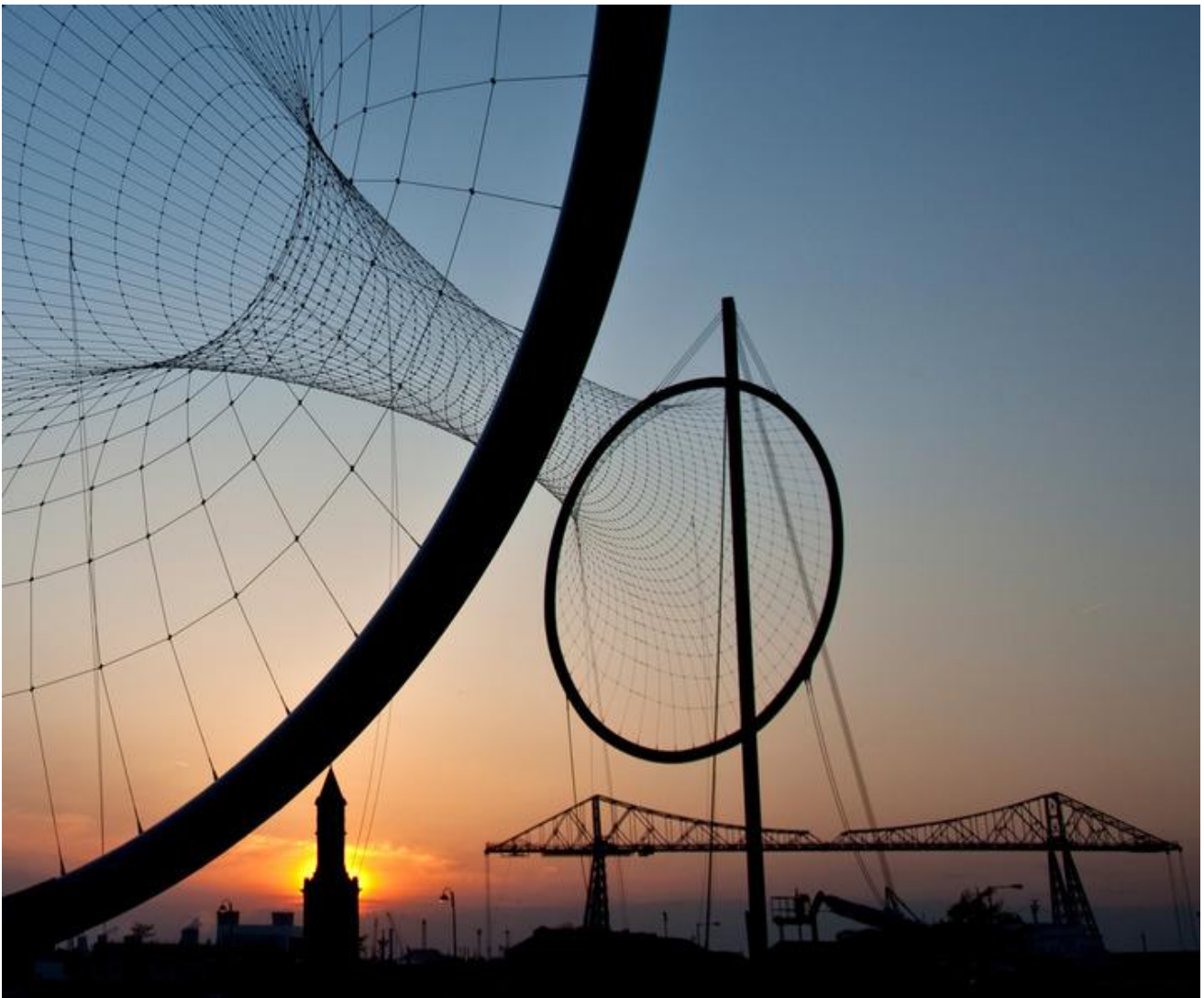


Middlesbrough Council Annual Statement of Accounts for the Year Ended 31 March 2016



Temenos
TS3 6RS

Fairer, Safer, Stronger

Annual Statement of Accounts 2015/2016

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Section 1: Narrative Report

An Introduction to the Statement of Accounts

The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31st March 2016 and a summary of its income and expenditure during 2015/2016. The accounts are, in parts, technical and complex as they have been prepared to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016, and International Financial Reporting Standards. The final audited accounts are available on the council's website: www.middlesbrough.gov.uk

The accounts will be approved by the Council's Audit and Corporate Affairs Committee on 29th September 2016, and the Independent Auditor's Report to the Members of Middlesbrough Council will confirm whether the accounts provide a true and fair view of the council's financial position at that time.

Review of the Year

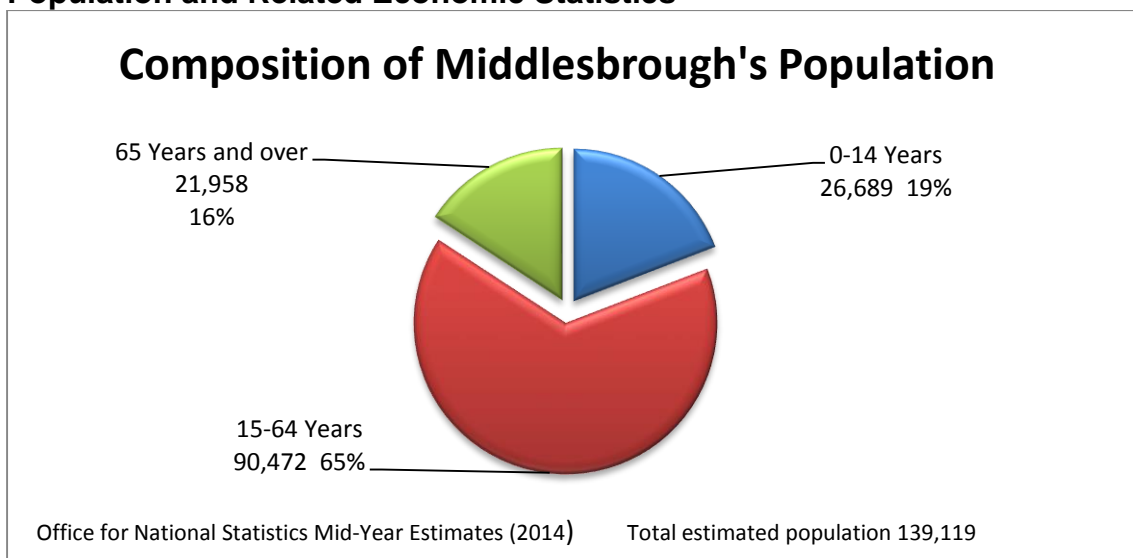
Middlesbrough Council is a large and diverse organisation and the aim of this Narrative Report is to provide both guidance and context to the accounts, presenting a summary of the Council's financial position, financial performance, and non-financial performance for the year, its prospects for future years and briefly explaining the key statements.

Background to the Council

Middlesbrough Council was created following the abolition of Cleveland County Council in 1996 as a unitary local authority serving the people of Middlesbrough. It forms part of the Tees Valley Combined Authority (TVCA) formed recently with its neighbouring authorities.

The Council works with local residents, businesses, public sector partners and the voluntary and community sector to improve local social, economic and environmental wellbeing for all and to secure the long term sustainability of the town. It is one of the largest employers in the Tees Valley area, providing work for more than 3,500 people.

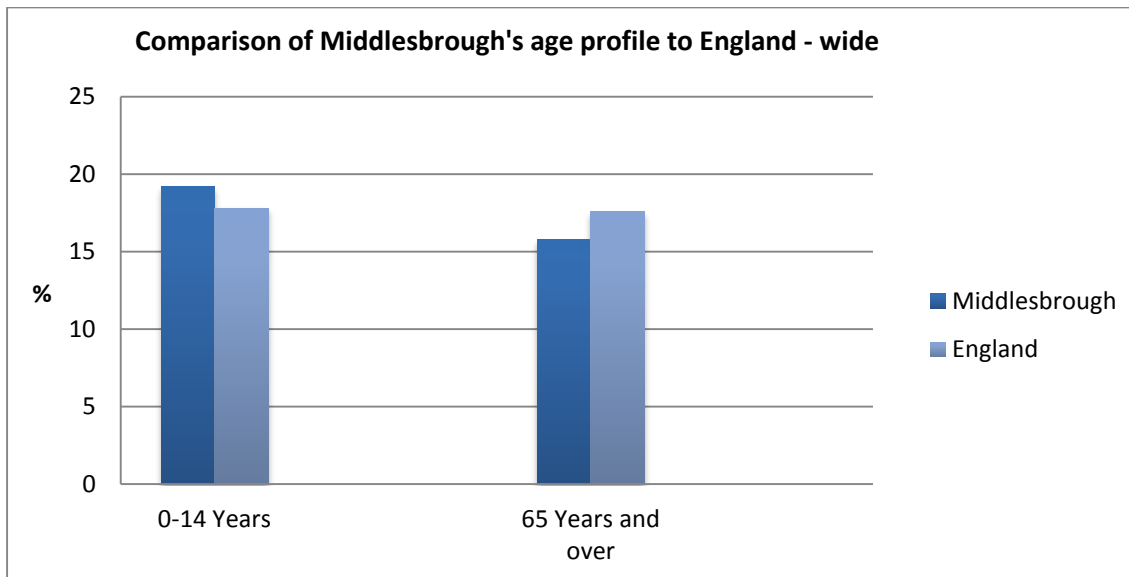
Population and Related Economic Statistics



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The composition of the local population drives the focus of the services provided by the Council most notably through increasing demand for Children’s and Adult Social Care.

The Office for National Statistics Mid-Year Estimates (2014) reported that Middlesbrough’s estimated population was 139,119, with age profile as shown above. Middlesbrough has a relatively young age profile, with proportionally more people aged 0-14 years compared to aged 65 or over. This trend goes against the national average as shown below:



Economic data from Nomis Official Labour Market Statistics for the period October 2014 to September 2015 tells us the following:

	Middlesbrough	North East	Great Britain
Gross Annual Pay (Median)	£24,548	£25,218	£27,732
Unemployment rate (16 – 64) (as proportion of economically active)	12.3%	7.7%	5.6%

In the Department for Communities and Local Government - Statistical Release, The English Indices of Deprivation 2015 show the following levels of deprivation in Middlesbrough’s local authority area:

- On the Index of Multiple Deprivation 2015, Middlesbrough Council shows as having the highest number (42nd - 48.8%) of neighbourhoods in the most deprived 10% of neighbourhoods nationally. (Rank 1)
- 26.8% of our population lives in income deprived households. (Rank 2)
- 21.6% of our working age adults are in employment deprivation. (Rank 3)
- 35.7% of our children live in income deprived households. (Rank 2)
- 25.3% of our older people live in income deprived households. (Rank 22)

The Council’s strategy is focused on meeting the needs of its citizens driven by the demographic profile of the town.

Section 1: Narrative Report

Political Structure in 2015/2016

The Council operates a Mayoral style of government led by the Mayor supported by a small Executive team chosen by the Mayor, Dave Budd. The Executive is the Council's principal decision making body, considering significant issues in connection with, for example, community safety, leisure, education, social services, highways and the environment.

Meetings of the Executive take place every four weeks chaired by the Mayor with each member of the Executive having designated responsibilities (known as portfolios).

Middlesbrough Council is made up of 20 wards with between one and three Councillors representing each ward. Councillors are elected for a four-year term. Following the local elections on 7th May 2015, the current political make-up of the Council is:

Elected Members	46
Mayor David Budd (Labour)	
Conservative	4
Independent	3
Labour (including Elected Mayor)	33
Marlon Independent Group	2
Middlesbrough Independent Councillors' Association	4

Management Structure

Leadership Team - June 2014 to March 2016

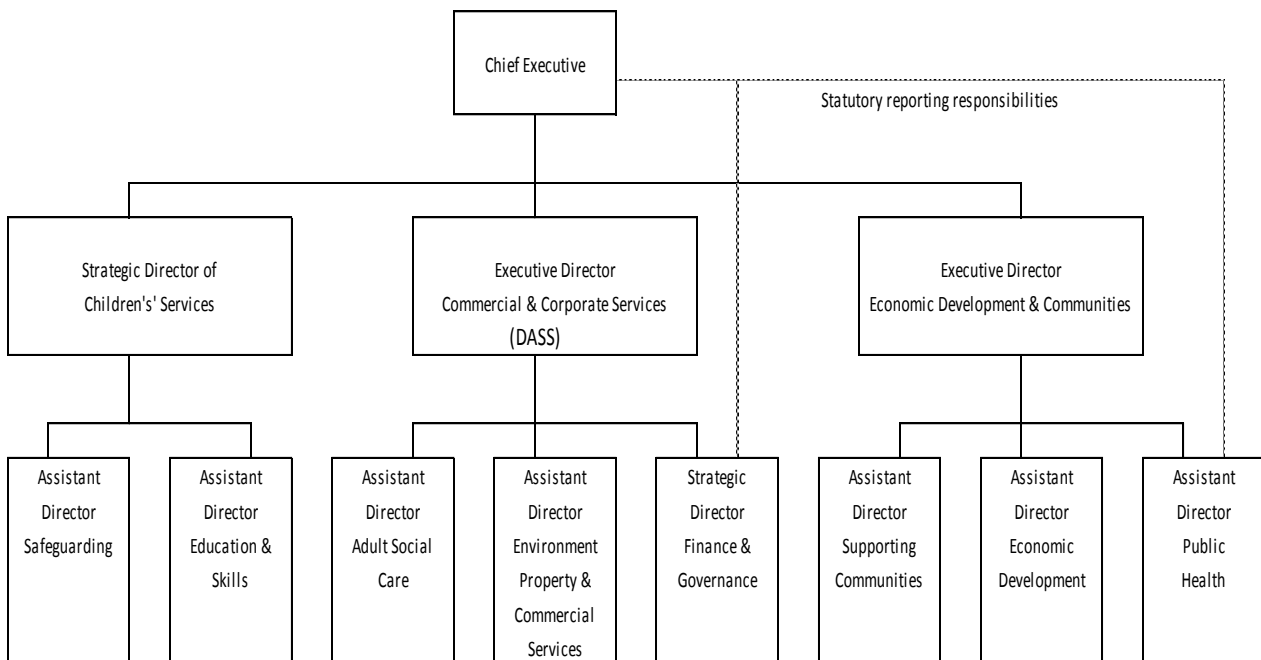
Supporting the work of the Executive and Council are the officers of the Council headed by the Chief Executive. The organisational structure of the officers is kept under constant review to ensure it meets both the needs of the Council and to provide effective management of the Council's day to day operational activities and governance framework; including risk management. During the year structure was changed for the following reasons:

- In order to meet the changing pressures on Adult Social Care and Children's Services in transforming health and social care, reduce costs and improve services, the roles of Director of Children's Services and Director of Adult Services were separated. The Director of Adult Social Services function being included within the portfolio of, the Executive Director, Corporate and Commercial Services and a new role of Strategic Director of Children's Services created.
- The posts of Assistant Director, Finance and Investment post and Assistant Director, Organisation and Governance were combined to create a new role of Strategic Director, Finance and Governance. The single role would more ensure operational performance and financial reporting were more integrated and provide a complete governance framework under the responsibility of one post.

The new structure came into effect on 1st April 2016 and the following organisation chart illustrates both the structure and key responsibilities of the officers across its nine outcome areas.

Section 1: Narrative Report

Leadership Team – from 1st April 2016



A Vision for Middlesbrough

The Mayor has outlined his vision for the future of the town to make it a **“Fairer, Safer, Stronger”** place to live and work. A public consultation process is underway on ‘The Vision for Middlesbrough 2025’ after it was approved by a meeting of full Council. The document sets out a number of priorities within the three themes of 'Fairer, Safer, Stronger,' that the Mayor intends to deliver or set in motion in this term and beyond.

The Mayor’s Vision for Middlesbrough is available on the council’s website at: www.middlesbrough.gov.uk

Financial Review 2015/2016

Setting the Revenue Budget for 2015/2016

In preparing the 2015/2016 revenue budget and medium term financial plan the Council adopted the following principles and statements:

- To ensure that resources are directed to Council priorities in accordance with the agreed Middlesbrough 2020 vision.
- To maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate.
- To keep Council Tax increases to a minimum.
- To maintain appropriate balances, central provisions and earmarked reserves.

Section 1: Narrative Report

- To make services fully accountable for their own budgets and spending, and enforce a policy of no unauthorised overspending within service areas.
- To maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly explained.

In setting the 2015/2016 budget, service budget reductions of approximately £14 million and a Council Tax increase of 1.85% were approved by the Council on the 4th March 2015.

The Council revenue budget for 2015/2016 was £119.918 million funded as follows:

	£'000
Revenue Support Grant	34,899
Top Up Payment	21,630
Local Share of National Non Domestic Rates	19,990
Council Tax	43,399
Total net budget in 2015/2016	119,918

Budget Outturn 2015/2016

The Budget Outturn was reported to the Executive on 27th June 2016 and summarised the council's financial outturn in respect of its revenue budget, capital programme, treasury position and reserves movements during the year.

The Council's revenue outturn resulted in a small underspend of £0.4m, 0.3% of the total budget.

Revenue Outturn by Directorate	Budget	Outturn	(Under)/ Over Spend	
	£'000	£'000	£'000	%
Economic Development and Communities	17,686	16,774	(912)	5.2%
Wellbeing, Care and Learning	69,323	65,787	(3,536)	5.1%
Commercial and Corporate Services	31,847	30,916	(931)	2.9%
Total Service Outturn	118,856	113,477	(5,379)	4.5%
Central Costs and Reserve Movements	1,062	6,075	5,013	
Total Revenue Outturn	119,918	119,552	(366)	0.3%

Section 1: Narrative Report

The Council's capital programme of £59m was not fully delivered due to significant slippage of £20.7m in part resulting from poor weather conditions and major project delays; this shortfall is still planned to be spent in future years.

Capital Programme Outturn by Service	Budget £000's	Outturn £000's	(Under)/Over spend £000's
Outcome 1 – Economic Development	32,679	22,044	(10,635)
Outcome 2 – Supporting Communities	42	25	(17)
Outcome 4 – Learning and Skills	8,054	4,619	(3,435)
Outcome 6 – Social Care	2,929	2,061	(868)
Outcome 7 – Environment Property and Commercial Services	9,042	6,792	(2,250)
Outcome 9 – Organisation and Governance	6,243	2,753	(3,490)
Total	58,989	38,294	(20,695)

Two major projects were completed in the year, supporting the continued development of the town as the vibrant centre of the Tees Valley:

- the Welding Institute (TWI) at a total cost £7.9m and
- the Middlesbrough Sports Village (total cost £21.6m).

The Council's Treasury and Reserves movements are fully disclosed within the statement of accounts.

Summary by Outcome Area of the year's highlights

Economic Development – Outcome 1

The service has had a good overall financial revenue performance with just a very minor overspend of £51k against a gross budget of £12m. Although there are some variable budgets such as passenger transport, planning applications and parking income, the service has used these successfully to balance off unexpected changes in income.

The service has also successfully delivered its' £1.2m budget saving target in Transport and Infrastructure. This has been through the LED street light replacement scheme, new shift and operating models for car parking and voluntary redundancies / retirements.

Supporting Communities – Outcome 2

2015/2016 saw the establishment of an Early Help Hub to provide a front door for the service, which was rigorously tested through both a Tees-wide Peer Review of Early Help, and a subsequent Ofsted Inspection of Safeguarding.

Investment of the Government's Delivering Differently funding into joining up nursery and school readiness has also enabled significant integration between the service and health visitors.

The Council's library and community offer was brought together, with all venues now operating as multi-functional, wifi enabled Community Hubs – identified by an LGA Peer Review of the library offer as best practice.

A Selective Landlord Licensing scheme has also been launched in North Ormesby to address issues in the private rented sector, with further funding secured externally to tackle domestic violence and expand refuge provision.

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Improving Public Health – Outcome 3

The service has continued to deliver key public health programmes for the local population despite a 6.2% in-year reduction to the Public Health Grant in the final quarter of 2015/2016. In October 2015, the service managed a seamless transfer of the commissioning responsibilities for health visitor and family nurse partnership. In January 2016, following a successful tendering process Harrogate and District NHS Foundation Trust were awarded the contract to deliver health visiting and school nursing services. These services have been successfully transferred to the new provider and work is underway to transform the model of delivery and improve outcomes.

A number of public health outcomes have continued to improve demonstrating significant progress. These include improvements in female healthy life expectancy, reduction in number of women smoking during pregnancy, year on year reduction in alcohol admissions, reduction in under 18 conceptions and improvements in the number of cancers being diagnosed early. However for most of these indicators a gap exists between the Middlesbrough and national averages as well as variations within the town by ward, deprivation, social class and other factors. More work will need to be done to address the local health inequalities and to close the gap between Middlesbrough and national comparators.

The public protection service has continued to deliver high quality and effective regulatory and enforcement functions to protect the local population. Through the Local Alcohol Area Partnership safety maps were developed and this intelligence is being used to inform licensing decisions. Working in partnership with local businesses in Riverside Industrial Estate on a programme to improve workplace health, well-being and safety was developed and implemented. This programme, Estates Excellence – Extra Life received significant interest locally and has been highlighted as an example of good practice nationally.

Learning and Skills – Outcome 4

We have an increasing % of good and outstanding schools, currently:

Primary	88%
Secondary	71%
PRU	100%
Special	75%
Overall	85%

We have begun to reconfigure SEND services, following an external review by ISOS, to ensure the best use of provision to meet the needs of Middlesbrough's young people. The Outcome Delivery Plan is being developed to take account of the challenges schools face in implementing the Educational Excellence Everywhere paper whilst managing local challenges of mobility; which is creating extreme churn in some central Middlesbrough schools. This is being tackled through carefully co-ordinated place planning and developing a vision for the future of school places.

Safeguarding and Children's Care – Outcome 5

2015/2016 saw Safeguarding and Children's Care inspected by Ofsted under the inspection framework of 'inspection of children who need help and protection, children looked after and care leavers'. Ofsted judged the department to require improvement overall with 'good' for adoption performance and experiences and progress of care leavers.

Gleneagles residential facility for children with disabilities was judged to be outstanding and two of the three children's homes were judged to be Good, the third requiring

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improvement. Increased demand for services was effectively managed throughout the year through the expansion of alternatives to care and the year ended within budget.

Adult Social Care - Outcome 6

Adult Social Care has achieved its cost reductions for the year and returned a significant underspend that represents substantial success in managing both the cost and provision of equitable, high quality care.

The expected increase in demand for care, following the implementation of the Care Act 2014, is yet to emerge (as experienced by many LA's). Further analysis of latest demand trends has allowed us to construct a new, more accurate forecasting model for care that will support future service developments.

Underlying the outturn has been the first year of our increasingly structured re-positioning away from a service that responds to crisis towards a genuinely preventative and reabling service. This will continue in future years but 2015/2016 has already seen a significant reduction in the use of residential care and a significant reduction in the average cost of care packages at our Access point (approximately 50%) through more careful and creative Social Work practice and with no discernible negative impact on outcomes for service users.

Environment, Property and Commercial Services – Outcome 7

EPCS have continued to provide high quality services to the public and our commercial customers and stakeholders in 2015/2016. Standards of cleanliness and environmental quality have been maintained to very high levels across all areas of the town, bringing much praise from visitors and colleagues from outside the area.

The initiative to bring the kerbside recycling contract in house has brought about significant improvements in service delivery and completely resolved the significant issues which were being experienced with the previous contractor.

The transfer of Sport and Leisure Services to an external trust organisation, SLM (Everyone Active) was completed on time and will exceed the target budget savings over the fifteen year life of the original contract.

Property Services have continued to provide high quality and responsive services to both internal and external customers, and continue to broaden their commercial customer base. The Estates Strategy is now fully embedded within the Strategic Asset Management structure, the team continue to deliver capital receipts through disposal of non-strategic assets, and high levels of income from the commercial property portfolio.

All budgets within EPCS have now been realigned with the approved Outcome Delivery Plan for EPCS, and the various service reviews which will ensure the delivery of the required budget savings for 2016/2018 within a balanced revenue budget position.

Finance and Investment – Outcome 8

The service has delivered a £1.2m underspend in a year which has seen significant changes as the new financial system Agresso, has been settling in. The focus on maximising income from Council Tax, Non Domestic Rates and recovery of debts has continued and savings have been delivered by better ways of buying the goods and services required by the Council.

During the year the service has ensured that the Council's key financial planning and reporting documents (the annual Budget, Medium Term Financial Plan and Statement of Accounts) have been prepared to professional standards.

In the coming year, improvements are planned to enhance the timeliness and relevance of management information for revenue, capital, treasury and reserves reporting. This will

Section 1: Narrative Report

support all service areas in managing their expenditure and enable them to meet their savings and investment targets.

Organisation and Governance – Outcome 9

During the year a number of services, previously outsourced to Kier Business Services, have been brought back into the Council generating further savings while Legal Services have seen increased activity arising from child care cases.

The service has been developing an enhanced governance framework to resolve the issues raised in the Value for Money review in 2014/2015. An action plan to improve project control, risk management performance reporting and decision making is being implemented.

The Change Programme has supported the delivery of substantial savings across the Council and continues to monitor the progress being made in achieving the required savings set out in the Medium Term Financial Plan.

Looking Ahead

The Council completed a full review of its Medium Term Financial Plan (MTFP) setting out its projected financial requirement for the next four years 2016/2017 to 2019/2020; this will form the basis of a four year funding settlement with the government in the autumn of 2016. The plan includes an ambitious investment programme to create new homes and business opportunities to support the continued growth and development of Middlesbrough as the vibrant centre of the Tees Valley.

In April 2016 the Tees Valley Combined Authority (TVCA) was created to promote the commercial development of the Tees Valley working across Darlington, Stockton, Hartlepool, Redcar and Cleveland, and Middlesbrough. This represents a real opportunity for the Tees Valley to attract inward investment to support employment opportunities for the Tees Valley community.

While there remains much uncertainty around the overall prospects for global economic growth, the Council is well placed to support the development of Middlesbrough to create real improvements to the lives of its citizens.

Annual Statement of Accounts

The Statement of Accounts comprises various sections and statements, which are briefly explained below:

Narrative - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2015/2016.

Statement of Responsibilities - this details the responsibilities of the Council and the Chief Finance Officer (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

Independent Auditor's Report to the Council - the external auditor, Ernst & Young LLP will prepare this report on completion of their audit.

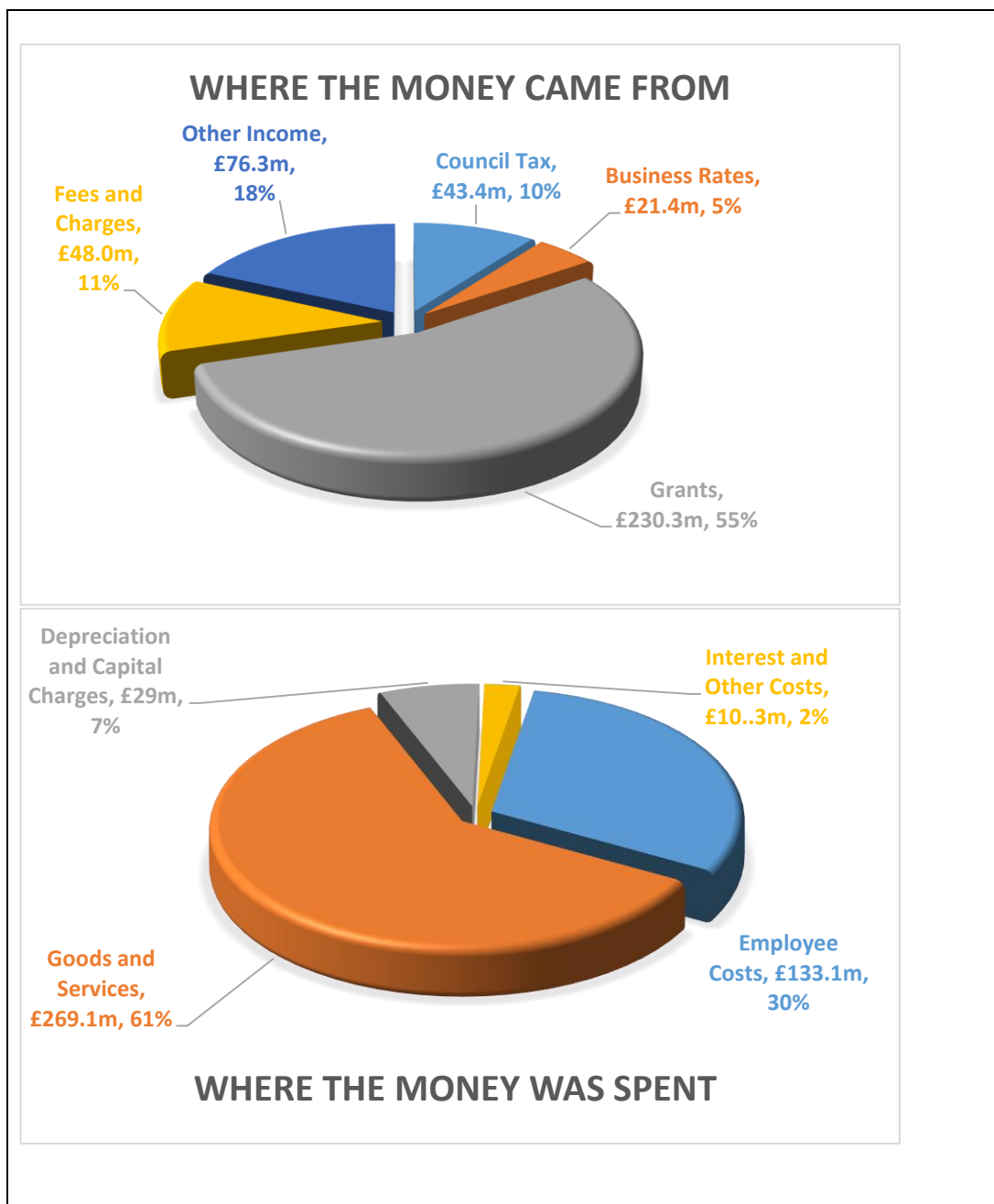
Annual Governance Statement - the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the

Section 1: Narrative Report

Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2015/2016 and will be published with the audited accounts.

The **Main Accounting Statements** comprise:

- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with the statutory and Service Reporting Code of Practice (SeRCOP) requirements. This is different from the day to day budget monitoring arrangements of the Council which are based around its own organisational structure.
- The charts below illustrate where the money has come from and how it has been spent. Note 41 provides a reconciliation between the Council's Revenue Outturn of £119.5m and the Total Comprehensive Income and Expenditure deficit of £29.6m.

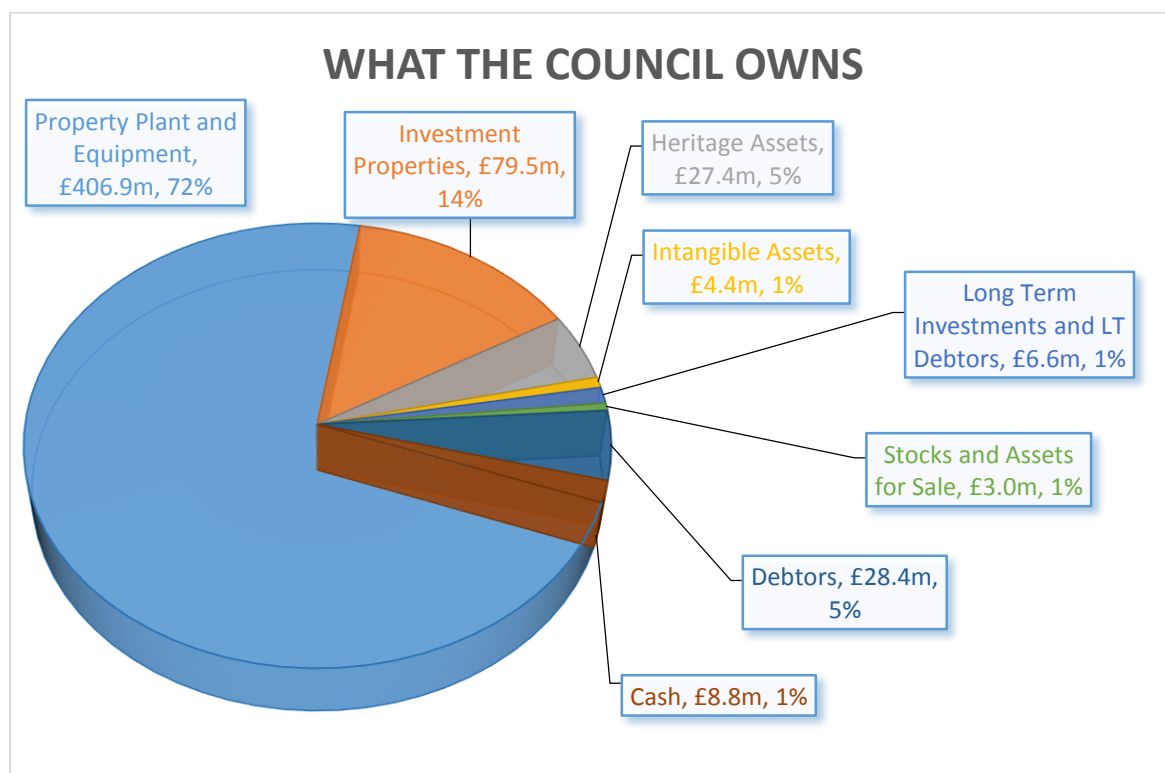


Section 1: Narrative Report

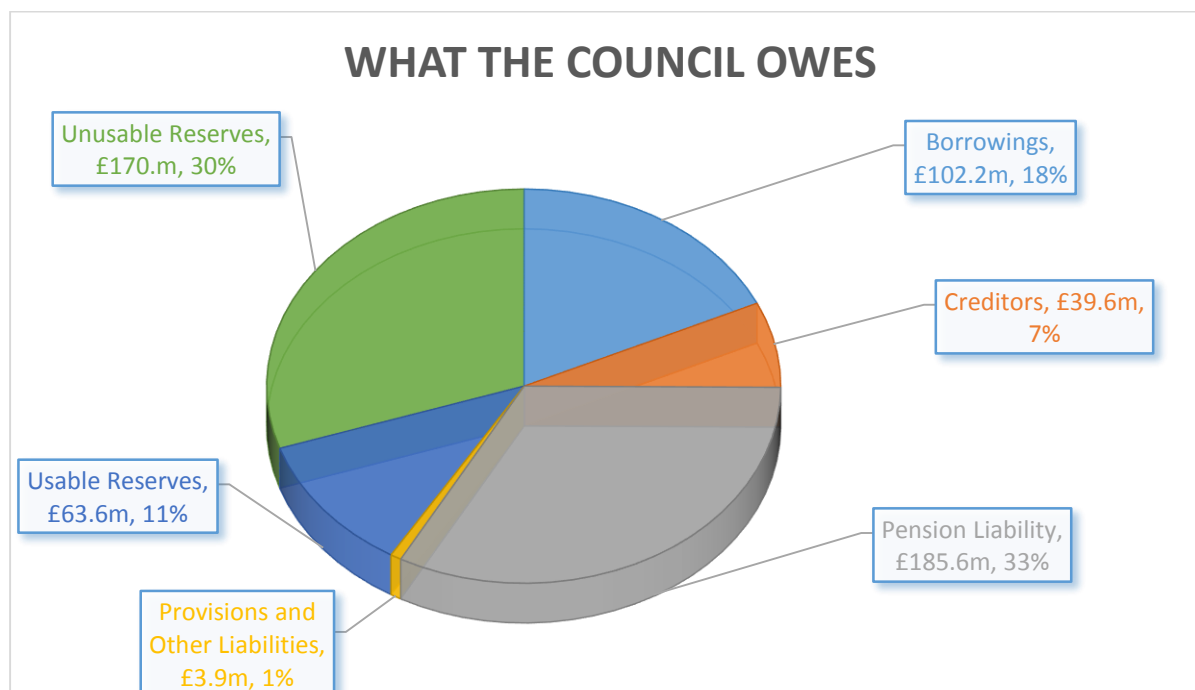
- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The difference between the capital expenditure in the capital outturn report of £38.3m and the additions set out in the accounts is summarised below and reflects the technical accounting treatment of revenue expenditure funded by capital (REFCUS - Revenue Expenditure Funded from Capital Under Statute)

Types of Asset Expenditure	Note	Spending (£ m)
Operational Property Plant and Equipment	6	16.6
Community Assets	6	0.2
Assets under Construction	6	10.4
Investment Properties	11	4.4
Intangible Assets	16	2.1
Capital Expenditure on Assets		33.7
Revenue Expenditure Funded From Capital Under Statute	40	4.6
Total Capital Expenditure		38.3

The following charts summarise what the Council owns and what it owes:



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- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves (arising mainly as a result of technical and accounting adjustments). During the year the council used £4.0m of its general reserves in line with its plans to smooth the impact of the governments funding cuts over the term of the current MTFP.
- The **Cash Flow Statement** - this summarises the changes in cash and cash equivalents of the Council during the reporting period. Cash flows are split between operating, investing and financing activities.

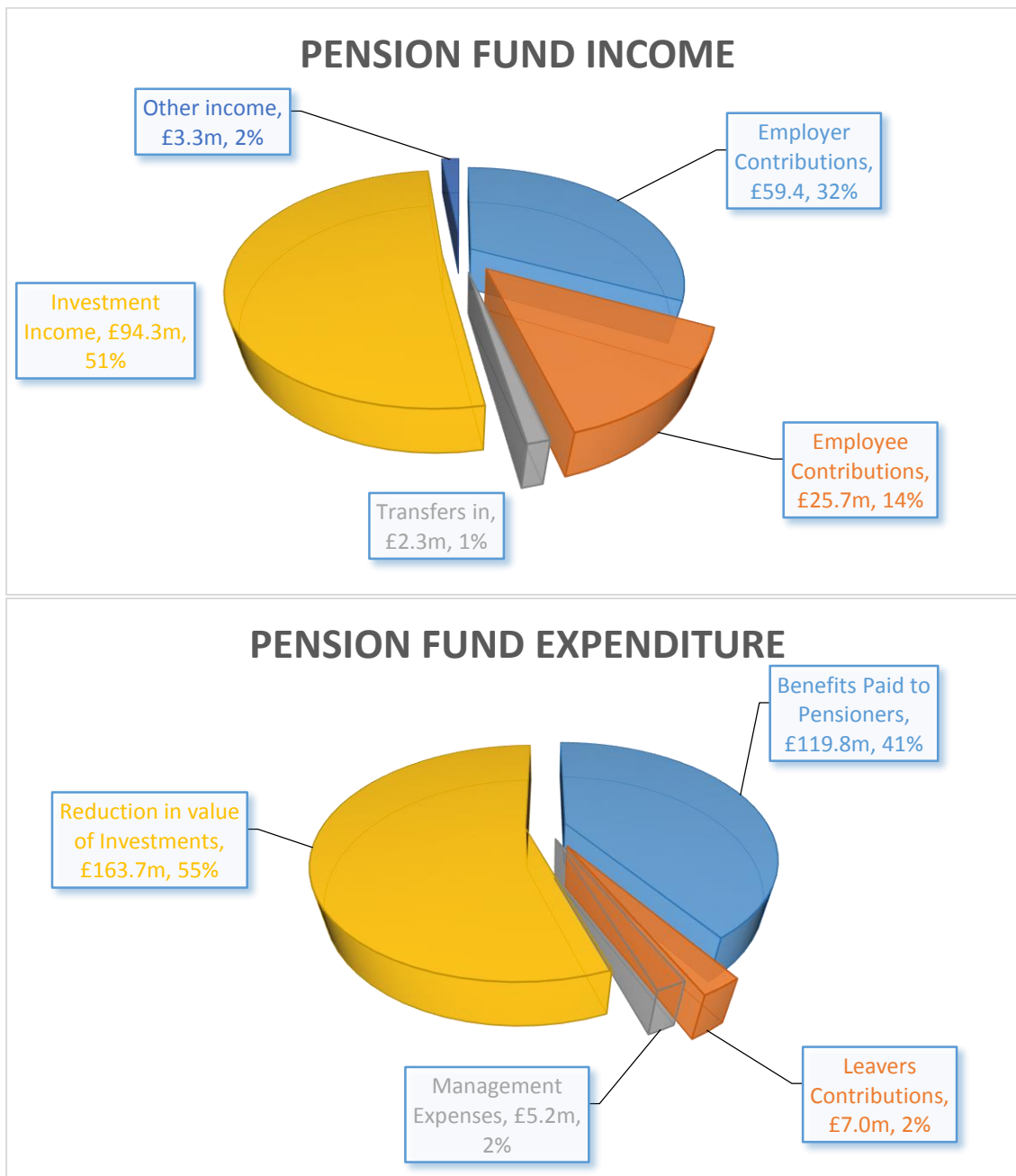
Accounting Policies Note - this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.

Notes to the Main Statements - provide supporting and explanatory information as to how the accounts have been prepared and support the understanding of the accounting policies applied in the accounts to present a true and fair view of the financial position.

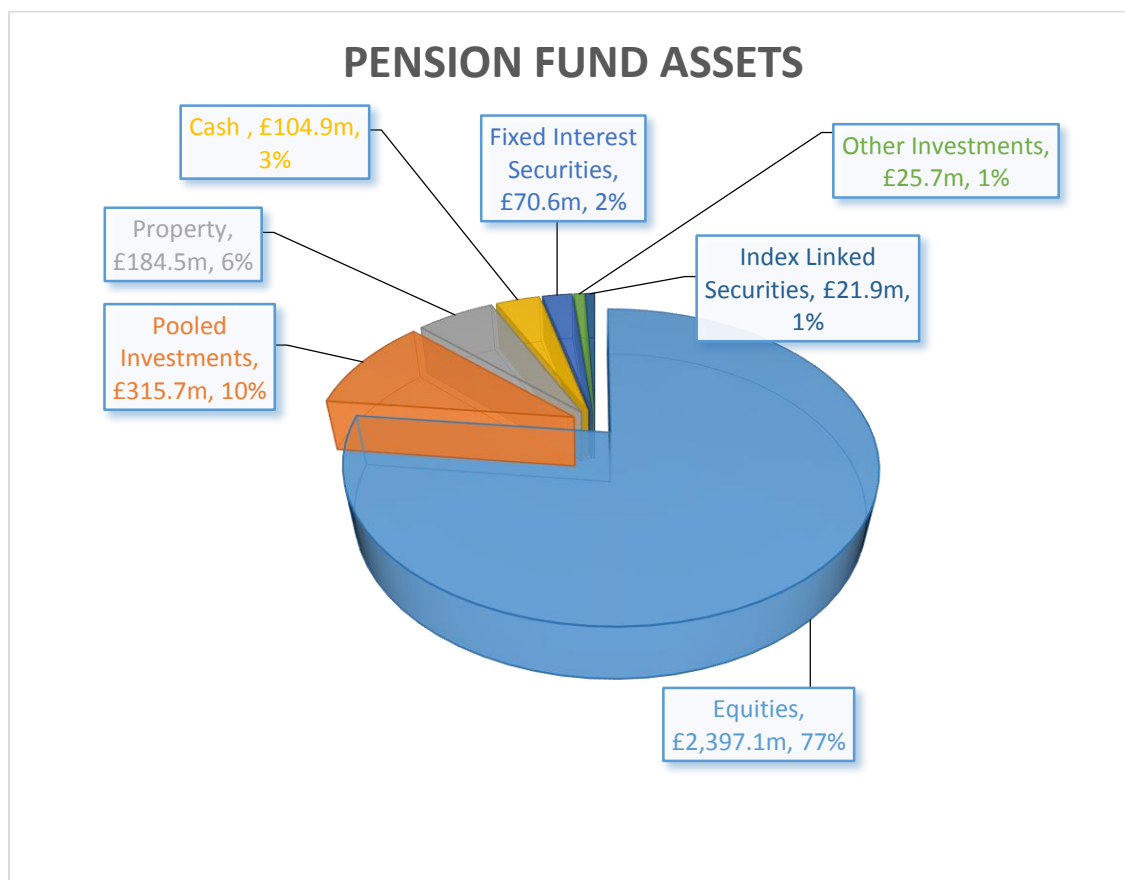
Section 1: Narrative Report

Pension Fund Accounts - the Teesside Pension Fund is administered by the Council; is independently managed and completely separate from the Council's own finances. This statement is an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2015/2016, assets, and liabilities as at 31st March 2016.

The following charts summarise the income and expenditure of the Fund's and its assets:



Section 1: Narrative Report



A **Glossary** to the Statement of Accounts is also included to explain the technical jargon and help make the document more understandable to the reader.

Section 2: Statement of Responsibilities

The Authority's Responsibilities

The authority is required to:

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

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing the statement of accounts, the Chief Finance Officer has:

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

The Chief Finance Officer has also;

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

Certificate

I certify that the statement of accounts present a true and fair view of the financial position of the authority at 31st March 2016 and its income and expenditure for the year ended 31st March 2016.

Mark D Taylor Chief Finance Officer
Date 30th September 2016

Independent Auditor's Report to the Members of
Middlesbrough Council

To be inserted here

Pages 16 to 20

Section 4 : Main Statement of Accounts

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2016							
Prior Year			Current Year				
Gross Expenditure £000	Gross Income £000	Net Expenditure (Income) £000	Cost of Services by Service Area	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure (Income) £000
3,955	(3,297)	658	Central Services to the Public		3,852	(2,242)	1,610
18,713	(5,797)	12,916	Cultural and Related Services		17,579	(6,392)	11,187
18,062	(5,222)	12,840	Environmental and Regulatory Services		18,761	(5,686)	13,075
7,791	(6,138)	1,653	Planning Services		8,803	(2,204)	6,599
142,265	(104,688)	37,577	Education and Children's Services		142,544	(95,822)	46,722
21,569	(6,135)	15,434	Highways and Transport Services		16,491	(4,112)	12,379
86,748	(84,056)	2,692	Other Housing Services		85,401	(84,550)	851
70,303	(25,549)	44,754	Adult Social Care		71,788	(25,881)	45,907
17,164	(16,718)	446	Public Health		17,863	(18,789)	(926)
386,570	(257,600)	128,970	Total Cost of Direct Services		383,082	(245,678)	137,404
4,857	(35)	4,822	Corporate and Democratic Core		4,269	(194)	4,075
2,016	0	2,016	Non Distributed Costs	2	3,383	0	3,383
393,443	(257,635)	135,808	Total Cost of Services		390,734	(245,872)	144,862
26,631	0	26,631	Other Operating Income and Expenditure	3	6,860	(823)	6,037
45,465	(43,809)	1,656	Financing and Investment Activities	4	44,738	(40,346)	4,392
0	(145,210)	(145,210)	Taxation and Non - Specific Grants	5	0	(133,279)	(133,279)
465,539	(446,654)	18,885	Deficit on the provision of services transferred to the General Fund		442,332	(420,320)	22,012
		35,804	Actuarial (Gains) / Losses on Pension Fund charged to Pensions Reserve.	28			1,637
		(45,570)	Revaluation (increases) / decreases to Land and Buildings recognised in the Revaluation Reserve.	6, 17			14,925
		1,235	Depreciation written out to the Revaluation Reserve.	6			(9,012)
		(8,531)	Total Other Comprehensive Income and Expenditure				7,550
		10,354	Total Comprehensive Income and Expenditure				29,562

None of the items included as Other Comprehensive Income and Expenditure are expected to be subsequently be reclassified to the surplus or deficit on the Provision of Services.

Section 4 : Main Statement of Accounts

The day to day budget monitoring arrangements of the Council are based around its own organisational structure and are different to both the statutory and Service Reporting Code of Practice (SeRCOP) requirements. The main difference between the Council's management accounts and the published statutory accounts are as follows:

Capital Depreciation Charges:

In the Comprehensive Income and Expenditure Statement the Council is required to ensure that each service reflects a depreciation charge for the assets they use (land, buildings, plant and machinery etc.).

Revenue Expenditure Funded by Capital Under Statute (REFCUS) Charges:

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service within Income and Expenditure in the year.

Transfers To and From Reserves:

Transfers into and out of expenditure funded from reserves, are not considered part of the net cost of services and are therefore not reflected at all within Income and Expenditure.

Central Support Services:

Under SeRCOP, the costs of corporate services that are provided to front line services and an allocation of certain central expenses have to be included as service costs rather than central 'corporate' costs. Such services and costs include Finance, Legal, Human Resources, IT, Payroll, Creditors, Debtors, Performance & Policy, Audit etc.

Employer's Pension Fund Contributions:

Accounting for retirement benefits (IAS19) requires that employer's contributions to pension schemes, reflected in service accounts should only consist of 'current service' costs. As the actual contributions made to the Pension fund by the Council include an element of back funding to recover any previous pension scheme deficit, the service expenditure figures reported in the Statement have to be adjusted to reflect the current service costs as calculated by the fund actuary.

In addition the Income and Expenditure includes as part of operating expenditure the net impact of the notional return on the pension fund assets and the increase in accrued future pension liabilities, the Middlesbrough Council elements.

Other Differences:

Other transactions such as interest earned and paid, precept payments to Cleveland Police and Crime Commissioner/ Cleveland Fire Authority / Parish Councils and trading units are not considered as part of the net cost of services and are required to be shown as separate items in the section below the service expenditure totals in the Comprehensive Income and Expenditure Statement.

A reconciliation between the management accounts and the Income and Expenditure Statement is shown in note 41.

Section 4 : Main Statement of Accounts

Balance Sheet at 31 March 2016			
At 31 March 2015 £000		Note	At 31 March 2016 £000
	Long Term Assets		
415,904	Property, Plant & Equipment	6	406,906
27,382	Heritage Assets	9	27,382
73,467	Investment Properties	11	79,463
3,726	Intangible Assets	16	4,449
309	Long Term Investments	18	309
6,652	Long Term Debtors	19	6,291
527,440	Total Long Term Assets		524,800
	Current Assets		
1,003	Short Term Investments	20	0
651	Assets held for sale	17	1,273
1,667	Inventories	23	1,739
36,133	Short Term Debtors	24	28,351
9,790	Cash and Cash Equivalents	25	8,816
49,244	Total Current Assets		40,179
	Current Liabilities		
(3,924)	Short Term Borrowing	20	(25,918)
(52,176)	Short Term Creditors	26	(39,565)
(2,289)	Current Provisions	27	(1,352)
(58,389)	Total Current Liabilities		(66,835)
(9,145)	Net Current Liabilities		(26,656)
	Long Term Liabilities		
(2,909)	Long Term Provisions	27	(2,071)
(76,539)	Long Term Borrowing	20	(76,309)
(175,159)	Pension Liability	28	(185,636)
(493)	Other Long Term Liabilities	20	(493)
(255,100)	Total Long Term Liabilities		(264,509)
263,195	Net Assets		233,635
	Reserves		
73,928	Usable Reserves	32	63,519
189,267	Unusable Reserves	35	170,116
263,195	Total Reserves		233,635

Section 4 : Main Statement of Accounts

Movement in Reserves Statement							
	General Fund £000	Earmarked General Fund Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Movement in Reserves for the Year Ended 31 March 2016							
Balance at 1 April 2015	15,439	40,921	13,062	4,506	73,928	189,267	263,195
Deficit on provision of services transferred to the General Fund (accounting basis).	(22,012)	0	0	0	(22,012)	0	(22,012)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(7,548)	(7,548)
Total Comprehensive Income and Expenditure	(22,012)	0	0	0	(22,012)	(7,548)	(29,560)
Adjustments between accounting basis & funding basis under regulations -note 40.	16,961	0	(3,863)	(1,348)	11,750	(11,750)	0
Increase / (Decrease) before transfer to Earmarked Reserves	(5,051)	0	(3,863)	(1,348)	(10,262)	(19,298)	(29,560)
Transfer (to) / from Earmarked Reserves - note 34	1,206	(1,720)	0	367	(147)	147	0
Increase / (Decrease) in the year ended 31 March 2016	(3,845)	(1,720)	(3,863)	(981)	(10,409)	(19,151)	(29,560)
Balance at 31 March 2016	11,594	39,201	9,199	3,525	63,519	170,116	233,635

Section 4 : Main Statement of Accounts

Movement in Reserves Statement									
	General Fund £000	Earmarked General Fund Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000		
Movement in Reserves for the Year Ended 31 March 2015									
Balance at 1 April 2014	9,633	29,971	19,492	11,587	70,683	202,870	273,553		
Deficit on provision of services transferred to the General Fund (accounting basis).	(18,886)	0	0	0	(18,886)	0	(18,886)		
Other Comprehensive Income and Expenditure	0	0	0	0	0	8,529	8,529		
Total Comprehensive Income and Expenditure	(18,886)	0	0	0	(18,886)	8,529	(10,357)		
Adjustments between accounting basis & funding basis under regulations -note 40.	35,679	0	(6,430)	(7,117)	22,132	(22,132)	0		
Increase / (Decrease) before transfer to Earmarked Reserves	16,793	0	(6,430)	(7,117)	3,245	(13,603)	(10,357)		
Transfer (to) / from Earmarked Reserves -note 34.	(10,987)	10,950	0	37	0	0	0		
Increase / (Decrease) in the year ended 31 March 2015	5,806	10,950	(6,430)	(7,081)	3,245	(13,603)	(10,357)		
Balance at 31 March 2015	15,439	40,921	13,062	4,506	73,928	189,267	263,195		

Section 4 : Main Statement of Accounts

Cash Flow Statement for the Year ended 31 March 2016			
Year to 31 March 2015		Note	Year to 31 March 2016
£000			£000
(18,886)	Deficit on provision of services transferred to the General Fund		(22,012)
	Adjustment for items not affecting cash flow		
16,750	Depreciation of Property, Plant and Equipment (PPE)	6	19,112
783	Amortisation of Intangible Assets	16	1,365
1,952	Impairments to PPE	6,9	4,119
2,308	Impairments to Assets held for sale	17	0
(7,692)	Fair Value gain on Investment Properties	11	(4,266)
(492)	Donated PPE and Heritage Assets	6,9	(680)
35,984	NBV on Disposal of non current assets	6, 9,11,17	9,999
(80)	Difference between Current Service Cost and Contributions made to the Pension Scheme	28	2,338
6,618	Impact of Changes to Actuarial Assumptions applied to the Pension Scheme Deficit	28	6,502
(585)	Movement in Provisions	27	(1,775)
36,660	Surplus on provision of services after non cash adjustments		14,702
(8,349)	Adjustments for items that are Financing or Investing Activities		(4,527)
	Other operating Cashflows		
5,589	Cash absorbed by the reduction in creditors		(14,327)
(8,642)	Cash absorbed by the increase in debtors	19, 24	8,143
340	Cash absorbed by the increase in inventory	23	(72)
25,598	Net cash flow from operating activities		3,919
(23,436)	Investing Activities	36	(26,583)
(6,384)	Financing Activities	37	21,690
(4,222)	Net decrease in cash and cash equivalents		(974)
14,012	Cash and Cash Equivalents at the start of the period	25	9,790
9,790	Cash and Cash Equivalents at the end of the period	25	8,816

Section 5: Notes to the Main Statements

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Section 5 : Notes to the Main Statements

Note 1. Basis of Accounting and Significant Accounting Policies, Judgements and Estimates

Basis of Accounting

The Statement of Accounts summarises the Authority's transactions for the 2015/2016 financial year and its position at the year end of 31st March 2016.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2015/2016 (the Code) and the Service Reporting Code of Practice 2015/2016 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting conventions adopted are principally as follows :

- The Accounts have been prepared using the going concern concept, on the assumption that the Council, its functions and services will continue in operational existence for the foreseeable future.
- Values applied relate primarily to historical cost modified by the revaluation of land and buildings and investment properties.
- The accounts have been prepared using the accruals basis of accounting such that transactions are recorded on the basis of when they fall due and not when settled in cash.
- 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.

Section 5 : Notes to the Main Statements

Accounting Developments and Changes in the Year

Accounting for Schools - Balance Sheet Recognition of Schools

The Council recognises the land and buildings used by the schools in line with the provisions of The Code. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets, or rights to use the assets have been transferred from another entity.

Below is a table showing the different type of schools within the Borough:

Type of School	No of Primary Schools	No of Secondary Schools	No of Special Schools	Total
Community	11	1	4	16
Voluntary Aided (VA)	1	0	0	1
Foundation Trust	7	0	0	7
Maintained Schools	19	1	4	24
Academies (not under the control of the Council)	22	6	0	28
Total	41	7	4	52

All Community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet. Legal ownership of the VA schools land and buildings rests with the relevant Dioceses, and have not transferred to the schools, and are not included in the Council's Balance Sheet. For Foundation schools the Governing Body has control of the assets, and these are included in the Council's Balance Sheet.

Schools Transferring to Academy Status and Voluntary Controlled Schools

Due to the conversion of authority led community schools to independent Academy status, £2.5 million has been removed from the balance sheet during the year. In 2015/2016 11 schools converted to Academy status; 10 primary, and 1 secondary school. The reserves relating to these 11 schools totalling £1,227,515 have been written out of the authority's books and passed across to the newly formed academies. In 2016/2017 there will be at least one authority controlled community school expected to gain academy status. Foundation Schools are similar to Voluntary Controlled schools, in that they are a type of maintained school in that they are funded through Central Government via the Local Authority. All capital and running costs are met by the Government.

Section 5 : Notes to the Main Statements

Business Rates Retention Scheme

The administration of Non-Domestic Rates (NDR) changed in 2013/2014 following the introduction of the Business Rates Retention Scheme. Retained Business Rates and Top Up income will be treated as accrued income for the year in the Comprehensive Income and Expenditure Statement. Under the scheme local authorities retain a proportion of the total collectable rates due. The aim of the scheme is to give Council's an incentive to grow businesses but it also increases the financial risks due to the potential non-collection of rates due. Under the regulations of the scheme, Business Rates surpluses/deficits are apportioned to the relevant precepting bodies in the subsequent financial year. During the year the Council retained income totalling £42.9 million from the Rates Retention Scheme.

Content and Presentation of Financial Information

Following on from the changes in presentation introduced in the 2012/2013 Annual Report, the Council has continued to review the content of the Accounts in conjunction with its Auditors and the Financial Reporting Standards Board ('FRSB') agenda on cutting clutter in order to better present information relating to financial performance. The accounts remain fully compliant with all relevant reporting requirements.

Accounting Policies Applied to Significant Activities or Where Significant Judgement or Estimates have been applied.

The Council is required to adopt accounting policies that are appropriate to the activities it engages in. The policies applied by the Council remain unchanged from year to year subject only to the introduction of new requirements in accounting practices or significant changes to activities undertaken. The accounting policies applied to significant activities or where significant judgement or estimate has been applied are as follows;

Recognition of Income and Expenditure

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 grant will be received and all conditions associated with the grant will be satisfied.

Amounts recognised as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

When all conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

All other income amounts are recognised on an accruals basis reflecting the date the service is provided.

Expenditure in relation to goods or services received (including services provided by employees) are recorded as expenditure when the goods or services are consumed.

Where income or expenditure has been recognised but cash has yet to transfer this is held on the balance sheet as a debtor or creditor respectively.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument.

Allocation of Income and Expenditure to Services

Where possible, income and expenditure is allocated to Services on a direct basis (e.g. employees working in that service or income generated from that service's activities.) Overheads and support services are shared between service areas in proportion to the benefits received using criteria considered to be the most appropriate to the cost (e.g. staff numbers are used to allocate Human Resource costs).

Section 5 : Notes to the Main Statements

Comprehensive Income and Expenditure Account and the General Fund

The surplus or deficit on provision of services reported in the Comprehensive Income and Expenditure Statement is transferred to the General Fund. Amounts are then transferred to and from the General Fund under statutory provisions or to set aside specific amounts for future policy purposes or to cover contingencies. These amounts are shown in the Movement in Reserves Statement.

Amounts appropriated under Statutory Provisions

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution (Minimum Revenue Provision) in the General Fund, by way of an adjusting transaction to the Capital Adjustment Account through the Movement in Reserves Statement.

The written-off value of asset disposals is appropriated to the Capital Adjustment Account.

Amounts received for an asset sale in excess of £10,000 (or £5,000 for Investment Properties and Intangible Assets) are categorised as capital receipts and credited to the Capital Receipts Reserve. Amounts in the Capital Receipts Reserve can then only be used to fund new capital investment (or be set aside to reduce the Authority's underlying need to borrow).

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

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has been incurred are transferred to the Capital Adjustment Account.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has not yet been incurred are transferred to the Capital Grants Unapplied Reserve until such time that capital expenditure is incurred at which time the expenditure is transferred to the Capital Adjustment Account.

Statutory provisions require the General Fund balance is only charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Accordingly, amounts charged and credited in determining the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement are replaced with amounts actually paid to the pension fund via an appropriation to the Pensions Reserve for the difference.

Amounts set aside

The Authority sets aside specific amounts as reserves for future liabilities or to cover contingencies by transferring amounts out of the General Fund to Earmarked Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service and transferred back into the General Fund. Amounts set aside and transferred back are shown in the Movement in Reserves Statement.

Section 5 : Notes to the Main Statements

Property, Plant and Equipment

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

Recognition and Componentisation

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided that it exceeds a de minimus level of £5,000. Expenditure that is below the de minimus or maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense.

Componentisation acknowledges that some assets are made up of different parts and that sometimes these parts have differing useful economic lives and should therefore be depreciated over different periods.

Depreciating assets are subject to componentisation provided their individual carrying value is above 0.25% of the total carrying value of its asset class (Land and Buildings) and any component part identified is at least 20% of the individual asset cost.

Measurement

Purchased assets are initially measured at cost (usually the purchase price). Borrowing costs incurred whilst assets are under construction are not included in cost.

Donated assets are initially measured at fair value with the difference between fair value and any consideration paid being credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment is then carried using the following measurement bases:

- Land and Buildings are carried at fair value. Fair value is determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) for assets for which there is an active market (e.g. offices) and Depreciated Replacement Cost (DRC) for assets for which there is not an active market (e.g. schools). They are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.
- Infrastructure and Community Assets and Assets under Construction are valued at depreciated historical cost.
- All other assets are carried at depreciated historical cost as a proxy for fair value.

Where assets are carried at fair value the treatment of changes to the valuation are accounted for as follows:

- Increases in valuations are generally credited to the Comprehensive Income and Expenditure Statement as 'Other Comprehensive Income and Expenditure' and matched by an increase to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains will be credited to the Comprehensive Income and Expenditure Statement as a reduction in service cost if they arise from the reversal of a loss previously charged to a service.
- Decreases in valuations (up to the amount of any previously accumulated gains specific to that asset) are charged to the Comprehensive Income and Expenditure Statement as 'Other Comprehensive Income and Expenditure' and matched by a reduction to the Revaluation Reserve. Where the balance in the Revaluation Reserve is insufficient to absorb the decrease the remaining amount is charged against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- The Revaluation Reserve contains revaluation gains recognised since 1st April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Section 5 : Notes to the Main Statements

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. Impairment losses are treated in the same way as downward revaluations for the purposes of allocating between the Revaluation Reserve and the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, 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.

Discontinued Use

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Depreciation and Amortisation

Depreciation is provided on all assets identified as Property, Plant and Equipment and amortisation on intangible 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), community assets and assets that are not yet available for use.

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

Depreciation and Amortisation is calculated on opening balances based on a straight line allocation over the estimated useful life of the underlying asset as follows:

- | | |
|--|---------------|
| • Buildings (as estimated by the Valuer) | 40 - 50 Years |
| • Vehicles, Plant, Furniture and Equipment | 3 - 15 Years |
| • Infrastructure Assets | 5 - 40 Years |
| • Intangible Assets | 4 Years |

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.

Section 5 : Notes to the Main Statements

Post Employment Benefits (Pensions)

Employees of the Authority are members of one of two separate pension schemes:

- The Local Government Pension Scheme, administered by Middlesbrough Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE).

Both Schemes provide defined benefits to members (retirement lump sums and pensions), on the basis of years of service and salaries earned as employees working for the Council.

However, the arrangements for the Teachers' Pension Scheme are such that the liabilities for the benefits cannot be identified specifically to the Council so the scheme is accounted for as a defined contribution scheme with the assets and liabilities of the scheme excluded from the Council's Balance Sheet and only the value of actual contributions made being charged to the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme is accounted for as a defined benefit scheme. Accordingly, the net liabilities of the Scheme attributable to the Council (as determined annually by the Scheme's actuary) are included in the Council's Balance Sheet.

Liabilities are determined using the projected unit method. This is an assessment of the likely future payments that will be made in relation to retirement benefits earned to date by employees. Estimates are based on assumptions including retirement profiles, mortality rates and projected earnings for current employees. Estimated liabilities are then discounted to their value at current prices, using a discount rate based on the rate of return on high quality corporate bonds. which has been chosen to meet the requirements of IAS19.

The assets of the Scheme attributable to the Council are included in the Balance Sheet at their fair value as follows:

- Quoted securities - at current bid price.
- Property - at market value.

The change in the scheme's net liability from the previous year is analysed as follows:

Charged in the Comprehensive Income and Expenditure Statement

- *Charged to Services*
current service cost - the increase in liabilities as a result of additional service earned in the year.
- *Charged as Non Distributed Costs*
past service cost - the increase in liabilities arising from current year decisions whose effect relates to the years of service earned in earlier years.
gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees.
- *Charged as Financing and Investment Income and Expenditure*
interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid.
expected return on assets - the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return.
- *Charged as Other Comprehensive Income and Expenditure*
actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.
- *Charged to the Pension Reserve*
contributions paid - cash paid as employer's contributions to the pension fund in the year.

Section 5 : Notes to the Main Statements

Sensitivities, Accounting Estimates and Critical Judgements

Economic Climate

The Government's austerity measures continue to have a significant impact on the Council's finances. Fundamental change to the way the Council operates is required if it is to meet the challenges presented by unprecedented public spending cuts, increasing costs, and growing demand for services. The Council's "Change Programme" is now well underway, and the outturn report shows delivered savings.

Employer's Pension Liability

The accounting disclosure requirements for Local Authorities pension obligations are set out in International Accounting Standard (IAS) 19. The Council uses a firm of actuaries to calculate these figures as they involve making a number of complex judgements with regard to future events including the rate of increase in salaries, mortality rates, changes in the discount rate and the expected return on equity investments. Results under IAS 19 can change dramatically depending upon the prevailing market conditions leading to volatility on the net pension asset on the Council's balance sheet and the pension expense in the Comprehensive Income and Expenditure Statement.

Teachers' Pension Scheme

The Teachers' Pension scheme is a defined benefit scheme but is accounted for as a defined contribution scheme with the assets and liabilities of the scheme excluded from the Council's Balance Sheet and only the value of actual contributions made being charged to the Comprehensive Income and Expenditure Statement. It is not possible to estimate the net asset value of the scheme that would be included in the accounts if the scheme was accounted for as a defined benefit scheme.

Investment Properties

Investment Properties are held in the Accounts at fair value which is based on an assessment of market values. Clearly the fair value can only be an estimate until a property is marketed for sale. Investment Properties are generally held for the long term so any testing of market values can only be done by comparison with similar properties that have recently been sold.

Depreciation

Depreciation and amortisation cost is dependent on an assessment of the useful lives of the individual elements that make up the asset portfolio. This ranges from properties used in the delivery of services to vehicles and IT equipment. However, given that the significant majority of the depreciated cost is vested in land and buildings with long estimated lives, the potential impact on the Accounts of an inaccurate estimate in any one year is significantly reduced.

Business Rates Retention Scheme

The Business Rates Retention Scheme was introduced with effect from 1st April 2013. The main aim of the scheme is to incentivise Councils to encourage business growth as Local Authorities can now retain a share of any NDR account surplus. However if NDR income declines, Local Authorities are liable to fund a share of any deficit. Middlesbrough's share of any deficit or surplus is 49%, Central Government has a 50% share and the Cleveland Fire Authority has a 1% share. The volatility of the NDR tax base and collection rates means that the introduction of the scheme has significantly increased the financial risk to the Council.

Under the new regulations, Councils are now liable for a proportionate share of successful appeals against the level of rates chargeable to businesses. The NDR Collection Fund Appeals Provision at 31st March 2015 was £4.0 million (Middlesbrough Council share £1.960 million) and £3.0 million was used in 2015/2016, leaving a closing provision at 31st March 2016 of £1.0 million. (Middlesbrough Council share £0.490 million)

Section 5 : Notes to the Main Statements

Overheads and Support Services

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

The total absorption costing principle is used with the full cost of overheads and support services being shared between users in proportion to the benefits received, with the exception of:

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

Charges to Revenue for Non-Current Assets

Services, Support Services and Trading Accounts are charged with the following amounts to record the cost of holding non current assets during the year:

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

Employee Benefits

Benefits Payable During Employment

An accrual is made for the cost of benefits earned by employees during the period but carried forward to the next period (e.g. untaken holidays). The accrual is charged to the appropriate service but balanced with a credit to the Accumulated Compensated Absences Adjustment Account.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate a staff member's employment before the normal retirement date or a decision by a staff member to accept voluntary redundancy. Termination benefits are charged as Non Distributed Costs in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or makes an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at year end.

Heritage Assets

Heritage Assets are assets that are not used for the delivery of services but are instead assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage Assets are included in the balance sheet at a valuation considered appropriate and relevant to the specific asset. They are recognised, measured and subject to impairment in accordance with the Council's accounting policies on property, plant and equipment.

Section 5 : Notes to the Main Statements

Investment Properties

Investment properties are those that are held solely to earn rentals and / or for capital gain. Investment properties are not depreciated, they are recorded in the balance sheet initially at cost. They are subsequently measured at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Changes in valuation are charges or credited to Financing and Investment Activities in the Comprehensive Income and Expenditure Statement.

Financial Instruments

Financial Instruments are any contract giving rise to a financial asset in one organisation and a financial liability in another organisation. This covers investments, cash, debtors, creditors, accruals, loans, derivatives and guarantees. For the Council these generally take the form of loans or similar borrowings and lendings. Gains and losses are separately identified on the Comprehensive Income and Expenditure Statement in accordance with IAS 32 Financial Instruments Presentation.

Financial Liabilities (Borrowing)

Financial liabilities are recognised when the Council becomes party to the contractual provisions of a financial instrument.

Interest payable is determined as the difference between the initial fair value and cash amounts to be repaid over the life of the instrument and is allocated to accounting periods in equal instalments.

Financial Assets (Cash balances and Investments)

The Council holds Financial assets that are classified as loans and receivables in that they have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised when the Council becomes party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently carried at their amortised cost.

Interest receivable is determined as the difference between the initial fair value and cash amounts to be recovered over the life of the instrument and is allocated to accounting periods in equal instalments.

Leases

IAS 17 - Leases identifies two classes of leases. Finance leases are where substantially all of the risks and rewards of ownership pass to the lessee. All other leases are classified as operating leases.

The Council as Lessee

Finance Leases

The Council no longer has Property, Plant and Equipment held under finance leases.

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

The Council has granted long term leases of 125 years, in respect of MIMA, and Academy Schools under finance lease arrangements, where substantially all of the risks and rewards have passed to the lessees and rental is peppercorn. The CIPFA Code of Practice Guidance for 2015/2016 states that where no premium is payable, as in the case of MIMA, a peppercorn rent is likely to be evidence of indifference on the part of the lessor to the risks and rewards of ownership, also indicating a finance lease if the term is for a major part of the economic life of the asset. As the lease is for 125 years, the Council is of the view that this amounts to the major part of the economic life of MIMA.

Section 5 : Notes to the Main Statements

Operating Leases

The Council has granted operating leases over certain properties which are retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement against the relevant service line heading on a straight line basis.

Cash and Cash Equivalents

Cash and Cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours with insignificant risk of change in value. Overdrawn bank accounts are presented in the balance sheet net only where there is a right of offset.

Provisions and Contingent Liabilities

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities are not recognised in the Balance Sheet. They arise where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council or where a provision would otherwise be made but the amount of the obligation cannot be measured reliably.

Prior Period Adjustments

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

Self Insured Risks

The Council has created an internal insurance fund to cover its liability in respect of the risks from fire damage, employers and public liability, motor vehicles, cash in transit and personal accident claims enquiries. The balances on the fund are reviewed biannually with surpluses transferring to general reserves and deficits being funded from increased premiums in the following financial year. In addition a separate internal insurance fund exists to cover remaining liabilities of the former Cleveland County Council. The risks to the two funds are reviewed on an annual basis.

Section 5 : Notes to the Main Statements

Interests in Companies and Other Entities

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. However, these interests are immaterial and the Council is not required to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of March each year and the date when the Statement of Accounts is authorised. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the accounts are signed are not reflected in the Statement of Accounts.

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 which involves the retrospective purchasing of allowances based on carbon dioxide produced as energy is used.

The requirement to purchase allowances was introduced with effect from 1st April 2011. Accordingly the Council recognises a cost with effect from that date based on the current market price of the allowances. The cost is apportioned to services on the basis of energy consumption.

Accounting Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/2017 Code.

IAS 1 Presentation of Financial Statements

This standard provides guidance on the form of the financial statements and will result in changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and will introduce a new Expenditure and Funding analysis. These changes are as a result of the "Telling the Story" review of the presentation of the local authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative.

Other minor changes due to Annual Improvement to IFRS's cycles, IFRS11 Joint arrangements, IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1st April 2016 and there is therefore no impact on the 2015/2016 Statement of Accounts.

Section 5 : Notes to the Main Statements

2	Non Distributed Costs	2014/2015	2015/2016
		£000	£000
	Pension Fund Settlements and Curtailments (note 28)	1,164	1,096
	Unfunded Pension Charges	113	0
	Total	2,016	3,383
3	Other Operating Income & Expenditure	2014/2015	2015/2016
		£000	£000
	Expenditure		
	Parish Council Precepts	14	14
	Loss on disposal of non current assets	26,617	6,023
Total	26,631	6,037	
4	Financing and Investment Activities	2014/2015	2015/2016
		£000	£000
	Expenditure		
	Trading Services Activity (note 47)	17,803	21,379
	Interest Payable and similar charges	4,023	3,830
	Charges in relation to investment property and changes in their fair value	(5,560)	(4,817)
	Pension Interest Cost (note 28)	29,199	24,346
	Total Expenditure	45,465	44,738
	Income		
	Expected return on pensions assets	(23,745)	(18,940)
	Interest receivable and similar income	(398)	(329)
	Income from Investment Property Assets	(1,104)	0
	Trading Services Activity (note 47)	(18,562)	(21,077)
	Total Income	(43,809)	(40,346)
	Total Net Expenditure	1,656	4,392
5	Taxation and Non Specific Grants	2014/2015	2015/2016
		£000	£000
	Council tax income	(39,748)	(44,396)
	Non domestic rates	(19,137)	(20,450)
	Non ringfenced government grants (Note 30)	(74,017)	(60,319)
	Value of Donated Property, Plant and Equipment Assets	(386)	(680)
	Value of Donated Heritage Assets (Note 9)	(106)	0
	Capital grants and contributions	(11,814)	(7,434)
Total	(145,209)	(133,279)	

Section 5 : Notes to the Main Statements

Property, Plant and Equipment		Land & Buildings	Vehicles Plant Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total
Movement on Balances - 2015/2016		£000	£000	£000	£000	£000	£000
Cost or Valuation :							
At 1 April 2015		273,333	44,059	165,011	8,304	22,131	512,838
Additions		5,188	1,750	9,616	199	10,443	27,196
Donations		0	680	0	0	0	680
Revaluation increases / (decreases) recognised in the Revaluation Reserve.		(14,470)	0	0	0	0	(14,470)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services.		(6,067)	0	0	0	0	(6,067)
Derecognition - Disposals		(3,067)	(626)	0	0	(3,832)	(7,525)
Assets reclassified (to) / from Assets Held for Sale		0	0	0	0	0	0
Assets reclassified (to) / from Assets other Categories		15,593	503	1,564	(770)	(18,357)	(1,467)
At 31 March 2016		270,510	46,366	176,191	7,733	10,385	511,165
Accumulated Depreciation and Impairment							
At 1 April 2015		(17,860)	(31,551)	(47,523)	0	0	(96,934)
Depreciation Charge		(8,623)	(4,251)	(6,238)	0	0	(19,112)
Depreciation written out to the Revaluation Reserve		9,012		0	0	0	9,012
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services		1,948	0	0	0	0	1,948
Depreciation written out to Surplus/deficit on provision of services		0	0	0	0	0	0
Derecognition - Disposals		184	623	0	0	0	807
Assets reclassified (to) / from Assets Held for Sale		0	0	0	0	0	0
Assets reclassified (to) / from Assets other Categories		0	0	0	0	0	0
At 31 March 2016		(15,339)	(35,179)	(53,761)	0	0	(104,279)
Net Book Value at 31 March 2016		255,171	11,187	122,430	7,733	10,385	406,906

Section 5 : Notes to the Main Statements

Property, Plant and Equipment	Vehicles Plant							Total £000
	Land & Buildings	Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Construction	Assets Construction		
	£000	£000	£000	£000	£000	£000	£000	
Movement on Balances - 2014/2015								
Cost or Valuation :								
At 1 April 2014	266,107	42,203	157,857	7,918	2,637	2,637	476,722	
Additions	6,478	3,518	6,826	386	24,219	24,219	41,427	
Donations	0	0	386	0	0	0	386	
Revaluation increases / (decreases) recognised in the Revaluation Reserve.	45,570	0	0	0	0	0	45,570	
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services.	(8,117)	0	0	0	0	0	(8,117)	
Derecognition - Disposals	(28,398)	(1,662)	(58)	0	0	0	(30,118)	
Assets reclassified (to) / from Assets Held for Sale	(4,634)	0	0	0	0	0	(4,634)	
Assets reclassified (to) / from Assets other Categories	(3,673)	0	0	0	(4,725)	(4,725)	(8,398)	
At 31 March 2015	273,333	44,059	165,011	8,304	22,131	22,131	512,838	
Accumulated Depreciation and Impairment								
At 1 April 2014	(17,926)	(28,633)	(41,870)	0	0	0	(88,429)	
Depreciation Charge	(6,665)	(4,431)	(5,654)	0	0	0	(16,750)	
Depreciation written out to the Revaluation Reserve	(1,235)	0	0	0	0	0	(1,235)	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	174	0	0	0	0	0	174	
Depreciation written out to Surplus/deficit on provision of services	5,991	0	0	0	0	0	5,991	
Derecognition - Disposals	1,512	1,513	1	0	0	0	3,026	
Assets reclassified (to) / from Assets Held for Sale	0	0	0	0	0	0	0	
Assets reclassified (to) / from Assets other Categories	289	0	0	0	0	0	289	
At 31 March 2015	(17,860)	(31,551)	(47,523)	0	0	0	(96,934)	
Net Book Value at 31 March 2015	255,473	12,508	117,488	8,304	22,131	22,131	415,904	

Section 5 : Notes to the Main Statements

7 Revaluations of Property, Plant and Equipment

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out by Kier Business Services Ltd, the Council's strategic partner. 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.

The effective date of the revaluation for all assets that were revalued during 2015/2016 is 1st April 2015.

The significant assumptions applied in estimating the fair values are:

- The estimated amount for which a property should exchange on the date of valuation.
- The transaction is at arm's length between willing parties acting knowledgeably, prudently and without compulsion.

Revaluation Analysis

The table below shows the value of assets that have been revalued during 2015/2016 and the value of assets that have been revalued over the last four years. The table also identifies the value of assets held at historical cost and at fair value.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Assets under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
Carried at historical cost		11,187	122,430	7,733	10,385	151,735
Carried at fair value and revalued as at 1 April						
2015	45,372	0	0	0	0	45,372
2014	36,225	0	0	0	0	36,225
2013	38,387	0	0	0	0	38,387
2012	62,107	0	0	0	0	62,107
2011	73,080	0	0	0	0	73,080
Total	255,171	11,187	122,430	7,733	10,385	406,906

8 Impairment and Revaluation Losses

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

These disclosures are consolidated in Notes 6 and 11 and 16 reconciling the movement over the year in the Property, Plant and Equipment, Investment Property and Intangible Asset balances.

During 2015/2016 the Council has recognised a net gain of £0.35 million mainly due to the following changes which have affected valuation calculation:

- Upward revaluation of Newham Hall / Lingfield Farm development land of £4.6million. The redevelopment plans have progressed reducing deferment elements included in the last valuation.
- Downward revaluation of Vancouver House by £0.7million due to reduction in site values and also decreased use as Investment property.
- Downward revaluation of the Hemlington Grange development site by £1.3million - reduction in value due to abnormal costs being identified which were not known at last valuation.
- Downward revaluation of Middlesbrough Sports Village of £1.2million. Asset transferred from Assets under Construction when it became operational in May 2015. Included in the costs were elements for infrastructure and plant and equipment which have been transferred to assets within these classes.
- Downward revaluation of £1.0million for DRC adjustments due to changes in location factor and BCIS rates during the year from 1st April 2015 to 31st March 2016. This relates only to properties which are 'specialised' and therefore valued using a DRC method.

Section 5 : Notes to the Main Statements

9 Heritage Assets

Reconciliation of the value of Heritage Assets Held by the Council.

	Collections				Total £000
	Ceramic £000	Art £000	Natural World £000	Other Cultural Interests £000	
Cost or valuation					
Movements - 2015/2016					
At 1 April 2015	2,082	8,537	9,012	7,751	27,382
At 31 March 2016	2,082	8,537	9,012	7,751	27,382

There were no Heritage Asset movements during the year.

Movements - 2014/2015	Collections				
At 1 April 2014	2,075	8,504	9,012	7,685	27,276
Additions	0	0	0	0	0
Donated	7	33	0	66	106
At 31 March 2015	2,082	8,537	9,012	7,751	27,382

Valuation Methods

The Council's Fine Art collection has been valued by Christies. Ceramics have been valued by MAAK and Jewellery by Galerie Ra (a Dutch gallery). The William Kelly book collection was valued by Sothebys. The remainder of the Heritage Asset collection has been valued using Insurance valuations on the advice of the Council's curators. Further information on Heritage Assets is included in Note 10.

10 Heritage Assets: Further Information on the Museums' Collections

Ceramics, Porcelains and Figurines

The British Ceramic Art Collection is a growing collection and contains around 250 items by upwards of ninety internationally recognised ceramists.

Fine Art Collection

The Fine Art collection includes over 1,000 works drawn together from the Middlesbrough Art Gallery and Cleveland Gallery.

The Natural World Collection

The extensive natural science collections number approximately 250,000 specimens covering geology, vertebrate zoology, invertebrate zoology and botany.

Preservation and Management

The collections are managed by Museum curators in accordance with policies that are detailed in the Museums Collection Management Plan, this is approved by the Executive Member for Economic Regeneration & Culture.

Section 5 : Notes to the Main Statements

11 Investment Properties

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. In addition, the Council applies the test of annual rental income return to current value fair value being in excess of 4%.

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

	2014/2015 £000	2015/2016 £000
Balance at the start of the year	60,707	73,467
Additions:		
Purchases	3,555	4,418
Donated Assets	0	0
Disposals	(6,595)	(3,153)
Net gains/(losses) from fair value adjustments	7,692	4,266
Transfers from Property, Plant and Equipment.	8,108	465
Balance at the end of the year	73,467	79,463

Significant fair value adjustments during the year included; upward revaluations to Newham Hall / Lingfield Farm Land £4.6m, and Viewley Centre, Hemlington £1.3m, and a downward revaluation of £1.3 million to Hemlington Grange (former Hemlington Hospital site).

Fair Value Hierarchy for Investment Properties

The Council's investment portfolio has been assessed as level 3 for valuation purposes.

Valuation Techniques used to Determine Level 3 Fair Values for Investment Properties

The land, office and commercial units located in the local authority area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market derived discount rate) to establish the present value of the net income stream. The approach has been developed using the authority's own data requiring it to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy level, bad debt levels and maintenance costs. The Council's land, office and commercial units are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and best use of Investment Properties

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

12 Income and Expenditure - Investment Properties

The Council does not account for rental income and expenditure associated with investment properties as a separate item in the Comprehensive Income and Expenditure Statement. Income and costs associated with Investment Properties are charged to the cost of services. The following amounts are the values relating to Investment property income and costs for 2015/2016.

	2014/2015 £000	2015/2016 £000
Rental income from investment property	1,500	1,944
Direct operating expenses arising from investment property	(151)	(448)
Net gain	1,349	1,496

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

13 Custodian Properties

The interest in the properties listed below passed to the Council on 1st April 1996, following the abolition of Cleveland County Council. In agreement with the other Unitary Authorities of the former County Council area, liabilities and benefits arising from the properties are shared between the four Unitary Authorities.

- Melrose House Freehold.
- Exchange House Freehold.
- Former County Depot, Cargo Fleet Lane Freehold.
- Aurora Court Leasehold.
- Former Cannon Street Trading, Tees Valley Measurement.

Section 5 : Notes to the Main Statements

14 Capital Expenditure and Capital Financing

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

	2014/2015 £000	2015/2016 £000
Opening Capital Financing Requirement	140,787	160,253
Capital investment		
Property, Plant and Equipment	41,813	27,876
Investment Properties	3,555	4,418
Intangible Assets	3,290	2,088
Heritage Assets	106	0
Revenue Expenditure Funded from Capital under Statute - Expenditure	7,825	4,593
Loans Funded from Capital	5,981	0
Sources of finance		
Capital receipts	(14,781)	(8,413)
Revenue Expenditure Funded from Capital under Statute - Grant Received	(3,088)	(2,695)
Government grants and other contributions applied in the year	(18,814)	(9,463)
Sums set aside from revenue:		
Direct revenue contributions	(345)	(3,203)
Reduction in Long Term Debtors	(37)	(51)
MRP/loans fund principal	(6,040)	(6,214)
Closing Capital Financing Requirement	160,253	169,189
Explanation of movements in year		
Increase in underlying need to borrowing :		
● Unsupported by government financial assistance	25,544	15,201
Reduction in Long Term Debtors	(37)	(51)
MRP / loans fund principal	(6,040)	(6,214)
Increase in Capital Financing Requirement	19,467	8,936

Section 5 : Notes to the Main Statements

15 Capital Commitments

At 31 March 2016, the Council had approved budgets for the construction or enhancement of Property, Plant and Equipment in 2016/2017 and future years totalling £61,536,000. Similar budgets at 31 March 2015 were £83,952,000. Major projects are listed below:

Project	2014/2015	2015/2016
	Approved Budget	Approved Budget
Middlehaven Dock Bridge	5,298	9,443
Local Transport Plan Unallocated Grant	7,391	4,287
TWI Phase 1	6,948	0
Town Hall Venue Development	6,080	6,350
Street Lighting (Invest to Save)	2,500	5,254
Other Projects	55,735	36,202
Total	83,952	61,536

Capital budgets over £1 million were reviewed, and as at 31 March 2016, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/2017 and future years totalling £6,641,000 (2014/2015 £8,074,000).

	£000
Hemlington Grange Electrical Connection	1,453
Hotel Extension Loan	1,250
Highways Maintenance	1,438
Street Lighting (Invest to Save)	2,500
	6,641

16 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

The intangible assets consist wholly of purchased licenses and software.

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

	2014/2015	2015/2016
	£000	£000
Balance at the start of the year:		
Gross carrying amounts	10,434	13,724
Accumulated amortisation	(9,215)	(9,998)
Net carrying amount at start of year	1,219	3,726
Additions : Purchases	3,290	2,088
Amortisation for the period	(783)	(1,365)
Disposals	0	0
Net carrying amount at end of year	3,726	4,449
Comprising:		
• Gross carrying amount	13,724	15,431
• Accumulated amortisation	(9,998)	(10,982)
Net carrying amount at end of year	3,726	4,449

17 Assets Held for Sale	2014/2015	2015/2016
	£000	£000
Balance outstanding at the start of the year	622	651
Transfers from Property, Plant and Equipment	4,634	1,003
Revaluation losses:		
• charged to Comprehensive Income and Expenditure	(2,308)	0
• charged to Revaluation Reserve	0	(455)
Revaluation Gain	0	202
Assets sold	(2,297)	(128)
Balance outstanding at the end of the year	651	1,273

18 Long Term Investments	2014/2015	2015/2016
	£000	£000
SITA Tees Valley Ltd	309	309
Total	309	309

Section 5 : Notes to the Main Statements

19 Long Term Debtors	2014/2015	2015/2016
	£000	£000
MBC Mortgages	29	6
Probation Capital	(14)	(21)
Insurance Fund	284	53
Magistrates	157	136
Equity Loans	182	182
Cleveland Mall - Holiday Inn	5,800	5,800
Car Loans	214	135
Total	6,652	6,291

20 Financial Instruments

Financial Instruments are any contract giving rise to a financial asset in one organisation and a financial liability of another organisation. This covers – investments, cash, debtors, creditors, accruals, loans, finance leases, derivatives and guarantees.

Categories of Financial Instruments

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

	Long Term		Current	
	2014/2015	2015/2016	2014/2015	2015/2016
	£000	£000	£000	£000
Financial Assets - Loans and Receivables				
Held as Investments				
Long Term Investments	309	309	0	0
Short Term Investments	0	0	1,003	0
Cash and Cash Equivalents	0	0	9,790	8,816
Total Investments	309	309	10,793	8,816
Held as Debtors				
Long Term Debtors	6,652	6,291	0	0
Short Term Debtors	0	0	12,141	5,265
Total Debtors	6,652	6,291	12,141	5,265
Total Financial Assets - Loans and Receivables	6,961	6,600	22,934	14,081
Financial Liabilities - at amortised cost				
Held as Borrowings				
Long Term Borrowing *	(76,539)	(76,309)	0	0
Short Term Borrowing	0	0	(3,924)	(25,918)
Total Borrowings	(76,539)	(76,309)	(3,924)	(25,918)
Held as Other Payables				
Short Term Creditors	0	0	(17,032)	(5,634)
Long Term Creditors **	(493)	(493)	0	0
Total Held as Other Payables	(493)	(493)	(17,032)	(5,634)
Total Financial Liabilities - at amortised cost	(77,032)	(76,802)	(20,956)	(31,552)

* Long Term Borrowing includes a loan of £4.352m from Tees Valley Combined Authority in respect of TAMP - Teesside Advanced Manufacturing Park.

** Long Term Creditors relates to deferred lease income under IAS 17.

There were no gains or losses relating to financial instruments arising in either year.

Section 5 : Notes to the Main Statements

21 Financial Instruments: Fair Value and Risks

Fair Value of Assets and Liabilities

Financial Instruments are carried in the Balance Sheet at amortised cost. Their fair value has been 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:

- where the instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- the fair value of PWLB and market loans have been calculated by reference to the 'premature repayment' set of rates as at 31 March 2016.
- the fair value of trade payables and other receivables is taken to be the invoiced or billed amount.
- the carrying amounts of all other instruments are taken to be a reasonable approximation of fair value.

The fair values calculated are as follows:

	2014/2015		2015/2016	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Assets - Loans and Receivables				
• Held as Investments	11,101	11,101	9,124	9,124
• Held as Debtors	18,794	18,794	11,556	11,556
Financial Assets - Loans & Receivables	29,895	29,895	20,680	20,680

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is different to the rates available for similar loans at the Balance Sheet date.

	2014/2015		2015/2016	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities - at amortised cost				
• Held as Borrowings	80,463	120,058	102,227	144,536
• Held as Creditors	17,525	17,525	6,127	6,127
Financial Liabilities - at amortised cost	97,988	137,583	108,354	150,663

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is different to prevailing rates at the Balance Sheet date.

Nature and Extent of Risks Arising from Financial Instruments

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

Credit risk

The possibility that other parties might fail to pay amounts due to the Council.

Liquidity risk

The possibility that the Council might not have funds available to meet its commitments to make payments.

Re-financing risk

The possibility that maturing amounts cannot be refinanced on interest terms that reflect the provisions made by the organisation.

Market risk

The possibility that financial loss might arise for the Council as a result of changes in measures such as interest rates and stock market movements.

Section 5 : Notes to the Main Statements

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing.
 - Its maximum and minimum exposures to fixed and variable rates.
 - Its maximum and minimum exposures to the maturity structure of its debt.
 - Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Council's Annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The Annual Treasury Management Strategy which incorporates the prudential indicators was approved by the Council on 4th March 2015 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2015/2016 was set at £210.2m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £186.5m. This is the expected maximum level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40%, respectively, based on the Council's net debt.

These policies are implemented by the Council's Treasury Management Team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with banks and financial institutions unless they meet minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its deposits with banks and building societies of £6.9m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Council's deposits, but there was no evidence at the 31st March 2016 that this was likely to crystallise.

Section 5 : Notes to the Main Statements

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default.

	Amount at 31 March 2016 (A)	Historical experience of default (B)	Maximum Exposure at 31 March 2016 (A x B)	Maximum Exposure at 31 March 2015
	£000	%	£000	£000
Bonds	0	0.00%	0	0
Customers	163	24.49%	40	27
Total	163		40	27

No credit limits were exceeded during the period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for customers. However £4,727,000 of the £5,727,000 invoiced debtors balance is past its due date for payment relating principally to the Council's Public Health responsibilities. The past due amount can be analysed by age as follows:

	2014/2015 £000	2015/2016 £000
Less than 3 months	1,384	2,096
Between 3 to 6 months	1,432	298
Between 6 months to one year	838	441
More than 1 year	1,795	1,892
Total	5,449	4,727

Collateral - The Council initiates a legal charge on property where, for instance, clients require the assistance of social service but cannot afford to pay immediately. The total collateral at 31 March 2016 was £0.3m. (31 March 2015 - £0.5million)

Liquidity Risk

The Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of financial liabilities is as follows:

	2014/2015 £000	2015/2016 £000
Less than one year	3,924	25,918
Between 1-2 years	3,471	866
Between 2-5 years	1,536	6,365
Between 5-10 years	17,083	13,462
Between 10-15 years	11,956	13,095
Between 15-20 years	4,933	4,941
Between 20-25 years	4,903	9,899
Between 25-30 years	4,899	(101)
Between 30-35 years	407	912
Between 35-40 years	14,912	16,912
More than 40 years	12,439	9,958
Total	80,463	102,227

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

Section 5 : Notes to the Main Statements

Re-financing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters.

Market Risk

Market Risk - Interest Rate risk

In the current financial climate there is a negligible interest rate risk to the Council. All longer term borrowing is held at fixed rate and any risk of further reductions in rates receivable is insignificant given the current low base.

Borrowings and Investments are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The Council aims to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Market Risk - Price risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £308,987 in SITA Tees Valley Ltd. The Council is consequently exposed to losses arising from movements in the prices of the shares.

Market Risk - Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

22 Financial Instruments: Income and Expenditure

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

	2014/2015		2015/2016	
	Financial Assets £000	Financial Liabilities £000	Financial Assets £000	Financial Liabilities £000
Income				
Interest income	398	0	329	0
Expenditure				
Interest Expense	0	(4,021)	0	(3,823)
Fee expense	0	(2)	0	(7)
Total Expenditure	0	(4,023)	0	(3,830)
Net Expenditure for the Year		(3,625)		(3,501)

Section 5 : Notes to the Main Statements

23 Inventories	Consumable Stores	Maintenance Materials	Items for Sale	Total
Movements on Balances - 2015/2016	£000	£000	£000	£000
At 1 April 2015	265	1,402	0	1,667
Purchases	1,217	4,371	0	5,588
Amounts Expensed in Year	(1,265)	(4,253)	0	(5,518)
Amounts written off in the Year	0	2	0	2
At 31 March 2016	217	1,522	0	1,739
Movements on Balances - 2014/2015				
At 1 April 2014	499	1,460	48	2,007
Purchases	2,762	3,633	0	6,395
Amounts Expensed in Year	(2,921)	(3,621)	(48)	(6,590)
Amounts written off in Year	(75)	(70)	0	(145)
At 31 March 2015	265	1,402	0	1,667

24 Short Term Debtors	2014/2015	2015/2016
	£000	£000
Central Government Bodies	4,898	3,207
Other Local Authorities	6,107	5,034
NHS Bodies	6,774	5,743
Other entities and individuals	18,354	14,367
Total	36,133	28,351

25 Cash and Cash Equivalents	2014/2015	2015/2016
	£000	£000
Cash held by the Council	289	339
Bank current accounts	3,798	2,076
Short-term deposits with building societies	5,703	6,401
Total	9,790	8,816

26 Short Term Creditors	2014/2015	2015/2016
	£000	£000
Central government bodies	(4,711)	(4,094)
Other local authorities	(7,972)	(1,536)
NHS bodies	(793)	(1,934)
Other entities and individuals	(38,700)	(32,001)
Total	(52,176)	(39,565)

Section 5 : Notes to the Main Statements

27 Provisions

Current Provisions	Balance at 31 March 2015	Additional amount in year	Amounts used in year	Unused amounts reversed in year	Balance at 31 March 2016
	£000	£000	£000	£000	£000
Change Programme - Approved Early Retirements	134	361	(133)	0	362
NDR Appeals	1,960	0	(1,470)	0	490
Land Search Fee Repayments	125	0	(125)	0	0
School Kitchen Replacement	70	63	(70)	0	63
Taxi Licensing Refunds	0	326	0	0	326
Employment Termination Costs	0	111	0	0	111
Total	2,289	861	(1,798)	0	1,352

Significant Amounts are:

Change Programme - Approved Early Retirements - Provision has been made to cover the cost of early retirements and voluntary redundancies approved in 2015/2016 for staff leaving in 2016/2017 as part of the Council's Change Programme to generate ongoing savings in future years.

NDR Appeals - The Council's share of the business rate appeals provision £490k.

Long Term Provisions	Balance at 31 March 2015	Additional amount in year	Amounts used in year	Unused amounts reversed in year	Balance at 31 March 2016
	£000	£000	£000	£000	£000
Housing Pension Contribution Deficit	1,800	0	(200)	0	1,600
Kier ICT Contract	1,039	0	(638)	0	401
Business Loan Guarantees	70	0	0	0	70
Total	2,909	0	(838)	0	2,071

Significant Amounts are:

Housing Pension Contribution Deficit - The Council has made appropriate provision to cover the pensions deficit from the date of transfer of the Council's housing service (November 2004) for a period of 20 years.

Kier Business Services Ltd, (formerly Mouchel) ICT Contract Residual Value - The Council outsourced most of the back office functions including the ICT service to Mouchel in June 2001. The original contract was for 10 years with an option to extend for a further 5. An extension has been negotiated for 7 years, and expires in 2022. When the contract ends, the Council will be liable for residual costs of equipment and software transferring back to the Council.

Section 5 : Notes to the Main Statements

28 Pension Schemes Accounted for as Defined Benefit Schemes

The Local Government Pension Scheme is accounted for as a defined benefit scheme. As part of the terms and conditions of employment of its staff, the Council makes 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 that need to be disclosed at the time that employees earn their future entitlement.

Transactions relating to Post Employment Benefits

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 in relation to the Local Government Pension Scheme :

Comprehensive Income & Expenditure Statement	Funded 2014/2015	Unfunded 2014/2015	Funded 2015/2016	Unfunded 2015/2016
	£000	£000	£000	£000
Charged to the Surplus or Deficit on the Provision of Services				
As cost of services :				
Current service cost	11,982	0	14,885	0
Settlements and curtailments	1,164	0	1,096	0
As Financing and Investment Income and interest on net defined benefit	4,331	1,123	4,580	826
Total Charged to the Surplus or Deficit on the Provision of Services	17,477	1,123	20,561	826
Charged to Other Comprehensive Income & Expenditure				
Actuarial Gains / (Losses)	34,879	925	(4,070)	5,707
Total to the Comprehensive Income and Expenditure Statement	52,356	2,048	16,491	6,533

Movement in Reserves Statement (General Fund)	Funded 2014/2015	Unfunded 2014/2015	Funded 2015/2016	Unfunded 2015/2016
	£000	£000	£000	£000
Reversal of total charged to the Surplus or Deficit on the Provision of Services	(17,477)	(1,123)	(20,561)	(826)
Actual Amount charged for pensions in the year:				
Employers contributions payable to scheme	9,654	2,408	10,230	2,317
Total Amount included in the General Fund for the Year	(7,823)	1,285	(10,331)	1,491

Assets and Liabilities in Relation to Post Employment Benefits

Reconciliation of Liabilities	Funded 2014/2015	Unfunded 2014/2015	Funded 2015/2016	Unfunded 2015/2016
	£000	£000	£000	£000
Opening Balance at 1st April	(664,337)	(27,318)	(744,728)	(26,958)
Current Service Cost	(11,982)	0	(14,885)	0
Interest Cost	(28,076)	(1,123)	(23,520)	(826)
Contributions by scheme participants	(3,719)	0	(3,984)	0
Actuarial Gains /(Losses)	(62,475)	(925)	34,819	(5,707)
Benefits paid	27,025	2,408	23,829	2,317
Past Service cost including curtailments	(1,164)	0	(1,096)	0
Closing Balance at 31st March	(744,728)	(26,958)	(729,565)	(31,174)

Section 5 : Notes to the Main Statements

Reconciliation of fair value of scheme assets

Reconciliation of fair value of scheme assets	Funded 2014/2015	Unfunded 2014/2015	Funded 2015/2016	Unfunded 2015/2016
			£000	£000
Opening Balance at 1st April	558,838	0	596,527	0
Expected return on plan assets	23,745	0	18,940	0
Actuarial Gains / (Losses)	27,596	0	(30,749)	0
Employer contributions	9,654	2,408	10,230	2,317
Contributions by scheme participants	3,719	0	3,984	0
Benefits paid	(27,025)	(2,408)	(23,829)	(2,317)
Closing Balance at 31st March	596,527	0	575,103	0

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £11.809 million loss (2014/2015 £51.341 million gain).

Scheme History	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
	£000	£000	£000	£000	£000
Present Value of Liabilities	(586,526)	(671,804)	(691,655)	(771,686)	(760,739)
Fair value of assets	452,261	513,449	558,838	596,527	575,103
Scheme Deficit	(134,265)	(158,355)	(132,817)	(175,159)	(185,636)

The scheme deficit shown above includes £31.174 million in respect of unfunded defined benefit obligations (2014/2015 £26.958 million).

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits.

The net liability has a sustained impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy because:

- The deficit on the scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2017 is £9.452 million.

Section 5 : Notes to the Main Statements

Independent Actuary and Latest Valuation

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. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the Teesside Pension Fund being based on latest full valuation of the scheme as at 31st March 2013.

The principal assumptions used by the actuary have been:

Mortality Assumptions:	2014/2015	2015/2016
Longevity at 65 for current pensioners:		
• Men	23.00	23.10
• Women	25.50	25.60
Longevity at 65 for future pensioners :		
• Men	25.20	25.30
• Women	27.80	28.00
Other Assumptions:		
Rate of inflation (RPI)	2.90%	2.90%
Rate of inflation (CPI)	1.80%	1.80%
Rate of increase in salaries	3.30%	3.30%
Rate of increase in pensions	1.80%	1.80%
Rate for discounting scheme liabilities	3.20%	3.40%
Take up of option to convert annual pension into retirement lump sum	80.00%	80.00%

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2014/2015	2015/2016
Equity Investments	84.0%	84.9%
Gilts	1.7%	1.4%
Other Bonds	3.4%	1.6%
Property	6.4%	7.0%
Cash / Liquidity	4.5%	5.1%
	100.0%	100.0%

History of Experience Gains and Losses

The actuarial losses identified as movements on the Pensions Reserve in the year can be analysed into the following categories, measured as a percentage of assets or liabilities at the year end :

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
	%	%	%	%	%
Difference between expected and actual return on assets	(8.30)	8.20	5.80	4.63	(5.35)
Experience gains and losses on liabilities	0.00	0.10	2.00	(0.60)	(3.83)

Section 5 : Notes to the Main Statements

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31st March 2016 and the projected service cost for the year ending 31st March 2017 is set out on the following page, sensitivity on unfunded benefits have not been included due to materiality grounds:

Disclosure rate assumption		
Adjustment to discount rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	716,485	742,884
% change in present value of total obligation	-1.8%	1.8%
Projected service cost (£000's)	14,024	14,962
Approximate % change in projected service cost	-3.2%	3.3%

Rate of general increase in salaries		
Adjustment to salary increase rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	732,200	726,956
% change in present value of total obligation	0.4%	-0.4%
Projected service cost (£000's)	14,487	14,487
Approximate % change in projected service cost	0	0

Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	740,227	719,072
% change in present value of total obligation	1.5%	-1.4%
Projected service cost (£000's)	14,962	14,024
Approximate % change in projected service cost	3.3%	-3.2%

Post retirement mortality assumption		
Adjustment to mortality age rating assumption*	-1year	+1year
Present value of total obligation (£000's)	748,253	710,843
% change in present value of total obligation	2.6%	-2.6%
Projected service cost (£000's)	14,967	14,006
Approximate % change in projected service cost	3.3%	-3.3%

* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them.

29 Pension Schemes Accounted for as Defined Contribution Scheme

Teachers employed by the Council are members of the Teachers' Pension scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the cost by making contributions based on a percentage of members' pensionable salaries.

In 2015/2016 the Council paid £4.06 million (2014/2015 - £4.08 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 15.38% (2014/2015 - 14.10%) of pensionable pay. The employers contribution rate was increased from 14.1% to 16.48% in September 2015.

Section 5 : Notes to the Main Statements

30 Grant Income

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

Revenue Grants Credited to Taxation and Non Specific Grant Income	2014/2015	2015/2016
	£000	£000
Revenue Support Grant	49,105	34,899
Business Rates Top-up Grant	21,224	21,630
New Homes Bonus Grant	1,682	2,138
Business Rates Initiative Grant	138	0
NDR Section 31 Grant	1,776	1,592
Minor grants (less than £100k each)	11	3
Local Services Support Grants	81	57
Total (Note 5)	74,017	60,319

Revenue Grants Credited to Services	2014/2015	2015/2016
	£000	£000
Department for Education		
Dedicated Schools Grant	79,438	71,012
Pupil Premium	7,517	7,116
Education Funding Agency	252	1,497
Education Services Grant	1,969	1,535
Skills Funding Agency	2,188	1,864
SEN Reform Grant	195	0
SEND Implementation Grant	185	89
Universal Infant Free School Meals	580	1,087
Primary PE and Sport Grant	289	295
High Needs Sixth Form Funding	1,829	1,389
Adoption Grant	139	97
Minor grants (less than £100k each)	227	252
Department for Communities and Local Government		
Homes and Communities Agency	3,558	0
Council Tax Collection	0	56
Troubled Families Grant	1,000	673
Housing Benefit Administration Grant	302	290
Rogue Landlords Grant	0	100
Independent Living Fund	0	1,589
Care Act Grant	0	677
Preventing Domestic Abuse Grant	0	170
Property Searches Grant	0	118
Minor grants (less than £100k each)	239	195
European Grants (DCLG)		
European Regional Development Fund	268	279
Home Office		
Youth Offender Services	1,141	969
Minor grants (less than £100k each)	212	190
Department for Business		
Inherited Liabilities	202	185
Department for Culture, Media and Sport		
Arts Council National Portfolio Organisations Grant	255	0
Arts Council Music Inc	0	119
Minor grants (less than £100k each)	232	63
Department for Work and Pensions		
Housing Benefit Subsidy Grant	78,574	79,485
Discretionary Housing Benefit Grant	596	501
Local Welfare Provision	1,220	0
Housing Benefits Admin Grant	1,225	1,107
Minor grants (less than £100k each)	52	222

Section 5 : Notes to the Main Statements

Department of Health		
Public Health Grant	16,378	16,676
Community Voices Grant	137	102
Care Act Implementation Grant	125	0
Better Care Fund	0	6,893
Minor grants (less than £100k each)	78	106
Department for Environment Food and Rural Affairs		
Minor grants (less than £100k each)	82	25
Department for Transport		
Highways Winter Maintenance Funding	179	0
Tees Valley Bus Network Improvements	20	0
Local Sustainable Transport Fund	369	0
Minor grants (less than £100k each)	42	96
Lottery Grants		
Headstart Grant	19	849
Minor grants (less than £100k each)	73	129
Cabinet Office		
Elections	0	142
Minor grants (less than £100k each)	0	53
Other Grants	133	0
Other Contributions		
Redcar and Cleveland Borough Council	1,849	1,932
Stockton Borough Council	892	1,057
Hartlepool Borough Council	214	307
North of England Commissioning Support Unit	105	100
NHS England	3,500	0
Tees, Esk and Wear Valleys NHS Trust	624	625
South Tees Hospitals NHS Foundation Trust	493	556
South Tees CCG	8,077	6,764
Shaw Trust	137	0
Teesside University	210	0
Misc Other (less than £100k each)	767	1,129
Total Revenue Grants Credited to Services	218,387	210,762

Capital Grants	2014/2015	2015/2016
	£000	£000
Department for Education		
Capital Maintenance / Basic Need	1,075	1,683
Devolved Formula Grant	222	223
Education Funding Agency	261	0
Department for Communities and Local Government		
Bringing Empty Homes into use Grant	336	176
Homes and Communities Agency	846	0
Disabled Facility Grant	760	0
Boho ERDF Grant	1,400	213
TWI EDRF Grant	719	1,232
Minor grants (less than £100k each)	0	65
Department of Health		
Capital Investment in Community Capacity	416	422
Disabled Facility Grant	0	884
Minor grants (less than £100k each)	19	80
Department for Transport		
Local Transport Plan	2,999	2,888
Additional Highways Maintenance Funding	161	0
Local Sustainable Transport	147	0
Department for Environment Food and Rural Affairs		
Minor grants (less than £100k each)	105	0
Lottery Grants		
Heritage Lottery Fund	1,690	132
Other Grants	500	0

Section 5 : Notes to the Main Statements

Other Contributions		
13 Housing Group	200	113
Land Trust	0	175
Gentoo Housing	275	0
Bridge McPartland	130	0
Miller Homes	448	0
Bellway Homes	187	0
Barratt Homes	147	242
Catholic Diocese of Middlesbrough	652	0
Hemlington Primary	123	0
Taylor Wimpey	100	0
Teesside University	805	1,214
Misc Other	179	387
Total Capital Grants	14,902	10,129
Amount Applied Directly to Services.	3,088	2,695
Amount recognised as Taxation and Non Specific Income note 5	11,814	7,434
Total	14,902	10,129

31 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in The School and Early Years Finance (England) Regulations 2013. 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 school.

Details of the deployment of the Dedicated Schools Grant receivable for 2015/2016 is as follows:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2015/2016 before Academy recoupment			122,307
Academy figure recouped for 2015/2016			51,295
Total DSG after Academy recoupment for 2015/2016			71,012
Plus: Brought forward from 2014/2015			4,955
Less: Carry-forward to 2016/2017 agreed in advance			0
Agreed initial budgeted distribution in 2015/2016	15,400	60,567	75,967
In year adjustments	0	0	0
Final budgeted distribution for 2015/2016	15,400	60,567	75,967
Less: Actual central expenditure	(13,351)	0	(13,351)
Less: Actual ISB deployed to schools	0	(60,787)	(60,787)
Balance Carried Forward	2,049	(220)	1,829

The total level of reserves and balances held by the schools can be found in Note 34

Section 5 : Notes to the Main Statements

32 Usable Reserves	2014/2015	2015/2016
	£000	£000
Capital Grants Unapplied Reserve	4,506	3,525
Capital Receipts Reserve	13,062	9,199
General Fund	15,439	11,594
Earmarked Reserves	40,921	39,201
Total	73,928	63,519

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 40 and 34. The purpose of each Reserve is as follows:

Capital Grants Unapplied Reserve

This reserve holds amounts from Capital Grants that have been recognised in the Comprehensive Income and Expenditure Statement but for which the capital expenditure has not yet been incurred.

Capital Receipts Reserve

This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.

General Fund

The accumulated credit balance on the general fund is the excess of income over expenditure in the revenue account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen events.

Earmarked Reserves

These reserves represent funds set aside that can only be used for specific purposes. An explanation and analysis of earmarked reserves can be found in notes 33 and 34.

33 Earmarked Reserves

Details of movements between earmarked reserves and the general fund are shown in note 34.

School Balances

This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred in the year for all the Middlesbrough schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.

Investment Reserves

This reserve matches the council's investment in companies to cover for potential losses in the value of these investments.

Significant Revenue Reserves

Invest to Save / Change Programme - a reserve has been set up to pay for the one off costs associated with implementing change within services including the funding of investment to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.

Revenue Grants Unapplied - in accordance with IFRS the Council is required to recognise all grants and contributions as income when the grant conditions have been met. Unspent grants required for specific purposes are transferred to the Revenue Grants Unapplied Reserve and used to finance the schemes when the expenditure is incurred.

Social Care and Vulnerable Children - the demands on the budgets for vulnerable children and adults in care are difficult to forecast and a reserve has been created to cover pressures that the service need time to manage.

Insurance Fund - an Insurance Fund was set up from 1st April 1996 covering nearly all the Council's insurable risks with a limited amount of external cover for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve includes fidelity guarantee, personal accident, employers liability, fire, motor, marine, engineers, public liability and money losses.

Section 5 : Notes to the Main Statements

Public Health Reserves - under the terms & conditions of the Public Health Grant, any grant funding not used by the end of the financial year can be carried forward within a Public Health Investment Reserve. The Public Health Investment Reserve is to be used for prevention and early intervention programmes. Programmes will be investment in starting and developing well , living and ageing well and enabling organisations , communities and individuals to take responsibility for health and well-being.

Development in Future Provision of Schools - this has been created to aid schools in improving achievement in future years.

Business Rates Reserve - a reserve has been set up to cover the financial risks associated with the Business Rates Retention Scheme, due to volatility of the NDR tax base and collection rates.

Investment Fund Reserve - required to cover the Council's cost of investing in it's capital programme, a review of which is currently underway.

Savings Targets Reserve - the Council is in the process of implementing a number of budget reduction proposals over the next three years. A reserves has been set up to cover the cost of any potential non achievement of these budget reduction targets.

DSG Early Years/DSG High Needs - due to changes in legislation during 2013/2014 stating that the DSG had to be spent on specific areas only these provisions have been created to hold the funds for this area.

Working Neighbourhood Fund (WNF) and Joint Improvement Programme (JIP) Grants - amounts set aside to cover any potential reclaim of grants for under-achievement of target outputs.

34 Transfers to / from Earmarked Reserves

Earmarked reserves are set aside from the General Fund on a voluntary basis to provide financing for future plans. When the expenditure is incurred the amount set aside is transferred back to the General Fund. A description of significant reserves is included in note 33.

	Amounts Transferred			Balance at 31 March 2016
	Balance at 1 April 2015	From General Fund	To General Fund	
	£000	£000	£000	
School Balances	6,586	6,735	(6,586)	6,735
Development in Future Provision of Schools	3,190	2,536	(3,190)	2,536
Investment Reserves				
SITA Tees Valley Ltd	309	0	0	309
Significant Revenue Reserves				
Invest to Save/Change Programme	3,749	2,597	(3,026)	3,320
Revenue Grants Unapplied	8,179	8,280	(8,492)	7,967
Social Care & Vulnerable Children	1,997	0	0	1,997
Insurance Fund	1,325	1,494	(2,138)	681
Direct Revenue Funding Reserve	147	3,056	(3,203)	0
DSG Central Expenditure	531	155	(531)	155
DSG Early Years	2,404	0	(2,624)	(220)
DSG High Needs	2,019	220	(345)	1,894
Public Health Investment Reserve	1,668	0	0	1,668
Public Health Grant Reserve	1,512	0	(10)	1,502
Business Rates Reserve	2,917	1,157	(111)	3,963
Savings Targets Reserve	500	0	0	500
Investment Fund Reserve	0	3,217	0	3,217
WNF and JIP Grants	82	0	0	82
Total Significant Reserves	27,030	20,176	(20,480)	26,726
Other Revenue Reserves	3,806	4,320	(5,231)	2,895
Total Earmarked Reserves	40,921	33,767	(35,487)	39,201

Section 5 : Notes to the Main Statements

35 Unusable Reserves

Movements in the Council's unusable reserves are detailed below:

	2014/2015	2015/2016
	£000	£000
Revaluation Reserve	90,382	80,955
Capital Adjustment Account	276,648	275,432
Deferred Capital Receipts Reserve	30	6
Pensions Reserve	(175,159)	(185,636)
Collection Fund Adjustment Account	(907)	552
Accumulating Compensated Absences Adjustment Account	(1,728)	(1,193)
Total Unusable Reserves	189,266	170,116

The purpose of each Reserve is as follows:

Revaluation Reserve

The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

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

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement and debited with depreciation, impairment losses and amortisations charged to the Comprehensive Income and Expenditure Statement, with reconciling postings from the Revaluation Reserve to correct fair value figures to a historical cost basis. The account is credited with amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement of Property, Plant and Equipment.

The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Pension Reserve

This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds amounts from the sale of assets which will be received in instalments over agreed periods of time.

Collection Fund Adjustment Account

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

Accumulated Compensated Absences Adjustment Account

The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.

Section 5 : Notes to the Main Statements

Movement in Unusable Reserves Statement									
	Revaluation Reserve	Capital Adjustment Account	Deferred Capital Receipts Reserve	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensated Absences Adjustment Account	Total Unusable Reserves		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2015	90,382	276,648	30	(175,159)	(907)	(1,728)	189,266		
Allocated from Other Comprehensive Income and Expenditure	(6,271)	335	0	(1,637)	0	0	(7,573)		
Transfers from Usable Reserves (note 40)	0	(1,551)	(24)	(8,840)	1,459	535	(8,421)		
Other Movements and Transfers									
Difference between fair value and historical cost depreciation	(2,353)	0	0	0	0	0	(2,353)		
Accumulated Revalued Amount on assets sold or scrapped	(803)	0	0	0	0	0	(803)		
Balance at 31 March 2016	80,955	275,432	6	(185,636)	552	(1,193)	170,116		
Balance at 1 April 2014	53,218	284,321	33	(132,817)	479	(2,364)	202,870		
Allocated from Other Comprehensive Income and Expenditure	44,334	0	0	(35,804)	0	0	8,530		
Transfers from Usable Reserves (note 40)	0	(14,843)	(3)	(6,538)	(1,386)	636	(22,134)		
Other Movements and Transfers									
Difference between fair value and historical cost depreciation	(875)	875	0	0	0	0	0		
Accumulated Revalued Amount on assets sold or scrapped	(6,295)	6,295	0	0	0	0	0		
Balance at 31 March 2015	90,382	276,648	30	(175,159)	(907)	(1,728)	189,266		

Section 5 : Notes to the Main Statements

36	Cash Flow - Investing Activities	2014/2015	2015/2016
		£000	£000
	Purchase of PPE, investment property and intangible assets	(42,985)	(32,113)
	Net proceeds on change in short term investments	10,188	1,003
	Cash returned on long term deposit	1,014	0
	Proceeds from the sale of PPE, investment property and intangible assets	8,347	4,527
	Net cash flow from investing activities	(23,436)	(26,583)

37	Cash Flow Statement - Financing Activities	2014/2015	2015/2016
		£000	£000
	Amounts applied to Finance Lease Repayments (Capital Element)	0	(74)
	Net repayments of short and long term borrowing	(6,384)	21,764
	Net cash flows from financing activities	(6,384)	21,690

38 Leases - Council as Lessor

Council as Lessor

Operating Leases

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

- For the provision of community services, such as sports facilities, tourism services and community centres.
- 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:

	2014/2015	2015/2016
	£000	£000
No later than one year	2,190	2,334
Later than one year and not later than five years	4,446	5,213
Later than five years	26,671	26,971
Total	33,307	34,518

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. These amounts are not disclosed due to the inherent uncertainties surrounding them.

Section 5 : Notes to the Main Statements

39 Leases - Council as Lessee

Finance Leases

The Council no longer has Property, Plant and Equipment held under finance leases.

Operating Leases

The Council has entered into operating leases for the use of land and buildings, with lives ranging from 10 to 35 years.

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

	2014/2015	2015/2016
	£000	£000
No later than one year	125	51
Later than one year and not later than five years	161	25
Later than five years	20	14
Total	306	90

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

	2014/2015	2015/2016
	£000	£000
Minimum lease payments	125	125

Section 5 : Notes to the Main Statements

Adjustment Between Accounting Basis and Funding Basis under regulations				
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000
This 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.				
Adjustments for the year ended 31 March 2016				
Amounts involving the Capital Adjustment Account				
With the Comprehensive Income and Expenditure Statement.				
Impairment and depreciation to PPE (note 6)	19,112	0	0	19,112
Revaluation Losses on Property, Plant & Equipment (note 6)	4,119	0	0	4,119
Revaluation of Investment Properties & Assets for Sale	(4,468)	0	0	(4,468)
Amortisation of Intangible Assets (note 16)	1,365	0	0	1,365
Transfer between Capital Grants Unapplied and General Fund	0	0	0	0
Total Capital Grants and Contributions (note 5)	(7,434)	0	0	(7,434)
Capital Grants and Contributions unapplied credited to the Comprehensive I & E	0	0	2,529	2,529
Donated Assets (note 5)	(680)	0	0	(680)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Expenditure	4,593	0	0	4,593
Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Grant Receivable	(2,695)	0	0	(2,695)
Non current assets written off on disposal or sale.	9,999	0	0	9,999
Total with the Comprehensive Income and Expenditure Statement	23,911	0	2,529	26,440
Amounts arising elsewhere				
Statutory provision for the financing of capital investment	(6,214)	0	0	(6,214)
Voluntary provision for the financing of capital investment	0	0	0	0
Capital Receipts Reserve used to finance new capital spend	0	(8,413)	0	(8,413)
Capital expenditure charged against the General Fund	(3,056)	0	0	(3,056)
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(3,877)	(3,877)
Total Amounts arising elsewhere	(9,270)	(8,413)	(3,877)	(21,560)
Total Amounts involving the Capital Adjustment Account	14,641	(8,413)	(1,348)	4,880

Section 5 : Notes to the Main Statements

Adjustment Between Accounting Basis and Funding Basis under regulations					
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	
This 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.					
Adjustments for the year ended 31 March 2016					
Amounts involving the Deferred Capital Receipts Reserve					
Transfer on receipt of cash	0	23	0	23	
Total involving the Deferred Capital Receipts Reserve	0	23	0	23	
Amounts involving the Pension Reserve					
Reversal of Pension items in the Comprehensive I & E	21,387	0	0	21,387	
Employer's pension contributions payable in the year	(12,547)	0	0	(12,547)	
Total involving the Pension Reserve	8,840	0	0	8,840	
Amounts involving the Collection Fund Adjustment					
Difference in Collection Fund income credited to the Comprehensive I & E and that under statutory requirements.	(1,459)	0	0	(1,459)	
Total involving the Collection Fund Adjustment Account	(1,459)	0	0	(1,459)	
Amounts with the Acc Compensated Absences Adj Acc't					
Reversal of accrual made at the previous year end	(1,727)	0	0	(1,727)	
Creation of accrual for the current year end	1,193	0	0	1,193	
Total with the Acc Compensated Absences Adj Acc't	(534)	0	0	(534)	
Amounts between Usable Reserves					
Cash proceeds on disposal of Non Current Assets	(4,527)	4,527	0	0	
Total between Usable Reserves	(4,527)	4,527	0	0	
Total Adjustments for the year ended 31 March 2016	16,961	(3,863)	(1,348)	11,750	

Section 5 : Notes to the Main Statements

Adjustment Between Accounting Basis and Funding Basis under regulations				
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves
	£000	£000	£000	£000
This 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.				
Adjustments for the year ended 31 March 2015				
Amounts involving the Capital Adjustment Account				
With the Comprehensive Income and Expenditure Statement.				
Impairment and depreciation to PPE (note 6).	16,750	0	0	16,750
Revaluation Losses on Property, Plant & Equipment (note 6).	1,952	0	0	1,952
Revaluation of Investment Properties & Assets for Sale.	(5,384)	0	0	(5,384)
Amortisation of Intangible Assets (note 16).	783	0	0	783
Revaluation of Heritage assets.	609	0	-609	0
Total Capital Grants and Contributions (note 5).	(11,814)	0	0	(11,814)
Capital Grants and Contributions unapplied credited to the Comprehensive I & E	0	0	2,873	2,873
Donated Assets (notes 4 and 5).	(492)	0	0	(492)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Expenditure	7,825	0	0	7,825
Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Grant Receivable	(3,088)	0	0	(3,088)
Non current assets written off on disposal or sale.	35,984	0	0	35,984
Total with the Comprehensive Income and Expenditure Statement	43,125	0	2,264	45,389
Statutory provision for the financing of capital investment				
Voluntary provision for the financing of capital investment	(5,631)	0	0	(5,631)
Capital Receipts Reserve used to finance new capital spend	(409)	0	0	(409)
Capital expenditure charged against the General Fund	0	(14,781)	0	(14,781)
Application of grants to capital financing transferred to the Capital Adjustment Account	(346)	0	0	(346)
Total Amounts arising elsewhere	(6,386)	(14,781)	(9,381)	(30,548)
Total Amounts involving the Capital Adjustment Account	36,739	(14,781)	(7,117)	14,841

Section 5 : Notes to the Main Statements

Adjustment Between Accounting Basis and Funding Basis under regulations

This 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.

Adjustments for the year ended 31 March 2015

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves
	£000	£000	£000	£000
Amounts involving the Deferred Capital Receipts Reserve				
Transfer on receipt of cash	0	4	0	4
Total involving the Deferred Capital Receipts Reserve	0	4	0	4
Amounts involving the Pension Reserve				
Reversal of Pension items in the Comprehensive I & E	18,600		0	18,600
Employer's pension contributions payable in the year	(12,062)		0	(12,062)
Total involving the Pension Reserve	6,538	0	0	6,538
Amounts involving the Collection Fund Adjustment				
Difference in Collection Fund income credited to the Comprehensive I & E and that under statutory requirements.	1,386	0	0	1,386
Total involving the Collection Fund Adjustment Account	1,386	0	0	1,386
Amounts with the Acc Compensated Absences Adj Acc't				
Reversal of accrual made at the previous year end	(2,364)		0	(2,364)
Creation of accrual for the current year end	1,727		0	1,727
Total with the Acc Compensated Absences Adj Acc't	(637)	0	0	(637)
Amounts between Usable Reserves				
Cash proceeds on disposal of non current assets	(8,347)	8,347	0	0
Total between Usable Reserves	(8,347)	8,347	0	0
Total Adjustments for the year ended 31 March 2015	35,679	(6,430)	(7,117)	22,132

Section 5 : Notes to the Main Statements

41 Amounts Reported for Resource Allocation Decisions

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

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

The income and expenditure of the Council's principal services recorded in the budget monitoring reports for the year and reported to Members is set out below:

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	2014/2015	2015/2016
	£000	£000
Net expenditure in the service analysis	124,794	123,875
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	27,512	29,192
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(16,498)	(8,205)
Cost of Services in the Comprehensive Income and Expenditure Statement	135,808	144,862

	2015/2016
	£000
Reconciliation of Council's Outturn for the year to the Total Comprehensive Income and Expenditure Statement	
Council's outturn for the year	119,552
Expenditure funded from general balances	4,323
Net expenditure in the service analysis (as above)	123,875
Capital charges	28,990
Adjustments for financing capital	(9,272)
Other Operating Expenditure	6,037
Financing & Investment Activities	4,392
Less Council Tax, Business Rates and Grant Income	(132,010)
Deficit on the Provision of Services	22,012
Actuarial losses on the Pension Fund	1,637
Revaluation decreases to non current assets	5,913
Total Comprehensive Income and Expenditure Statement Deficit	29,562

Section 5 : Notes to the Main Statements

Service Income and Expenditure

Year ended 31 March 2016	Wellbeing Care & Learning	Neighbourhoods & Communities	Corporate Services	Other Services	Total
	£000	£000	£000	£000	£000
Fees Charges & Other Income	(16,062)	(1,874)	(29,431)	(669)	(48,036)
Government Grants	(104,274)	(29,899)	(92,342)	(3,790)	(230,305)
Total Income	(120,336)	(31,773)	(121,773)	(4,459)	(278,341)
Employee Expenses	76,885	16,051	40,133	0	133,069
Non Employee Expenses	109,239	34,634	112,667	12,607	269,147
Total Expenditure	186,124	50,685	152,800	12,607	402,216
Net Expenditure	65,788	18,912	31,027	8,148	123,875

Service Income and Expenditure

Year ended 31 March 2015	Wellbeing, Care & Learning	Neighbourhoods & Communities	Corporate Services	Other Services	Total
	£000	£000	£000	£000	£000
Fees Charges & Other Income	(24,267)	(12,756)	(28,195)	(638)	(65,856)
Government Grants	(99,412)	(19,405)	(79,970)	(2,066)	(200,853)
Total Income	(123,679)	(32,161)	(108,165)	(2,704)	(266,709)
Employee Expenses	79,913	16,081	38,575	0	134,569
Non Employee Expenses	106,311	32,838	108,737	9,048	256,934
Total Expenditure	186,224	48,919	147,312	9,048	391,503
Net Expenditure	62,545	16,758	39,147	6,344	124,794

Section 5 : Notes to the Main Statements

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement						
Year Ended 31 March 2016	Service Analysis £000	Amounts not reported £000	Amounts not included in I & E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees Charges & Other service income	(47,708)	0	31,048	(16,660)	(30,046)	(46,706)
Interest and Investment Income	(329)	0	329	0	(329)	(329)
Government grants and contributions	(230,304)	(2,695)	3,790	(229,209)	(133,769)	(362,978)
Total Income	(278,341)	(2,695)	35,167	(245,869)	(164,144)	(410,013)
Employee expenses	133,070	2,900	(9,510)	126,460	9,510	135,970
Other service expenses	256,521	0	(20,747)	235,774	26,244	262,018
Depreciation and other capital charges	0	28,987	0	28,987	0	28,987
Interest Payments	3,830	0	(3,830)	0	3,830	3,830
Precepts and Levies	14	0	(14)	0	14	14
MRP / VRP / DRF	9,271	0	(9,271)	0	0	0
Gain or Loss on disposal of fixed assets	0	0	0	0	6,023	6,023
Net Expenditure - Investment	0	0	0	0	(4,817)	(4,817)
Total Expenditure	402,706	31,887	(43,372)	391,221	40,804	432,025
Deficit on the Provision of services transferred to the General Fund	124,365	29,192	(8,205)	145,352	(123,340)	22,012

Section 5 : Notes to the Main Statements

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement						
Year Ended 31 March 2015	Service Analysis £000	Amounts not reported £000	Amounts not included in I & E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees Charges & Other service income	(65,458)	0	8,076	(57,382)	(8,076)	(65,458)
Interest and Investment Income	(398)	0	398	0	(398)	(398)
Government grants and contributions	(200,853)	(3,088)	3,688	(200,253)	(145,208)	(345,461)
Total Income	(266,709)	(3,088)	12,162	(257,635)	(153,682)	(411,317)
Employee expenses	134,569	375	(5,539)	129,405	11,065	140,470
Other service expenses	246,859	609	(12,700)	234,768	1,714	236,482
Depreciation and other capital charges	0	29,616	0	29,616	0	29,616
Interest Payments	4,021	0	(4,021)	0	4,021	4,021
Precepts and Levies	14	0	(14)	0	14	14
MRP / VRP / DRF	6,041	0	(6,386)	(345)	0	(345)
Gain or Loss on disposal of fixed assets	0	0	0	0	26,616	26,616
Net Expenditure - Investment	0	0	0	0	(6,671)	(6,671)
Total Expenditure	391,504	30,600	(28,660)	393,444	36,759	430,203
Deficit on the Provision of services transferred to the General Fund	124,795	27,512	(16,498)	135,809	(116,923)	18,886

Section 5 : Notes to the Main Statements

42 Officers' Remuneration

Senior Employees' Remuneration

Regulation 7(2)(c) of the Accounts and Audit (England) Regulations 2011 requires the separate disclosure and analysis of remuneration for **senior employees** (defined by the regulations as those employees forming part of the Council's senior management team).

	Salary (including fees & allowances)	Benefit in Kind (e.g. Car Allowances)	Provision for compensation for loss of office	Total excluding pension contributions	Pension contributions paid by the Council	Employer's contribution to early retirement costs to the pension fund	Total including pension contributions
2015/2016	£	£	£	£	£	£	£
Chief Executive - Mike Robinson	140,000	0	0	140,000	20,160	0	160,160
Executive Director of Economic Development & Communities	113,484	0	0	113,484	16,341	0	129,825
Executive Director of Wellbeing Care & Learning	108,081	0	0	108,081	15,564	0	123,645
Executive Director of Commercial & Corporate Services	113,484	0	0	113,484	16,342	0	129,826
Chief Finance Officer / Section 151 Officer	86,700	0	75,000	161,700	12,485	0	174,185
Assistant Director of Organisation & Governance / Monitoring Officer	76,500	0	35,563	112,063	11,016	0	123,079

Section 5 : Notes to the Main Statements

	Salary (including fees & allowances)	Benefit in Kind (e.g. Car Allowances)	Provision for compensation for loss of office	Total excluding pension contributions	Pension contributions paid by the Council	Employer's contribution to early retirement costs to the pension fund	Total including pension contributions
2014/2015	£	£	£	£	£	£	£
Chief Executive - Mike Robinson	140,000	149	0	140,149	20,160	0	160,309
Executive Director of Economic Development & Communities	113,484	0	0	113,484	16,341	0	129,825
Executive Director of Wellbeing Care & Learning - started August 2014*	98,906	397	0	99,303	14,242	0	113,545
Executive Director of Commercial & Corporate Services** - June 2014	109,675	229	0	109,904	13,860	0	123,764
Chief Finance Officer / Section 151 Officer	89,114	0	0	89,114	12,832	0	101,946
Assistant Director of Organisation & Governance / Monitoring Officer	83,012	94	0	83,106	11,954	0	95,060

* The Executive Director of Wellbeing Care and Learning was previously the Assistant Director of Integrated Working. In this role she received total remuneration of £19,613. The Basic Salary of the Executive Director post is £113,500 per annum.

** The Executive Director of Commercial and Corporate Services was previously the Director of Transformation. In this role he received total remuneration of £16,933. The basic salary of the Executive Director post is £113,500 per annum.

Other Employees Remuneration

Employees excluding the Senior Officer above receiving more than £50,000 remuneration for the year were paid the following amounts (in bands of £5,000) :

From - to £	Number of Employees at 31 March 2015			Number of Employees at 31 March 2016		
	MBC	Schools	Total	MBC	Schools	Total
50,000 - 54,999	16	20	36	17	17	34
55,000 - 59,999	11	24	35	10	8	18
60,000 - 64,999	6	5	11	5	12	17
65,000 - 69,999	2	7	9	5	4	9
70,000 - 74,999	1	4	5	3	4	7
75,000 - 79,999	1	0	1	1	1	2
80,000 - 84,999	1	0	1	2	1	3
85,000 - 89,999	1	0	1	1	0	1
90,000 - 94,999	0	2	2	0	0	0
95,000 - 99,999	0	1	1	0	0	0
100,000 - 104,999	1	0	1	0	0	0
125,000 - 129,999	1	0	1	0	0	0
Total	41	63	104	44	47	91

Section 5 : Notes to the Main Statements

Remuneration is all amounts receivable by an employee, including expenses and allowances chargeable to tax and the estimated money value of any other benefits received excluding pension contributions.

In 2015/2016 2 staff were included in the above table due to one-off redundancy payments taking their total remuneration above £50,000, (2014/2015 7 staff).

Exit Packages

Details of exit packages are set out in the tables below in bands of £20,000 for amounts up to £100,000 and bands of £50,000 thereafter :

2015/2016		Number exiting by				Total Cost of Exit Packages £'000
From £	To £	Compulsory Redundancy	Other	Total Number		
0	20,000	11	62	73	677	
20,001	40,000	0	8	8	213	
40,001	60,000	0	2	2	106	
60,001	80,000	0	2	2	146	
80,001	100,000	0	0	0	0	
100,001	150,000	0	3	3	360	
Total		11	77	88	1,502	

2014/2015		Number exiting by				Total Cost of Exit Packages £'000
From £	To £	Compulsory Redundancy	Other	Total Number		
0	20,000	13	71	84	525	
20,001	40,000	0	16	16	451	
40,001	60,000	1	6	7	349	
60,001	80,000	0	4	4	282	
80,001	100,000	1	2	3	269	
100,001	150,000	0	1	1	104	
Total		15	100	115	1,980	

43 Members' Allowances and Expenses

	2014/2015	2015/2016
	£000	£000
Basic Allowances Paid	298	287
Special Responsibility Allowances Paid	278	262
Expenses	7	20
Total	583	569

Section 5 : Notes to the Main Statements

44 Agency Services

Having reviewed the services supplied the Council has concluded that it does not have significant income and expenditure due to agency arrangements.

45 Audit Fees

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 to non-audit services provided by the Council's external auditors:

	2014/2015	2015/2016
	£000	£000
Fees payable for external audit services	154	115
Fees payable for the certification of grant claims and returns	10	11
Fees payable in respect of other services	10	0
Total	174	126

46 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.

Grants received from government departments are set out in note 30. Debtor and Creditor balances for Central Government bodies are shown in notes 24 and 26.

Senior Officers and Members

The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and a separate survey of both Members and Senior Officers, the following disclosures meet the criteria for related party transactions on behalf of the Council. The Local Government Act 2000 and The Local Authorities (Functions and Responsibilities) (England) Regulations provide for the discharge of the Council's functions through executive arrangements.

A number of elected members and senior officers sit on the management committees or boards of local organisations. During the year the significant transactions that the Council had with these organisations are listed below:

Related Parties year ended 31 March 2016				
Organisation	Expenditure Transactions in Year	Income Transactions in Year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
ACTES Trust	94	0	0	0
Cleveland College of Art & Design	48	0	0	0
Easterside Partnership	0	11	0	4
Groundwork North East	90	1	0	0
Linx Detached Youth Work	38	146	0	36
Middlesbrough College	204	71	0	32
Middlesbrough Environment City	457	8	93	0
Middlesbrough Voluntary Development Agency	146	0	0	0
Teesside Ability Support Centre	232	13	0	0
Teesside University	548	975	40	45

The Council has reviewed the Note for 2015-16, and has restated the figures for year ended 31 March 2015, based on current accounting standards.

Section 5 : Notes to the Main Statements

Related Parties Year Ended 31 March 2015				
Organisation	Expenditure Transactions in Year	Income Transactions in Year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Cleveland College of Art & Design	0	2	0	0
Community Ventures Ltd	24	0	0	0
Easterside Partnership	14	23	0	2
Groundwork North East	197	0	12	0
Langdon Square Community Centre	26	18	9	1
Langridge Initiative Centre	19	0	0	0
Linx Detached Youth Work	67	213	0	19
Middlesbrough College	420	93	0	52
Middlesbrough Environment City	677	8	34	0
Middlesbrough Voluntary Development Agency	235	0	15	0
Northern Grid for Learning	382	0	0	0
Teesside Ability Support Centre	301	0	0	0

Teesside Pension Fund

Details of all transactions with the Pension Fund are shown in the Teesside Pension Fund section of the Statement of Accounts. Specifically, the Council made contribution payments as an employer of £9.2 million (2014/2015 - £8.6 million) and made charges to the Fund for Support Services of £2,008,366 (part of which was provided by Kier Business Services)

47 Trading Operations

The Council has established a number of operations which are required to operate in a commercial environment and balance their budgets by generating income from other parts of the Council or other organisations. Details of these operations are given below:

	2014/2015			2015/2016		
	Income	Costs	(Surplus) /Deficit	Income	Costs	(Surplus) /Deficit
	£000	£000	£000	£000	£000	£000
Building Control	(212)	197	(15)	(160)	194	34
Commercial and Industrial Properties	(3,039)	1,737	(1,302)	(3,051)	2,720	(331)
Highways and Sewers	(1,582)	1,422	(160)	(2,314)	1,855	(459)
Building Maintenance, Cleaning & Security	(6,740)	6,998	258	(7,808)	8,444	636
Parking	(1,141)	1,772	631	(1,220)	1,816	596
Schools Catering	(5,848)	5,677	(171)	(6,524)	6,350	(174)
Total	(18,562)	17,803	(759)	(21,077)	21,379	302

Section 5 : Notes to the Main Statements

48 Pooled Budgets

Better Care Fund

The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.

Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCG's to establish and maintain pooled funds to support the outcomes of the BCF.

The Council has entered into a pooled budget arrangement with NHS South Tees Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or STCCG depend upon the needs of the service recipient. The Council and the STCCG have an ongoing section 75 agreement in place for funding these services and this is reviewed annually.

The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund section 75 agreement.

The aims and benefits for the partners entering in to this agreement are to:

- Improve the quality and efficiency of the services and in particular reduce the number of non-elective admissions to Acute hospitals.
- Meet the national conditions and local objectives of the Government's Better Care Fund.
- Make more effective use of available resources through the establishment and maintenance of a pooled fund for revenue and capital expenditure on the services.

	2014/2015	2015/2016
	£000	£000
Balance brought forward	0	0
Funding Provided to the Pooled Budget		
by the Council	0	1,307
by South Tees CCG	0	10,728
Total Funding	0	12,035
Expenditure met from the Pooled Budget		
by the Council	0	8,282
by South Tees CCG	0	3,455
Total Expenditure	0	11,737
Net surplus arising on the Pooled Budget to be carried forward	0	298

Section 5 : Notes to the Main Statements

Tees Community Equipment Service

The Tees Community Equipment Service is a partnership established by an agreement under Section 31 of the Health Act 1999. The partnership agreement covers the costs of administering the Tees Community Equipment Service including:

- The procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled service users living in the community.
- To provide and maintain stock of equipment at additional designated locations, where provided by the Partner of this Agreement, for demonstration and use by the Occupational Therapy Service of that locality.
- To incorporate mechanisms which enable Health and Social Service professionals and members of the public to attend the service's premises to collect equipment.
- A facility for the procurement of non-stock items.
- The production and distribution of a catalogue describing the service and equipment available.

The agreement was made between eight partners as set out in the memorandum of account. The original eight partners in the Tees Community Equipment Service were Middlesbrough Council, Stockton Borough Council, Redcar & Cleveland Borough Council, Hartlepool Borough Council, Middlesbrough PCT, North Tees PCT, Redcar & Cleveland PCT and Hartlepool PCT. Following NHS reorganisation in 2013/2014, the Primary Care Trusts (PCTs) were abolished and replaced by Clinical Commissioning Groups (CCGs). Middlesbrough Council is the lead authority for the service. The outturn position for the year is set out below:

	2014/2015	2015/2016
	£000	£000
Balance brought forward	(434)	(542)
Gross Expenditure	1,147	1,241
Gross Income	(1,255)	(1,313)
Balance carried forward	(542)	(614)
Contributions from partners:		
Middlesbrough Council	107	101
Stockton Borough Council	119	118
Redcar & Cleveland Borough Council	92	94
Hartlepool Borough Council	86	82
South Tees Clinical Commissioning Group	177	185
North Tees and Hartlepool NHS Foundation Trust	173	182
Other Income	501	551
Total	1,255	1,313

Section 5 : Notes to the Main Statements

49 Contingent Liabilities

At 31 March 2016, the Council held the following contingent liabilities:

Home Housing Guarantee

An agreement was entered into with Home Housing, which guaranteed an initial liability of £2.4 million. This was increased to £4.01 million in 1996/1997 as a result of further development at St Johns Gate. The assets of Home Housing are considered sufficient to meet their liabilities without calling upon the guarantee and no provision has been made in the accounts.

North East Assembly

The Council is a Member of the North East Assembly. It is one of 25 Constituent Local Authorities who have agreed to provide cross-guarantees in respect of the admission of the North East Assembly staff to the Tyne & Wear Local Government Pension Fund. There is a potential liability of up to £85,598, but this liability is unlikely to materialise and no provision has been made in the accounts.

Family Kinship Payments

During 2011/2012 the High Court ruled that Local Authorities cannot discriminate against kinship carers, who should receive the full range of payments and benefits which foster carers receive. The existence of any liability in this regard can only be determined based on claims made against the Council.

Deprivation of Liberty Safeguards

A recent Supreme Court case has resulted in the Council potentially facing more applications to the Court of Protection regarding Deprivation of Liberty cases. Liabilities may exist which will not be confirmed until claims are made or cases are settled. £100,000 has now been set aside to cover future liabilities against this.

Child Protection

The Council is aware of the increasing number of child protection cases in the UK, and the consequential increase in costs. The existence of any liability in this regard can only be determined based on claims made against the Council.

50 Contingent Assets

At 31 March 2016, the Council held the following contingent assets:

Public Private Partnership Bonds

As part of the Public Private Partnership with Kier Business Services Ltd (Formerly Mouchel Business Services Ltd) there is a performance bond of £1.6 million (as at 6th January 2014).

Section 5 : Notes to the Main Statements

51 Trust Funds

The Council administers a number of Trust Funds, which are varied in nature and relate principally to legacies left by local inhabitants of the area over a number of years. Assets of the funds are invested in external marketable securities; with any cash either being invested internally at 7-day interest rates or externally in the money market. None of the funds are included in the Balance Sheet of the Council.

A summary of the Trust Funds administered by the Council is as follows:

	Registered Charity Number if applicable	Fund Balance at 1 April 2015	Surplus / (Deficit) in 2016	Fund Balance at 31 March 2016
		£	£	£
Teesside Education Endowment	514301	7,327	26	7,353
Sanderson Prize - Acklam Grange School	516308	1,522	6	1,528
Haines Prize - Brackenhoe School	516305	4,951	18	4,969
Capt. J.V. Nancarrow Trust - Educational support	506937	109,156	395	109,551
Middlesbrough Educational Trust	532293	65,015	1,827	66,842
Hustler Playing Fields Trust - Sport	523381	1,535,911	(14,187)	1,521,724
Miss Olive Scarr Trust - Schools Music	508539	15,251	75	15,326
W.M. Anderton Trust - Kings Manor School and Acklam 6th Form College	509198	1,358	5	1,363
Rev. J.W. Dales Trust - University Scholarship	512215	2,012	7	2,019
Teesside Relief in Sickness	229137	3,653	13	3,666
Settlement Hall Trust - social and religious accommodation	226877	102,280	366	102,646
Lady Crossthwaite Bequest - support for the older people	234932	475,882	0	475,882
King Edward VII & Sister Purvis Convalescent Fund	226433	57,479	964	58,443
Wilson & Marwood Trust - support for disadvantaged people	221291	15,250	54	15,304
Stewart Park Trust - Recreation	507075	8,594	31	8,625
Levick Trust - accommodation for over 60's	255056	335,653	1,731	337,384
Captain Cook Birthplace Trust	507317	8,832	32	8,864
Dorman Museum and Art Gallery Appeal Trust	n/a	3,244	12	3,256
Total		2,753,370	(8,625)	2,744,745

Section 6 : The Supplementary Financial Statements

Collection Fund Income and Expenditure Account

2014/2015 £000		2015/2016 £000 Council Tax	2015/2016 £000 Business Rates	2015/2016 £000 Total	Note
Income					
(52,463)	Council Tax	(54,932)	0	(54,932)	
(40,844)	Income from Business Rate Payers	0	(39,527)	(39,527)	
(93,307)	Total Income	(54,932)	(39,527)	(94,459)	
Expenditure					
Precepts and Demands:					
41,000	Middlesbrough Council	42,571	0	42,571	
6,117	Cleveland Police & Crime Commissioner	6,360	0	6,360	
2,089	Cleveland Fire Authority	2,170	0	2,170	
Business Rates					
19,385	Payments to Central Government	0	20,266	20,266	
378	Payments to Cleveland Fire Authority	0	405	405	
18,997	Payments to Middlesbrough Council	0	19,861	19,861	
178	Costs of collection	0	179	179	
Bad & Doubtful Debts					
3,461	Write Offs	605	661	1,266	
2,644	Provisions for bad debts	1,036	319	1,355	4
(500)	Provision for appeals	0	(3,000)	(3,000)	4
93,749	Total Expenditure	52,742	38,691	91,433	
Contributions towards previous year's estimate					
82	Collection fund Deficit / (Surplus)	993	(104)	889	3
524	Deficit / (Surplus) for the year	(1,197)	(940)	(2,137)	
COLLECTION FUND BALANCE					
1,764	Balance brought forward at 1st April	(621)	2,909	2,288	
524	Deficit / (Surplus) for the year (as above)	(1,197)	(940)	(2,137)	
2,288	Balance carried forward at 31st March	(1,818)	1,969	151	
Allocated to :					
907	Middlesbrough Council	(1,515)	965	(550)	
(77)	Cleveland Police & Crime Commissioner	(226)	0	(226)	
3	Cleveland Fire Authority	(77)	20	(57)	
1,455	Central Government	0	984	984	
2,288		(1,818)	1,969	151	

Section 6: The Supplementary Financial Statements

Notes to the Collection Fund Income and Expenditure Account

1 Income from Council Tax

Calculation of the Council Tax Base

The Council Tax replaced the Community Charge on the 1st April 1993 and is a tax based on property valuation bandings (A to H). There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts where applicable), converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax £000	Band D Equivalent Dwellings
A*	55	+5/9	42	31
A	15,960	+6/9	14,689	10,640
B	7,407	+7/9	7,954	5,761
C	8,565	+8/9	10,511	7,613
D	4,260	+9/9	5,881	4,260
E	1,708	+11/9	2,882	2,088
F	613	+13/9	1,222	885
G	410	+15/9	943	683
H	30	+18/9	80	60
	39,008		44,204	32,021
Less : Adjustments for assumed non-collection based on budgets assumption of 96.3 % collection rate			(1,636)	(1,185)
Total			42,568	30,836

A* - Band A Properties receiving Disabled Relief.

The average Council Tax for Band D dwellings for the Council and major Precepting Authorities was £1,380.56.

2 Income from Business Ratepayers

In 2013/2014, the administration of Non Domestic Rates (NDR) changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectible rates due. In Middlesbrough's case the local share is 49%. The remainder is distributed to the preceptors, which for Middlesbrough are Central Government (50%) and Cleveland Fire Authority (1%).

The total non-domestic rateable value at 31st March 2016 was £109,562,047 (£108,946,214 at 31st March 2015) and the national non-domestic multiplier for the year was 49.3p (48.2p in 2014/2015).

Section 6: The Supplementary Financial Statements

3 Previous Year's Council Tax Deficit / (Surplus)

The Council has a statutory requirement to prepare an estimate each January of the deficit or surplus expected to arise at the end of the financial year. The estimated previous year's Council tax deficits or surplus are payable to / from the Collection Fund by the Billing Authority and the major Precepting Authorities in proportion to amounts raised or owing:

	2014/15	2015/16
	£000	£000
Middlesbrough Borough Council	(133)	(1,001)
Cleveland Police & Crime Commissioner	(20)	(150)
Cleveland Fire Authority	(7)	(51)
Total Deficit / (Surplus)	(160)	(1,202)

4 Council Tax and NDR Bad Debt Provision

The bad debt provision calculation for Council Tax and NDR has been developed following a review carried out by an external consultant on the likely levels of Collection Fund debt recovery.

For Council Tax debt, a provision of 100% is made for all debt over three years old, and a provision of 90% is made for Council Tax Support debt. Following a further review a provision of between 5% and 40% is made for debt between one and three years old depending on the category of debtor. A provision of 35% is made for debt less than a year old apart from debt pending write off, for which a provision of 100% is made.

For NDR debt a provision of 25% is made for all debt less than a year. A provision of between 5% to 50% for debt of one to three years depending on the category of debtor. For debt over three years old and pending write offs a provision of 100% is provided.

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31st March 2016. This is the third year of this provision.

	£000
Opening Balance as at 1st April 2015	4,000
Charges against the provision for appeals	(3,000)
Changes in the provision for appeals	0
Closing Balance as at 31st March 2016	1,000

Teesside Pension Fund Statement of Accounts

**For the year ended
31 March 2016**

Section 7: Teesside Pension Fund Statement of Accounts

Introduction

The Teesside Pension Fund (the Fund) is part of the Local government Pension Scheme (LGPS). The fund is administered by Middlesbrough Council and the Council is the reporting entity for the Fund

The day to day administration of the fund and the operation of the management arrangements and investment portfolio is the responsibility of the Chief Finance Officer (section 151 Officer) of the Council.

The Trustees of the Fund consist of representatives of the employers of the fund (specifically Councillors of the Local Authority employers, (voting) and Trade Union Representatives (non voting) and are not controlled by Middlesbrough Council. The Trustees operate as the Fund's Pensions and Investment Panel to set investment strategy and recommend investment decisions.

An independent Pensions Board exists and operates as a scrutiny panel to ensure the Pensions and Investments Panel acts within the statutory and regulatory framework.

Operation

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to former employees of the Teesside local authorities and of those bodies admitted to the Fund; referred to as members. The benefits ensue to members include retirement pensions, widows pensions, death grants, and lump sums.

The Fund is financed by contributions from members, employers and the income from the Fund's investment portfolio of some £3 billion. The funding policy aims to ensure that the assets held by the scheme are adequate to meet the future liabilities (members' pensions) of the Fund allowing for future changes to pensions and pay.

Financial Statements

The Funds accounts provide information on the financial position, membership, investment performance and risks associated with the Fund. They show the results of the Trustees stewardship in managing the resources entrusted to it and provide information on the income and expenditure of the Fund and the investments it controls.

While membership rose in 2106, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Management costs of the Fund rose during the year resulting in a net withdrawal of funds of £41.3million (2015 £109.6million; this includes a significant transfer of funds on behalf of Durham Probation Trust £27.8m and Tees Valley Probation £47.3m)

Section 7: Teesside Pension Fund Statement of Accounts

During the year the overall value of the Fund fell from £3.2billion to £3.1 billion mainly due to a change in the market value of its investments of a decrease of £164million (2014/15 an increase of £215million).

Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff, are free to choose whether to join the scheme, remain in the scheme or make their own arrangements. Teaching staff have access to their own defined benefit scheme the details of which are provided in the Councils financial statements.

The following tables summarise the membership of the scheme over recent years showing a fall in active members and increasing members who have deferred rights or are drawing pensions.

Membership of the Fund	2012	2013	2014	2015	2016
Active	23,856	23,908	23,734	22,566	23,086
Deferred	19,717	20,738	22,144	24,429	25,072
Pensioner	19,389	19,850	20,648	21,059	21,617
Total	62,962	64,496	66,526	68,054	69,775

Summary of Changes in Membership	Active Members	Deferred Members	Pensioners Members	Dependants	Total
At 1st April 2015	22,566	24,429	18,376	2,683	68,054
Adjustments	(44)	37	118	32	143
New Members	2,593	5	0	195	2,793
Change in Status	(1,645)	767	879	0	1
Leavers	(384)	(166)	(506)	(160)	(1,216)
At 31st March 2016	23,086	25,072	18,867	2,750	69,775
% of Total Membership	33.2%	35.9%	27.0%	3.9%	100.0%

During the year, 18 employers joined the scheme as scheduled bodies, and 3 employers joined as admitted bodies. Also, 1 scheduled and 3 admitted employers ceased to have active members in the scheme. At the year end the Fund had 150 employers with active members. Details of the employers and their contribution rates are set out in the Actuary's Statement at the end of this Section.

Section 7: Teesside Pension Fund Statement of Accounts

Statement of Responsibilities

Middlesbrough Council Responsibilities

The Council is required to

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through an independent Board of Trustees and relevant sub-committees;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Chief financial Officer (section 151 Officer) of the Council;
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the chartered Institute of Public Finance and Accountancy 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

In preparing the Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonably prudent;
- complied with the Code;
- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2016 and of its income and expenditure for the year then ended.

19 September 2016

Mark Taylor, Interim Chief Finance Officer (section 151 Officer)

Approval of the Statement of Accounts

In accordance with the Accounts and Audit (England) regulations 2011, I confirm that the Teesside Pension Fund Statement of Accounts was approved by the Pension Board

19 September 2016

Colin Monson, Chair of the Teesside Pension Fund Board

Section 7: Teesside Pension Fund Statement of Accounts

AUDITOR'S REPORT TO A LGPS ADMINISTERING AUTHORITY– REPORT ON PENSION FUND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEESSIDE PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 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 21. 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 2015/16.

This report is made solely to the members of Teesside Pension Fund (The Fund) 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 the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 14, the Chief Finance Officer is responsible for the preparation of the Fund'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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Statement of Accounts for the year ended 31 March 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired

Section 7: Teesside Pension Fund Statement of Accounts

by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Annual Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Careen Gray (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Newcastle upon Tyne

29 September 2016

Section 7: Teesside Pension Fund Statement of Accounts

Pension Fund Account

Fund Accounts for the year ended 31st March 2016

2014/2015 £000	Contributions and Benefits	Note	2015/2016 £000
84,520	Contributions	6	85,056
5,243	Transfers in	7	2,285
6,756	Other income	8	3,332
96,519	Total Income from Members		90,673
(120,746)	Benefits	9	(119,787)
(80,755)	Leavers	10	(7,053)
(201,501)	Total Expenditure to Members		(126,840)
(4,608)	Management expenses	11	(5,153)
(109,590)	Net withdrawals from dealings with members		(41,320)
	Returns on investment		
89,553	Investment income	12	94,312
214,604	Change in market value of investments	13	(163,668)
304,157	Net returns on investments		(69,356)
194,567	Net decrease in the Fund during the year		(110,676)
3,049,227	Net assets of the scheme as at 1st April		3,243,794
3,243,794	Net assets of the scheme as at 31st March		3,133,118
2014/2015 £000	Net Assets Statement as at 31st March		2015/2016 £000
3,232,586	Investments Assets	13	3,120,363
15,817	Current Assets	14	15,893
299	Receivables due over 1 year	15	60
(4,908)	Current liabilities	16	(3,198)
3,243,794	Net assets of the scheme at 31st March		3,133,118

The notes on the following pages form part of the Financial Statements.

Section 7: Teesside Pension Fund Statement of Accounts

Notes to the Pension Fund Accounts

1 Basis of Preparation

The financial statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2014 (as amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016 having regard to the Statement of Recommended Practice: Financial Reports on Pensions Schemes (revised May 2007).

2 Accounting Policies

Basis on which Receivables, Payables, Income and Expenditure are included in the Accounts:-

The accruals concept has been observed in the preparation of the accounts with the following exception. Transfer values payable and receivable are accounted for on an accruals basis once liability is accepted.

Valuation of Investments

Investments have been included in the Net Assets Statement at their market value as at 31st March 2016 as provided by the Fund's custodians.

- Quoted UK securities are valued at the bid price based on the quotations in the Stock Exchange Daily Official List. Overseas quoted securities are similarly valued at bid price from overseas stock exchanges, translated at closing rates of exchange.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.
- 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.
- The acquisition costs of investments are accounted for as part of the cost of investments.
- Property is valued annually by an independent qualified valuer in accordance with the "Royal Institute of Chartered Surveyors" valuation standards.

Financial Instruments

A Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair value Measurement

This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some

Section 7: Teesside Pension Fund Statement of Accounts

exceptions). The fund complies currently complies with this standard.

Property expenses

Property expenses have been recorded gross and shown as a deduction from the Gross Rental income received in determining net rents from Properties.

Foreign exchange

Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the Fund year end date.

Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, the BNP Paribas Securities Services. Exceptions to this are directly owned properties, money markets cash deposits and specified unquoted investments, which would be registered in the name of the administering authority.

Where the Custodian does not provide a custody service in their own right, they utilise third party Sub Custodians, who are appointed by the Custodian.

The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result or action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

Disposal of Investments

Profits and losses on the disposal of investments are realised when the transactions are legally complete.

Dividends

Dividends from quoted securities are accounted for when they become ex-dividend.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Pension Liabilities

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the notes relating to the most recent actuarial valuation.

Rental Income

Rental income is accounted for on an accruals basis.

Section 7: Teesside Pension Fund Statement of Accounts

Contributions

Contributions are accounted for in the period in which they fall due. Normal contributions received during the year have been paid in accordance with the rates and adjustments certificate.

Benefits

Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

Administrative Expenses

The administrative expenses of the Fund are incurred by the Administering Authority and are recharged to the Pension Fund periodically during the year. Expenses for Actuarial, Audit and Legal fees are paid directly by the Fund.

Contingent Liabilities

The Pension Fund has no contingent liabilities.

Cash and cash equivalents

Cash comprises of cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Value Added Tax

Expenses and property purchase costs are charged net to the Pension fund. The VAT is reclaimed via Middlesbrough Council's VAT regime.

3 Accounting standards that have been issued but not yet been adopted.

There are no accounting standards that have been issued but not yet adopted.

4 Critical Judgements, Sensitivities and Accounting Estimates

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of unquoted private equities at 31 March 2016 was £42,586 (£79,610 at 31 March 2015).

Section 7: Teesside Pension Fund Statement of Accounts

Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 Assumptions made about the Future and other Major Sources of Estimation Uncertainty.

The Statement of the 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 several factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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 fund 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 example a 0.1% per annum increase in the discount factor assumption could decrease liability by around £71.24 million.
Debtors	At 31 March 2016, the fund had a balance of sundry debtors of £8.8 million	There is no history of uncollectable debtors
Private Equity	Private Equity investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £42,586. There is a risk that this investment may be under or overstated in the accounts. The remaining items with unobservable market values amount to £54,497,171 and are relating to infrastructure, real estate, and pooled equity vehicles.

Section 7: Teesside Pension Fund Statement of Accounts

6. Contributions

		2014/15	2015/16
		£000	£000
Employers	Normal	57,125	57,747
	Additional Contributions	48	16
	Deficit Recovery Contributions	1,859	1,602
Members	Normal	25,488	25,691
	Total	84,520	85,056
	Analysis of Total Contributions	2014/15	2015/16
		£000	£000
	Administering Authority	12,345	13,272
	Scheduled Bodies	54,037	54,925
	Admitted Bodies	18,138	16,859
	Total	84,520	85,056

7. Transfers In

		2014/15	2015/16
		£000	£000
	Individual transfers in from other schemes	5,243	2,285

8. Other Income

		2014/15	2015/16
		£000	£000
	Capital Costs of Early Retirements	5,528	2,199
		1,228	1,133
	Total	6,756	3,332

9. Benefits

		2014/15	2015/16
		£000	£000
	Pensions	94,860	98,348
	Commutations and lump sum retirement benefits	23,701	19,364
	Lump sum death benefits	2,185	2,075
	Total	120,746	119,787
	Analysis of Total Benefits		
	Administering Authority	27,884	25,163
	Scheduled Bodies	68,540	70,243
	Admitted Bodies	24,322	24,381
	Total	120,746	119,787

Section 7: Teesside Pension Fund Statement of Accounts

10. Leavers

	2014/15	2015/16
	£000	£000
Refunds to members leaving service	101	177
Payments for members joining state scheme	19	118
Individual transfers to other schemes	80,635	6,758
Total	80,755	7,053

In 2014/15 a transfer out of £75.1 million was paid to Tameside Pension Fund (part of the Greater Manchester Pension Fund) in respect of a group transfer for Durham Probation £27.8 million, and Tees Valley Probation £47.3 million.

11. Management Expenses

	2014/15	2015/16
	£000	£000
Administrative costs	1,599	1,558
Investment management expenses	2,779	3,418
Oversight and governance costs	230	177
Total	4,608	5,153

12. Investment Income

	2014/15	2015/16
	£000	£000
Income from fixed interest securities	3,718	2,498
Dividends from equities	71,323	77,916
Income from Index-Linked Securities	1,388	473
Income from pooled investment vehicles	3,053	3,689
Other Investment Income	219	96
Net rents from properties (see note below)	9,317	8,999
Interest on cash deposits	535	641
Total	89,553	94,312
Rental Income and Property Expenses		
Gross Rental income	9,652	9,255
Property Expenses	(335)	(256)
Net Rents from Properties	9,317	8,999

Section 7: Teesside Pension Fund Statement of Accounts

13. Investment Assets

	Re-stated value at 31 March 2015	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2016
	£000	£000	£000	£000	£000
Fixed interest securities	89,366	10,664	(28,002)	(1,472)	70,556
Equities	2,430,944	388,209	(260,195)	(161,854)	2,397,104
Index-linked securities	73,464	0	(50,444)	(1,116)	21,904
Pooled Investment Vehicles	368,782	18,303	(64,924)	(6,419)	315,742
Properties	169,630	25,890	(16,196)	5,126	184,450
	3,132,186	443,066	(419,761)	(165,735)	2,989,756
Cash Deposits	73,803				104,908
Other Investment Balances	26,597				25,699
	3,232,586				3,120,363

Change in Market Value

The change in the 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. Realised profit was £109,112,233 and unrealised loss was £274,847,233.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £2,068,647 (2014/2015 £1,730,084). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes the transaction costs have been re-allocated to expenses.

Investments Analysed by Fund Manager

The fund is mainly in-house managed with the only exception being the direct property portfolio managed by CBRE Limited.

- For 2015/2016 the value at 31 March 2016 of the direct property portfolio was:£184,450,000
- For 2014/2015 the value at 31 March 2015 of the direct property portfolio was:£169,630,000

The remainder of the Fund is all managed in-house.

Section 7: Teesside Pension Fund Statement of Accounts

The Fund does not have any single investment over 5% of the net assets of the scheme. The following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund and Investment Panel.

Asset Class / Security	Market Value 31 March 2015	% of asset class	Market Value 31 March 2016	% of asset class
	£'000		£'000	
UK Fixed Interest				
BAT INTL FINANCE 7.25% MTN 12/03/24 GBP	3,541	7.00%	3,424	6.55%
HSBC BANK FRN 16/05/2016	3,009	5.94%	3,001	5.74%
NEXT PLC 5.875%-06-12/10/2016	3,211	6.34%	2,045	3.91%
TREASURY 1.75% 07/09/22 GBP0.01	3,285	6.49%	3,352	6.42%
TREASURY 4.25% 07/09/39 GBP0.01	2,745	5.42%	2,731	5.23%
TREASURY 5% 07/03/2025 GBP100	2,535	5.01%	2,530	4.84%
UK Index-Linked				
NAT GRID GAS PLC 4.1875%/IDX LKD BDS 14/12/2022	3,046	5.52%	1,498	9.20%
TESCO 1.982%-IDX/LKD 24/03/36 GBP	2,343	4.24%	2,272	13.95%
TREASURY 2.5% I/L 17/07/24 GBP	2,685	4.86%	2,657	16.31%
TREASURY 1.25% I/L 22/11/27 GBP	5,347	9.69%	0	0.00%
TREASURY 4.125% I/L 22/07/30 GBP	6,838	12.39%	0	0.00%
TREASURY 1.25% I/L 22/11/2032	3,345	6.06%	0	0.00%
TREASURY 2% I/L 26/01/35 GBP0.01	6,872	12.45%	3,532	21.68%
TREASURY 1.125% I/L 22/11/37 GBP	3,817	6.91%	0	0.00%
TREASURY 0.125% I/L 22/03/44 GBP	3,499	6.34%	3,539	21.73%
TREASURY 0.125% I/L 22/11/55 GBP	2,739	4.96%	2,790	17.13%
Overseas Bonds				
ALTRIA GROUP INC 4.25% DUE 08-09-2042	3,039	5.33%	3,247	13.57%
ANGLO AMERICAN CAPITAL 9.375% GTD 04/19 USD REGS	2,513	4.41%	2,177	9.10%
AUST & NZ BANK 5.25% 14-13/03/2019	1,566	2.75%	1,524	6.37%
AUSTRALIA (CMNWLTH) 6% BDS 15/02/2017 AUD 1000	2,551	4.47%	2,545	10.64%
AUSTRALIA (CMNWLTH) 4% IDX LKD 20/08/20 AUD 1000	3,026	5.31%	0	0.00%
CANADA (GOVT OF) 1.5% 01/06/23	1,310	2.30%	1,335	5.58%
CANADA (GOVT OF) 4.25% RRB 1/L 01/12/21 CAD1000	2,110	3.70%	2,047	8.56%
DAIMLER 3% 10/07/2018	1,754	3.08%	1,737	7.26%
DIAGEO CAPITAL 3.875% 29/04/2043	1,343	2.36%	1,403	5.87%
IMPERIAL TOBACO FINANCE 2.05% 11/02/2018	2,029	3.56%	2,094	8.75%
NEW ZEALAND I/L 2% 20/09/25 NZD	1,868	3.28%	1,760	7.36%

Section 7: Teesside Pension Fund Statement of Accounts

Asset Class / Security	Market Value 31 March 2015	% of asset class	Market Value 31 March 2016	% of asset class
REYNOLDS AMERICA 8.125% 15-01/05/2040	0	0	2,245	9.39%
SWEDEN (KINGDOM OF) 4% 1/L 1/12/2020 SEK 3102	1,708	3.00%	1,808	7.56%
US TREASURY TIPS 3.375 04/15/2032	3,263	5.72%	0	0
Property				
Direct - Stow-on-the-Wold (Fosse Way)	13,850	6.64%	13,850	6.16%
Direct - Birmingham (Bromford Central)	13,500	6.47%	13,600	6.05%
Direct - Cirencester (Retail Park)	13,850	6.64%	13,800	6.14%
Direct - Lutterworth (Magna Park)	11,410	5.47%	12,050	5.36%
Direct - Ipswich (Interchange Retail Park)	0	0	15,000	6.67%
Standard Life Investments European Property Growth Fund	12,017	5.76%	13,662	6.08%
Alternatives				
Amedeo Air Four Plus Ltd	0	0.00%	5,000	8.14%
Darwin Leisure Prop Units FDS Cls 'C'	14,481	24.28%	15,900	25.88%
ETFS Metal Security Physical Gold	6,979	11.70%	7,472	12.16%
Innisfree PFI Continuation Fund	9,506	15.94%	9,487	15.44%
INNISFREE PFI SECONDARY FUND 2	6,784	11.37%	6,811	11.08%
NIMROD SEA ASSETS LTD	5,204	8.72%	2,192	3.57%
POWERSHARES DB MULTI SECTOR COMMODITY AGRICULTURE FUND	7,453	12.50%	7,159	11.65%
UNITED STATES OIL FUND LP UNITS	7,534	12.63%	5,737	9.34%

Geographical Analysis of Investments

	2014/15		2015/16	
	£000	%	£000	%
United Kingdom	1,639,198	52%	1,524,081	51%
United States	366,891	12%	433,401	14%
Hong Kong	150,108	5%	143,895	5%
Japan	193,728	6%	174,641	6%
Australia	129,416	4%	111,170	4%
Germany	85,222	3%	75,157	3%
Switzerland	80,222	3%	71,525	2%
Republic of Korea	97,670	3%	96,558	3%
Singapore	50,863	2%	49,343	2%
France	68,414	2%	73,788	2%
Taiwan	79,098	3%	68,790	2%
Others	191,356	5%	167,407	6%
Total	3,132,186	100%	2,989,756	100%

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Fixed Interest Securities

		2014/15	2015/16
		£000	£000
	UK quoted	50,616	52,248
	Overseas quoted	38,750	18,308
	Total	89,366	70,556

Equities

		2014/15	2015/16
		£000	£000
	UK quoted	1,069,296	1,004,761
	Overseas quoted	1,361,648	1,392,343
	Total	2,430,944	2,397,104

Index-linked securities

		2014/15	2015/16
		£000	£000
	UK quoted	55,204	16,289
	Overseas quoted	18,260	5,615
	Total	73,464	21,904

Pooled Investment Vehicles

		2014/15	2015/16
		£000	£000
UK	Unit and Investment trusts	201,691	197,196
Overseas		167,091	118,546
	Total	368,782	315,742

UK Properties

		2014/15	2015/16
		£000	£000
	Freehold	134,555	139,800
	Leasehold	35,075	44,650
	Total	169,630	184,450

The properties were valued on the basis of Market Value as at 31 March 2016 by Cushman and Wakefield LLP acting as an External Valuer, in accordance with the RICS Valuation - Professional Standards. The valuer's opinion of the Market Value of the Fund's interests in the properties was primarily derived from analysis of recent market transactions concluded at arm's-length.

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Cash Deposits

	2014/15	2015/16
	£000	£000
Sterling Cash deposits	73,803	104,908

Other investment balances

	2014/15	2015/16
	£000	£000
Cash deposits with custodian	7,355	4,382
Outstanding dividend entitlements	19,189	21,291
Interest due on cash deposits	53	26
Total	26,597	25,699

Outstanding Commitments

As at 31 March 2016, the Fund had outstanding commitments to three investments:

	Vinta ge Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2016
		£	£	£
Capital North East No. 1 Limited Partnership	2002	750,000	750,000	0
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	8,898,424	1,101,576
Total		20,750,000	19,356,922	1,393,078

14. Current assets

Receivables		2014/15	2015/16
		£000	£000
Other receivables		7,844	8,434
Sundry debtors		685	375
Contributions due in respect of	Employers	4,851	4,812
	Members	2,079	2,095
Cash balances		358	177
	Total	15,817	15,893
Analysed by:			
Other local authorities		7,385	5,910
Other entities and individuals		8,074	9,806
		358	177
	Total	15,817	15,893

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15. Receivables due over 1 year

	2014/15	2015/16
	£000	£000
Capital cost of early retirements	299	60
Analysed by:		
Other local authorities	299	60

Scheduled Bodies have the option to pay the capital cost of Early Retirements over five years.

16. Current liabilities

Amounts due within one year	2014/15	2015/16
	£000	£000
Rents received in advance	700	695
Accrued expenses	3,509	1,576
Other payables	699	927
Total	4,908	3,198
Analysed by:		
Other local authorities	2,451	989
Other entities and individuals	2,457	2,209
Total	4,908	3,198

17. Related Party Transactions

The Fund is administered by Middlesbrough Council which is a related party as defined by International Accounting Standard 24 (IAS 24) 'Related Party Disclosures'. IAS 24 requires disclosure of information on related party transactions. In its position as Administering Authority Middlesbrough Council has recharged scheme administration services to the Fund as follows:

	2014/15	2015/16
	£000	£000
Support Service Recharges payable for the year and outstanding at the year end	315	133

Middlesbrough Council had a £260 million, 10 year partnership with Kier Business Services for the provision of business, finance, IT, HR, Pensions and other support services which commenced 1st June 2001. This was extended for a further 4 years, and has recently has been extended for a further 7 years, and expires in 2022.

One of the investment adviser to the Teesside Pension Fund is Mr Fred Green who is an ex-employee of the Council, a member of the Teesside Pension Fund and is in receipt of benefits. His costs to the fund in 2015/2016 were £9,388 (2014/15 £9,392).

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18. Actuarial Valuation

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. An Actuarial Valuation was carried out as at 31st March 2013 using the 'Projected Unit Method' which produced the following results;

	2015/16
	£million
Net Liabilities Assessment	2,919
Asset Valuation	2,956
Surplus	37
Funding Level	101.27%

IAS19/26 Disclosure

Following the introduction of International Financial Reporting Standards (IFRS) the Fund is now required, under International Accounting Standard (IAS) 26 "Accounting and Reporting by Retirement Benefit Plans" (January 1987), to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS19 "Employee Benefits" (February 1998).

An IAS26/19 valuation was carried out for the Fund as at 31st March 2016 by Aon Hewitt with the following results;

	2015/16
	£million
Net Liabilities Assessment	3,961
Asset Valuation	3,130
Deficit	(831)
Funding Level	79.02%

These figures are presented for the purposes of IAS19 only. They are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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The actuarial assumptions used to calculate the promised value of benefits at 31 March 2016 were:

Funding Assumptions

RPI increases	2.9% per annum
CPI increases	1.8% per annum
Salary increases	3.3% per annum
Pension increases	1.8% per annum
Discount rate	3.5% per annum

Life expectancy from age of 65 (years) assumptions

Mortality Assumptions:	
Longevity at 65 for current pensioners:	Years
Men	23.10
Women	25.60
Longevity at 65 for future pensioners :	
Men	25.30
Women	28.00

19. Additional Voluntary Contributions (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested with the Fund's nominated AVC providers, the Prudential Assurance Co Ltd and Phoenix Life PLC. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 5c of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

The value of AVC investments are as follows:

Prudential AVC balances

	2014/15	2015/16
	£000	£000
With Profits and Deposit Accounts	3,649	3,885
Unit Linked Accounts	2,153	2,482
Total	5,802	6,367

The total value of AVC contributions paid to Prudential during the year, was £1,370,207

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20. Financial Instruments

Net Gains and Losses on Financial Instruments

	2014/15	2015/16
	£000	£000
Fair Value through profit and loss account	214,604	(165,735)

Management expenses have been re-categorised according to CIPFA guidance and now includes transaction costs which were previously assigned to investment assets

Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	2015	2015	2016	2016
	£000	£000	£000	£000
Fixed Interest Securities	89,366	89,366	70,556	70,556
Equities	2,430,944	2,430,944	2,397,104	2,397,104
Index-linked securities	73,464	73,464	21,904	21,904
Pooled Investments	368,782	368,782	315,742	315,742
Properties	169,630	169,630	184,450	184,450
	3,132,186	3,132,186	2,989,756	2,989,756
Loans and receivables	100,732	100,400	130,615	130,607
Total	3,232,918	3,232,586	3,120,371	3,120,363

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on **observable market data**.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund

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of funds, which are valued using various valuation techniques that require **significant judgement** in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31st March annually. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Valuation of financial instrument carried at fair value

	Level 1	Level 2	Level 3
Value as at 31st March 2016	£000	£000	£000
Financial assets at fair value through profit and loss account	2,750,514	184,450	54,540
Loans and receivables	130,615	0	0
Total Financial Assets	2,881,129	184,450	54,540
Value as at 31st March 2015			
Financial assets at fair value through profit and loss account	2,870,881	169,630	91,675
Loans and receivables	100,732	0	0
Total Financial Assets	2,971,613	169,630	91,675

Nature and extent of exposure to risk arising from financial instruments

Risk and risk Management

The fund's primary long term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cashflows.

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Responsibility for the fund's risk management strategy rests with the Teesside Pension Fund and Investment Panel. The Funding Strategy Statement and the Statement of Investment Principles identify and analyse the risks faced by the pensions operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

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.

The Fund identifies, manages and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates
2. The asset liability study which is carried out every three years or more frequently if required considers alternative asset allocations for the Fund and the long term impact on employer contribution rates.
3. Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Investment Panel.

Other Price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund Strategy Statement and Statement of Investment Principles.

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Other Price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the W M Company (performance monitoring company), the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/2016 reporting period.

2015/16 Price Risk Asset Type	Region	Value	Change	Value on Increase	Value on Decrease
		£000	%	£000	£000
Equities	UK	1,004,761	10.59%	1,111,165	898,357
	Non -UK	1,392,343	10.19%	1,534,223	1,250,463
	Total	2,397,104		2,645,388	2,148,820
Fixed Interest Securities	UK	52,248	5.85%	55,305	49,191
	Non -UK	18,308	8.37%	19,840	16,776
	Total	70,556		75,145	65,967
Index Linked	UK	16,289	8.07%	17,604	14,974
	Non -UK	5,615	8.37%	6,085	5,145
	Total	21,904		23,688	20,120
Managed and Unitised Funds	UK	197,196	10.59%	218,079	176,313
	Non -UK	118,546	10.19%	130,626	106,466
	Total	315,742		348,705	282,779
Property	UK	184,450	1.00%	186,295	182,606
Total		2,989,756		3,279,221	2,700,291

2014/15 Price Risk Asset Type	Region	Value	Change	Value on Increase	Value on Decrease
		£000	%	£000	£000
Equities	UK	1,069,296	10.20%	,178,364	960,228
	Non -UK	1,361,648	9.49%	1,490,868	1,232,428
	Equities Total	Total	2,430,944		2,669,232
Fixed Interest Securities	UK	50,616	6.17%	53,739	47,493
	Non -UK	38,750	7.49%	41,652	35,848
	Total	89,366		95,391	83,341
Index Linked	UK	55,205	8.30%	59,787	50,623
	Non -UK	18,259	7.49%	19,627	16,891
	Total	73,464		79,414	67,514
Managed and Unitised Funds	UK	201,690	10.20%	222,262	181,118

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2014/15 Price Risk Asset Type	Region	Value	Change	Value on Increase	Value on Decrease
	Non -UK	167,092	9.49%	182,949	151,235
	Total	368,782		405,211	332,353
Property	UK	169,630	1.53%	172,225	167,035
Total		3,132,186		3,421,473	2,842,898

Interest Rate risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below

Asset Type at 31 March	2015 £000	2016 £000
Cash and cash equivalents	73,803	104,908
Cash balances	26,597	25,699
Fixed interest securities	89,366	70,556
Total	189,766	201,163

Interest rate risk

Sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

Asset Type		+25 BPS	-25 BPS
Carrying value at 31 March 2016	£000s	£000s	£000s
Cash and cash equivalents	104,908	262	(262)
Cash balances	25,699	64	(64)
Fixed interest securities	70,556	176	(176)
Total	201,163	502	(502)

Carrying value at 31 March 2015			
Cash and cash equivalents	73,803	185	(185)
Cash balances	26,597	66	(66)
Fixed interest securities	89,366	223	(223)
	189,766	474	(474)

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Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Investment Panel are informed quarterly of the Fund's currency exposure.

The following tables summarise the fund's currency exposure as at 31 March 2016 and as at 31 March 2015, showing the sensitivity analysis of foreign exchange movements.

Currency Risk by Currency at 31 March 2016	Value £000	Change %	Value on Increase	Value on Decrease
Australian Dollar	111,170	9.26%	121,464	100,876
Canadian Dollar	3,382	7.89%	3,649	3,115
Danish Krone	18,871	6.83%	20,160	17,582
EURO	206,213	6.77%	220,174	192,252
Hong Kong Dollar	143,895	7.67%	154,932	132,858
Indian Rupee	5,860	10.28%	6,462	5,258
Japanese Yen	174,641	11.68%	195,039	154,243
South Korean Won	96,558	7.22%	103,529	89,587
Malaysian Ringet	1,548	10.24%	1,707	1,389
Norwegian Krone	13,788	9.40%	15,084	12,492
New Zealand Dollar	6,926	11.02%	7,689	6,163
Swedish Krona	31,876	7.65%	34,315	29,437
Singapore Dollar	49,343	6.17%	52,387	46,299
Swiss Franc	71,525	9.95%	78,642	64,408
Taiwan Dollar	68,790	6.59%	73,323	64,257
US Dollar	444,708	7.78%	479,306	410,110
Asia Pacific ex Japan Basket	14,820	6.52%	15,786	13,854
Emerging Basket	27,888	6.79%	29,782	25,994
Europe Basket	54,190	4.39%	56,569	51,811
Europe ex UK Basket	13,662	6.46%	14,545	12,779
Total	1,559,654		1,684,544	1,434,764

Currency Risk by Currency at 31 March 2015	Value £000	Change %	Value on Increase	Value on Decrease
Australian Dollar	129,416	8.87%	140,895	117,936
Canadian Dollar	6,910	6.65%	7,370	6,451
Chinese Yuan	1,082	7.91%	1,167	996
Danish Krone	22,074	6.19%	23,440	20,708

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EURO	212,437	6.15%	225,502	199,372
Hong Kong Dollar	150,108	7.74%	161,726	138,490
Indian Rupee	6,918	10.78%	7,664	6,172
Japanese Yen	193,729	11.02%	215,077	172,380
South Korean Won	97,670	6.62%	104,136	91,204
Malaysian Ringet	2,046	7.31%	2,196	1,897
Norwegian Krone	22,065	8.64%	23,971	20,159
New Zealand Dollar	6,671	9.20%	7,285	6,058
Swedish Krona	34,472	7.30%	36,989	31,956
Singapore Dollar	50,863	5.89%	53,859	47,867
Swiss Franc	80,222	9.34%	87,714	72,729
Thailand Baht	69	8.08%	74	63
Taiwan Dollar	79,098	6.62%	84,335	73,862
US Dollar	379,288	7.78%	408,797	349,780
Asia Pacific ex Japan	38,944	6.44%	41,452	36,436
Emerging Basket	26,454	6.80%	28,252	24,655
Europe Basket	53,817	3.78%	55,851	51,783
Europe ex UK Basket	12,017	5.66%	12,697	11,337
Total	1,606,370		1,730,449	,482,291

Following analysis of historical data in consultation with the WM Company (performance monitoring company), the council considers the likely volatility associated with foreign exchange rate movements to be as shown above. A % strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as highlighted above.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a 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 investment portfolio, including its cash deposits, and on the contributions receivable from the Fund's participating employers.

The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk is considered as part of the investment decisions made by the Investment Managers as part of their portfolio construction.

Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Annual Report.

Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31 March 2015. The LGPS Regulations require that a risk assessment of any new transferee admitted body is carried out, and that a bond or guarantee is obtained where necessary. The

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Teesside Pension Fund and Investment Panel must approve the admission of any new 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.

Collateral and other credit enhancement

The pension fund does not use collateral and other credit enhancement.

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 the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost.

With the exception of investments in private equity and infrastructure partnerships, there are no commitments to contribute further capital to any of the existing Fund investments. When private equity and infrastructure partnership capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

21. Events after the Balance Sheet Date

There were no events after the end of the reporting period.

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The Compliance Statement

Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

The Local Government Pension Scheme Regulations 2013, and the Local Government Pension Scheme (amendment) (Governance) Regulations 2015 and The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

Full details of the changes to the scheme, along with updated scheme guides, are on our website at: www.teespen.org.uk.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain Statements of Investment Principles (SIP). The current version of the Teesside Pension Fund SIP was approved in March 2015 and contains statements on:

- Investment responsibilities sets out the key responsibilities of the Teesside Pension Fund & Investment Panel, key officers of the Fund, the Fund's Custodian and the Independent Investment Advisors.
- The level of compliance with the Myners' Principles.
- The types of investments held, in terms of equities, bonds, property, unit trusts, etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The expected returns on investments, as set out in the Fund's Funding Strategy Statement.
- The realisation of investments and liquidity of the Fund's assets.
- The Fund's position as a responsible investor and its promotion of ethical, social and environmental best practice.
- The exercise of the rights (including voting rights) attaching to investments, if there is such a policy.
- The Fund's commitment to measure and report investment performance.
- The extent to which the administering authority complies with guidance given by DCLG (in relation to the Investment Principles), and to the extent the authority does not comply, the reasons for not complying.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<http://www.teespen.org.uk/documents/index.php?name=SIP>

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The Funding Strategy Statement

The Local Government Pension Scheme (Amendment) Regulations 2013, established the requirement of each Administering Authority, to produce a Funding Strategy Statement, setting out a long term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
 - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
 - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - Take a prudent longer term view of funding liabilities.
- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy, linking to the Fund's Statement of Investment Principles.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The latest Funding Strategy Statement was approved by the Pensions Panel and was effective from March 2015, and can be seen at:

<http://www.teespen.org.uk/documents/index.php?name=FSS>

Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the Kier Business Services (previously Mouchel Business Services) and administrator and the Teesside Pension Fund & Investment Panel to act in a similar manner to a Board of Trustees.

The Policy also sets out the:

- Terms of reference of the Teesside Pension Fund and Investment Panel;
- Frequency of meetings (minimum of 4 times a year);
- Structure of meetings;
- Membership; and
- Principles of governance.

The current policy document can be viewed at:

<http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE>

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Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all of its stakeholders, including the members, the employers and other external organisations. For example we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all of our active and pensioner members, this allows us to inform participants of any scheme changes which may be made.

A Communications Policy Statement has been drawn up in order to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement can be seen at:

http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION_FORM

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Actuary's Statement

Introduction

The last full triennial valuation of the Teesside Pension Fund was carried out by ourselves as at 31st March 2013. The results were published in our report dated March 2014.

2013 Valuation

The 2013 valuation certified a common contribution rate of 14.4% of pensionable pay to be paid by each employing body participating in the Teesside Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Employer Contributions

Employers' contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The ongoing annual accrual of benefits for active members in respect of each employer that build up each year within The Fund, allowing for future pay increases and increases to pension in payment when these fall due.
- Plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund.

Asset Value and Funding Level

The value of the Fund's assets as at 31st March 2013 for valuation purposes was £2,956.3m which represented 100% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows:

• Rate of return on investments	5.4% per annum
• Rate of increases in pay	3.9% per annum
• Rate of Increases to pensions in payment	2.4% per annum

Post Valuation Events – Changes affecting the Scheme Valuation

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However the Scheme actuary has reported that they are satisfied that the approach of rolling forward the previous valuation results to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. They confirmed that from the information they have received there appears no evidence that this approach is inappropriate.

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The next actuarial valuation is due as at 31st March 2016 and results will be reported during 2016/2017.

Schedule of Contribution Rates

Net rate of contribution payable by each employing Organisation for the period 1st April 2015 to 31st March 2016 under regulation 62 of the Local Government Pension Scheme Regulations 2013

Employer	Employers Rate %	Employees £000	Employers £000
4Children	13.40%	2	7
All Saints Academy	14.60%	22	55
Ash Trees Academy	14.60%	48	123
Beamish Museum Ltd	13.30%	150	304
Billingham Town Council	14.10%	4	10
Brambles Academy	14.60%	5	16
Business and Enterprise North East Ltd	9.70%	9	66
Caldicotes Primary Academy	14.60%	7	17
Capita Managed IT Solutions Ltd	13.00%	11	23
Care Quality Commission	17.00%	1,588	3,546
Carillion AM Ltd	19.10%	22	64
Carillion J M Ltd	16.60%	14	41
Catcote Academy	14.60%	82	200
Chandlers Ridge Academy	14.60%	11	28
Chief Constable for Cleveland	12.60%	558	1,040
Cleveland College of Art and Design	13.60%	93	201
Cleveland Fire Authority	14.00%	198	452
Cleveland Fire Support Network	14.00%	3	5
Coast and Country Housing	16.40%	665	1,632
Community Integrated Care	22.00%	3	11
Conyers School	14.60%	65	152
Creative Management Services Ltd	15.10%	8	23
Diocese of Middlesbrough Trustee	25.60%	8	20
Dormanstown Primary Academy	14.60%	7	19
Durham Tees Valley Airport Limited	21.20%	83	242
Dyke House Academy	14.60%	84	202
Easterside Academy	14.60%	23	59
English Martyrs Educational Trust	14.60%	60	147

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Enquire Learning Trust (Central)	14.60%	7	15
Erimus Housing	17.90%	278	757
Eskdale Academy	14.60%	17	42
Extol Academy Trust (Eldon Grove)	14.60%	19	48
Fabrick Housing Group	15.30%	101	203
Fleet Factors Ltd	20.40%	1	4
Fleet Factors RCBC	20.50%	2	5
Forward Swindon Ltd	19.20%	36	37
Frederick Nattrass Primary Academy	14.60%	18	47
Freebrough Academy	14.60%	48	116
Future Regeneration of Grangetown	18.30%	2	5
Grangefield Academy	14.60%	42	102
Green Lane Primary Academy	14.60%	29	75
Guisborough Town Council	14.10%	4	10
Hardwick Green Primary Academy	14.60%	12	31
Harrow Gate Primary Academy	14.60%	29	75
Hartlepool Borough Council	14.20%	2,941	6,503
Hartlepool College of Further Education	13.60%	161	361
Hartlepool Sixth Form College	13.60%	57	83
Hemlington Hall Academy	14.60%	17	44
Hillsview Academy	14.60%	42	105
Horizons Specialist Academy Trust	14.60%	137	333
Housing Hartlepool Ltd	14.80%	385	875
Ian Ramsey Church of England Academy	14.60%	45	107
Ingleby Barwick Town Council	14.10%	2	5
Ingleby Manor Free School & Sixth Form	14.60%	9	21
Kader Academy	14.60%	12	31
KGB Cleaning Ltd - LJS	15.10%	1	4
KGB Cleaning and Support Services Ltd	15.00%	1	2
Kings Academy	14.60%	76	188
KTS Academy	14.60%	45	113
Liberata UK Ltd	0.00%	45	0
Lockwood Parish Council	14.10%	1	2
Loftus Town Council	14.10%	1	3
Macmillan Academy	14.60%	78	183
Manor Community Academy	14.60%	71	175
Mellors Catering Services Ltd (Central)	15.10%	14	37
Mellors Catering Ltd (Dormanstown)	15.10%	1	3
Mellors Catering Services Ltd (Normanby)	15.00%	3	8

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Middlesbrough College	13.60%	441	962
Middlesbrough Council	14.40%	3,991	9,281
Mouchel	14.40%	192	400
Normanby Primary School	14.60%	24	76
North Ormesby Primary Academy	14.60%	14	37
North Shore Academy	14.60%	42	101
Norton Primary Academy	14.60%	26	66
Nunthorpe Academy	14.60%	80	186
Nunthorpe Primary Academy	14.60%	11	29
Oak Tree Academy	14.60%	26	66
OCS Limited	14.90%	1	2
Ofsted	26.70%	0	32
One Awards Limited	13.60%	48	103
One IT Services and Solutions Ltd	14.20%	40	87
Ormesby School	14.60%	23	55
Our Lady & St Bede Catholic Academy	14.60%	51	129
Our Lady of Light Catholic Academy Trust - Christ the King	14.60%	8	20
Our Lady of Light Catholic Academy Trust - St Patrick's Catholic College	14.60%	17	42
Our Lady of Light Catholic Academy Trust - St Patrick's Primary	14.60%	11	29
Our Lady of Light Catholic Academy Trust - St Therese of Lisieux	14.60%	6	16
Outwood Academy Acklam	14.60%	47	119
Outwood Academy Bydales	14.60%	23	59
Outwood Academy Ormesby	14.60%	31	74
Pennyman Primary Academy	14.60%	12	29
Police & Crime Commissioner for Cleveland	12.60%	68	101
Prior Pursglove College	13.60%	55	123
Redcar Academy	14.60%	31	74
Redcar and Cleveland Borough Council	15.10%	3,076	7,992
Redcar and Cleveland College	13.60%	84	185
Rose Wood Academy	14.60%	20	52
Sacred Heart Secondary Catholic Voluntary Academy	14.60%	14	35
Saint Benedict's Primary Catholic Voluntary Academy	14.60%	8	21
Saltburn, Marske & New Marske Parish	14.10%	3	7

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Council			
Skelton and Brotton Parish Council	14.10%	3	6
Skelton Primary School	14.60%	30	71
SLM Community Leisure Charitable Trust	16.60%	47	130
SLM Fitness and Health Ltd	16.60%	5	13
SLM Food and Beverage Ltd	16.60%	3	7
Sopra Steria Ltd	12.60%	564	43
St Bede's Catholic Academy	14.60%	17	32
St Bede's Primary Catholic Voluntary Academy	14.60%	14	25
St Gabriel's Catholic Voluntary Primary Academy	14.60%	10	44
St Gregory's Catholic Academy	14.60%	18	210
St Hilda's Catholic Academy Trust	14.60%	85	30
St Joseph's Primary Catholic Voluntary Academy	14.60%	12	35
St Margaret Clitherow's Catholic Voluntary Primary Academy	14.60%	13	31
St Mary's Catholic Voluntary Primary Academy	14.60%	12	69
St Michael's Catholic Academy	14.60%	28	27
St Paulinus Primary Catholic Voluntary Academy	14.60%	11	79
St Peter's Catholic Voluntary Academy of Maths and Computing	14.60%	34	221
Stagecoach Transit	25.20%	15	1,096
Stockton Borough Council	14.30%	4,824	10,767
Stockton Riverside College	13.60%	183	390
Stockton Sixth Form College	13.60%	17	38
Stranton Academy Trust (Stranton)	14.60%	26	64
Sunnyside Academy	14.60%	43	108
Tascor Services Ltd - Custody	16.40%	16	40
Tascor Services Ltd - PFI	16.40%	3	7
Taylor Shaw - Holy Rosary	15.00%	1	3
Taylor Shaw - Riverdale	15.00%	1	4
Taylor Shaw - St Peters	15.00%	1	3
Tees Active Limited	13.10%	133	278
Tees Valley Education Trust	14.60%	39	94
Teesside University	13.30%	1,717	3,614
The Big Life Company Ltd	14.50%	3	9
Thornaby Academy	14.60%	38	86

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Tristar Homes Limited	14.80%	433	1,238
Unity City Academy	14.60%	52	127
Viewley Hill Academy Trust	14.60%	14	37
West Park Primary School	14.60%	14	38
West View Primary School and Sports Academy	14.60%	38	95
Wolseley UK Ltd	22.00%	2	60
Wynyard Church of England Primary School	14.60%	1	3
Yarm Primary School	14.60%	22	55

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CORPORATE ASSURANCE STATEMENT 2015/2016

Scope of responsibility

Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Middlesbrough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Middlesbrough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Middlesbrough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the SOLACE (Society of Local Authority Chief Executives) / CIPFA (Chartered Institute of Public Finance and Accountancy) Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at www.middlesbrough.gov.uk or can be obtained from Legal Services, Middlesbrough Council, Town Hall, Middlesbrough TS1 9FX. This statement explains how Middlesbrough Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4 (3), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and the activities through which it is accountable to, engages with and leads the community it serves. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective outcomes.

The system of internal control forms a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Middlesbrough Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they do so; managing these risks efficiently, effectively and economically.

The governance framework has been in place at Middlesbrough Council for the year ended 31 March 2016 and up to the date of approval of the annual statement of accounts.

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The Governance Framework

The Council operates in a well-established, open and documented Governance Framework. Specific documents referred to in this section are available for review on the Council's website at www.middlesbrough.gov.uk

The key elements of the systems and processes that comprise the Authority's governance arrangements as they relate to the principles of the CIPFA / SOLACE Framework are as follows;

Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users

The Middlesbrough 2020 Our Vision document, in place during 2015/16 set out a vision for Middlesbrough to be **'the place to live, work and visit'** supported by three strategic aims:

- a town that is clean, safe and healthy;
- a learning town, in which families and communities thrive;
- a town that continues to transform.

The vision was adopted by the Council's partners in its role as a community leader the Council and worked with communities and partners to achieve the Vision. In addition, the Council has worked with its Tees Valley local authority partners to develop a and initiated the creation of a Combined Authority in April 2016.

Building on this, the Council identified three strategic objectives and nine supporting outcomes that together comprise its specific contribution to the achievement of the Vision.

These were set out in the Change Programme 2014-2017 document approved by Council on 14 May 2014. The outcomes are being supported by detailed Outcome Delivery Plans that provide a clear direction for all Council services to 2017.

In November 2015, the Council agreed to a new Strategic Plan for the period 2015-2018. At the same time the Council received an update on the Council's Medium-Term Financial Plan position for the period 2015/16 to 2017/18, which set out the key elements of both sections of the proposed Strategic Plan for 2015-2018, for the consideration and approval of Council. The Strategic Plan set out the Council's approach to meeting the savings targets identified in the Medium-Term Financial Plan.

The Strategic Plan is the Council's overarching business plan, outlining targeted outcomes and providing a broad overview of high-level improvement activity in the short to medium term. It articulates the Council's contribution towards delivery of the Mayor's vision and is central to the Council's policy and corporate governance frameworks and is updated annually. It is also the basis of the Council's performance

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management framework, with progress reviewed on a quarterly basis via Balanced Scorecards.

In 2014/15, the Change Programme 2014-17 document fulfilled the function of the Strategic Plan. From 2015/16, following the development of medium-term plans for each Outcome Area and a review of the Council's Performance Management Framework (reported to Executive in July 2015), the Council's Strategic Plan was presented in two parts:

- The Change Programme – which sets out the Council's overarching business strategy for the medium-term; and
- Outcome Delivery Plans – nine supporting documents, which outline how key outcomes will be delivered over the period of the Change Programme, aligning with the design principles of the programme.

In May 2016 the Mayor revised the vision to 'Middlesbrough 2025 – Fairer, Safer, Stronger'. The revised vision sets out a number of priorities within the three themes of '**Fairer, safer, stronger,**' that the Mayor intends to deliver or set in motion in this term and beyond.

Measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources

From May 2014 until November 2015, the Change Programme 2014-2017 document superseded the Strategic Plan as the Council's overarching business plan until the two were merged as part of the 2015 Strategic Plan. Significant progress was made in the Change Programme's first year of implementation.

Given the ongoing financial challenges outlined above, it was appropriate to extend the Change Programme to 2018. The programme developed a range of proposed initiatives to ensure that the savings targets for 2016/17 and beyond are achieved. The programme was presented in 3 parts:

- 1) Initiatives requiring no public consultation i.e. either having no public impact, or having been already impact-assessed, mitigated where possible and / or justified. Some internal consultation may be required if the initiatives have a significant impact on employees.
- 2) Initiatives that will be subject to the impact assessment process and on which the Council will consult prior to implementation in 2016/17.
- 3) Initiatives that may require separate consultations and / or impact assessments in future years as proposals are further developed.

The revised Change Programme document for 2015-2018 was updated to reflect the revised budget allocations and the initiatives.

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The document restated the Council's approach to change, provided an update on progress in the first year of the programme, and outlined anticipated resources (both revenue and capital) and targeted outcomes over the next three years for each of the Council's nine Outcome Areas.

Outcome Delivery Plans

1. The Change Programme 2014-2017 document committed the Council to the development and implementation of a three-year budgeting and planning cycle.
2. Accordingly, in extending the Change Programme to 2018, the Council has undertaken an exercise to develop three-year Outcome Delivery Plans, supported by outline medium-term revenue and capital budgets.
3. The nine Outcome Delivery Plans – owned by Assistant Directors include the key measures of success for each Outcome Area over the next three years.
4. The nine Outcome Delivery Plans will be updated quarterly through the Council's performance management arrangements and fully revised on an annual basis. Assistant Directors will continue to engage with Overview and Scrutiny Board and Scrutiny Panels where relevant to test and develop proposals set out in the Plans and seek feedback.
5. The Ofsted report, on the 'Inspection of services for children in need of help and protection, children looked after and are leavers' published in February 2016 stated that children and young people in Middlesbrough are kept safe by the work of the Council. Adoption performance was good, as was the experience and progress of care leavers. Overall children's services requires improvement to be good in all areas.

Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

Elected Members are collectively responsible for the governance of the Council.

During 2015/2016 the Council operated a directly elected mayoral model with a new Mayor being elected in May 2015. The Mayor has appointed an Executive of eight single party Labour Executive Members (including the Deputy Mayor), which are focused on the delivery of the Council's priorities.

The Chief Executive, Section 151 Officer, Monitoring Officer and other senior managers are responsible for advising the Executive on legal, financial and other policy considerations.

The Council has formal, procedural and financial regulations to govern the conduct of the Council's business which are detailed in a number of documents including

- The Constitution
- Scheme of Delegation to Individual Members of the Executive

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- Scheme of Delegation to Officers
- Financial Procedure Rules
- Terms of Reference for the Independent Teesside Pension Fund Panel

The Council's Constitution is currently being reviewed to enhance the clarity and transparency of the roles and responsibilities of Councillors and Officers and to reflect the creation of the Combined Authority and the new management structure.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The standards of conduct expected of members and officers are clearly set out in the relevant codes of conduct documents. A specific responsibility in these codes is to cascade these expectations across the entire organisation.

The Council has an established Standards Committee, which gives the Council advice on adopting a local code of conduct, monitoring the effectiveness of the code and promoting and maintaining high standards of conduct for members. It also responds to national reviews and consultations on standards related issues. The committee also has power to conduct formal hearings to hear complaints that members have breached the Members Code of Conduct.

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.

The Council operates a process whereby the requirements to update standing orders and instructions is vested in the Chief Finance Officer and is achieved through appropriate consultation with the relevant Directorates.

Updated orders and instructions are communicated to all Directorates in writing.

During 2014/2015 a phased review of the whole of the Council's constitution took place. The complete constitution was agreed by Full Council on the 1 April 2015. A further update of the constitution was agreed by Council in March 2016 to reflect the creation of the Combined Authority and the new management structure.

The constitution can be found at the following link

<http://democracy.middlesbrough.gov.uk/aksmiddlesbrough/images/att1005591.pdf>

The Council's risk appetite and business continuity arrangements were reviewed in 2014/2015. A revised Risk Management Strategy will be implemented in 2016/2017, supported by a managers' toolkit and classroom training for Middlesbrough Managers.

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Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Finance Officer in Local Government (2010)

Compliance with this statement is agreed as 'proper governance arrangements' by the Society of Local Authority Chief Executives and the Chartered Institute of Public Finance and Accountancy. The authority's approach is to apply the principles of the statement.

The authority's financial management arrangements should conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) which are set out as follows;

1. The Chief Finance Officer is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Authority's strategic objectives sustainably and in the public interest.
2. The Chief Finance Officer is actively involved in, and able to bring influence to bear on material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Authority's overall financial strategy achieved.
3. The Chief Finance Officer leads the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
4. The Chief Finance Officer leads and directs a finance function that is resourced to be fit for purpose.
5. The Chief Finance Officer is professionally qualified and suitably experienced.

The Leadership Management Team fulfils the role set out in the SOLACE/CIPFA statement and the Chief Finance Officer is a key member of the Leadership Team. This strengthens governance arrangements bringing them into compliance with the SOLACE/CIPFA Statement.

The Chief Finance Officer reports directly to the Chief Executive where appropriate.

During 2015/2016, the Leadership Team fulfilled the role set out in the SOLACE/CIPFA statement and the Chief Finance Officer is a key member of the Leadership Team.

Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities

Part of the role of the Corporate Affairs and Audit Committee is to provide independent assurance of the adequacy of the internal control environment, and to oversee the financial reporting process. During the period since the last Governance Statement the Committee has held 4 meetings.

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Specifically, the Committee undertake the core functions identified in CIPFA's *Audit Committee – Practical Guidance for Local Authorities* by;

1. Reviewing the financial statements, external auditor's opinion and reports to members, and monitoring management action in response to the issues raised by external audit.
2. Approving (but not directing) internal audit's strategy and plan and monitoring performance.
3. Considering significant findings of internal audit reviews and investigations and monitoring implementation of agreed recommendations.
4. Supporting and monitoring the implementation and ongoing processes for identifying and managing key risks of the authority.
5. Ensuring that effective and proper processes and procedures are in place to ensure business continuity of the Council.
6. Reviewing and approving the Annual Governance Statement.
7. Monitoring the Council's compliance with its published standards and controls and recommending any necessary changes to Financial Regulations and Standing Orders.
8. Keeping under review the Council's arrangements for Corporate Governance and Policies and ensuring that effective systems are in place that will underpin the processes of the Council and ensure the highest standards in respect of audit and governance matters.

Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The following officers have specific duty to ensure that the Council acts in compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful;

1. Chief Executive Officer (Head of Paid Service)
2. Chief Finance Officer (Section 151 Officer)
3. Head of Legal Services (Monitoring Officer)

The Council has in place a range of policies, processes and procedures for managers and employees that establish a legal and ethical framework for action. During 2014/2015 the Council has reviewed all such documents to ensure their continued relevance and fitness-for-purpose in the light of the Middlesbrough Manager Competency Framework.

The specific policies and procedures are incorporated into a series of documents including:

1. Corporate Procurement Strategy
2. Financial Procedure Rules
3. Health and Safety Policy
4. Equality Policy

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Whistle blowing and the receipt and investigating complaints from the public

The Council has a documented Whistle blowing policy primarily for concerns where the interest of others or of the organisation itself, are at risk. The policy aims to encourage and enable staff to raise serious concerns of 'blowing the whistle' within the Council rather than overlooking the problem or raising the issue outside.

No matters were brought to the Council's attention during the period under review.

The Council also has a Corporate Complaints Procedure, which aims to ensure complaints, compliments and comments are dealt with speedily, fairly and consistently.

The Council defines a complaint as an expression of dissatisfaction by one or more members of the public about:

- The standard of a service
- The behaviour and/or attitude of staff
- A refusal, failure, delay or lack of a service by the Council or its staff
- The failure to follow Council policies and procedures

The Complaints procedure establishes timescales for dealing with complaints as well as identifying escalation procedures in the event that the complainant is dissatisfied with the response.

The complaints process has been reviewed as part of the development of the Council's Customer Strategy, with changes implemented in 2015/2016.

Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

Elected Members require an understanding of the on-going and emerging issues facing the community as well as the knowledge and skills to instill confidence through open and intelligent discussions and debates resulting in informed decision making. Members are also required to undertake training in respect of certain roles and in order to serve on certain committees.

An annual Development Programme for Elected Members is provided, which contains a range of different opportunities for attendance at learning events. These will include conferences, seminars, training courses, briefings, workshops and forums. The programme of planned activities is published by the Members resources team and the Member Development Working Group.

The development needs of senior officers are identified through appraisal, or through corporate review, as appropriate. In 2013/14 the Council outlined a new competency framework for managers – 'The Middlesbrough Manager'. The development programme for the Middlesbrough Manager Competency Framework was delivered during 2014/2015 and evaluated, receiving a high level of satisfaction with the training and the associated tools provided.

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A new appraisal system has been developed and implemented and all managers within the Council are now being assessed against this framework to ensure that managers are well-supported to deliver required outcomes and the cultural and service transformation outlined in the Change Programme.

A follow-up training programme for frontline managers was implemented in 2015/2016 and the Council will also launch a Learning Management System, supporting Middlesbrough Managers with appropriate e-learning.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The consultation and engagement mechanisms adopted by the Council are outlined in the Consultation Policy: a Framework for Effective Consultation. The Council has a range of well-established consultation and engagement mechanisms to identify local people's views and priorities including:

1. Community Councils, and;
2. Survey's (Voiceover citizens panel).

The consultation and engagement mechanisms are outlined in a number of documents including:

1. Framework for Effective Consultation
2. The Community Engagement Framework and Consultation Toolkit
3. Budget Consultation
4. Involving Children and Young People in Decision Making

The Council has a well-developed on-line consultation portal that provides access to live consultations, information on the outcomes of previous consultations and the option to register an interest in future consultations.

The Council also has an established citizens' panel (Voiceover) of around 1,200 local residents, recruited to be representative of the wider population. Panel members participate in up to three surveys a year, and are also invited to attend group discussions on particular issues. The panel supports the Council in clarifying local priorities and in evaluating and improving services.

During 2014/2015 the Council launched its new Love Middlesbrough Magazine which is distributed to every household in the town.

The magazine highlights positive news in the town and also acts as a source of information for local people, ranging from advice on health and welfare to a guide on the best in arts and culture. During 2015/2016, four editions of the magazine were published.

The Council's approach to consultation and engagement has been reviewed as part of the development of the Council's Customer Strategy, with changes implemented in 2015/2016.

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Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements

Middlesbrough Council operates in conjunction with more than 100 partners in a range of contractual, strategic, project and delivery arrangements. As a comparatively small town, relationships with partners are generally close and there is a well-established and understood common agenda enshrined in key documents, particularly the Joint Health & Wellbeing Strategy

At a local level, the Middlesbrough Health & Wellbeing Board, is the key partnership bringing together parts of the public sector, private business community and voluntary organisations so that different initiatives and schemes support each other and work together. In addition, the Council works with the other four Councils of the Tees Valley in a number of partnerships designed to improve quality of life in the area, in particular through Tees Valley Unlimited, which secured Local Enterprise Partnership (LEP) status during 2011.

On the 1 April 2016, through legislation, a combined authority for the Tees Valley came into existence. As a result of this development, the Council's Constitution is being subject to review to reflect the creation of the Combined Authority.

The Council has a successful record in partnering with the private and 'third' sectors. The governance arrangements are considered robust for all partnerships.

Following an appraisal of the Council's Sport and Leisure Services using the Council's alternative delivery model a Leisure Trust was identified as the preferred option for delivering this service. Following a major procurement process the preferred option was delivered on time and exceeded the anticipated savings targets. This process resulted in the services transferring to Sport and Leisure Management Ltd, under the brand '**Everyone Active**' from 1st April 2016.

The Health and Wellbeing Partnership was been reviewed in 2014/2015 and revised arrangements to streamline partnership were implemented in 2015/2016.

Review of Effectiveness

Middlesbrough Council has responsibility for conducting, at least annually, a review of the effectiveness of the corporate governance arrangements and the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of Internal Audit and the statutory officers within the Authority, who have a responsibility for the development and maintenance of the internal control environment, and also by comments made by our external auditors and other review agencies and inspectorates. In determining the effectiveness of the system of internal control review activities have been undertaken by a number of parties. These include:

- Statutory officers

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- The Overview and Scrutiny Board
- Internal Audit
- External audit
- Other inspection and review agents
- The Executive
- Corporate Affairs and Audit Committee
- The Standards Committee
- Executive Directors and Assistant Directors

For the year under consideration, the key internal assurance work has been provided through Internal Audit. A number of areas of improvement were identified and will be implemented through an agreed action plan and prioritised on the assessed level of risk.

The following issues were raised as part of the last year's statement of accounts regarding the Council's governance arrangements. A series of action plans have been developed to address the matters raised to resolve any specific concerns and strengthen the Councils overall governance framework.

Senior Management Review.

During 2015, the Executive Director, Commercial and Corporate Services identified that the Council was carrying significant risk due to the split responsibilities in relation to a number of key business processes. Responsibility was split between the Assistant Director, Finance & Investment (Section 151 Officer) and Assistant Director, Organisation & Governance (monitoring Officer) around the following themes:

- Programme Management
- Project Management
- Capital Monitoring
- Revenue Monitoring
- MTFP Processes
- Balanced Scorecard
- Risk Management

The Executive Director proposed that these risks would be significantly mitigated through combining the two existing Assistant Director posts into a single post of Strategic Director, Finance and Governance which will also be the Council's section 151 officer. Other statutory duties which were carried out by the previous two roles are now being carried out as follows:

- Monitoring Officer – Head of Legal Services
- Returning Officer – Head of Democratic Services

Peer Review

In January 2016 the Council invited the Local Government Association to deliver a Corporate Peer Review of the Council to assess whether the Council's own view of its governance gaps were supported by an independent assessment.

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The review team identified many key strengths and also made nine key recommendations where improvements could be made to improve governance and key outcomes for the town. These recommendations confirmed areas for improvement which the Council had already identified and which were already being taken forward in a Governance Improvement Plan, reported to Corporate Affairs and Audit Committee in September 2015.

Governance Improvement Plan

The Governance Improvement Plan and other governance improvement actions arising from the peer review have been consolidated into the Council Improvement Plan (**CIP**). This was agreed by Executive on 10 May 2016. The plan sets out how the Council will deliver the improvement plan; and monitor the delivery of agreed actions.

Sufficient resources have been put in place to drive delivery of improvement actions, in line with planned timescales, and provide independent quality assurance across a range of disciplines.

The Council has engaged Deloitte to provide a support package that would see a range of specialists brought in to:

- review current reporting and governance arrangements
- review the draft **CIP** content; and
- oversee delivery of the **CIP** with provision of advice and quality assurance as required.

Deloitte Review of Governance

The Deloitte review was split into two parts and conducted concurrently. One team reviewed the original **CIP**, while another reviewed the Council's Change Programme structures and governance arrangements. The reviews were completed by the end of June. Deloitte acknowledged that the Council's pace of progress meant that even by the middle of July, further progress had been made in addressing the governance issues within the scope of the original **CIP**. To summarise, Deloitte found that:

- there was a strong commitment to making the changes required to drive improvement in the Council;
- frameworks for new governance structures and processes have been created but, at the end of June there was still work to be undertaken to implement and embed them; and
- there were plans for implementation of most improvement actions within the **CIP**, although further work was needed to document and share some of those plans.

Deloitte's reports added value to the **CIP** by identifying areas where actions within the original plan needed to be strengthened to ensure:

- the quality of performance related information provided to Members and senior officers is strengthened to support effective scrutiny and oversight;
- the culture of accountability for performance is strengthened; and

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- programme and project management processes are revised to ensure standardised reporting structures and governance arrangements are in place going forward, enabling officers to be held accountable more effectively.

The results of Deloitte's review of Governance have been formulated into an updated action plan to ensure the changes required are delivered in a timely manner. Since their initial report was provided to senior managers in May 2016, substantial improvements have been made and progress acknowledged. While further work is required to deliver all aspects of the improvement plan, the summary set out in Appendix 1 shows the direction of travel in ensuring the improvements to the Council's governance framework are achieved.

Internal Audit Opinion

The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2015/16 is that they provide **Good Assurance**.

This opinion is based on the work performed by the internal audit team during the year 2015/16 and no reliance was placed on the work of other assurance bodies in reaching this opinion.

The Audit and Assurance Manager made reference to the positive outcomes of many audits particularly in relation to the controls of the key financial systems and acknowledged that considerable action is now ongoing to effect improvements in the Councils Governance Framework; all issues raised have all been reflected in the Council's Governance Improvement Plan.

A summary of audit work and conclusions for 2015/16 is provided in Appendix 2 demonstrating that only one Grade 1 control issue was identified during the year.

Significant governance issues

The Internal Control environment had highlighted, at the end of 2015/16, the following area of concern requiring improvement and / or careful monitoring.

2015 / 2016 Areas requiring Improvement	Action Taken 2015 / 2016 and Planned 2016 / 2017
<p>Project Governance and Property Disposals</p> <p>The audit reviewed the governance, monitoring and decision making arrangements across the 7 areas and has carried out detailed testing where appropriate. Processes and procedures have been assessed to ensure that they are suitable, robust, and are operating effectively. However, some weaknesses in the control environment have been identified, demonstrating that the governance and control framework is not fit for purpose.</p>	<p>Response</p> <p>Significant progress has been made in the review and control of property disposals and a revised Council Improvement Plan (CIP) has been developed to resolve issues raised in the report. Progress will be monitored through anew working group to enhance control and ensure best value for the Council form its asset disposals</p>

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2014/2015 Areas Requiring Improvements	Action Taken 2015 / 2016
<p>Project Management</p> <p>The existing project management governance arrangements do not currently help support the Council's vision and objectives as there is no effective overall programme management of the Council's portfolio of capital projects. The Council needs to establish a project management framework together with associated procedures to be used by all officers engaged in project management or related assignments.</p> <p>The recommendations of the draft audit report are being addressed by the Executive Director of Corporate and Commercial Services. Connected to the need for an effective project management framework, a number of specific developments and/or projects are currently also being reviewed by the internal auditors, this audit work is still in progress but initial findings suggest the need for greater clarity as to roles and responsibility to ensure clear ownership and the need for close monitoring and supervision of the processes involved.</p> <p>Middlesbrough Manager</p> <p>The successful roll out and adoption of Middlesbrough Manager is key to ensuring that Middlesbrough Council has an effective governance structure. Whilst the programme was at too early a stage to carry out a compliance audit during 2014/15, this will be an area requiring internal audit input during 2015/16 to confirm that the programme is operating as intended.</p>	<p>Response</p> <p>A comprehensive review of internal project management processes has been completed and new methodologies being implemented to enhance control in this area specifically in respect of</p> <p><u>Disposal of Property</u> – enhanced process reviews implemented with formal oversight by the Section 151 Officer and Monitoring Officer on all property transactions in place</p> <p><u>Project Management</u> – new systems identified to support effective control and monitoring of major projects and streamlined processes with key milestone reviews planned for 2016/17 under the Council's Capital Investment Strategy. Revised financial evaluation methodologies to optimise value for money in place.</p> <p>Monitoring A working group has been established to monitor and challenge major projects to ensure they deliver planned outcomes within agreed budget parameters.</p> <p>Response</p> <p>Phase three of the Change Programme will focus on delivering the cultural changes necessary to embed the principles of Middlesbrough Manager across all departments of the Council. Core systems provide “self-service” access to allow managers to manage and control their operations to enhance accountability and responsibility</p>

The Internal Control environment has highlighted, at the end of 2015/2016, the following areas of concern requiring improvement and / or careful monitoring. CIPFA guidance on the definition of a “significant internal control issue” (in relation to the

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Accounts & Audit Regulations 2003) has been used to identify appropriate issues for inclusion within this statement.

Officer and Member Review

On the basis of the self-audit processes and effectiveness reviews carried out to date, we are satisfied that, except for the areas of concern listed above and confirmation on the management arrangements, the Council's corporate governance procedures, including the systems of internal control, are sufficient and operating effectively.

Improvements to the Council's overall framework of governance and control continue to progress well and are being monitored through the Council Improvement Plan. These changes will support the delivery of the Mayor's Vision and ensure that the citizens of Middlesbrough receive value for money services through efficient outcome management and effective financial control.

We are satisfied that the Council's management arrangements, supplemented by the continued officer and Member involvement in the corporate governance process, will deliver the required improvements and continued development of the governance and control framework to enhance the overall effectiveness of the Council.

Signed:

David Budd
Elected Mayor

.....

Tony Parkinson
Interim Chief Executive

.....





Mark Taylor
Interim Chief Finance Officer

.....







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Appendix 1 : Council Improvement Plan

Summary of Progress September 2016 following review of the CIP by Deloitte

Issue	Action Required	Direction of Travel
Financial Performance Reporting	<ul style="list-style-type: none"> ▪ A complete review of financial performance reporting was performed in May 2016 resulting in the development of a single report setting out all aspects of the financial outturn for the year 2015/16. The report covered the core aspects of financial management including revenue and capital budgets, savings delivery, treasury management and reserve utilisation. ▪ The Budget Monitor is now prepared on a quarterly basis with initial results reported to senior management in the first week of the following quarter and covers revenue and capital budget performance, savings delivery, treasury management and reserves position. An action plan of key issues raised in the report is prepared for senior management review on a monthly basis. ▪ A comprehensive action plan to improve and embed the use of Agresso as the Council's core financial information system has been developed and will be implemented during the autumn of 2016. 	
Financial Planning	<ul style="list-style-type: none"> ▪ The production of the 2016/17, four year Medium Term Financial Plan (MTFP) was acknowledged by Deloitte as a well-managed process engaging with relevant senior managers across the Council ▪ The MTFP is aligned with the Strategic plan and owned by all areas of the organisation. ▪ Procedures have been developed by senior managers to ensure that the robust review approach continues and that the MTFP is regularly refreshed and 'owned' by relevant operational managers ▪ To ensure that this is embedded in managerial practice, a Managers Network presentation on the MTFP, reinforcing roles and responsibilities, will be presented to the Management Network and relevant information placed on the intranet within the Managers' Toolkit. 	
Performance Management	<ul style="list-style-type: none"> ▪ Finance and performance management reporting will be embedded within one quarterly report from quarter two 2016/17. ▪ The balanced scorecards model and content has been reviewed and the link between the Change Programme and scorecards strengthened. ▪ The model now reflects the differences across outcome areas in size, complexity and priorities ▪ The recommendations within the updated CIP relate to rolling out training on the balanced scorecards, continuing to review the model to ensure it remains user friendly as changes occur and ensuring the improvements in relation to the provision of timely finance information are sustained. 	
Risk Management	<ul style="list-style-type: none"> ▪ An improvement plan for risk has been developed and implementation of this is well underway. ▪ Information is now shared between risk and insurance officers and risk registers created on an ICT solution. Managers will be given direct access to this as part of the Risk Management improvement plan to enable 'self-serve'. ▪ The delivery of training to members and officers on risk management, to ensure that a culture for compliance in relation to risk management is embedded within the organisation, is being developed. 	

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Decision Making	<ul style="list-style-type: none"> ▪ The updated CIP reflects the progress made in this area and focusses on the following outstanding actions: <ul style="list-style-type: none"> ▪ further communication with wider groups of staff and members, ▪ revision of the member development programme to provide refresher training on key governance issues ▪ ensure that there are plans for compliance checks in relation to decision-making processes. 	
Asset Disposals	<ul style="list-style-type: none"> ▪ The control and monitoring of asset disposals has been subject to review during the first quarter of 2016/17 to ensure the Council receives best value from the sale of its assets ▪ Revised management arrangements are being implemented to more closely link asset disposals with the delivery of the Council's Strategic Plan and MTFP objectives ▪ Pending the full introduction of the PMO, the Capital Programme Board will ensure key asset disposals are properly managed to ensure disposal values are positively challenged and delivered in a timely manner 	
Change Programme / Programme and Project Management	<ul style="list-style-type: none"> ▪ The Programme and Project Management (PPM) framework was an area of concern in 2014/15 but has been improved to allow Internal Audit to give a "moderate control" opinion in March 2016. ▪ The key enhancement is the implementation of a computerised Project Management Office (PMO). With the support of external resource support by Deloitte, this project remains on target to deliver a solution by October 2016 ▪ The updated CIP reflects this progress. The one outstanding action noted above, along with recommendations from the Internal Audit report, have been included within the improvement plan for PPM. ▪ The focus of the CIP is now to ensure effective oversight of the revised processes and embedding change in operational areas to fully utilise the PMO solution and enhance overall control. 	
Embedding Business Change	<ul style="list-style-type: none"> ▪ Deloitte have identified an additional improvement of ensuring business change is embedded and reflecting the importance of training and organisational development across a number of the themes. ▪ A plan will be developed during the autumn 2016 and will form part of the Change Programme, phase 3, to embed cultural and behavioural change 	
Vision and Strategy	<ul style="list-style-type: none"> ▪ Major improvements to the develop of the Mayor's Vision and the Strategic Plan have given focus to the key delivery objectives of the Council ▪ The overall strategic masterplan were approved by Executive and Council in July 2016 	
Partnership Working	<ul style="list-style-type: none"> ▪ A draft action plan has been prepared to improve communication and co-operation with the key partners such as Health Care providers and the voluntary sector 	

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Appendix 2 : Internal Audit Coverage 2015/16

Audit Title	Audit Opinion	Grade 1	Grade 2	Grade 3
Cultural services	Cause for Concern	0	10	4
Building control	Good	0	2	4
Acklam Hall	Moderate	0	0	0
Ayresome Industries	Cause for Concern	0	13	0
Travel and subsistence	Good	0	1	3
Bereavement Services	Moderate	0	6	3
Town hall and theatre refurbishment project	Moderate	0	4	0
Council tax and business rates	Good	0	1	0
Capital accounting	Strong	0	0	3
Housing and council tax benefits	Strong	0	0	0
Payroll	Strong	0	0	3
Pension fund investments	Strong	0	0	1
Treasury Management	Strong	0	0	2
Creditors	Moderate	0	0	0
Debtors	Moderate	0	0	0
Main accounting	Good	0	0	0
Pension fund admin	Strong	0	0	0
Trading standards	Strong	0	0	0
School readiness	Strong	0	1	0
Declaration of gifts/interests/hospitality	Cause for Concern	0	2	5
IT Governance	Cause for Concern	0	6	0
Project Governance and Property Disposals	Cause for Concern	1	0	0
Coroner's Service	Good	0	2	1
Officer Decision Making	Good	0	1	4
Service continuity	Good	0	3	0
Change Programme/Transformation Plan	Moderate	0	0	0
Registrar's Service	Strong	0	0	2
Members' Allowances	Strong	0	0	2
Middlesbrough Manager/Appraisals	Good	0	0	0
Safeguarding adults - Guardianships	Good	0	3	0
Liquid logic adults care management system	Strong	0	0	0
Social care payments	Moderate	0	0	0
Child Exploitation	Good	0	0	3
Residential homes	Moderate	0	4	1
Youth offending service	Moderate	0	5	1
Liquid logic children care management system	Strong	0	0	0
Bus station and CCTV	Good	0	3	1
Transporter bridge	Moderate	0	4	2
Selective Landlord Licensing	Strong	0	0	0
Total Recommendations		1	71	45

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Accounting Period

The period of time covered by the accounts; normally a period of 12 months commencing on 1st April and ending as at the balance sheet date of 31st March.

Accrual

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the balance sheet date.

Accrued Benefits

The benefits for service up to a given point in time, whether vested rights or not.

Actuarial Gains and Losses

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

Actuarial Valuation

A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Accumulated Absences Account

A new requirement under IFRS is that the Council must make an accrual in its accounts at year end for any annual leave earned but not taken by employees at the end of the financial year.

Annual Governance Statement

The Annual Governance Statement is compiled following the review by the Council of the effectiveness of the systems of internal control and governance arrangements.

Section 9: Glossary of Terms

Assets Held For Sale

Assets held for sale are those where the value of the asset will be recovered by selling the asset rather than through usage. To be classed as held for sale the asset must meet the following criteria:

- Be available for immediate sale in its present condition.
- Its sale must be highly probable.
- Management expects the sale to take place within twelve months.

Assets Under Construction

At any time some projects will be incomplete and will need to be classified as 'fixed assets under construction'. The term can include assets which are complete but not yet operational, as well as items that are not complete. It is usual for assets under construction to be recognised but recorded as non-operational until they are brought into use, at which point they are recognised as operational assets.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor.

Balance Sheet

A statement of the balances and reserves at the Local Authority's disposal, the net current assets employed in its operation and the value of fixed assets held.

Budget

A statement reflecting the Council's spending plans for a specific period. The annual revenue budget is normally finalised and approved in February prior to the commencement of the new financial year.

Capital Charges

A charge of service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or which adds to the value of an existing fixed asset.

Capital Adjustment Account

The Capital Adjustment account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Section 9: Glossary of Terms

Capital Financing

The methods of financing capital expenditure. This includes borrowing, direct revenue financing, leasing, the use of capital receipts, capital grants and external contributions.

Capital Grant

Grant from Central Government used to finance specific schemes in the capital programme. Where capital grants are receivable these are used, as far as possible, to finance capital expenditure to which they relate in the year that the grant is received.

Capital Receipts

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e. to repay outstanding borrowing or to finance new capital expenditure. Any receipts, which have not yet been utilised, are referred to as "capital receipts unapplied".

Cash and Cash equivalents

Cash equivalents are - "short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". They are shown in the Balance Sheet along with cash under the heading "Cash and Cash equivalents". Previously, cash equivalents were held as Investments on the Balance Sheet.

Collection Fund Account

This account records the income received by the Council in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and to the general fund.

Community Assets

Assets that the Local Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Component Accounting

Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they should be recognised separately. For example, certain assets such as the Council's crematorium are made up of separate elements that have different useful lives.

Section 9: Glossary of Terms

Contingency

The sum of money set aside to meet unforeseen expenditure or liability.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the Local Authority's control.

Contingent Liability

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

The corporate and democratic core comprises all activities in which local authorities engage specifically because they are elected, multi-purpose authorities. The cost of these activities are over and above those which 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.

Council Tax

The form of local taxation in use since April 1993, based on property values and occupancy levels.

Creditors

Amounts owed by the Council for work done, goods received or services provided by the end of the financial year for which payment has not yet been made.

Current Assets

An asset which will be consumed or cease to have material value within the next financial year (e.g. stocks and debtors).

Current Liabilities

These are amounts owing by the Council, which fall due for payment within a year, for example creditors or cash overdrawn.

Section 9: Glossary of Terms

Current Service Costs (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from the employee service in the current period.

Curtailement

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

Debtors

Income due to the Council for services performed in the financial year for which payment has not been received by the end of the year.

Deferred Credits

Capital income due to be received in the future when disposals have taken place, e.g. the principal outstanding from the sale of Council houses.

Deferred Liabilities

Liabilities which, by arrangement, are payable beyond the next year, at some point in the future or paid off by an annual sum over a period of time.

Deferred Pensions

Individuals who have ceased to be active members but are entitled to benefits payable at a later date.

Defined Benefit Scheme

A pension scheme which defines the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme.

Deminimus

A deminimus level is adopted to only reflect material transactions in the capital accounts. The Authority's policy on deminimus levels are outlined in the statement of accounting policies.

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Depreciation

The measurement of the cost of re-valued amount of the benefit of the fixed assets that have been consumed during the accounting period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Direct Revenue Financing

Resources provided from the authority's revenue budget to finance the cost of capital projects.

Discretionary Benefits

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers.

Earmarked Reserves

These reserves represent monies set aside that can only be used for a specific purpose.

Equity

The net value of the Council's assets represented by reserves and balances.

Expected Rate of Return on Pension Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events of transactions that fall outside the ordinary activities of the authority and are not expected to recur.

Financial Reporting Standard (FRS)

These standards are developed by the Accounting Standards Board and regulate the preparation and presentation of financial statements. The Companies Act 1985 requires compliance to these Standards or disclosures on the notes if there are any material departures from those Standards.

Section 9: Glossary of Terms

Fixed Assets

Fixed assets that yield benefits to the Local Authority and the services it provides for a period of more than one year.

General Fund

The Local Authority's main revenue fund from which the cost of providing Council services is met. The main sources of income paid into the fund are the precept on the collection fund and specific government grants.

Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture.

Impairment

Where there is a clear consumption of economic benefits to a fixed asset, such as physical damage or deterioration in the quality of service provided by the asset. Also, it can include a significant decline in a fixed assets market value.

International Financial Reporting Standards - IFRS

International Financial Reporting Standards is the basis on which the Council's accounts are to be prepared from 1st April 2010.

Intangible Assets

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. Examples of this type of expenditure are software and other licences, patents and trademarks and artistic originals.

Investment Property

An investment property is defined as a property, which is held exclusively for revenue generation or for the capital gains that the asset is, expected to generate. The asset is not used directly to deliver the Council's services. Investment properties are initially measured at cost and thereafter at market value.

Local Management of Schools

This refers to the statutory delegation of management and budget responsibility to individual schools. Individual schools' spending is not included in the Comprehensive Income and Expenditure statement. Surpluses or deficits are carried forward into the next financial year.

Section 9: Glossary of Terms

Materiality

The concept that the Statement of Accounts should include all amounts, which, if omitted or misstated could be expected to lead to distortion of the financial statements.

Minimum Revenue Provision (MRP)

The minimum annual charge to the revenue account for the repayment of outstanding long-term debt.

Movement in Reserves Statement

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

Non-Domestic Rates (NDR) (also known as Business Rates)

The business rate in the pound is the same for all non-domestic ratepayers and is set annually by the government. Income from business rates goes into a central government pool that is then distributed to authorities according to resident population.

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost of current value less the cumulative amounts provided for depreciation.

Non-Distributed Costs

These are costs for which no user directly benefits and should not be apportioned to services.

Non-Operational Assets

Non-operational assets are fixed assets held by the authority but not directly occupied or used in the delivery of services. They include surplus properties awaiting disposal, investment properties and assets that are under construction.

Operational Assets

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

Section 9: Glossary of Terms

Operating Leases

A lease other than a finance lease.

Operating Segments

The Council is required to identify and disclose information in its financial statements in respect of operating segments i.e. by Directorate. These are components of the Council about which separate financial information is provided to the Corporate Management Team and Members and is used in deciding how to allocate resources and in assessing performance.

Past Service Cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept

The levy made on billing authorities by other bodies requiring them to collect income from Council taxpayers on their behalf, e.g. Police Authority.

Provisions

Funds set aside to cover potential liabilities which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability is currently not known.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Section 9: Glossary of Terms

Related Parties

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same sources; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own separate interests.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, or for, a related party irrespective of whether a charge is made.

Revaluation Reserve

The revaluation reserve was introduced as part of the changes included within the 2006 SORP. The purpose of the reserve is to record the gains on revaluation of fixed assets that have not yet been realised through the disposal of the asset. The balance on the reserve represents the revaluation gains accumulated since the 1st April 2007.

Reserves

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the authority. Some reserves are earmarked for specific purposes.

Revenue Expenditure

The day-to-day costs incurred in providing Council services. This comprises of staff costs, other operating costs and capital charges.

Revenue Support Grant

The main source of funding for local authorities provided by Central Government.

Service Reporting Code of Practice

A Chartered Institute of Public Finance (CIPFA) guide to accounting, which provides a consistent and comparable calculation of the total costs of services.

Section 9: Glossary of Terms

Specific Grants

Government grants given to local authorities and earmarked for specific services, e.g. Standards Fund Grant paid to Children Families & Children service.

SORP

Statement of Recommended Practice issued by CIPFA for accounting for transactions in the Financial Statements.

Stocks (Inventories)

The amount of unused or unconsumed stocks 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. Stocks comprise the following categories:

- goods or other assets purchased for resale.
- consumable stores.
- raw materials and components purchased for incorporation into products for sale.
- products and services in intermediate stages of completion.
- long-term contract balances, and finished goods.

Useful Life

The period over which the Local Authority will derive benefits from the use of a fixed asset.

Work in Progress

The cost of work undertaken on an uncompleted project as at the end of the financial year.