £000	Value on decrease £000		31 March 2018 £000	Percentage change %	Value on increase £000	Value on decrease £000
Equities								
97,571	9.0	106,391	88,750	Europe	94,394	9.1	102,961	85,827
94,473	9.1	103,050	85,896	North America	99,834	9.7	109,520	90,147
46,329	12.9	52,284	40,375	Japan	49,870	15.6	57,663	42,076
48,729	10.7	53,938	43,520	Pacific	48,011	11.0	53,306	42,715
204,192	11.9	228,573	179,812	Other	210,057	12.3	235,811	184,304
99,911	7.6	107,505	92,318	Other fixed interest	103,252	8.1	111,616	94,889
105,653	9.1	115,238	96,067	Ventures and partnerships	100,140	9.6	109,734	90,546
696,858	7.6	749,819	643,897	Total overseas investments	705,558	8.1	762,708	648,408

The percentage change for total overseas investments at 31 March 2018 and at 31 March 2017 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.

23. Fund membership at 31 March 2018

	Active members	Pensioner members	Deferred members
Northumberland County Council:			
Employees	6,744	7,743	7,822
Councillors	-	21	22
Local Government Pension Scheme Employers (known as "Scheduled Bodies"):			
Ashington Town Council	4	-	-
Berwick Academy	51	9	11
Blyth Academy (part of Northern Education Trust)	78	13	22
Blyth Quays Trust Academy	139	13	49
Choppington Parish Council	2	-	-
Corbridge Parish Council	1	-	1
Cramlington Learning Village Academy	104	12	38
Cramlington Village Primary School (free school)	12	1	5
Emmanuel Schools Foundation (formerly Bede Academy)	140	17	53
Hadrian Learning Trust	147	-	8
Haltwhistle Community Campus Academy	46	3	15
Hexham Town Council	6	4	-
Meadowdale Academy	34	4	20
Morpeth Town Council	5	4	1
North East Learning Trust	87	-	-
Northumberland College	250	167	277
Northumberland Church of England Academy	276	61	139
Northumberland Inshore Fisheries and Conservation Authority	14	5	5
Northumberland National Park Authority	78	38	86
Northumbria Magistrates Courts Committee	-	91	49
Pax Christi Catholic Academy Trust	74	10	14

	Active members	Pensioner members	Deferred members
Ponteland Academy Trust	30	-	1
Ponteland Town Council	3	1	-
Prudhoe Adderlane Primary (part of Wise Academies)	50	-	-
St. Matthew's Catholic Academy (part of St. Thomas More Partnership)	20	1	4
Seaton Valley Council	-	-	1
Three Rivers Learning Trust Academy	242	17	80
West Bedlington Town Council	1	-	1
Admitted Bodies:			
Action for Children	9	2	16
Active Northumberland	176	67	61
Age UK Northumberland	2	14	15
Barnardo's Services Ltd	7	1	13
Berwick Borough Housing Ltd (part of Bernicia Group)	6	12	4
Bullough Cleaning Services Ltd	8	2	1
Compass Chartwells	5	-	-
Feversham School	-	26	13
Isos Housing Ltd	17	61	21
Northumberland Aged Mineworkers Homes Association	7	7	-
Northumbria Healthcare NHS Foundation Trust	43	85	42
Queens Hall Arts	3	2	2
The Disabilities Trust	1	3	3
Wansbeck Homes (part of Bernicia Group)	92	62	18
Woodhorn Charitable Trust	17	7	7
Other bodies pre 1974	-	10	-
	9,031	8,596	8,940

Supplementary Financial Statements

Pension Fund Performance

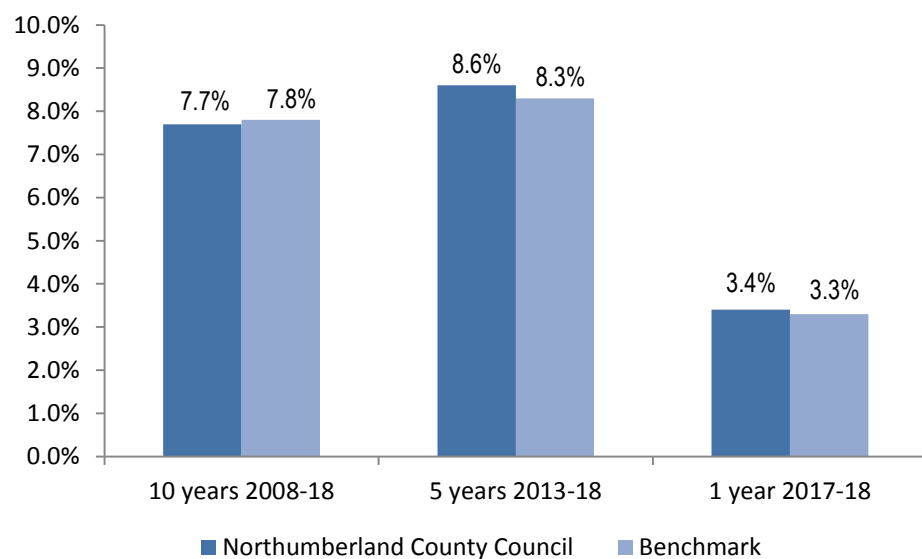
Annual returns

Over the year to 31 March 2018, the Northumberland County Council Pension Fund's return was 3.4%, outperforming its benchmark of 3.3%.

Year ending 31 March	2014 %	2015 %	2016 %	2017 %	2018 %
Fund performance	4.0	13.4	-0.7	24.2	3.4
Benchmark	3.7	13.4	-1.2	24.1	3.3

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 2018, net of fees, are shown in the table below.

Investment category	Fund %	Benchmark %
Antin (infrastructure)	6.9	8.0
BlackRock (Property)	10.1	10.1
G.I.P (infrastructure)	(2.3)	8.0
Legal and General (Index tracker)	3.1	3.0
Morgan Stanley (private equity)	1.3	2.6
NB Alternatives (private equity)	15.0	2.6
Pantheon (private equity)	-	-
Schroder (Property)	10.5	10.1
Wellington (Bonds)	3.3	1.5
Combined Fund	3.4	3.3

Market Commentary

2017-18 was a year of low returns for local authority pension funds with the average being approximately 3.0%.

Over the year all primary asset classes had a positive performance. The highest returns were achieved by property assets (approximately 10%); equity markets were the next highest performer with the UK having a return of approximately 2% and global equities a return of almost 5%. Fixed income and Private Equity assets only achieved small positive returns whilst the return on cash was negligible.

Alternative assets such as private equity had a return of 20% and in many cases absolute return funds and infrastructure funds typically exceeded 15%.

Over the year ended March 2018 equity markets rose with Emerging Markets being the best performer. From a UK investor's perspective, sterling once again had an impact on market returns as it appreciated significantly against the dollar, (reversing some of the currency depreciation that occurred in 2016 because of Brexit) impacting negatively on returns from non UK markets. Global growth remains the primary driver behind equity performance as markets move from a recovery to expansionary phase. Surprisingly (to many commentators) bond yields remained 'soft' for much of the year and finally increased in Q1, resulting in low returns for this asset class. Within the UK and globally the Basic Materials, Industrials, Consumer Services and Financial sectors have had good returns whilst the Consumer Goods, Utilities and Healthcare sectors have underperformed the broad market. Generally small and mid-capitalisation stocks have outperformed large capitalisation stocks.

The Fund's returns

The Northumberland County Council Pension Fund produced a return of 3.4% in 2017-18.

The Fund return was 0.1% above its benchmark in 2017-18. Asset allocation had a positive impact due to being overweight in equities (a high performing asset class) and underweight in bonds (a low performing asset class). Manager performance was a positive generator of Fund excess return due to the positive contributions from the Wellington Corporate Bond portfolio and Private Equities via NB Alternatives. Infrastructure portfolios were the only underperformers. Index funds, as expected, have performed in line with their benchmarks.

Relative to our database of local authority pension funds the Fund has returned a higher than average return for the one year, five year and ten year periods.

Over five years the Fund returned 8.6% p.a. which was 0.3% p.a. above the benchmark return of 8.3 % p.a. The return has been significantly above returns from cash, salary and retail inflation.

Over ten years the Fund achieved a return of 7.7% p.a. The return has been significantly above returns from cash, salary and retail inflation.

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 at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The next valuation will take place on 31 March 2019.

Actuarial Position

1. The valuation 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 at 31 March 2016 (of £1,055.26 million) covering 84% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
 - 19.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)

Plus

 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 21 years from 1 April 2017 (the secondary rate), equivalent to 7.9% of pensionable pay (or £11.2 million in 2017-18 increasing by 10.9% every 3 years).
3. In practice, each individual employer's or Group of Employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 29 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities

arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer or Group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the administering authority reflecting the employers' circumstances.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

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

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

The assets were valued at market value.

Further details of the assumptions adopted for the valuation are set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 29 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund 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, HM Treasury, in its response to the consultation on indexation and equalisation of Guaranteed Minimum Pensions (GMPs) in public sector schemes, has made an announcement to extend 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 before the announcement, but the increase in liability is not expected to be material. In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.
9. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Northumberland County Council, the Administering Authority of the Fund, in respect of this Statement

10. The report on the actuarial valuation at 31 March 2016 is available from Northumberland County Council. Requests should be addressed to andrew.lister@northumberland.gov.uk

Aon Hewitt Limited

May 2018

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

Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you were:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative report set out on pages 4 to 20 and the introduction to the Pension Fund financial statements set out on page 179, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Section 151 Officer

As explained more fully in the Section 151 Officer's Statement of Responsibilities set out on page 25, the Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

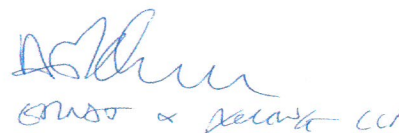
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Northumberland County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Northumberland County Council and the Northumberland County Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
30 July 2018

Supplementary Financial Statements

Firefighters' Pension Fund

Details of the Firefighters' Pension Fund is shown in the table below:

2016-17 £000	Fund Account	2017-18 £000
	Contributions:	
1,017	From employer - normal	973
61	From employer – ill health	23
799	From members	755
1,877		1,751
	Transfers in:	
11	Individual transfers from other schemes	63
1,888		1,814
	Benefits:	
(4,914)	Pensions	(5,000)
(847)	Commutations and lump sum retirement benefits	(872)
-	Lump sum death benefits	(101)
(5,761)		(5,973)
3,873	Net amount payable before top-up grant	4,159
(103)	Grant received for 1992 Contributions Holiday	-
(3,770)	Top-up grant payable by central Government	(4,159)
-	Net Amount Payable for the year	-

31 March 2017 £000	Net Assets Statement	31 March 2018 £000
	Current assets:	
531	Top-up grant receivable from central Government	418
	Current liabilities:	
(531)	Amount payable to the General Fund	(418)
-		-

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.

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 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 housing services on behalf of a local authority.

Available-for-sale Asset

A category of financial instrument which includes investments traded in an active market and equity instruments other than those for which a reliable value cannot be determined.

Audit of Accounts

An independent examination of the Council's Statement of Accounts.

Balance Sheet

A summary of an Authority's financial position at the year end. It shows the balances and reserves at an Authority's disposal and its long term indebtedness, and the long term and current assets employed in its operations, together with summarised information on fixed assets held.

Budget

A statement of the Council's expected level of income and expenditure over a set period, usually one year.

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.

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

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.

Non Distributed Costs

Overhead costs for which no user now benefits - these are not apportioned to services.

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 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

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Northumberland County Council

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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

Risk. Reinsurance. Human Resources.

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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.

2 Information Required for IAS 26

Introduction

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

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits based on members' Pensionable Pay. Pre 1 April 2014 benefits are linked to pay increases while members are active members of the Fund and post 1 April 2014 benefits are linked to statutory (inflationary) revaluation in service.

Actuarial present value of promised retirement benefits

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

The results as at 31 March 2016, together with the results as at 31 March 2013 are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions.

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

Assumptions

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

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

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

*** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.*

Principal demographic assumptions

Post retirement mortality ⁽¹⁾	31 March 2016	31 March 2013
Males		
Base table	Standard SAPS S2P Tables	Standard SAPS S1N Tables
Rating to above base table (years) ⁽²⁾	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 ⁽³⁾
Future lifetime from age 65 (currently aged 45)	24.9	25.0 ⁽³⁾
Females		
Base table	Standard SAPS S2P Tables	Standard SAPS S1N Tables
Rating to above base table (years) ⁽²⁾	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 ⁽³⁾
Future lifetime from age 65 (currently aged 45)	27.1	27.6 ⁽³⁾

⁽¹⁾ The mortality tables shown apply to normal health retirements. Different rates apply to retirements in ill health.

⁽²⁾ A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

⁽³⁾ Future lifetimes shown at 31 March 2013 are for individuals aged 65 (or 45) at 31 March 2013, so do not show the effect of anticipated mortality improvements between 2013 and 2016.

	31 March 2016	31 March 2013
Commutation	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

		Number	Average age	Total Pensionable Pay (£000 p.a.)	Average Pensionable Pay (£ p.a.)	Average service (years)
Men	2016	2,286	45.8	51,434	22,500	9.9
	2013	2,175	46.8	50,193	23,077	13.5
Women	2016	6,266	45.7	86,972	13,880	5.4
	2013	5,565	46.2	77,114	13,857	7.2
Total	2016	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

		Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
Men	2016	2,139	45.3	4,959	2,318
	2013	1,924	44.9	4,374	2,273
Women	2016	6,395	46.9	7,379	1,154
	2013	5,658	45.7	6,187	1,093
Total	2016	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>
Men	2016	2,867	70.7	23,786	8,296
	2013	2,727	70.0	22,428	8,225
Women	2016	4,066	70.2	13,403	3,296
	2013	3,683	69.4	11,892	3,229
Dependants	2016	1,053	73.8	3,571	3,391
	2013	967	76.2	2,755	2,849
Total	2016	7,986	70.9	40,760	5,104
	2013	7,377	70.5	37,075	5,026

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

Appendix B Explanation of Actuarial Methods Used

Benefits valued

Our calculations relate to benefits payable from the Fund (as set out in LGPS Regulations at the relevant times) and related arrangements. These benefits include retirement pensions and benefits on members' death and leaving service.

A summary of the benefits that have been valued can be found in the report on the actuarial valuation of the Fund as at 31 March 2016. Unfunded defined benefit obligations e.g. discretionary pensions benefits being paid under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations (generally referred to as Compensatory Added Years), have not been valued as they do not form part of the Fund. However, they may be required in the IAS 19 figures prepared for individual employers within the Fund.

Data

The valuation of accrued pension benefits for IAS 26 purposes requires detailed information in respect of each member such as date of birth, gender, date of joining the fund, their accrued pension and so forth.

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

The formal valuation process (which is a precursor to the valuation for IAS 26 purposes) involves a series of structured validation tests on the data items for integrity and reasonableness. These tests, together with any actions taken in respect of specific data issues, are documented as part of the normal valuation process.

Where tests reveal issues with the data, the Fund Administering Authority is contacted with a view to resolving all data queries. Only when the data queries have been resolved to the satisfaction of the Fund Actuary, will the valuation proceed.

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

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.

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.

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.

Treatment of Risk Benefits

To value the risk benefits we have valued service related benefits based on service completed to the date of calculation only.

Expenses

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.

IFRIC 14

IFRIC 14 is an interpretation of paragraph 58 of the IAS 19 accounting standard setting out limits to the amount of surplus that can be recognised by employing organisations in their accounts. We do not believe it has any relevance to IAS 26.

Appendix C Compliance and Disclaimer

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.

Disclaimer

The calculations contained in this report have been made on a basis consistent with our understanding of IAS 19 and IAS 26. Figures required for other purposes should be calculated in accordance with the specific requirements of those purposes. It must not be assumed that figures produced for the purposes of IAS 26, which we present in this report, have any relevance beyond the scope of the Financial Reporting Standards requirements.

This report is prepared on the instructions of the Fund Administering Authority as appropriate ("you" or "your") in relation to the preparation of IAS 26 figures for the Fund Administering Authority's financial reporting as at the accounting date. It has been prepared at this date, for the purpose and on the basis set out in this report and for the benefit and use of the Fund Administering Authority.

This report should not be used or relied upon by any other person for any other purpose including, without limitation, other professional advisers, including your auditors and accountants ("third parties" or "third party"), to the Fund Administering Authority. All third parties are hereby notified that this report shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this report.

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We recognise that your auditors may request you directly to see a copy of our report, as part of their audit process and under statutory requirements. We agree that you may release our report to those auditors for such purpose however in making such disclosure, you shall ensure that this disclaimer remains attached to this report, and you further agree that you shall ensure that your auditors have read this disclaimer. For the avoidance of doubt, if we are approached directly by any third party for copies of this report or requested to answer queries about the report, we will require such third party to accept a third party release non reliance letter agreeing that we did not prepare the report for the third party and we do not accept any legal obligations to them. Please rest assured that this approach does not affect our contractual obligations to you as our client, with whom we continue to hold a duty of care in accordance with our terms of engagement.

This report was based on data available to us at the effective date of our calculations and takes no account of developments after that date except where explicitly stated otherwise.

With respect to data on which we have relied in producing this report, whilst we have taken certain limited steps to satisfy ourselves that the data provided to us is of a quality sufficient for the purposes of our investigation, including carrying out certain basic tests for the

purpose of detecting manifest inconsistencies, it is not possible for us to confirm the accuracy or completeness of the detailed information provided. Whilst the Fund Administering Authority may have relied on others for the maintenance of accurate data, it is their responsibility to ensure the adequacy of these arrangements and ultimately the Fund Administering Authority that bears the primary responsibility for the accuracy of such information provided. The information used is summarised in various sections of this report and Appendix A.

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

