

# **Middlesbrough Council Annual Statement of Accounts for the Year Ended 31 March 2017**



**Middlesbrough Centre Square**

# Annual Statement of Accounts 2016/2017

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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 31 March 2017 and a summary of its income and expenditure during 2016/2017. 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 2016/2017, and International Financial Reporting Standards. The draft accounts are available on the Council's website: [www.middlesbrough.gov.uk](http://www.middlesbrough.gov.uk)

The Statement of Accounts will be approved by the Council's Audit and Corporate Affairs Committee on 28th September 2017, 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

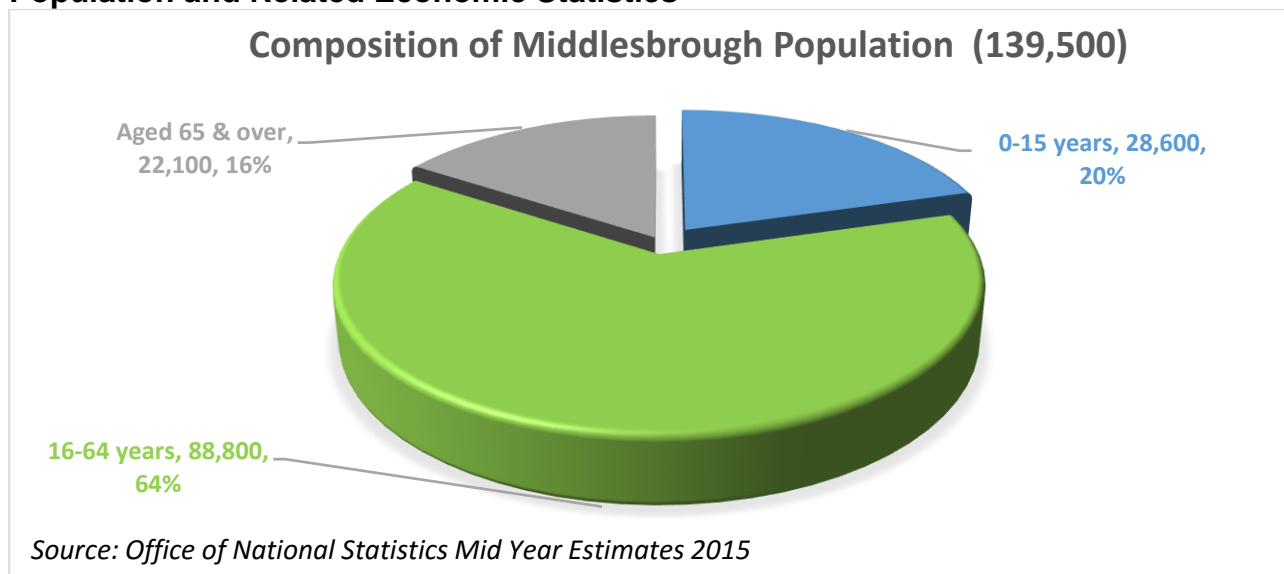
Middlesbrough Council is a large and diverse organisation and the aim of this Narrative Report is to provide both guidance and context to the accounts, presenting a summary of the Council's financial position, financial performance, and non-financial performance for the year, its prospects for future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

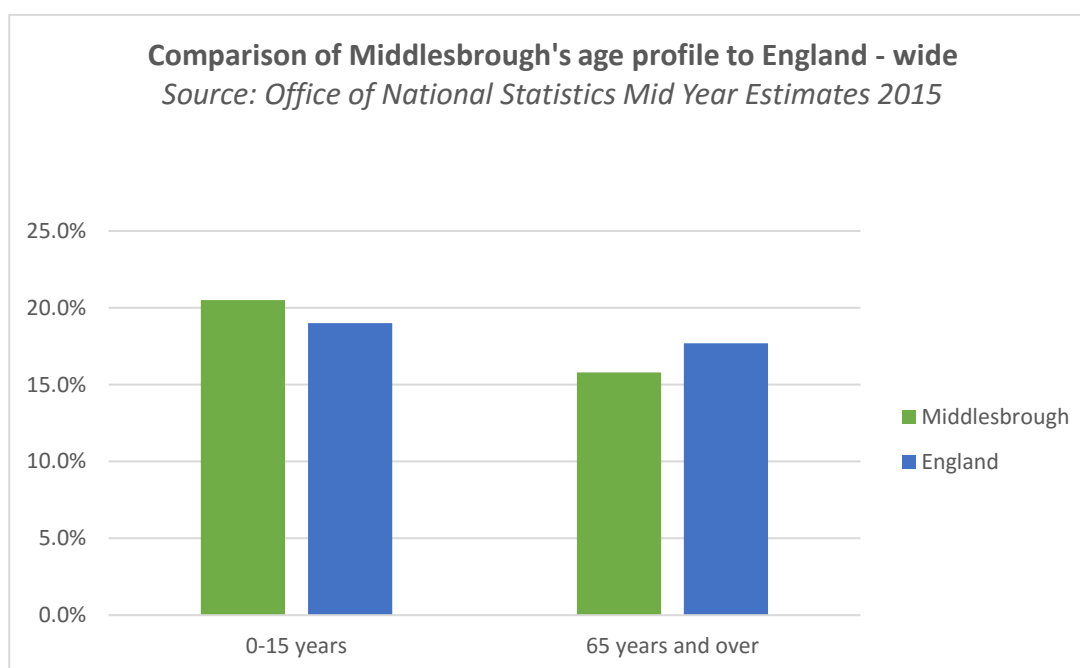
### Population and Related Economic Statistics



## Section 1: Narrative Report

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 (2015) reported that Middlesbrough's estimated population was 139,500, with the age profile as shown on the previous page. Middlesbrough has a relatively young age profile, with proportionally more people aged 0-15 years compared to those aged 65 or over. Whilst the trend for more people aged 0-15 years than 65 years or over is in line with the national trend, Middlesbrough shows a marked difference between the two proportions when compared to the national average as shown below:



Economic data from Nomis Official Labour Market Statistics for the period January 2016 – December 2016 shows the following:

	Middlesbrough	North East	England
Gross Annual Pay (Median)	£25,029	£25,650	£28,503
Unemployment rate (16 – 64) (as proportion of economically active)	8.1%	6.6%	4.6%

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

### Political Structure in 2016/2017

The Council operates a Mayoral style of government led by the Mayor supported by a small Executive team chosen by the Mayor, David 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.

## Section 1: Narrative Report

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. The political make-up of the Council at 31 March 2017 is:

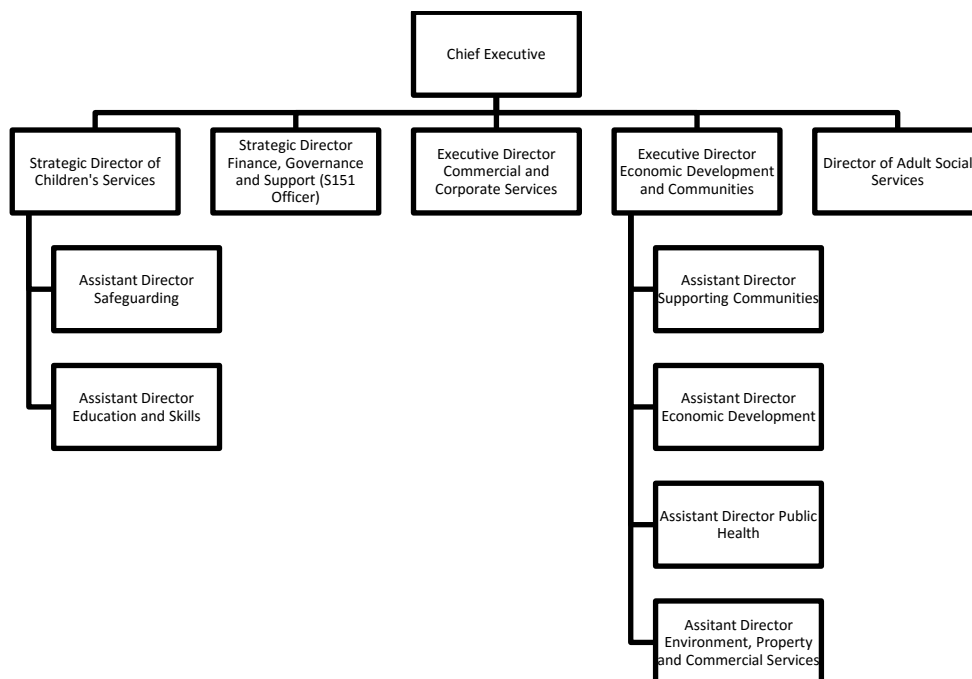
Elected Members	47
Mayor David Budd (Labour)	
Conservative	4
Independent	3
Labour (including Elected Mayor)	33
Marton Independent Group	2
Middlesbrough Independent Councillors' Association	4
Vacant	1

### Management Structure

#### Leadership Team

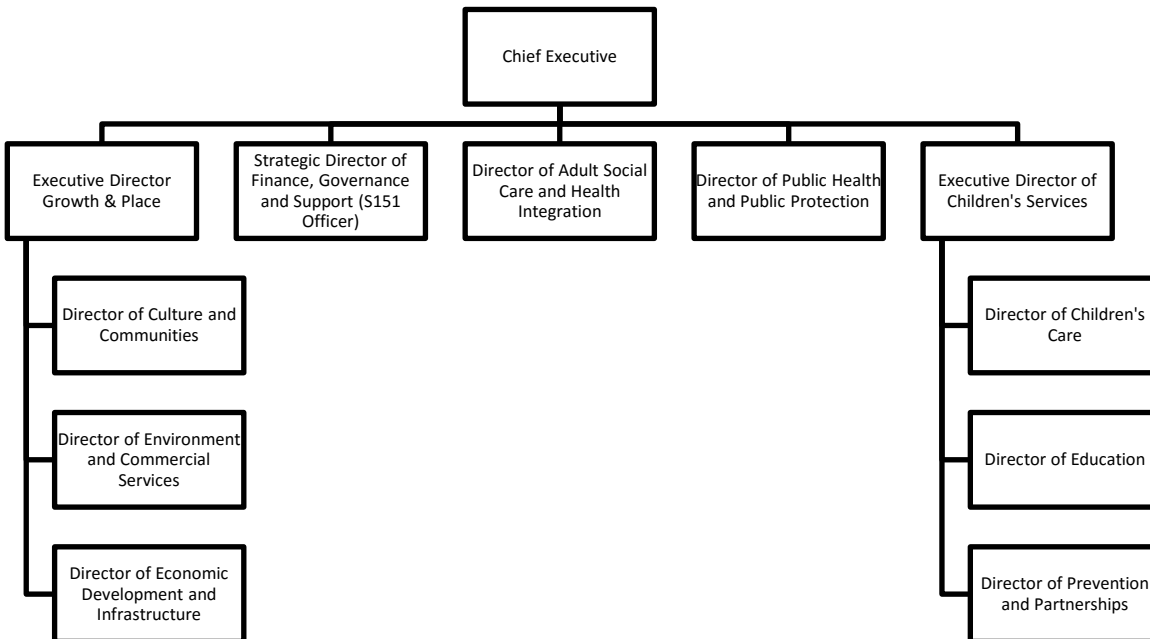
Supporting the work of the Executive and Council are the officers of the Council headed by the Chief Executive. The organisational structure of the officers is kept under constant review to ensure it meets both the needs of the Council and to provide effective management of the Council's day to day operational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

The Leadership Team structure that existed for the majority for 2016/17 is set out below. The 2016/17 accounts have been based on this structure.



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A new Leadership Team structure came into effect operationally on 31<sup>st</sup> January 2017 and this is set out below.



## 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, and ‘The Vision for Middlesbrough 2025’ which has been 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](http://www.middlesbrough.gov.uk)

## Investment Prospectus

Bold and ambitious plans to drive forward Middlesbrough’s future were formally launched on 13<sup>th</sup> March 2017. The strategy will see Middlesbrough transformed through investments totaling almost **£700 million**.

Over the next four years the Council is committed to an injection of **£74 million** into a series of exciting developments as part of the town’s far-reaching [Investment Prospectus](#).

Confidence in Middlesbrough’s growing stature as the city heart of the Tees Valley will serve as a catalyst for the creation of **5,000 new jobs**, in tandem with inward investment from the private sector and other parts of the public sector.

Developments featured in the Investment Prospectus include a £30 million Snow Centre at Middlehaven, a 450-bed student village linked to Teesside University, a brand new Media and Innovation Village and Grade A Town Centre office space. New regeneration will

## Section 1: Narrative Report

transform more than 57 hectares of land, with the development of an estimated 1.7 million square feet of new business accommodation.

### Financial Review 2016/2017

#### Setting the Revenue Budget for 2016/2017

In preparing the 2016/2017 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.
- 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 2016/2017 budget, service budget reductions of approximately £14.1 million and a Council Tax increase of 3.98% were approved by the Council on the 2<sup>nd</sup> March 2016.

The Council revenue budget for 2016/2017 was £115.912 million and funded as follows:

	£m
Revenue Support Grant	27.645
Top Up Payment	21.810
Local Share of Non Domestic Rates	19.943
Council Tax	46.514
<b>Total net revenue budget in 2016/2017</b>	<b>115.912</b>

## Section 1: Narrative Report

### Budget Outturn 2016/2017

The Budget Outturn was reported to the Executive on 13<sup>th</sup> June 2017 and summarised the council's financial outturn in respect of its revenue budget, capital programme, treasury position and reserves movements during the year.

#### Revenue

The Council's Revenue Outturn resulted in an underspend of £216,000, 0.2% of the total budget.

Directorate	Full Year Budget £'000	Outturn £'000	Over / (under) spend £'000
Economic Development and Communities	32,300	31,835	(465)
Children's Services	27,718	28,773	1,055
Adult Social Care	40,204	39,768	(436)
Finance, Governance and Support	11,471	11,401	(70)
<b>Total Service outturn</b>	<b>111,693</b>	<b>111,777</b>	<b>84</b>
Central costs and contribution to Reserves	4,219	3,919	(300)
<b>Revenue Outturn</b>	<b>115,912</b>	<b>115,696</b>	<b>(216)</b>

#### Capital

The year-end position of £36.963m on the Council's Capital Programme represented a nominal overspend of £573,000 (1.6%), primarily as a result of a technical accounting adjustment made to recognise within the 2016/17 accounts, a loan payment due to be made by the Council in 2017/18.

Outcome Area	Full Year Budget £'000	Outturn £'000	Over / (under) spend £'000
Economic Development	21,511	20,332	(1,179)
Supporting Communities	25	0	(25)
Improving Public Health	930	2,788	1,858
Learning and Skills	2,233	2,171	(62)
Safeguarding and Children's Care	0	0	0
Social Care	2,386	2,274	(112)
Environment, Property and Commercial Services	5,782	5,823	41
Finance, Governance and Support	3,523	3,575	52
<b>Total</b>	<b>36,390</b>	<b>36,963</b>	<b>573</b>

A number of major projects commenced in the year, supporting the continued development of the town as the vibrant centre of the Tees Valley:

- Middlehaven Relief Road – Dock Bridge (total cost £9.6m)
- Middlesbrough Town Hall Redevelopment (total cost £8.2m)
- Highways Improvements (£3.8m spent in 16/17)
- Street Lighting LED Replacement Programme (£2.4m spent in 16/17)



## **Section 1: Narrative Report**

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**

2016/17 witnessed the development of Middlesbrough's first Investment Prospectus. Launched in March 2017, the delivery plan details real-world interventions and investments by Middlesbrough Council, strategic Partners and investors. Backed by £74m of Council investment (2016 – 2020), the projects outlined have been developed to deliver economic opportunities for Middlesbrough, whilst contributing to the Council's long term financial stability through enabling new income streams from Business Rates and Council Tax yields.

Many of the projects underpinning the Investment prospectus have been in advanced development / preparatory stages throughout 2016/17. This work will culminate in the commencement of a number of major investments from 2017. Whilst a number of town centre enhancements have commenced delivery, new housing opportunities will start on site and the Middlehaven Dock Bridge (and associated highways improvements) will commence development.

Development and economic growth momentum within Middlesbrough has been well sustained, notably with the official opening of the Advanced Manufacturing Park / TWI facility, by Lord Hesletine and the seismic shift in perceptions created by the growing success of Orange Pip Market and a host of new hospitality retailers entering the town centre marketplace.

From a highways and infrastructure perspective, the enhanced programme of highway improvements has been delivering well with the notable completion of the Cargo Fleet enhancements and completion of the LED streetlight upgrade programme. Working closely with Tees Valley Combined Authority, new enhancements and funding opportunities are being explored on both a local, and Tees Valley, level.

#### **Supporting Communities – Outcome 2**

2016/17 saw the launch of a new way of working between the Stronger Families Service and Health Visitors, to support children and families where progress of 0-4 year olds was lower than expected. The new model provides greater focus to the network of seven Children's Centres, and underpins the overall Early Help approach.

The Service achieved other significant successes for 0-4s, leading national league tables in the take up of funded childcare places for 2 year olds, and the Council's community based nursery at Thorntree receiving the highest grade possible from Ofsted (Outstanding). For other young people, the Work Readiness Team also achieved the lowest ever proportion of young people not in education employment or training (NEET).

On the community side, family literacy delivery grew in Hubs, a dedicated community plan was launched for North Ormesby, and staff at Central Library were recognised for their work as a dementia friendly venue.

## **Section 1: Narrative Report**

The Council also led on the achievement of White Ribbon status, demonstrating the town's commitment to reducing domestic abuse.

### **Improving Public Health – Outcome 3**

The Service has continued to deliver a number of transformation programmes to improve public health outcomes for the local population in 2016/17. These include a successful review and procurement of a new substance misuse service for drugs and alcohol that provides a family focused approach to children, young people and adults. The new service commenced in October 2016 and managed to deliver financial efficiencies and an improved service.

Following the successful award of a Public Health England capital bid, the Service led the development of the Live Well Centre, an integrated well-being centre for the town which combines facilities for physical activity, nutrition, emotional well-being, substance misuse recovery, sexual health, housing support and employment. The centre was completed towards the end of the 2016/17 financial year and will be officially opened in June 2017.

The Service has continued to support the roll out of the Dementia Friendly Middlesbrough programme with an increased profile on dementia being achieved across the town.

The Public Protection service led the review of the statement of licensing policy and strengthened the arrangements for safeguarding children through the licensing objectives. An alcohol strategy was developed and launched and the Council agreed to sign the local alcohol declaration to demonstrate its commitment to tackling alcohol related harm.

The Environmental Protection service has supported the implementation of the Selective Landlord Licensing programme in North Ormesby and will be working closely with the other departments to review the impact of the programme to inform future arrangements.

### **Learning and Skills – Outcome 4**

The Service has continued in setting high expectations for children and supporting schools to work together to share best practice.

Early Years and Key Stage 1-The percentage of children achieving a good level of development in Foundation stage is increasing each year and increased by 3% points in summer 2016. The gap with the national figure is narrowing slowly. Phonics decoding rose by 3% in July 2016, however a gap of 6% remains against the national figure.

The Assessment system for Key Stage 2 children changed in 2016 so trend data is unavailable.

Success was seen in Maths attainment with a higher proportion of children than the National average achieving at the expected standard for their age at the end of Year 6. In our Secondary schools the average progress 8 score for pupils in year 11 in Middlesbrough (-0.12) was higher than both statistical neighbours (-0.219) and other North East authorities (-0.16). Two schools scored in the top 5% of schools nationally in terms of Progress 8- Outwood Acklam and Acklam Grange.

A full team approach to reduce Permanent exclusions with a focus on earlier intervention has seen a significant reduction in the numbers of permanent exclusions so far this

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academic year (15/16 - 80, 16/17 – 37 so far). This has included deploying staff to work extensively with school leaders and providing short term placements with a view to supported returns to mainstream classes.

The SEND and VL Service have significantly increased the number of Education, Health and Care Plans which need to be completed within the 20 week statutory time line. This has increased from 15.2% in 2015, to 52% in 2016 and is currently standing at 100%.

### **Safeguarding and Children's Care – Outcome 5**

2016/17 saw the refurbishment of the three children's homes with significant investment significantly improving the quality of the offer to looked after children in residence. The occupancy of the children's homes has improved over the year ensuring better value for the Councils investment. The improvements to the homes have been recognised by Ofsted during their return visits.

An increase in the capacity of the Independent Review Service has resulted in increased levels of scrutiny of practice to inform improvements. Changes in practice, in particular streamlining of some processes, have enabled a refocus on quality and outcomes for children and families.

The Performance Management Framework for Children's Care has been redesigned with a system which allows team level data analysis. This provides the basis for developing a more sophisticated performance management framework going forward.

Recruitment of foster carers continues with record numbers of family members being supported to foster as 'connected persons' enable children to remain within extended families whilst being kept safe.

### **Adult Social Care - Outcome 6**

Adult Social Care has once again achieved its cost reductions for the year and returned an underspend; this represents substantial success in managing both the cost and provision of equitable, high quality care.

On-going improvements in our demand modelling is allowing us to become increasingly accurate and sophisticated in the way we understand trends in care needs and continues to support us in developing new services and planning for the future care needs of the town.

Throughout the year we have continued with 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 2016/2017 has seen a reduction in the use of residential care and we continue to see a reduction in the average cost of care packages at our Access point. These changes are the result of more careful and creative Social Work practice, putting the individual at the centre of the process, and have been achieved with no significant negative impact on outcomes for service users.

### **Environment, Property and Commercial Services – Outcome 7**

Property Services have delivered a number of significant capital schemes for the Council over the year including refurbishment of two children's homes and the creation of the new contact centre to the ground floor of Middlesbrough House. These schemes have been

## **Section 1: Narrative Report**

delivered through a more integrated working approach between Property Services, Asset Management and Design Services.

The Crematorium has benefited from the refurbishment of St Bede's Chapel, improvements to the surrounding landscaping and ongoing development of digital access to services at the venue. To date these have been well received by the public and feedback has been positive.

The investment in the Bus Station has also been well received including the refurbishment of the toilets which has resulted in a significant reduction in anti-social behaviour. The creation of a quiet room for people with dementia, a medical room and the first bus station in the area to receive the safer bus station award, all contribute to the Mayor's objective of a safer town.

Asset Management continue to work in partnership with other outcome areas and external partners such as Middlesbrough Environment City, to deliver on the Council's One Planet Living Objectives.

Streetscene Services have once again been successful in retaining the seven Green Flag Awards for the parks, cemeteries, and open spaces in Middlesbrough. Throughout the year, the Area Care team have developed a successful working partnership with the Orange Pip market events team.

The refuse collection & recycling rounds have been reviewed and new rounds have been implemented, enabling crews to work more efficiently, with a more joined up approach.

Highways Engineers have made a significant contribution to the regeneration of the town centre, with the completion of high quality paving schemes in Bedford/Baker Street, Albert Road & Linthorpe Road and these works will continue into 2017/18 with further planned works in Albert Road & Corporation Road. The team have also completed works on bus stop improvement schemes at Riverside Park, and the Ladgate Lane Cycleway.

### **Finance, Governance and Support - Outcome 8**

The new Strategic Director of Finance, Governance & Support took up post in September. He has sought to develop the new directorate by bringing the teams together and to build a culture of working to support the rest of the organisation through business partnering; better communications; excellent teamwork and working towards ambitious goals.

We have managed the delivery of the Council Improvement Plan, including the embedding of the Project Management Office and monthly Directorate Project Boards to manage progress and achievement of milestones against major projects. Taken together this represents a major step forward in the governance of the Council.

The Finance Team have completed a 'dry run' of early closure of accounts, in preparation for the earlier closedown timetable for 2017/18. The quarterly Finance and Performance reporting process has been improved in year, with the introduction of a revised quarterly report incorporating both revenue and capital financial reporting, and balanced scorecard performance reporting, including reporting against key performance indicators.

Further detail is included in the Annual Governance Statement in Section 8 of these accounts.

## **Section 1: Narrative Report**

We have developed and implemented the Council's Customer Strategy. A new corporate website and Customer Relationship Management system were introduced in year, and a new Customer Centre opened in early April which has had excellent feedback with much shorter waiting times.

The Teesside Pension Fund's performance has beaten major indices for 2016/17, rising by 24.9%, meaning that the Fund was valued at £3.13 billion as at 31 March 2016, and £3.86 billion by 31 March 2017.

ICT have delivered a new Strategy (2017-2021) aligned to the Mayor's Vision and Directorate delivery plans. The ICT capital allocation has been re-profiled to reflect the infrastructure development and refresh requirements outlined in the services Technical Roadmap. The launch of the new service delivery model, as part of the "Customer First, Your-ICT Programme" enables users to access ICT support via a self-serve portal and provides service desk support hours more in line with business requirements. The Agile Working initiative has also been successful, with 900 staff choosing to take up this option during the year.

With our strategic partner, the HR Service has implemented Phase 1 of a new HR Pay System; the Payroll system went live in March 2017. Additionally, the roll out of the revised staff appraisal process is now complete. Organisational Development continues to progress with its development of the People Strategy, corporate induction programme and workforce planning.

Finally, we have carried out the successful management of both the Police & Crime Commissioner Election and the Brexit Referendum.

### **Looking Ahead**

The Council completed a full review of its Medium Term Financial Plan (MTFP) setting out the projected financial requirement for the next four years 2017/18 to 2020/21. This takes account of the fact that Government Funding has been assumed to fall during the period to 2020, and also assumes that for 2019/20 the transition to 100% Business Rates Retention will not result in a further reduction in funding.

Bold and ambitious plans to drive forward Middlesbrough's economic resurgence were formally launched in March 2017. The strategy - spearheaded by Elected Mayor Dave Budd and Middlesbrough Council Chief Executive Tony Parkinson – will see the town transformed through investments totalling almost £700 million. Over the next four years the Council is committed to an injection of £74 million into a series of exciting developments as part of the town's far-reaching Investment Prospectus.

Environment, Property & Commercial Services are continuing to explore opportunities to reduce the Council's use of energy wherever possible and have undertaken a detailed assessment with Tees Valley Combined Authority around the feasibility of a town centre district heating scheme.

## Section 1: Narrative Report

### Annual Statement of Accounts

The Statement of Accounts comprises of a number of 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 2016/2017.

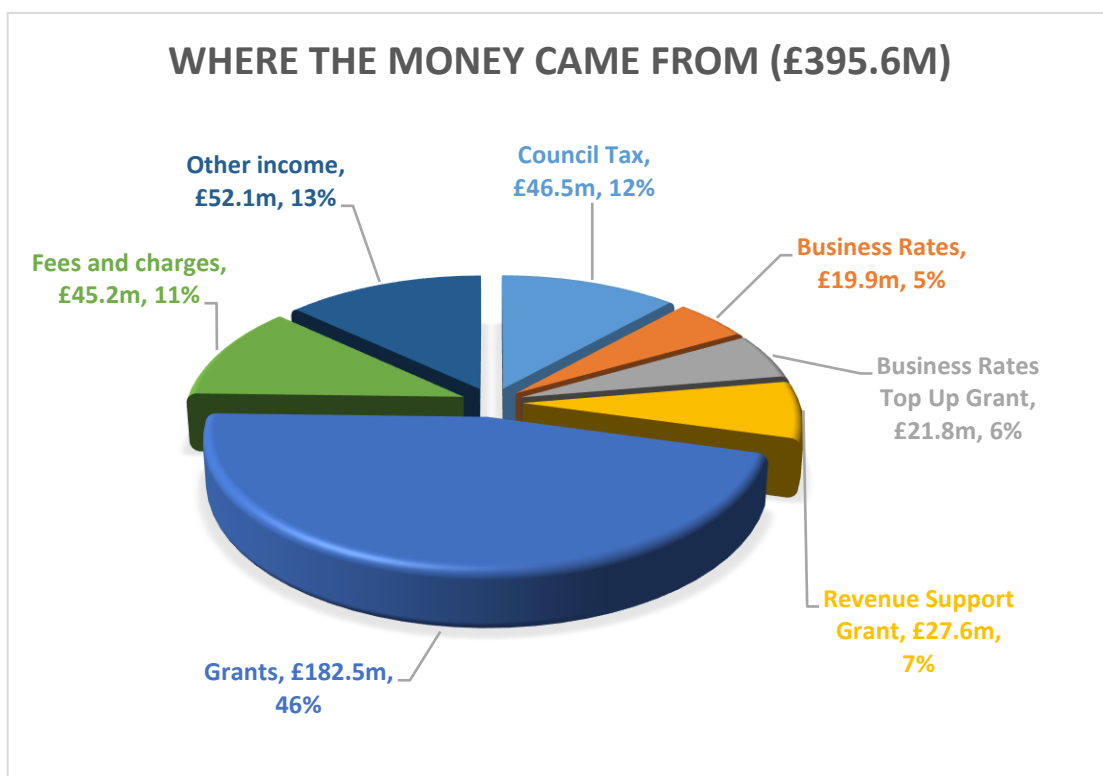
**Statement of Responsibilities** - this details the responsibilities of the Council and the Chief Finance Officer (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

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

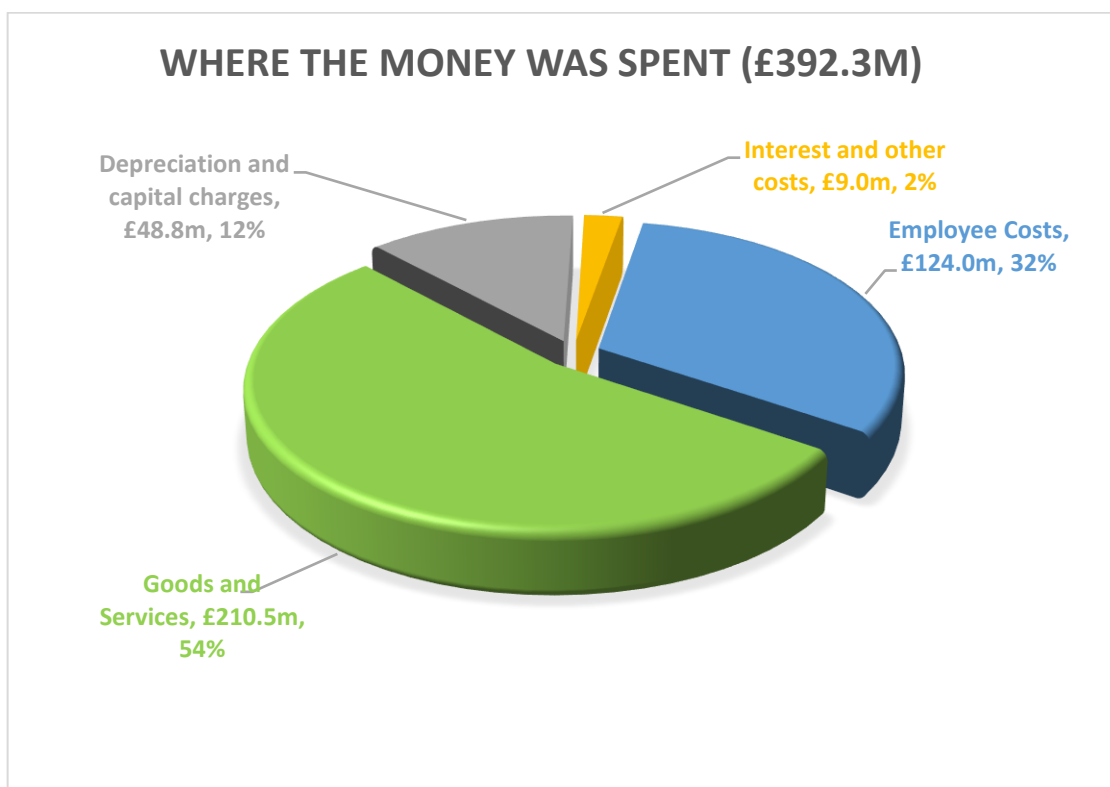
**Annual Governance Statement** - the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2016/2017 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 CIPFA Accounting Code of Practice requirements.
- The charts below illustrate where the money has come from and how it has been spent. It shows a net saving of £216,000 and a budgeted contribution to Reserves of £3m.



## Section 1: Narrative Report

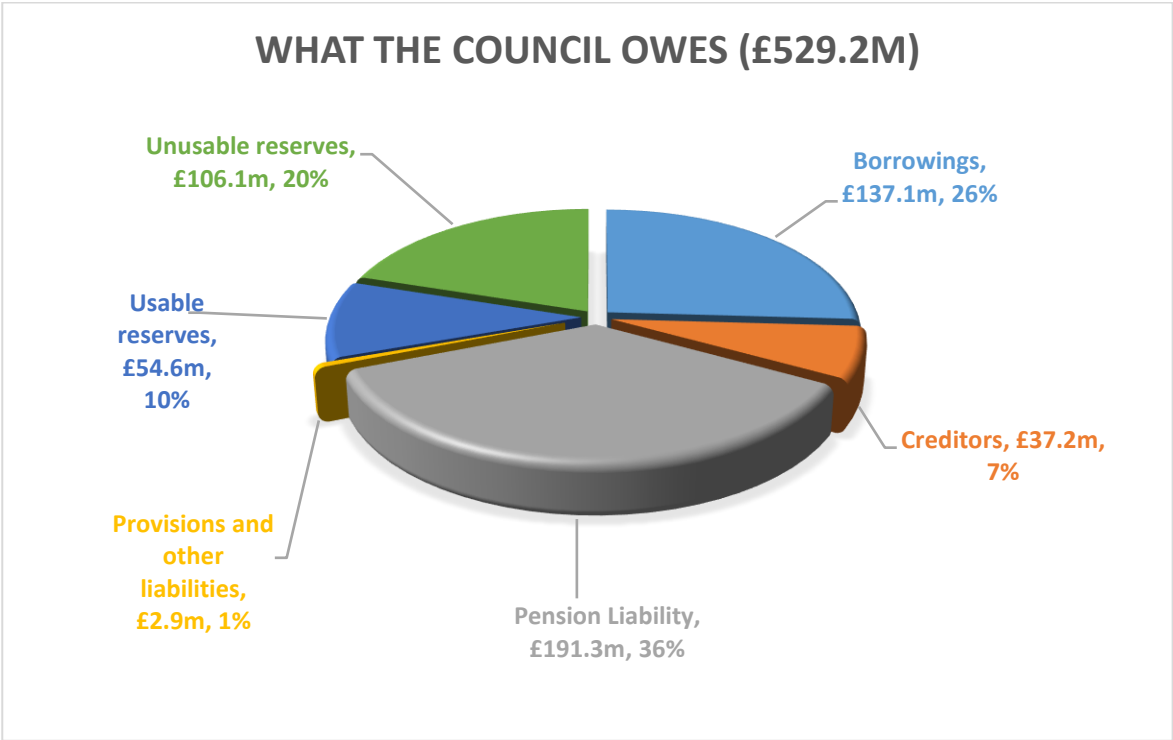
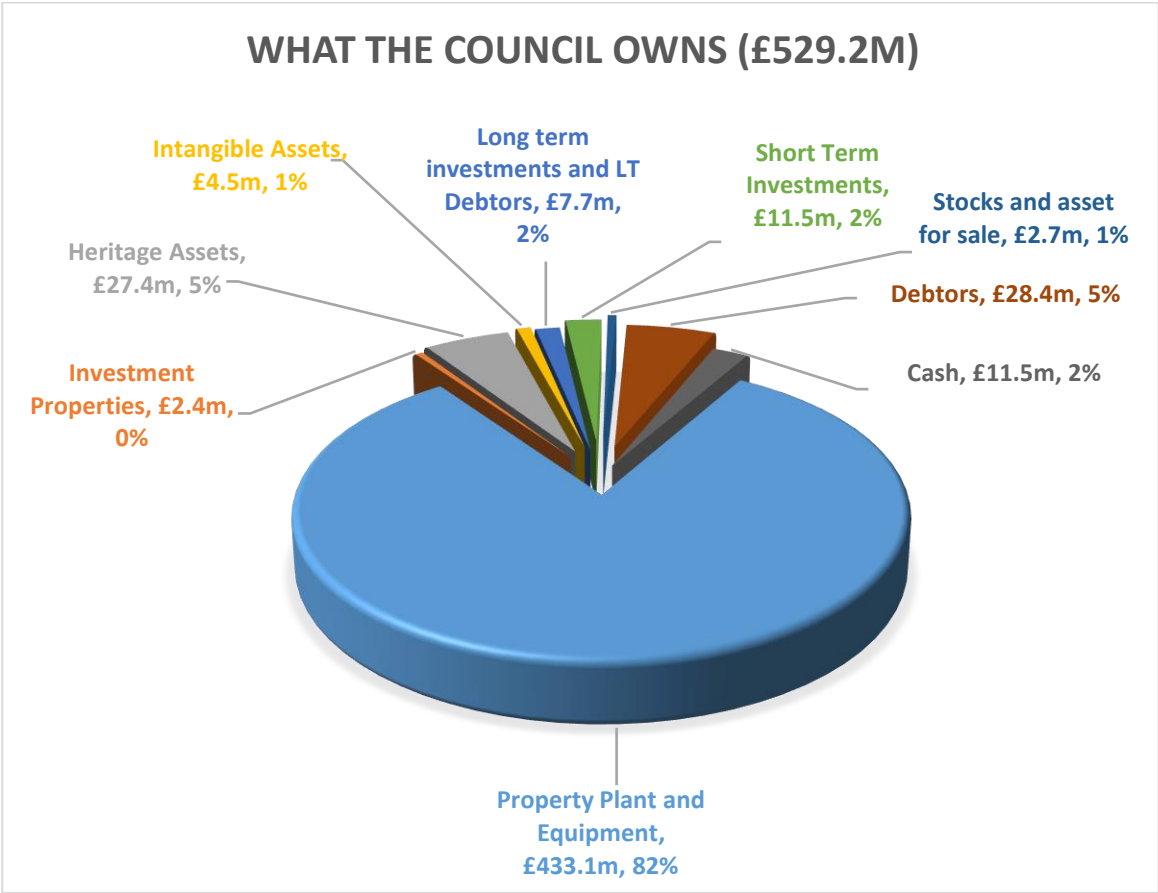


- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The difference between the capital expenditure in the capital outturn report of £37.0m 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	25.3
Community Assets	6	0.4
Assets under Construction	6	1.9
Investment Properties	11	0
Intangible Assets	15	1.6
<b>Capital Expenditure on Assets</b>		<b>29.2</b>
Revenue Expenditure Funded from Capital Under Statute	36	7.8
<b>Total Capital Expenditure</b>		<b>37.0</b>

# Section 1: Narrative Report

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





## Section 1: Narrative Report

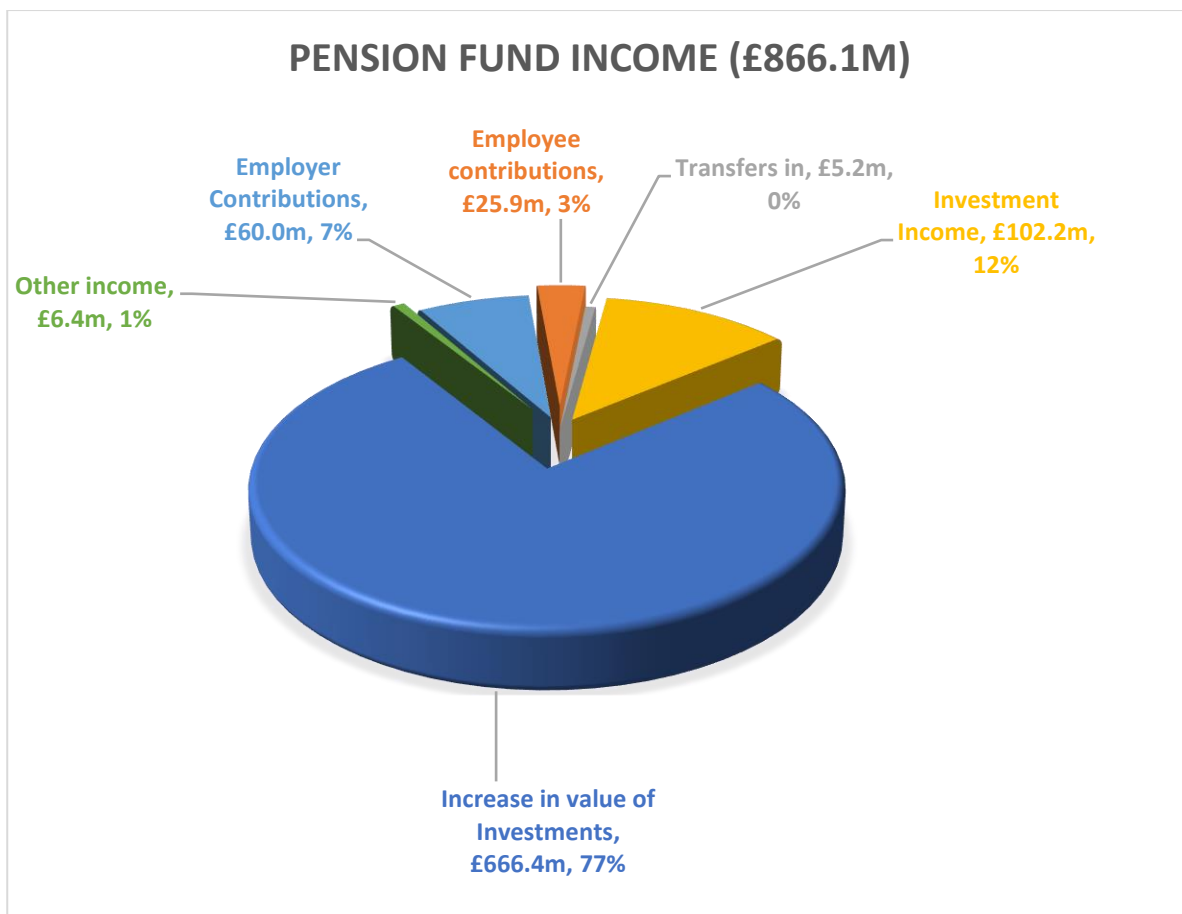
- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves (arising mainly as a result of technical and accounting adjustments).
- 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.

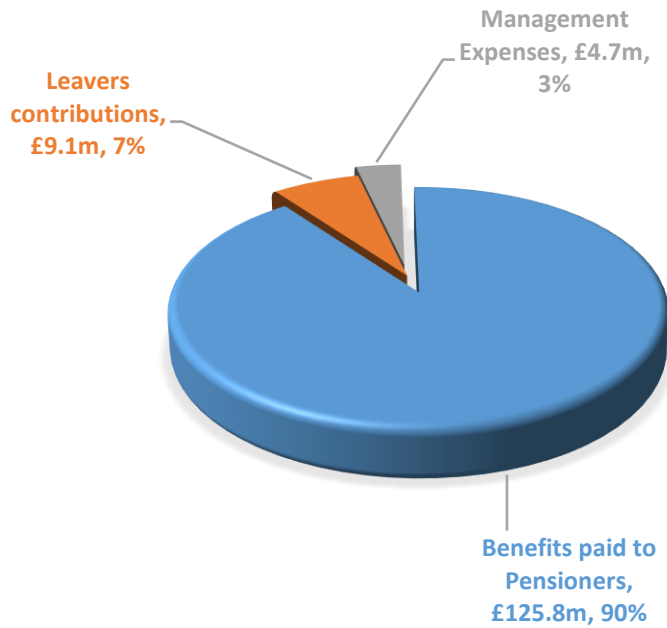
**Pension Fund Accounts** - the Teesside Pension Fund is administered by the Council, is independently managed and completely separate from the Council's own finances. This statement is an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2016/2017, assets, and liabilities as at 31 March 2017.

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

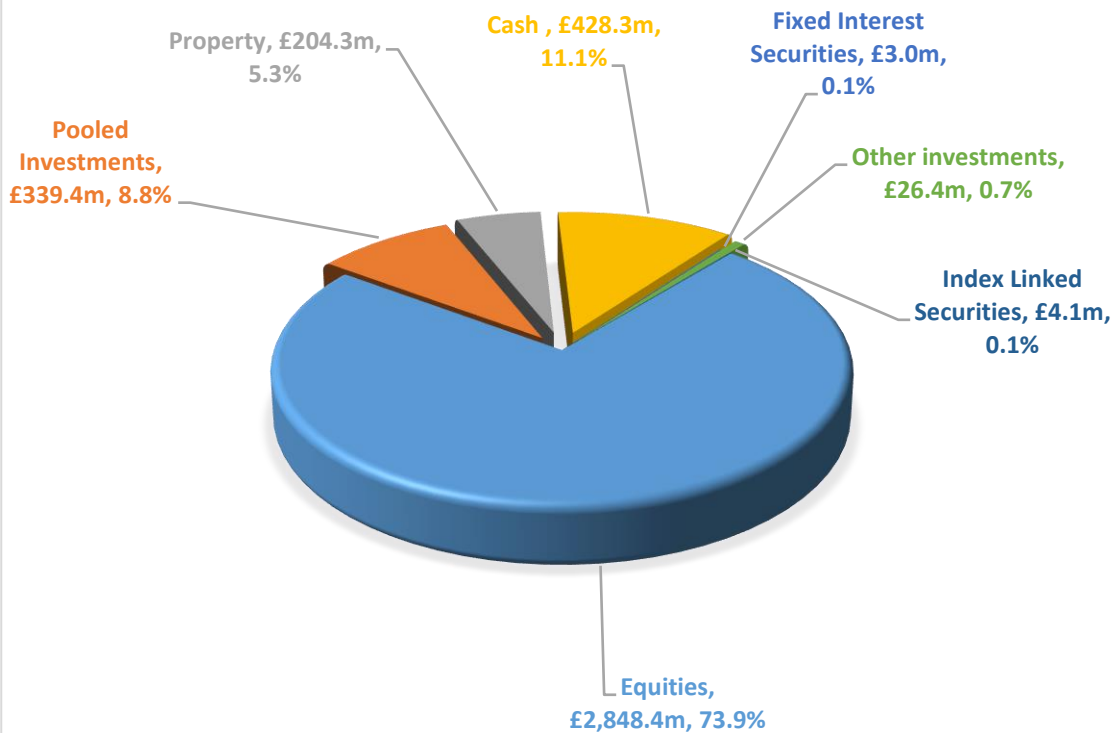


## Section 1: Narrative Report

### PENSION FUND EXPENDITURE (£139.6M)



### PENSION FUND ASSETS (£3,853.9M)



## 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 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

**James Bromiley**  
**Strategic Director Finance,**  
**Governance & Support**

**Date 28 September 2017**

**Councillor Denise Rooney**  
**Chair, Corporate Affairs and**  
**Audit Committee**

**Date 28 September 2017**

## **Section 3: Independent Auditors' Report To The Members Of Middlesbrough Council**

### **Independent auditor's report to the members of Middlesbrough Council Opinion on the Authority's financial statements**

We have audited the financial statements of Middlesbrough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Movement in Reserves Statement;
- Cash Flow Statement;
- Collection Fund and the related notes; and
- The related notes to the financial statements 1 to 47.

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 2016/17.

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority'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 18, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the 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 2016/17, 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of

## **Section 3: Independent Auditors' Report To The Members Of Middlesbrough Council**

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 2017 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 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 financial statements:

- give a true and fair view of the financial position of Middlesbrough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Opinion on other matters**

In our opinion, the information given in the Annual Statement of Accounts for the year ended 31 March 2017 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of Middlesbrough Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Section 3: Independent Auditors' Report To The Members Of Middlesbrough Council**

### **Conclusion on Middlesbrough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's responsibilities**

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

#### **Auditor's responsibilities**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

## **Section 3: Independent Auditors' Report To The Members Of Middlesbrough Council**

### **Basis for Qualified Conclusion**

- Property disposal governance arrangements

In 2015/16, Middlesbrough Council was the subject of a qualified conclusion. One of the areas covered by this qualified conclusion was the property disposal governance arrangements in place at the Council.

During 2016/17, Middlesbrough Council have worked to strengthen the governance arrangements in relation to property disposals, through the development of a new Asset Disposal Policy. However, as at 31 March 2017, the changes introduced by the new Asset Disposal Policy were not fully embedded and as a result the governance arrangements were not operating effectively for the full year covered by this opinion.

### **Qualified conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Middlesbrough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

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

Nicola Wright (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Newcastle upon Tyne  
28 September 2017

The maintenance and integrity of the Middlesbrough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.



### **Section 3: Independent Auditors' Report To The Members Of Middlesbrough Council**

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

## Section 4 : Main Statement of Accounts

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2017							
2015/16			2016/17				
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
29,330	(7,922)	21,408	Economic Development		37,766	(10,008)	27,758
9,765	(2,212)	7,553	Supporting Communities		15,350	(3,480)	11,870
15,057	(18,957)	(3,900)	Improving Public Health		16,864	(17,663)	(799)
94,845	(90,794)	4,051	Learning Skills		87,902	(80,550)	7,352
31,892	(2,357)	29,535	Safeguarding & Childrens Care		33,909	(3,082)	30,827
74,683	(36,275)	38,408	Social Care		69,116	(30,452)	38,664
52,401	(25,828)	26,573	Environment, Property & Commercial Services		46,652	(11,650)	35,002
81,172	(58,321)	22,851	Finance, Governance & Support		108,053	(87,462)	20,591
1,589	(3,206)	(1,617)	Central Costs		5,030	(9,136)	(4,106)
<b>390,734</b>	<b>(245,872)</b>	<b>144,862</b>	<b>Total Cost of Services</b>		<b>420,642</b>	<b>(253,483)</b>	<b>167,159</b>
6,860	(823)	6,037	Other Operating Income and Expenditure	3	56,322	(7,039)	49,283
44,738	(40,346)	4,392	Financing and Investment Activities	4	43,437	(33,931)	9,506
0	(133,279)	(133,279)	Taxation and Non Specific Grants	5	0	(131,688)	(131,688)
<b>442,332</b>	<b>(420,320)</b>	<b>22,012</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>520,401</b>	<b>(426,141)</b>	<b>94,260</b>
			<i>Items that will not be re-classified to the (Surplus) or Deficit on the Provision of Services</i>				
		14,925	(Surplus) or Deficit on revaluation of Property, Plant and Equipment Assets	6,16			(10,493)
		1,637	Actuarial (Gains) or Losses on Pension Fund charged to Pensions Reserve	25			(3,534)
		(9,012)	Depreciation written out to the Revaluation Reserve	6			(7,296)
		<b>7,550</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(21,323)</b>
		<b>29,562</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>72,937</b>

## Section 4 : Main Statement of Accounts

### Balance Sheet at 31 March 2017

At 31 March 2016 £000		Note	At 31 March 2017 £000
	<b>Long Term Assets</b>		
406,906	Property, Plant and Equipment	6	433,117
27,382	Heritage Assets	9	27,382
79,463	Investment Properties	11	2,389
4,449	Intangible Assets	15	4,535
309	Long Term Investments	17	309
6,291	Long Term Debtors	21	7,394
<b>524,800</b>	<b>Total Long Term Assets</b>		<b>475,126</b>
	<b>Current Assets</b>		
0	Short Term Investments	17	11,500
1,273	Assets held for sale	16	750
1,739	Inventories	20	1,988
28,351	Short Term Debtors	21	28,357
8,816	Cash and Cash Equivalents	22	11,464
<b>40,179</b>	<b>Total Current Assets</b>		<b>54,059</b>
	<b>Current Liabilities</b>		
(25,918)	Short Term Borrowing	17	(30,986)
(39,565)	Short Term Creditors	23	(37,186)
(1,352)	Current Provisions	24	(739)
<b>(66,835)</b>	<b>Total Current Liabilities</b>		<b>(68,911)</b>
<b>(26,656)</b>	<b>Net Current Liabilities</b>		<b>(14,852)</b>
	<b>Long Term Liabilities</b>		
(2,071)	Long Term Provisions	24	(131)
(76,309)	Long Term Borrowing	17	(106,073)
(185,636)	Pension Liability	25	(191,349)
(493)	Other Long Term Liabilities	17	(2,022)
<b>(264,509)</b>	<b>Total Long Term Liabilities</b>		<b>(299,575)</b>
<b>233,635</b>	<b>Net Assets</b>		<b>160,699</b>
	<b>Reserves</b>		
63,519	Usable Reserves	29	54,619
170,116	Unusable Reserves	31	106,080
<b>233,635</b>	<b>Total Reserves</b>		<b>160,699</b>

## Section 4 : Main Statement of Accounts

<b>Movement in Reserves Statement</b>									
Movement in Reserves for the Year Ended 31 March 2017	General Fund	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves			
	£000	£000	£000	£000	£000	£000			
<b>Balance at 1 April 2016</b>	50,795	9,199	3,525	63,519	170,116	233,635			
<b>Movement in Reserves during 2016/17</b>									
Total Comprehensive Income and Expenditure	(94,260)	0	0	(94,260)	21,323	(72,937)			
Adjustments from Income and Expenditure charged under the accounting basis to the funding basis under regulation (note 36)	85,197	(5,803)	5,966	85,360	(85,360)	0			
Movement between reserves	0	0	0	0	0	0			
<b>Increase or (decrease) in 2016/17</b>	<b>(9,063)</b>	<b>(5,803)</b>	<b>5,966</b>	<b>(8,900)</b>	<b>(64,037)</b>	<b>(72,937)</b>			
<b>Balance at 31 March 2017</b>	<b>41,732</b>	<b>3,396</b>	<b>9,491</b>	<b>54,619</b>	<b>106,080</b>	<b>160,699</b>			
<b>General Fund analysed over:</b>									
Amounts earmarked (Note 30)	27,267								
Amounts uncommitted	14,465								
<b>Total General Fund Balance as 2016/17</b>	<b>41,732</b>								

## Section 4 : Main Statement of Accounts

<b>Movement in Reserves Statement</b>						
Movement in Reserves for the Year Ended 31 March 2016	General Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
	<b>Balance at 1 April 2015</b>	56,360	13,062	4,506	73,928	189,267
<b>Movement in Reserves during 2015/16</b>						
Total Comprehensive Income and Expenditure	(22,012)	0	0	(22,012)	(7,548)	(29,560)
Adjustments from Income and Expenditure charged under the accounting basis to the funding basis under regulation (note 36)	16,961	(3,863)	(1,348)	11,750	(11,750)	0
Movement between reserves	(514)	0	367	(147)	147	0
<b>Increase or (decrease) in 2015/16</b>	<b>(5,565)</b>	<b>(3,863)</b>	<b>(981)</b>	<b>(10,409)</b>	<b>(19,151)</b>	<b>(29,560)</b>
<b>Balance at 31 March 2016</b>	<b>50,795</b>	<b>9,199</b>	<b>3,525</b>	<b>63,519</b>	<b>170,116</b>	<b>233,635</b>
<b>General Fund analysed over:</b>						
Amounts earmarked (Note 30)	39,201					
Amounts uncommitted	11,594					
<b>Total General Fund Balance as 2016/17</b>	<b>50,795</b>					

## Section 4 : Main Statement of Accounts

<b>Cash Flow Statement for the Year ended 31 March 2017</b>			
<b>Year to 31 March 2016</b>			<b>Year to 31 March 2017</b>
<b>£000</b>		<b>Note</b>	<b>£000</b>
<b>(22,012)</b>	<b>Surplus / (deficit) on provision of services transferred to the General Fund</b>		<b>(94,260)</b>
	<b>Adjustment for items not affecting cash flow</b>		
19,112	Depreciation of Property, Plant and Equipment (PPE)	6	16,658
1,365	Amortisation of Intangible Assets	15	1,384
4,119	Impairments to PPE	6, 8	24,326
0	Impairments to Assets held for sale	16	455
(4,266)	Fair Value gain on Investment Properties	11	(286)
(680)	Donated PPE and Heritage Assets	6, 9	(892)
0	Donated Investment Properties	11	(40)
9,999	Net Book Value on Disposal of non current assets	6, 9, 11, 16	56,641
2,338	Difference between Current Service Cost and Contributions made to the Pension Scheme	25	1,514
6,502	Impact of Changes to Actuarial Assumptions applied to the Pension Scheme Deficit	25	7,733
(1,775)	Movement in Provisions	24	(2,553)
<b>14,702</b>	<b>Surplus on provision of services after non cash adjustments</b>		<b>10,680</b>
(4,527)	Adjustments for items that are Financing or Investing Activities		(7,738)
	<b>Other operating cash flows</b>		
(14,327)	Cash absorbed by the reduction in creditors	23	(5,043)
8,143	Cash absorbed by the increase in debtors	21	(1,109)
(72)	Cash absorbed by the increase in inventories	20	(249)
<b>3,919</b>	<b>Net cash flow from operating activities</b>		<b>(3,459)</b>
(26,583)	Investing Activities	32	(30,209)
21,690	Financing Activities	33	36,316
<b>(974)</b>	<b>Net increase /(decrease) in cash and cash equivalents</b>		<b>2,648</b>
9,790	Cash and Cash Equivalents at the start of the period	22	8,816
<b>8,816</b>	<b>Cash and Cash Equivalents at the end of the period</b>	22	<b>11,464</b>

## **Section 5 : Notes to the Main Statements**

### **Basis of Accounting and Significant Accounting Policies, Judgements and Estimates**

#### **Basis of Accounting**

The Statement of Accounts summarises the Authority's transactions for the 2016/2017 financial year and its position at the year end of 31st March 2017.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 in accordance with proper accounting practices.

These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/2017, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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.

#### **Accounting Developments and Changes in the Year**

##### **Changes to the Core Statements**

The CIPFA Code of Practice on Local Authority Accounting 2016/17 has introduced a number of amendments to the Council's core financial statements and disclosure notes. This follows the 'Telling the Story' review of the presentation of the Local Authority Financial Statements. The Movement in Reserves Statement has been simplified and the service area headings in the Comprehensive Income and Expenditure Statement are now presented in line with the Council's standard reporting format (outcome areas) rather than by SeRCOP classification as previously specified. The 2015/16 Comprehensive Income and Expenditure Statement has been restated in the revised format for comparative purposes.

A new Expenditure and Funding analysis has also been introduced.

##### **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.

## Section 5 : Notes to the Main Statements

The table below shows 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	3	15
Voluntary Aided (VA)	1	0	0	1
Foundation Trust	7	0	0	7
<b>Maintained Schools</b>	<b>19</b>	<b>1</b>	<b>3</b>	<b>23</b>
Academies (not under the control of the Council) *	23	8	1	32
<b>Total</b>	<b>42</b>	<b>9</b>	<b>4</b>	<b>55</b>

\* Includes 3 Pupil Referral Units that have previously been excluded from this analysis .

Of these, only the Community Schools are directly owned by the Council and included on the Council's Balance Sheet.

### Schools Transferring to Academy Status and Voluntary Controlled Schools

During the course of the year four schools converted to independent Academy status resulting in £11.3 million worth of assets being removed from the council's balance sheet.

### 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 the Council 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 £19.4 million from the Rates Retention Scheme.

### 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:



## Section 5 : Notes to the Main Statements

### **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).

### **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).

## Section 5 : Notes to the Main Statements

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.

### **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.

## Section 5 : Notes to the Main Statements

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.

### *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.

## Section 5 : Notes to the Main Statements

### *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.

### **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.

## Section 5 : Notes to the Main Statements

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 Central 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.

## 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.

## **Section 5 : Notes to the Main Statements**

### **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 2016 was £1.0 million (Middlesbrough Council share £0.490 million). The provision was increased by £500k in 2016/17 leaving a total fund closing provision balance at 31st March 2017 of £1.5 million. (Middlesbrough Council share £735k).

## **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.

## **Section 5 : Notes to the Main Statements**

### **Employee Benefits**

#### **Benefits Payable During Employment**

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

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate 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.

### **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 charged 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.

## **Section 5 : Notes to the Main Statements**

### **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 no longer has any Finance Leases as a Lessor

##### **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.



## **Section 5 : Notes to the Main Statements**

### **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.

### **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.

## **Section 5 : Notes to the Main Statements**

### **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. The additional disclosures that will be required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

The Code requires implementation from 1st April 2017 and there is therefore no impact on the 2016/2017 Statement of Accounts.

## Section 5: Notes to the Main Statements

### Notes to the Accounts - Contents

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## Section 5 : Notes to the Main Statements

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practice. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practice is presented more fully in the Comprehensive Income and Expenditure Statement.

1

		Expenditure and Funding Analysis			2016/17			
		2015/16		Service Area	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund Balances	Adjustment between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
Net Expenditure Chargeable to the General Fund Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund Balances					
£000	£000	£000	£000			£000	£000	£000
11,950	9,458	21,408		Economic Development		7,615	20,143	27,758
4,378	3,175	7,553		Supporting Communities		7,048	4,822	11,870
446	(4,346)	(3,900)		Improving Public Health		1,230	(2,029)	(799)
(628)	4,679	4,051		Learning Skills		(675)	8,027	7,352
28,624	911	29,535		Safeguarding & Children's Care		29,448	1,379	30,827
37,792	616	38,408		Social Care		39,768	(1,104)	38,664
14,804	11,769	26,573		Environment, Property & Commercial Services		15,942	19,060	35,002
16,112	6,739	22,851		Finance, Governance & Support		11,401	9,190	20,591
10,285	(11,902)	(1,617)		Central Costs		3,919	(8,025)	(4,106)
<b>123,763</b>	<b>21,099</b>	<b>144,862</b>		<b>Net Cost of Service</b>		<b>115,696</b>	<b>51,463</b>	<b>167,159</b>
(119,917)	(2,933)	(122,850)		Other Income and Expenditure		(115,912)	43,013	(72,899)
<b>3,846</b>	<b>18,166</b>	<b>22,012</b>		<b>Surplus or Deficit</b>		<b>(216)</b>	<b>94,476</b>	<b>94,260</b>

## Section 5 : Notes to the Main Statements

Adjustments between Funding and Accounting Basis						
2016/17						
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustment for Capital Purposes	Net Change for the Pension Adjustment	Minimum Revenue Provision Set Aside To Repay Debt	Transfer to/From Reserves	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000	£000
Economic Development	18,779	216	-	(183)	1,331	20,143
Supporting Communities	1,543	248	-	1,255	1,776	4,822
Improving Public Health	1,371	96	-	(632)	(2,864)	(2,029)
Learning Skills	6,578	503	-	5,546	(4,600)	8,027
Safeguarding & Children's Care	650	411	-	165	153	1,379
Social Care	(1,075)	460	-	(62)	(427)	(1,104)
Environment, Property & Commercial	14,005	575	-	59	4,421	19,060
Finance, Governance & Support	2,744	2,039	-	66	4,341	9,190
Other Services	-	(1,396)	(5,024)	3,063	(4,668)	(8,025)
<b>Net Cost of Service</b>	<b>44,595</b>	<b>3,152</b>	<b>(5,024)</b>	<b>9,277</b>	<b>(537)</b>	<b>51,463</b>
Other Income and Expenditure	37,585	6,095	-	-	(667)	43,013
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Service</b>	<b>82,180</b>	<b>9,247</b>	<b>(5,024)</b>	<b>9,277</b>	<b>(1,204)</b>	<b>94,476</b>

Adjustments between Funding and Accounting Basis						
2015/16						
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustment for Capital Purposes	Net Change for the Pension Adjustment	Minimum Revenue Provision Set Aside To Repay Debt	Transfer to/From Reserves	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000	£000
Economic Development	9,205	296	-	214	(257)	9,458
Supporting Communities	939	299	-	(277)	2,214	3,175
Improving Public Health	23	120	-	(622)	(3,867)	(4,346)
Learning Skills	5,906	805	-	2,986	(5,018)	4,679
Safeguarding & Children's Care	184	462	-	(58)	323	911
Social Care	280	509	-	70	(243)	616
Environment, Property & Commercial	6,375	842	-	-	4,552	11,769
Finance, Governance & Support	3,387	1,602	-	1,208	542	6,739
Other Services	(8)	(1,501)	(6,215)	(2,315)	(1,863)	(11,902)
<b>Net Cost of Service</b>	<b>26,291</b>	<b>3,434</b>	<b>(6,215)</b>	<b>1,206</b>	<b>(3,617)</b>	<b>21,099</b>
Other Income and Expenditure	(6,908)	5,406	-	-	(1,431)	(2,933)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Service</b>	<b>19,383</b>	<b>8,840</b>	<b>(6,215)</b>	<b>1,206</b>	<b>(5,048)</b>	<b>18,166</b>

### Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant
- Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

## Section 5 : Notes to the Main Statements

### Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee

Benefits pension related expenditure and income:

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

### Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

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Expenditure & Income Analysed by Nature		
	2015/16 £000	2016/17 £000
<b>Expenditure</b>		
Employees	156,644	151,970
Other Service Expenditure	246,449	258,630
Depreciation and Other Capital Charges	25,447	105,181
Interest Payments	13,778	4,493
Precepts & Levies	14	127
<b>Total Expenditure</b>	<b>442,332</b>	<b>520,401</b>
<b>Income</b>		
Government Grants	(240,171)	(268,086)
Income from Council Tax & Non Domestic Rates	(85,018)	(66,627)
Interest & Investment Income	(187)	(428)
Fees, Charges & Other Service Income	(94,944)	(91,000)
<b>Total Income</b>	<b>(420,320)</b>	<b>(426,141)</b>
<b>Deficit on the Provision of Services</b>	<b>22,012</b>	<b>94,260</b>

## Section 5 : Notes to the Main Statements

<b>3</b>	<b>Other Operating Income and Expenditure</b>	<b>2015/2016 £000</b>	<b>2016/2017 £000</b>
	<i>Expenditure</i>		
	Parish Council Precepts	14	127
*	Loss on disposal of non current assets	6,023	49,156
	<b>Total</b>	<b>6,037</b>	<b>49,283</b>
	The 2016/17 figure includes a £46.7 million adjustment for schools that have transferred to academy or foundation school status and are therefore no longer classified as council assets.		
<b>4</b>	<b>Financing and Investment Activities</b>	<b>2015/2016 £000</b>	<b>2016/2017 £000</b>
	<i>Expenditure</i>		
	Trading Services Activity (Note 42)	21,379	13,313
	Interest Payable and similar charges	3,830	4,494
	Charges in relation to investment property and changes in their fair value	(4,817)	161
	Pension Interest Cost (Note 25)	24,346	25,470
	<b>Total Expenditure</b>	<b>44,738</b>	<b>43,438</b>
	<i>Income</i>		
	Expected return on Pensions Assets (Note 25)	(18,940)	(19,375)
	Interest receivable and similar income	(329)	(431)
	Income from Investment Property assets	0	(700)
	Trading Services Activity (Note 42)	(21,077)	(13,426)
	<b>Total Income</b>	<b>(40,346)</b>	<b>(33,932)</b>
	<b>Total Net Expenditure</b>	<b>4,392</b>	<b>9,506</b>
<b>5</b>	<b>Taxation and Non Specific Grants</b>	<b>2015/2016 £000</b>	<b>2016/2017 £000</b>
	Council tax income	(44,396)	(47,224)
	Non domestic rates	(20,450)	(19,402)
	Non ringfenced government grants (Note 27)	(60,319)	(54,028)
	Value of Donated Property, Plant and Equipment Assets (Note 6 and Note 11)	(680)	(932)
	Value of Donated Heritage Assets (Note 9)	0	0
	Capital grants and contributions (Note 27)	(7,434)	(10,102)
	<b>Total</b>	<b>(133,279)</b>	<b>(131,688)</b>



## Section 5 : Notes to the Main Statements

<b>Property, Plant and Equipment</b>		Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total
		£000	£000	£000	£000	£000	£000
<b>Movement on Balances - 2016/2017</b>							
<b>Cost or Valuation :</b>							
<b>At 1 April 2016</b>		<b>270,510</b>	<b>46,366</b>	<b>176,191</b>	<b>7,733</b>	<b>10,385</b>	<b>511,185</b>
Adjustment to opening Balance brought forward		(10)	(4,135)	0	0	0	(4,145)
Additions		14,396	3,990	6,919	358	1,916	27,579
Donations		90	0	802	0	0	892
Revaluation increases / (decreases) recognised in the Revaluation Reserve		10,038	0	0	0	0	10,038
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services		(29,035)	0	0	0	0	(29,035)
Derecognition - Disposals		(56,006)	(5,789)	(101)	0	(1,879)	(63,775)
Assets reclassified (to) / from Assets Held for Sale		0	0	0	0	0	0
Assets reclassified (to) / from Assets other Categories		85,198	0	0	125	(8,370)	76,953
<b>At 31 March 2017</b>		<b>295,181</b>	<b>40,432</b>	<b>183,811</b>	<b>8,216</b>	<b>2,052</b>	<b>529,692</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>At 1 April 2016</b>		<b>(15,339)</b>	<b>(35,179)</b>	<b>(53,761)</b>	<b>0</b>	<b>0</b>	<b>(104,279)</b>
Adjustment to opening Balance brought forward		10	4,135	0	0	0	4,145
Depreciation Charge		(6,666)	(3,438)	(6,554)	0	0	(16,658)
Depreciation written out to the Revaluation Reserve		7,296	0	0	0	0	7,296
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services		0	0	0	0	0	0
Depreciation written out to Surplus/deficit on provision of services		4,709	0	0	0	0	4,709
Derecognition - Disposals		3,269	4,916	27	0	0	8,212
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
<b>At 31 March 2017</b>		<b>(6,721)</b>	<b>(29,566)</b>	<b>(60,288)</b>	<b>0</b>	<b>0</b>	<b>(96,575)</b>
<b>Net Book Value at 31 March 2017</b>		<b>288,460</b>	<b>10,866</b>	<b>123,523</b>	<b>8,216</b>	<b>2,052</b>	<b>433,117</b>

## Section 5 : Notes to the Main Statements

<b>Property, Plant and Equipment</b>						
	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under Construction £000	Total £000
<b>Movement on Balances - 2015/2016</b>						
<b>Cost or Valuation :</b>						
<b>At 1 April 2015</b>	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				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)
<b>At 31 March 2016</b>	<b>270,510</b>	<b>46,366</b>	<b>176,191</b>	<b>7,733</b>	<b>10,385</b>	<b>511,185</b>
<b>Accumulated Depreciation and Impairment</b>						
<b>At 1 April 2015</b>	<b>(17,860)</b>	<b>(31,551)</b>	<b>(47,523)</b>	<b>0</b>	<b>0</b>	<b>(96,934)</b>
Depreciation Charge	(8,623)	(4,251)	(6,238)	0	0	(19,112)
Depreciation written out to the Revaluation Reserve	9,012	0	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
<b>At 31 March 2016</b>	<b>(15,339)</b>	<b>(35,179)</b>	<b>(53,761)</b>	<b>0</b>	<b>0</b>	<b>(104,279)</b>
<b>Net Book Value at 31 March 2016</b>	<b>255,171</b>	<b>11,187</b>	<b>122,430</b>	<b>7,733</b>	<b>10,385</b>	<b>406,906</b>

## Section 5 : Notes to the Main Statements

Included in the land and buildings are a number of leisure properties which from 1st April 2016 were transferred to SLM under a Service Concession Arrangement. Vehicles, plant, furniture and equipment which transferred under the arrangement was removed from the balance sheet however, the land and building remained on the balance sheet are shown in the figures for Land and Buildings. A summary the values of these land and buildings at 31st March 2017 is shown below. All venues were revalued at the date of transfer on 1st April 2016.

### Net Book Value at 31st March 2017

	£'000
The Manor YCC	1,503
Neptune Centre	7,656
Rainbow Centre	7,893
Middlesbrough Sports Village	15,586
Golf Course	548
	<b>33,186</b>

## 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 2016/2017 is 1st April 2016.

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 2016/2017 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 and Equipment	Infra-structure Assets	Community Assets	Assets under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000
Carried at historical cost		10,866	123,523	8,216	2,052	<b>144,657</b>
Carried at fair value and revalued as at 1 April						
2016	142,140	0	0	0	0	<b>142,140</b>
2015	34,608	0	0	0	0	<b>34,608</b>
2014	28,843	0	0	0	0	<b>28,843</b>
2013	26,733	0	0	0	0	<b>26,733</b>
2012	56,136	0	0	0	0	<b>56,136</b>
<b>Total</b>	<b>288,460</b>	<b>10,866</b>	<b>123,523</b>	<b>8,216</b>	<b>2,052</b>	<b>433,117</b>

## Section 5 : Notes to the Main Statements

### 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 2016/17 the Council has recognised a net loss of £24.5 million mainly due to the following changes which have affected valuation calculations.

- Downward revaluation of Melrose House of £0.5million - after reclassification in 2015/16 to Asset Held for Sale.
- Downward revaluation of TWI Building of £6.2 million. Asset was transferred from Assets under Construction in April 2016 where it has previously been held at cost.
- Downward revaluation on Former Natures World site of £3.5million. Since last valuation in 2013 the potential for residential development that existed has now receded to a great extent, reducing the valuation to the level of hope value and public open space values.
- Downward revaluation of Leisure sites transferred to SLM at 1st April 2016 of £2.3million. All sites were required to be revalued at the point of transfer - this included Neptune Centre, Rainbow Centre, The Manor Youth and Community Centre, Middlesbrough Golf Course and Middlesbrough Sports Village.
- Downward revaluation of Regeneration sites at Gresham, St Hilda's and Grove Hill of £5.4million. Of this £2.4million alone was for St Hilda's site to recognise the Council only has 10% ownership of this site. Valuation reports figures have been compared with future costs of the schemes and impaired where the value on completion is lower than future expected costs.
- Upward revaluation of Investment Property of £0.3million over the 8 remaining investment properties
- Downward revaluation of £0.5m for DRC adjustments due to changes in location factor and BCIS rates during the year from 1st April 2016 to 31st March 2017. This relates only to properties which are 'specialised' and therefore valued using the DRC method.

### 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	
<b>Cost or Valuation</b>					
<b>Movements - 2016/2017</b>					
<b>At 1 April 2016</b>	<b>2,082</b>	<b>8,537</b>	<b>9,012</b>	<b>7,751</b>	<b>27,382</b>
Additions	0	0	0	0	0
Donated	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations effecting the Revaluation Reserve	0	0	0	0	0
Revaluations effecting the Provision of Services	0	0	0	0	0
Transfers	0	0	0	0	0
<b>At 31 March 2017</b>	<b>2,082</b>	<b>8,537</b>	<b>9,012</b>	<b>7,751</b>	<b>27,382</b>

	Collections				
<b>Movements - 2015/2016</b>					
<b>At 1 April 2015</b>	<b>2,082</b>	<b>8,537</b>	<b>9,012</b>	<b>7,751</b>	<b>27,382</b>
<b>At 31 March 2016</b>	<b>2,082</b>	<b>8,537</b>	<b>9,012</b>	<b>7,751</b>	<b>27,382</b>

There were no Heritage Asset movements during the year 2016/17

#### 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.

## Section 5 : Notes to the Main Statements

### 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.

### 11 Investment Properties

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation.

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

	2015/2016 £000	2016/2017 £000
<b>Balance at the start of the year</b>	<b>73,467</b>	<b>79,463</b>
Additions:		
Purchases	4,418	0
Donated Assets	0	40
Disposals	(3,153)	(447)
Net gains/(losses) from fair value adjustments	4,266	286
Transfers from/to Property, Plant and Equipment.	465	(76,953)
<b>Balance at the end of the year</b>	<b>79,463</b>	<b>2,389</b>

The Council carried out an extensive review of its Investment Property portfolio during 2016/17 to establish if the assets held under this classification still complied with the strict definition of an Investment Property i.e. properties that are held solely to earn rentals and/or for capital gain. It was found that a significant proportion of the portfolio was used in the supply of Council services and should therefore be reclassified as Property, Plant and Equipment. Only eight assets remain under the Investment Property classification all of which have been revalued during the year. These consist of two houses held under tenancy agreements and the remainder are garage/supermarket sites.

#### **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 Council's Investment assets 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.

## Section 5 : Notes to the Main Statements

### 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 financing and investment activities in the CIES. The following amounts are the values relating to Investment property income and costs for 2016/2017.

	2015/2016 £000	2016/2017 £000
Rental income from investment property	1,944	68
Direct operating expenses arising from investment property	(448)	(6)
<b>Net gain</b>	<b>1,496</b>	<b>62</b>

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 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.

	2015/2016 £000	2016/2017 £000
<b>Opening Capital Financing Requirement</b>	<b>160,253</b>	<b>169,189</b>
<b>Capital investment</b>		
Property, Plant and Equipment	27,876	28,470
Investment Properties	4,418	40
Intangible Assets	2,088	1,578
Revenue Expenditure Funded from Capital Under Statute - Expenditure	4,593	7,808
<b>Sources of finance</b>		
Capital Receipts	(8,413)	(13,543)
Revenue Expenditure Funded from Capital Under Statute - Grant Received	(2,695)	(6,036)
Government Grants and other contributions applied in the year	(9,463)	(5,069)
<b>Sums set aside from revenue</b>		
Direct revenue contributions	(3,203)	(1,461)
Reduction in Long Term Debtors	(51)	(9)
MRP/loans fund principal	(6,214)	(5,024)
<b>Closing Capital Financing Requirement</b>	<b>169,189</b>	<b>175,943</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing :		
Unsupported by government financial assistance	15,201	11,787
Reduction in Long Term Debtors	(51)	(9)
MRP / loans fund principal	(6,214)	(5,024)
<b>Increase in Capital Financing Requirement</b>	<b>8,936</b>	<b>6,754</b>

## Section 5 : Notes to the Main Statements

### 14 Capital Commitments

The Council has an approved 2017/2018 budget for the construction or enhancement of Property, Plant and Equipment of £29,775,000.

Contracts are already in place for the following schemes:

Project	2017/18
	Approved Budget
Refuse Collection Vehicles	506
Town Centre Investment Pot	727
Middlehaven Relief Road	7,555
Site Assembly At Middlehaven	1,174
Hemlington Grange Electrical Connection	735
Hemlington Grange Extra Care Housing Contribution	250
Housing Delivery Vehicle	250
Leisure Trust Investment - Equipment	364
Local Transport Plan Unallocated Grant	1,080
Town Hall Venue Development	5,791
<b>Total</b>	<b>18,432</b>

### 15 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:

	2015/2016	2016/2017
	£000	£000
<b>Balance at the start of the year</b>		
Gross carrying amounts	13,724	15,431
Adjustment to Balance Brought forward	-	(7,065)
Accumulated amortisation	(9,998)	(10,982)
Adjustment to amortisation Brought forward	-	7,065
<b>Net carrying amount at start of the year</b>	<b>3,726</b>	<b>4,449</b>
Additions : Purchases	2,088	1,578
Amortisation for the period	(1,365)	(1,384)
Disposals	0	(108)
<b>Net carrying amount at end of the year</b>	<b>4,449</b>	<b>4,535</b>
Comprising:		
• Gross carrying amount	15,431	8,667
• Accumulated amortisation	(10,982)	(4,132)
<b>Net carrying amount at end of the year</b>	<b>4,449</b>	<b>4,535</b>

### 16 Assets Held for Sale

	2015/2016	2016/2017
	£000	£000
<b>Balance outstanding at the start of the year</b>	<b>651</b>	<b>1,273</b>
Transfers from Property, Plant and Equipment	1,003	0
Revaluation losses:		
• charged to Comprehensive Income and Expenditure	0	(455)
• charged to Revaluation Reserve	(455)	455
Revaluation Gain	202	0
Assets sold	(128)	(523)
<b>Balance outstanding at the end of the year</b>	<b>1,273</b>	<b>750</b>

## Section 5 : Notes to the Main Statements

### 17 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	
	2015/2016	2016/2017	2015/2016	2016/2017
	£000	£000	£000	£000
<b>Financial Assets - Loans and Receivables</b>				
<b>Held as Investments</b>				
Long Term Investments	309	309	0	0
Short Term Investments	0	0	0	11,500
Cash and Cash Equivalents	0	0	8,816	11,464
<b>Total Investments</b>	<b>309</b>	<b>309</b>	<b>8,816</b>	<b>22,964</b>
<b>Held as Debtors</b>				
Long Term Debtors	6,291	7,394	0	0
Short Term Debtors	0	0	5,265	4,225
<b>Total Debtors</b>	<b>6,291</b>	<b>7,394</b>	<b>5,265</b>	<b>4,225</b>
<b>Total Financial Assets - Loans and Receivables</b>	<b>6,600</b>	<b>7,703</b>	<b>14,081</b>	<b>27,189</b>
<b>Financial Liabilities - at Amortised Cost</b>				
<b>Held as Borrowings</b>				
Long Term Borrowing *	(76,309)	(106,073)	0	0
Short Term Borrowing	0	0	(25,918)	(30,986)
<b>Total Borrowings</b>	<b>(76,309)</b>	<b>(106,073)</b>	<b>(25,918)</b>	<b>(30,986)</b>
<b>Held as Other Payables</b>				
Short Term Creditors	0	0	(5,634)	(10,308)
Long Term Creditors **	(493)	(2,022)	0	0
<b>Total Held as Other Payables</b>	<b>(493)</b>	<b>(2,022)</b>	<b>(5,634)</b>	<b>(10,308)</b>
<b>Total Financial Liabilities - at Amortised Cost</b>	<b>(76,802)</b>	<b>(108,095)</b>	<b>(31,552)</b>	<b>(41,294)</b>

\* Long Term Borrowing includes a loan of £4.356m 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

### 18 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 31st March 2017.
- 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:

	2015/2016		2016/2017	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Assets - Loans and Receivables				
• Held as Investments	9,124	9,124	23,273	23,273
• Held as Debtors	11,557	11,557	11,619	11,619
<b>Financial Assets - Loans &amp; Receivables</b>	<b>20,681</b>	<b>20,681</b>	<b>34,892</b>	<b>34,892</b>

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.

	2015/2016		2016/2017	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities - at Amortised Cost				
• Held as Borrowings	102,227	144,536	137,059	201,140
• Held as Creditors	6,127	6,127	12,330	12,330
<b>Financial Liabilities - at Amortised Cost</b>	<b>108,354</b>	<b>150,663</b>	<b>149,389</b>	<b>213,470</b>

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 2nd March 2016 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2016/2017 was set at £202.4m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £181.2m. 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 Treasury Management 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 Treasury Management 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 Treasury Management 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 £11.9m 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 31 March 2017 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 2017 (A)	Historical experience of default (B)	Maximum Exposure at 31 March 2017 (A x B)	Maximum Exposure at 31 March 2016
	£000	%	£000	£000
Bonds	0	0.00%	0	0
Customers	48	12.55%	6	40
<b>Total</b>	<b>48</b>		<b>6</b>	<b>40</b>

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 £3,694,039 of the £5,875,419 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:

	2015/2016 £000	2016/2017 £000
Less than 3 months	2,096	1,063
Between 3 to 6 months	298	888
Between 6 months to one year	441	173
More than 1 year	1,892	1,570
<b>Total</b>	<b>4,727</b>	<b>3,694</b>

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 2017 was £0.6m. (31 March 2016 - £0.3million)

### 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:

	2015/2016 £000	2016/2017 £000
Less than one year	25,918	31,705
Between 1-2 years	866	1,008
Between 2-5 years	6,365	6,621
Between 5-10 years	13,462	19,571
Between 10-15 years	13,095	5,627
Between 15-20 years	4,941	4,931
Between 20-25 years	9,899	9,899
Between 25-30 years	(101)	(101)
Between 30-35 years	912	912
Between 35-40 years	16,912	16,912
More than 40 years	9,958	39,974
<b>Total</b>	<b>102,227</b>	<b>137,059</b>

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 Statement.

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.

## 19 Financial Instruments: Income and Expenditure

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

	2015/2016		2016/2017	
	Financial Assets £000	Financial Liabilities £000	Financial Assets £000	Financial Liabilities £000
<b>Income</b>				
Interest income	329	0	431	0
<b>Expenditure</b>				
Interest Expense	0	(3,823)	0	(4,460)
Fee expense	0	(7)	0	(34)
<b>Total Expenditure</b>	<b>0</b>	<b>(3,830)</b>	<b>0</b>	<b>(4,494)</b>
<b>Net Expenditure for the Year</b>		<b>(3,501)</b>		<b>(4,063)</b>

20 Inventories	2015/2016	2016/2017
	£000	£000
<b>Balance brought forward</b>	<b>1,667</b>	<b>1,739</b>
Purchases	5,588	7,114
Amounts expensed in year	(5,518)	(6,885)
Amounts written off in the year	2	20
<b>Total</b>	<b>1,739</b>	<b>1,988</b>

## Section 5 : Notes to the Main Statements

21	<b>Debtors</b>	<b>2015/2016</b>	<b>2016/2017</b>
		<b>£000</b>	<b>£000</b>
	<b>Short Term Debtors</b>		
	Central Government Bodies	3,207	5,936
	Other Local Authorities	5,034	5,112
	NHS Bodies	5,743	2,866
	Other entities and individuals	14,367	14,443
	<b>Total</b>	<b>28,351</b>	<b>28,357</b>
	<b>Long Term Debtors</b>		
	Cleveland Mall - Holiday Inn	5,800	5,634
	Other Long Term Debtors	491	379
	TWI	0	1,381
	<b>Total</b>	<b>6,291</b>	<b>7,394</b>

22	<b>Cash and Cash Equivalents</b>	<b>2015/2016</b>	<b>2016/2017</b>
		<b>£000</b>	<b>£000</b>
	Cash held by the Council	339	67
	Bank current accounts	2,076	(503)
	Short-term deposits with building societies	6,401	11,900
	<b>Total</b>	<b>8,816</b>	<b>11,464</b>

23	<b>Short Term Creditors</b>	<b>2015/2016</b>	<b>2016/2017</b>
		<b>£000</b>	<b>£000</b>
	Central Government Bodies	(4,094)	(6,545)
	Other Local Authorities	(1,536)	(994)
	NHS Bodies	(1,934)	(627)
	Other entities and individuals	(32,001)	(29,020)
	<b>Total</b>	<b>(39,565)</b>	<b>(37,186)</b>

### 24 Provisions

<b>Current Provisions</b>	<b>Balance at 1 April 2016</b>	<b>Additional amount in year</b>	<b>Amounts used in year</b>	<b>Unused amounts reversed in year</b>	<b>Balance at 31 March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Change Programme - Approved Early Retirements	362	0	(362)	0	0
NDR Appeals	490	245	0	0	735
School Kitchen Replacement	63	0	(59)	0	4
Taxi Licensing Refunds	326	0	(326)	0	0
Employment Termination Costs	111	0	(111)	0	0
<b>Total</b>	<b>1,352</b>	<b>245</b>	<b>(858)</b>	<b>0</b>	<b>739</b>

**NDR Appeals** - The Council's share of the Collection Fund business rate appeals provision.

<b>Long Term Provisions</b>	<b>Balance at 1 April 2016</b>	<b>Additional amount in year</b>	<b>Amounts used in year</b>	<b>Unused amounts reversed in year</b>	<b>Balance at 31 March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Housing Pension Contribution Deficit	1,600	0	0	(1,600)	0
Kier ICT Contract	401	0	(270)	0	131
Business Loan Guarantees	70	0	0	(70)	0
<b>Total</b>	<b>2,071</b>	<b>0</b>	<b>(270)</b>	<b>(1,670)</b>	<b>131</b>

**Kier Business Services Ltd, (formerly Mouchel Business Services Ltd) 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

### 25 Pension Schemes Accounted for as Defined Benefit Scheme

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.

#### Funded Benefits

The funded benefits are those payable by the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulation 2014.

#### Unfunded Benefits

The unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions that have not previously been 'converted' to funded benefits under Regulation 13A of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. Such benefits are usually charged to the Employer as they are paid. Other unfunded benefits include gratuities and enhanced teachers' pensions recharged to the Employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

#### 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 and Expenditure Statement	Funded 2015/2016	Unfunded 2015/2016	Funded 2016/2017	Unfunded 2016/2017
Charged to the Surplus or Deficit on the Provision of Services	£000	£000	£000	£000
As cost of services :				
Current service cost	14,885	0	14,358	0
Settlements and curtailments	1,096	0	1,638	0
As Financing and Investment Income and interest on net defined benefit liability/(asset)	4,580	826	5,072	1,023
<b>Total Charged to the Surplus or Deficit on the Provision of Services</b>	<b>20,561</b>	<b>826</b>	<b>21,068</b>	<b>1,023</b>
<b>Charged to Other Comprehensive Income and Expenditure</b>				
Actuarial Gains / (Losses)	(4,070)	5,707	(5,065)	1,531
<b>Total to the Comprehensive Income and Expenditure Statement</b>	<b>16,491</b>	<b>6,533</b>	<b>16,003</b>	<b>2,554</b>

Movement in Reserves Statement (General Fund)	Funded 2015/2016	Unfunded 2015/2016	Funded 2016/2017	Unfunded 2016/2017
	£000	£000	£000	£000
Reversal of total charged to the Surplus or Deficit on the Provision of Services	(20,561)	(826)	(21,068)	(1,023)
<b>Actual Amount charged for pensions in the year:</b>				
Employers contributions payable to scheme	10,230	2,317	10,648	2,196
<b>Total Amount included in the General Fund for the Year</b>	<b>(10,331)</b>	<b>1,491</b>	<b>(10,420)</b>	<b>1,173</b>

## Section 5 : Notes to the Main Statements

### Assets and Liabilities in Relation to Post Employment Benefits

Reconciliation of Liabilities	Funded 2015/2016	Unfunded 2015/2016	Funded 2016/2017	Unfunded 2016/2017
	£000	£000	£000	£000
<b>Opening Balance at 1 April</b>	<b>(744,728)</b>	<b>(26,958)</b>	<b>(729,565)</b>	<b>(31,174)</b>
Current Service Cost	(14,885)	0	(14,358)	0
Interest Cost	(23,520)	(826)	(24,447)	(1,023)
Contributions by scheme participants	(3,984)	0	(3,938)	0
Actuarial Gains / (Losses)	34,819	(5,707)	(115,615)	(1,531)
Benefits paid	23,829	2,317	25,449	2,196
Past Service cost including curtailments	(1,096)	0	(1,638)	0
<b>Closing Balance at 31 March</b>	<b>(729,565)</b>	<b>(31,174)</b>	<b>(864,112)</b>	<b>(31,532)</b>

### Reconciliation of fair value of scheme assets

Reconciliation of fair value of scheme Assets	Funded 2015/2016	Unfunded 2015/2016	Funded 2016/2017	Unfunded 2016/2017
	£000	£000	£000	£000
<b>Opening Balance at 1 April</b>	<b>596,527</b>	<b>0</b>	<b>575,103</b>	<b>0</b>
Expected return on plan assets	18,940	0	19,375	0
Actuarial Gains / (Losses)	(30,749)	0	120,680	0
Employer contributions	10,230	2,317	10,648	2,196
Contributions by scheme participants	3,984	0	3,938	0
Benefits paid	(23,829)	(2,317)	(25,449)	(2,196)
<b>Closing Balance at 31 March</b>	<b>575,103</b>	<b>0</b>	<b>704,295</b>	<b>0</b>

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 £140.055 million gain (2015/2016 £11.809 million loss).

Scheme History	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
	£000	£000	£000	£000	£000
Present value of liabilities	(671,804)	(691,655)	(771,686)	(760,739)	(895,644)
Fair value of assets	513,449	558,838	596,527	575,103	704,295
<b>Scheme Deficit</b>	<b>(158,355)</b>	<b>(132,817)</b>	<b>(175,159)</b>	<b>(185,636)</b>	<b>(191,349)</b>

The scheme deficit shown above includes £31.532 million in respect of unfunded defined benefit obligations (2015/2016 £31.174 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 2018 is £10.648 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 31 March 2016.

The principal assumptions used by the actuary have been:

<b>Mortality Assumptions</b>	<b>2015/2016</b>	<b>2016/2017</b>
Longevity at 65 for current pensioners		
• Men	23.10	22.80
• Women	25.60	24.90
Longevity at 65 for future pensioners		
• Men	25.30	25.00
• Women	28.00	27.20
<b>Other Assumptions</b>		
Rate of inflation (RPI)	2.90%	3.10%
Rate of inflation (CPI)	1.80%	2.00%
Rate of increase in salaries	3.30%	3.30%
Rate of increase in pensions	1.80%	2.00%
Rate for discounting scheme liabilities	3.40%	2.50%
<b>Take up of option to convert annual pension into retirement lump sum</b>	<b>80.00%</b>	<b>80.00%</b>

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

	<b>2015/2016</b>	<b>2016/2017</b>
Equity Investments	84.9%	81.5%
Gilts	1.4%	0.2%
Other Bonds	1.6%	0.2%
Property	7.0%	6.9%
Cash / Liquidity	5.1%	11.2%
	<b>100.0%</b>	<b>100.0%</b>

### 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 :

	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>	<b>2016/2017</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Difference between expected and actual return on assets	8.20	5.80	4.63	(5.35)	17.13
Experience gains and losses on liabilities	0.10	2.00	(0.60)	(3.83)	13.08

### Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the year ending 31 March 2018 is set out on the following page, sensitivity on unfunded benefits have not been included due to materiality grounds:

<b>Disclosure rate assumption</b>		
Adjustment to discount rate	<b>0.1% p.a.</b>	<b>-0.1% p.a.</b>
Present value of total obligation (£000's)	849,214	879,271
% change in present value of total obligation	-1.7%	1.8%
Projected service cost (£000's)	18,883	20,019
Approximate % change in projected service cost	-2.9%	3.0%



## Section 5 : Notes to the Main Statements

<b>Rate of general increase in salaries</b>		
Adjustment to salary increase rate	<b>0.1% p.a.</b>	<b>-0.1% p.a.</b>
Present value of total obligation (£000's)	866,984	861,267
% change in present value of total obligation	0.3%	-0.3%
Projected service cost (£000's)	19,444	19,444
Approximate % change in projected service cost	0	0

<b>Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption</b>		
Adjustment to pension increase rate	<b>0.1% p.a.</b>	<b>-0.1% p.a.</b>
Present value of total obligation (£000's)	876,377	852,036
% change in present value of total obligation	1.4%	-1.4%
Projected service cost (£000's)	20,019	18,883
Approximate % change in projected service cost	3.0%	-2.9%

<b>Post retirement mortality assumption</b>		
Adjustment to mortality age rating assumption*	<b>-1year</b>	<b>+1year</b>
Present value of total obligation (£000's)	890,173	838,228
% change in present value of total obligation	3.0%	-3.0%
Projected service cost (£000's)	20,156	18,737
Approximate % change in projected service cost	3.7%	-3.6%

\* 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.

### 26 Pension Schemes Accounted for as Defined Contribution Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of 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 2016/2017 the Council paid £3.53 million (2015/2016 - £4.06 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 16.48% (2015/2016 - 15.38% ) of pensionable pay. The employers contribution rate was increased from 14.1% to 16.48% in September 2015.

### 27 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/2017.

<b>Revenue Grants Credited to Taxation and Non Specific Grant Income</b>	<b>2015/2016</b>	<b>2016/2017</b>
	<b>£000</b>	<b>£000</b>
Revenue Support Grant	34,899	27,645
Business Rates Top-up Grant	21,630	21,810
Buisness Rates Multiplier	0	638
New Homes Bonus Grant	2,138	3,171
NDR Section 31 Grant	1,592	1,037
Minor Grants (less than £100k each)	3	14
Council Tax Administration Grant	0	(330)
Other grants	57	43
<b>Total (Note 5)</b>	<b>60,319</b>	<b>54,028</b>

## Section 5 : Notes to the Main Statements

Revenue Grants Credited to Services	2015/2016	2016/2017
	£000	£000
<b>Department for Education</b>		
Dedicated Schools Grant	71,012	63,402
Pupil Premium	7,116	5,736
Education Funding Agency	1,497	265
Education Services Grant	1,535	1,185
Skills Funding Agency	1,864	1,967
Universal Infant Free School Meals	1,087	843
High Needs Sixth Form Funding	1,389	800
Other DfE grants	733	915
<b>Department for Communities and Local Government</b>		
Independent Living Fund	1,589	2,013
Care Act Grant	677	0
Troubled Families Grant	673	(548)
Other DCLG grants	929	628
<b>European Grants (DCLG)</b>		
European Regional Development Fund	279	0
<b>Home Office</b>		
Youth Offender Services	969	801
Other Home Office grants	190	382
<b>Department for Business</b>		
DfB grants	185	181
<b>Department for Culture, Media and Sport</b>		
DCMS grants	182	172
<b>Department for Work and Pensions</b>		
Housing Benefit Subsidy Grant	79,485	78,751
Housing Benefits Admin Grant	1,107	1,186
Other grants	723	660
<b>Department of Health</b>		
Public Health Grant	16,676	17,665
Better Care Fund	6,893	7,008
Other Department of Health grants	208	134
<b>Department for Environment Food and Rural Affairs</b>		
DeFRA grants	25	21
<b>Department for Transport</b>		
DfT grants	96	78
<b>Lottery Grants</b>		
Headstart Grant	849	0
Other Lottery grants	129	108
<b>Cabinet Office</b>		
Elections	142	0
Other Cabinet Office Grants	53	213
<b>Other Contributions</b>		
South Tees Clinical Commissioning Group	6,764	8,620
Redcar and Cleveland Borough Council	1,932	2,009
Stockton-on-Tees Borough Council	1,057	919
Tees, Esk and Wear Valleys NHS Foundation Trust	625	427
South Tees Hospitals NHS Foundation Trust	556	609
Hartlepool Borough Council	307	561
North of England Commissioning Support Unit	100	(100)
Tees Valley Combined Authority	0	116
Other contributions	1,129	193
<b>Total Revenue Grants Credited to Services</b>	<b>210,762</b>	<b>197,920</b>

## Section 5 : Notes to the Main Statements

Capital Grants	2015/2016	2016/2017
	£000	£000
<b>Department for Education</b>		
Capital Maintenance / Basic Need	1,683	763
School Condition Allocation	0	949
Other DfE grants	223	956
<b>Department for Communities and Local Government</b>		
ERDF Grant	1,232	50
Bringing Empty Homes into use Grant	176	0
Site Assembly Middleshaven	0	1,086
Other DCLG grants	278	178
<b>Department of Health</b>		
Disabled Facility Grant	884	1,563
Capital Investment in Community Capacity	422	0
Other Department of Health grants	80	44
<b>Department for Transport</b>		
Local Transport Plan	2,888	2,910
<b>Department for Culture, Media and Sport</b>		
Arts Council Captain Cook Museum	0	460
Arts Council Town Hall Development	0	500
<b>Lottery Grants</b>		
Heritage Lottery Fund	132	791
<b>Other Grants</b>		
	0	4,174
<b>Other Contributions</b>		
Teesside University	1,214	156
Barratt Homes	242	0
Urban & Civic Redcliffe	0	609
Other contributions	675	949
<b>Total Capital Grants</b>	<b>10,129</b>	<b>16,138</b>
Amount Applied Directly to Services	2,695	6,036
Amount recognised as Taxation and Non Specific Income - Note 5	7,434	10,102
<b>Total</b>	<b>10,129</b>	<b>16,138</b>

### 28 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 2015. 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 2016/2017 is as follows:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2016/2017 before Academy recoupmnt			124,946
Academy figure recouped for 2016/2017			61,544
<b>Total DSG after Academy recoupmnt for 2016/2017</b>			<b>63,402</b>
Plus: Brought forward from 2015/2016			1,829
Less: Carry-forward to 2017/2018 agreed in advance			0
<b>Agreed initial budgeted distribution in 2015/2016</b>	<b>15,144</b>	<b>50,087</b>	<b>65,231</b>
In year adjustments	0	0	0
<b>Final budgeted distribution for 2015/2016</b>	<b>15,144</b>	<b>50,087</b>	<b>65,231</b>
Less: Actual central expenditure	(14,869)		(14,869)
Less: Actual ISB deployed to schools		(49,940)	(49,940)
<b>Balance Carried Forward</b>	<b>275</b>	<b>147</b>	<b>422</b>

The total level of reserves and balances held by the schools can be found in Note 30.

## Section 5 : Notes to the Main Statements

29 Usable Reserves	2015/2016	2016/2017
	£000	£000
Capital Grants Unapplied Reserve	3,525	9,491
Capital Receipts Reserve	9,199	3,396
General Fund	11,594	14,465
Earmarked Reserves	39,201	27,267
<b>Total</b>	<b>63,519</b>	<b>54,619</b>

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 36 and 30. 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 note 30.

## 30 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 shown below.

	Amounts Transferred			Balance at 31 March 2017 £000
	Balance at 1 April 2016 £000	From General Fund £000	To General Fund £000	
	<b>School Balances</b>	6,735	4,335	
<b>Development in Future Provision of Schools</b>	2,536	716	(2,536)	716
<b>Investment Reserves</b>				
SITA Tees Valley Ltd	309	0	(309)	0
<b>Significant Revenue Reserves</b>				
Invest to Save / Change Programme	3,320	3,804	(5,726)	1,398
Revenue Grants Unapplied	7,967	8,226	(9,024)	7,169
Social Care and Vulnerable Children	1,997	0	(1,997)	0
Insurance Fund	681	1,902	(2,157)	426
DSG Central Expenditure	155	193	0	348
DSG Early Years	(220)	306	(336)	(250)
DSG High Needs	1,894	0	(1,569)	325
Public Health Investment Reserve	1,668	0	(1,509)	159
Public Health Grant Reserve	1,502	0	0	1,502
Business Rates Reserve	3,963	816	(1,300)	3,479
Savings Targets Reserve	500	0	(500)	0
Investment Fund Reserve	3,217	0	0	3,217
WNF and JIP Grants	82	0	(82)	0
<b>Total Significant Reserves</b>	<b>26,726</b>	<b>15,247</b>	<b>(24,200)</b>	<b>17,773</b>
<b>Other Revenue Reserves</b>	<b>2,895</b>	<b>6,626</b>	<b>(5,078)</b>	<b>4,443</b>
<b>Total Earmarked Reserves</b>	<b>39,201</b>	<b>26,924</b>	<b>(38,858)</b>	<b>27,267</b>

## Section 5 : Notes to the Main Statements

Details of some of the more significant earmarked reserves are set out below:-

### 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.

**Invest to Save / Change Programme** - the 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** - Under IFRS, all grants and contributions are recognised as income when the grant conditions have been met. Any unspent grant balances at year end are transferred to the Revenue Grants Unapplied Reserve.

**Insurance Fund** - the internal Insurance Fund was set up to cover nearly all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers liability, fire, motor, marine, engineers, public liability and money losses.

**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.

**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.

**Business Rates Reserve** - the 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.

**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.

### 31 Unusable Reserves

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

	2015/2016	2016/2017
	£000	£000
Revaluation Reserve	80,955	81,185
Capital Adjustment Account	275,432	217,138
Deferred Capital Receipts Reserve	6	4
Pensions Reserve	(185,636)	(191,349)
Collection Fund Adjustment Account	552	722
Accumulating Compensated Absences Adjustment Account	(1,193)	(1,620)
<b>Total Unusable Reserves</b>	<b>170,116</b>	<b>106,080</b>

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 1 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.

## Section 5 : Notes to the Main Statements

### ***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 convert 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.

### ***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.

### ***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.

### ***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
<b>Balance at 1 April 2016</b>	<b>80,955</b>	<b>275,432</b>	<b>6</b>	<b>(185,636)</b>	<b>552</b>	<b>(1,193)</b>	<b>170,116</b>
Allocated from Other Comprehensive Income and Expenditure	17,790	0	0	3,534	0	0	21,324
Transfers from Usable Reserves (note 36)	0	(75,854)	(2)	(9,247)	170	(427)	(85,360)
Other Movements and Transfers	0	0	0	0	0	0	0
Difference between fair value and historical cost depreciation	(1,534)	1,534	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	(16,026)	16,026	0	0	0	0	0
<b>Balance at 31 March 2017</b>	<b>81,185</b>	<b>217,138</b>	<b>4</b>	<b>(191,349)</b>	<b>722</b>	<b>(1,620)</b>	<b>106,080</b>
<b>Balance at 1 April 2015</b>	<b>90,382</b>	<b>276,648</b>	<b>30</b>	<b>(175,159)</b>	<b>(907)</b>	<b>(1,728)</b>	<b>189,266</b>
Allocated from Other Comprehensive Income and Expenditure	(6,271)	508	0	(1,637)	0	0	(7,400)
Transfers from Usable Reserves (note 36)	0	(4,880)	(24)	(8,840)	1,459	535	(11,750)
Other Movements and Transfers	0	0	0	0	0	0	0
Difference between fair value and historical cost depreciation	(2,353)	2,353	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	(803)	803	0	0	0	0	0
<b>Balance at 31 March 2016</b>	<b>80,955</b>	<b>275,432</b>	<b>6</b>	<b>(185,636)</b>	<b>552</b>	<b>(1,193)</b>	<b>170,116</b>

32 Cash Flow Statement - Investing Activities	2015/2016	2016/2017
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(32,113)	(26,447)
Net proceeds on change in short term investments	1,003	(11,500)
Cash returned on long term deposit	0	0
Proceeds from the sale of PPE, investment property and intangible assets	4,527	7,738
<b>Net cash flow from investing activities</b>	<b>(26,583)</b>	<b>(30,209)</b>

33 Cash Flow Statement - Financing Activities	2015/2016	2016/2017
	£000	£000
Amounts applied to finance lease repayments (Capital Element)	(74)	1,484
Net repayments of short and long term borrowing	21,764	34,832
<b>Net cash flows from financing activities</b>	<b>21,690</b>	<b>36,316</b>

## Section 5 : Notes to the Main Statements

### 34 Leases - 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:

	2015/2016 £000	2016/2017 £000
No later than one year	2,334	2,284
Later than one year and not later than five years	5,213	5,234
Later than five years	26,971	34,307
<b>Total</b>	<b>34,518</b>	<b>41,825</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. These amounts are not disclosed due to the inherent uncertainties surrounding them.

### 35 Leases - Council as Lessee

#### *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:

	2015/2016 £000	2016/2017 £000
No later than one year	51	6
Later than one year and not later than five years	25	24
Later than five years	14	8
<b>Total</b>	<b>90</b>	<b>38</b>

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

	2015/2016 £000	2016/2017 £000
Minimum lease payments	125	51



**Section 5 : Notes to the Main Statements**

**Adjustment Between Accounting Basis and Funding Basis under regulations (for the year ended March 2017)**

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.

**Amounts involving the Capital Adjustment Account**

**With the Comprehensive Income and Expenditure Statement**

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000
Impairment and depreciation to Property, Plant and Equipment (Note 6)	16,658	0	0	16,658
Revaluation Losses on Property, Plant and Equipment (Note 6)	24,781	0	0	24,781
Revaluation of Investment Properties and Assets for Sale (Notes 11,16)	(286)	0	0	(286)
Amortisation of Intangible Assets (Note 15)	1,384	0	0	1,384
Transfer between Capital Grants Unapplied and General Fund	0	0	0	0
Total Capital Grants and Contributions (Note 5)	(10,102)	0	0	(10,102)
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	8,330	8,330
Donated Assets (Note 6,11)	(932)	0	0	(932)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Expenditure	7,808	0	0	7,808
Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Grant Receivable	(6,036)	0	0	(6,036)
Non current assets written off on disposal or sale	56,641	0	0	56,641
<b>Total with the Comprehensive Income and Expenditure Statement</b>	<b>89,916</b>	<b>0</b>	<b>8,330</b>	<b>98,246</b>
<b>Amounts arising elsewhere</b>				
Statutory provision for the financing of capital investment	(5,024)	0	0	(5,024)
Voluntary provision for the financing of capital investment	0	0	0	0
Capital Receipts Reserve used to finance new capital spend	0	(13,543)	0	(13,543)
Capital expenditure charged against the General Fund	(1,461)	0	0	(1,461)
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(2,364)	(2,364)
<b>Total Amounts arising elsewhere</b>	<b>(6,485)</b>	<b>(13,543)</b>	<b>(2,364)</b>	<b>(22,392)</b>
<b>Total Amounts involving the Capital Adjustment Account</b>	<b>83,431</b>	<b>(13,543)</b>	<b>5,966</b>	<b>75,854</b>

**Section 5 : Notes to the Main Statements**

<b>Adjustment Between Accounting Basis and Funding Basis under regulations (for the year ended March 2017)</b>					
	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied Reserve</b>	<b>Total Usable Reserves</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
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.					
<b>Amounts involving the Deferred Capital Receipts Reserve</b>					
Transfer on receipt of cash	0	2	0	2	
<b>Total involving the Deferred Capital Receipts Reserve</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	
<b>Amounts involving the Pension Reserve</b>					
Reversal of Pension items in the Comprehensive Income & Expenditure Statement	22,091	0	0	22,091	
Employer's pension contributions payable in the year	(12,844)	0	0	(12,844)	
<b>Total involving the Pension Reserve</b>	<b>9,247</b>	<b>0</b>	<b>0</b>	<b>9,247</b>	
<b>Amounts involving the Collection Fund Adjustment Account</b>					
Difference in Collection Fund income credited to the Comprehensive Income & Expenditure Statement and that under statutory requirements	(170)	0	0	(170)	
<b>Total involving the Collection Fund Adjustment Account</b>	<b>(170)</b>	<b>0</b>	<b>0</b>	<b>(170)</b>	
<b>Amounts with the Acc Compensated Absences Adj Acc't</b>					
Reversal of accrual made at the previous year end	(1,193)	0	0	(1,193)	
Creation of accrual for the current year end	1,620	0	0	1,620	
<b>Total with the Acc Compensated Absences Adj Acc't</b>	<b>427</b>	<b>0</b>	<b>0</b>	<b>427</b>	
<b>Amounts between Usable Reserves</b>					
Cash proceeds on disposal of Non Current Assets	(7,738)	7,738	0	0	
<b>Total between Usable Reserves</b>	<b>(7,738)</b>	<b>7,738</b>	<b>0</b>	<b>0</b>	
<b>Total Adjustments for the year ended 31 March 2017</b>	<b>85,197</b>	<b>(5,803)</b>	<b>5,966</b>	<b>85,360</b>	

**Section 5 : Notes to the Main Statements**

<b>Adjustment Between Accounting Basis and Funding Basis under regulations (for the year ended 31 March 2016)</b>					
	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied Reserve</b>	<b>Total Usable Reserves</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
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.					
<b>Amounts involving the Capital Adjustment Account</b>					
<b>With the Comprehensive Income and Expenditure Statement</b>					
Impairment and depreciation to Property, Plant and Equipment (Note 6)	19,112	0	0	0	19,112
Revaluation Losses on Property, Plant and Equipment (Note 6)	4,119	0	0	0	4,119
Revaluation of Investment Properties and Assets for Sale (Notes 11.16)	(4,468)	0	0	0	(4,468)
Amortisation of Intangible Assets (Note 15)	1,365	0	0	0	1,365
Revaluation of Heritage assets	0	0	0	0	0
<b>Total Capital Grants and Contributions (Note 5)</b>	<b>(7,434)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(7,434)</b>
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	2,529	0	2,529
Donated Assets (Note 6.11)	(680)	0	0	0	(680)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) Expenditure	4,593	0	0	0	4,593
Revenue Expenditure Funded from Capital Under Statute (REFCUS) Grant Receivable	(2,695)	0	0	0	(2,695)
Non current assets written off on disposal or sale.	9,999	0	0	0	9,999
<b>Total with the Comprehensive Income and Expenditure Statement</b>	<b>23,911</b>	<b>0</b>	<b>2,529</b>	<b>0</b>	<b>26,440</b>
<b>Amounts arising elsewhere</b>					
Statutory provision for the financing of capital investment	(6,214)	0	0	0	(6,214)
Voluntary provision for the financing of capital investment	0	0	0	0	0
Capital Receipts Reserve used to finance new capital spend	0	(8,413)	0	0	(8,413)
Capital expenditure charged against the General Fund	(3,056)	0	0	0	(3,056)
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	(3,877)	0	(3,877)
<b>Total Amounts arising elsewhere</b>	<b>(9,270)</b>	<b>(8,413)</b>	<b>(3,877)</b>	<b>0</b>	<b>(21,560)</b>
<b>Total Amounts involving the Capital Adjustment Account</b>	<b>14,641</b>	<b>(8,413)</b>	<b>(1,348)</b>	<b>0</b>	<b>4,880</b>

**Section 5 : Notes to the Main Statements**

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

## Section 5 : Notes to the Main Statements

### 37 Officers' Remuneration

#### Senior Employees' Remuneration

The Accounts and Audit Regulations (England) 2015 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 and 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
2016/2017	£	£	£	£	£	£
Chief Executive - Mike Robinson left August 2016	51,695	0	51,695	7,444	164,432	<b>223,571</b>
Chief Executive - Tony Parkinson from August 2016	89,705	0	89,705	12,918	0	<b>102,623</b>
Executive Director Growth and Place	114,619	0	114,619	16,505	0	<b>131,124</b>
Executive Director of Wellbeing Care and Learning Left September 2016 *	138,367	0	138,367	8,253	4,636	<b>151,256</b>
Executive Director of Commercial and Corporate Services until August 2016	41,904	0	41,904	6,034	0	<b>47,938</b>
Chief Finance Officer / Section 151 Officer	5,351	16,540	21,891	3,152	0	<b>25,043</b>
Strategic Director of Finance and Governance / Section 151 Officer from September 2016	56,078	0	56,078	8,075	0	<b>64,153</b>
Director of Adult Social Care and Health Intergration (DASS)	79,068	0	79,068	11,386	0	<b>90,454</b>
Director of Public Health and Public Protection (DPH)	85,035	0	85,035	13,017	0	<b>98,052</b>
Head of Legal Services - Monitoring Officer	51,588	0	51,588	7,429	0	<b>59,017</b>

\* This includes a redundancy payment of £81,058.

Chief Finance Officer / Section 151 officer figures include payment in lieu of notice.

The Council made payments to Penna PLC for the following during 2016/17

Section 151 Officer May 2016 - September 2016 £80,093

Director of Children's Services September 2016 - March 2017 £103,500.

## Section 5 : Notes to the Main Statements

	Salary (including fees and 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	Total including pension contributions
2015/2016	£	£	£	£	£	£
Chief Executive - Mike Robinson	140,000	0	0	140,000	20,160	<b>160,160</b>
Executive Director of Economic Development and Communities	113,484	0	0	113,484	16,341	<b>129,825</b>
Executive Director of Wellbeing Care and Learning	108,081	0	0	108,081	15,564	<b>123,645</b>
Executive Director of Commercial and Corporate Services	113,484	0	0	113,484	16,342	<b>129,826</b>
Chief Finance Officer / Section 151 Officer	86,700	0	75,000	161,700	12,485	<b>174,185</b>
Assistant Director of Organisation and Governance / Monitoring Officer	76,500	0	52,965	129,465	11,016	<b>140,481</b>

Payments in relation to the Monitoring Officer include payments in lieu of notice.

### 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 2016			Number of Employees at 31 March 2017		
	MBC	Schools	Total	MBC	Schools	Total
50,000 - 54,999	17	17	34	16	17	33
55,000 - 59,999	10	8	18	4	12	16
60,000 - 64,999	5	12	17	4	6	10
65,000 - 69,999	5	4	9	4	10	14
70,000 - 74,999	3	4	7	2	2	4
75,000 - 79,999	1	1	2	0	2	2
80,000 - 84,999	2	1	3	2	0	2
85,000 - 89,999	1	0	1	0	0	0
90,000 - 94,999	0	0	0	0	0	0
95,000 - 99,999	0	0	0	2	1	3
<b>Total</b>	<b>44</b>	<b>47</b>	<b>91</b>	<b>34</b>	<b>50</b>	<b>84</b>

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 2016/2017 3 staff were included in the above table due to one-off redundancy payments taking their total remuneration above £50,000 (2015/2016 2 staff).

## Section 5 : Notes to the Main Statements

### 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 :

2016/2017		Number exiting by			
From £	To £	Compulsory Redundancy	Other	Total	Total Cost of Exit Packages £'000
0	20,000	2	67	69	533
20,001	40,000	0	16	16	461
40,001	60,000	0	6	6	294
60,001	80,000	0	6	6	401
80,001	100,000	0	3	3	259
100,001	150,000	0	5	5	621
150,001	200,000	0	1	1	164
<b>Total</b>		<b>2</b>	<b>104</b>	<b>106</b>	<b>2,733</b>

2015/2016		Number exiting by			
From £	To £	Compulsory Redundancy	Other	Total	Total Cost of Exit Packages £'000
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
<b>Total</b>		<b>11</b>	<b>77</b>	<b>88</b>	<b>1,502</b>

### 38 Members' Allowances and Expenses

	2015/2016 £000	2016/2017 £000
Basic Allowances Paid	287	284
Special Responsibility Allowances Paid	262	254
Expenses	20	12
<b>Total</b>	<b>569</b>	<b>550</b>

### 39 Agency Services

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

### 40 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:

	2015/2016 £000	2016/2017 £000
Fees payable for external audit services	115	115
Fees payable for the certification of grant claims and returns	11	10
Fees payable in respect of other services	0	3
<b>Total</b>	<b>126</b>	<b>128</b>

## Section 5 : Notes to the Main Statements

### 41 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 27. Debtor and Creditor balances for Central Government bodies are shown in notes 21 and 23.

#### 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 2017				
Organisation	Expenditure Transactions in Year	Income Transactions in Year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Achieving Change Through Enterprising Solutions Trust (ACTES)	89	0	0	0
Easterside Partnership	11	17	0	0
Langridge Initiative Centre	12	0	0	0
Linx Detached Youth Work	20	180	0	0
Middlesbrough Environment City	636	8	1	28
Middlesbrough Voluntary Development Agency	802	0	0	0
North East Procurement Organisation	74	0	0	0
Teesside Ability Support Centre	337	0	71	0
Teesside University	670	286	0	0

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 and 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

#### 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 9.0 million (2015/2016 - £9.2 million) and made charges to the Fund for Support Services of £2,326,296 (part of which was provided by Kier Business Services Ltd).



## Section 5 : Notes to the Main Statements

### 42 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:

	2015/2016			2016/2017		
	Income	Expenditure	(Surplus) /Deficit	Income	Expenditure	(Surplus) /Deficit
	£000	£000	£000	£000	£000	£000
Building Control	(160)	194	34	0	0	0
Commercial and Industrial Properties	(3,051)	2,720	(331)	(2,974)	2,671	(303)
Highways and Sewers	(2,314)	1,855	(459)	0	0	0
Building Maintenance, Cleaning and Security	(7,808)	8,444	636	(2,787)	3,122	335
Parking	(1,220)	1,816	596	(1,106)	1,051	(55)
Schools Catering	(6,524)	6,350	(174)	(6,559)	6,469	(90)
<b>Total</b>	<b>(21,077)</b>	<b>21,379</b>	<b>302</b>	<b>(13,426)</b>	<b>13,313</b>	<b>(113)</b>

Please note that following a review of the functions that have been included as Trading Operations, it has been concluded that the following functions no longer satisfy the criteria for inclusion as Trading Operations from 2016/17 onwards:

Building Control  
Highways and Sewers  
Building Maintenance

## Section 5 : Notes to the Main Statements

### 43 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 South Tees Clinical Commissioning Group (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.

	2015/2016	2016/2017
	£000	£000
<b>Balance brought forward</b>	<b>0</b>	<b>298</b>
<b>Funding Provided to the Pooled Budget</b>		
by the Council	1,307	1,864
by South Tees Clinical Commissioning Group	10,728	10,664
<b>Total Funding</b>	<b>12,035</b>	<b>12,826</b>
<b>Expenditure met from the Pooled Budget</b>		
by the Council	8,282	8,794
by South Tees Clinical Commissioning Group	3,455	3,612
<b>Total Expenditure</b>	<b>11,737</b>	<b>12,406</b>
Capital Amounts re-profiles to 2017/18	0	151
<b>Net surplus arising on the Pooled Budget to be carried forward</b>	<b>298</b>	<b>269</b>

## 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-on-Tees 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:

	2015/2016	2016/2017
	£000	£000
<b>Balance brought forward</b>	<b>(542)</b>	<b>(614)</b>
Gross Expenditure	1,241	1,336
Gross Income	(1,313)	(1,298)
<b>Balance carried forward</b>	<b>(614)</b>	<b>(576)</b>
<b>Contributions from partners</b>		
Middlesbrough Council	101	122
Stockton Borough Council	118	114
Redcar & Cleveland Borough Council	94	131
Hartlepool Borough Council	82	84
South Tees Clinical Commissioning Group	185	376
North Tees and Hartlepool NHS Foundation Trust	182	354
Other Income	551	117
<b>Total</b>	<b>1,313</b>	<b>1,298</b>

#### 44 Contingent Liabilities

At 31 March 2017, 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 Supreme Court case judgement 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 settled. £100,000 has now been set aside to cover potential future liabilities.

##### 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.

##### Employment Tribunal

The Council recognises a liability relating to an outstanding employment tribunal ruling.

## Section 5 : Notes to the Main Statements

### 45 Contingent Assets

At 31 March 2017, 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).

### 46 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 2016	Surplus / (Deficit) in 2016/2017	Fund Balance at 31 March 2017
		£	£	£
Teesside Education Endowment	514301	7,353	15	7,368
Sanderson Prize - Acklam Grange School	516308	1,528	(1,528)	0
Haines Prize - Brackenhoe School	516305	4,969	(4,969)	0
Capt. J.V. Nancarrow Trust - Educational support	506937	109,551	19	109,570
Middlesbrough Educational Trust	532293	66,842	129	66,971
Hustler Playing Fields Trust - Sport	523381	1,521,724	(1,064)	1,520,660
Miss Olive Scarr Trust - Schools Music	508539	15,326	(15,326)	0
W.M. Anderton Trust - Kings Manor School and Acklam 6th Form College	509198	1,363	3	1,366
Rev. J.W. Dales Trust - University Scholarship	512215	2,019	(2,019)	(0)
Teesside Relief in Sickness	229137	3,666	7	3,673
Settlement Hall Trust - social and religious accommodation	226877	102,646	(102,646)	0
Lady Crossthwaite Bequest - support for the older people	234932	475,882	957	476,839
King Edward VII & Sister Purvis - Convalescent Fund	226433	58,443	52,039	110,482
Wilson & Marwood Trust - support for disadvantaged people	221291	15,304	30	15,334
Stewart Park Trust - Recreation	507075	8,625	17	8,642
Levick Trust - accommodation for over 60's	255056	337,384	(10)	337,374
Captain Cook Birthplace Trust	507317	8,864	18	8,882
Dorman Museum and Art Gallery Appeal Trust	n/a	3,256	7	3,263
<b>Total</b>		<b>2,744,745</b>	<b>(74,321)</b>	<b>2,670,424</b>

### 47 Events After the Balance Sheet Date

No post balance sheet events have occurred

## Section 6 : The Supplementary Financial Statements

### Collection Fund Income and Expenditure Account

2015/2016 £000		2016/2017 £000 Council Tax	2016/2017 £000 Business Rates	2016/2017 £000 Total
<b>Income</b>				
(54,932)	Council Tax	(58,721)	0	(58,721)
(39,527)	Income from Business Rate Payers	0	(42,459)	(42,459)
<b>(94,459)</b>	<b>Total Income</b>	<b>(58,721)</b>	<b>(42,459)</b>	<b>(101,180)</b>
<b>Expenditure</b>				
<b>Precepts and Demands:</b>				
42,571	Middlesbrough Council	46,179	0	46,179
6,360	Cleveland Police and Crime Commissioner	6,767	0	6,767
2,170	Cleveland Fire Authority	2,306	0	2,306
<b>Business Rates</b>				
20,266	Payments to Central Government	0	20,350	20,350
405	Payments to Cleveland Fire Authority	0	407	407
19,861	Payments to Middlesbrough Council	0	19,943	19,943
179	Costs of Collection	0	177	177
<b>Bad &amp; Doubtful Debts</b>				
1,266	Write Offs	169	2,052	2,221
1,355	Provisions for Bad Debts	2,048	133	2,181
(3,000)	Provision for Appeals	0	500	500
<b>91,433</b>	<b>Total Expenditure</b>	<b>57,469</b>	<b>43,562</b>	<b>101,031</b>
<b>Contributions towards previous year's estimate</b>				
889	Collection Fund Deficit / (Surplus)	1,202	(1,360)	(158)
<b>(2,137)</b>	<b>Deficit / (Surplus) for the year</b>	<b>(50)</b>	<b>(257)</b>	<b>(307)</b>
<b>COLLECTION FUND BALANCE</b>				
2,288	Balance brought forward at 1 April	(1,818)	1,969	151
(2,137)	Deficit / (Surplus) for the year (as above)	(50)	(257)	(307)
<b>151</b>	<b>Balance carried forward at 31 March</b>	<b>(1,868)</b>	<b>1,712</b>	<b>(156)</b>
<b>Allocated to</b>				
(550)	Middlesbrough Council	(1,561)	839	(722)
(226)	Cleveland Police and Crime Commissioner	(229)	0	(229)
(57)	Cleveland Fire Authority	(78)	17	(61)
984	Central Government	0	856	856
<b>151</b>		<b>(1,868)</b>	<b>1,712</b>	<b>(156)</b>

## 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 1 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*	50	+5/9	40	28
A	16,703	+6/9	15,980	11,135
B	7,587	+7/9	8,469	5,901
C	8,696	+8/9	11,093	7,730
D	4,320	+9/9	6,200	4,320
E	1,815	+11/9	3,184	2,218
F	662	+13/9	1,372	956
G	429	+15/9	1,026	715
H	29	+18/9	83	59
	<b>40,291</b>		<b>47,447</b>	<b>33,062</b>
Less : Adjustments for assumed non-collection based on budgets assumption of 97.3 % collection rate			(1,281)	(893)
<b>Total</b>			<b>46,166</b>	<b>32,169</b>

A\* - Band A Properties receiving Disabled Relief.

The average Council Tax for band D dwellings for Middlesbrough Council was £1,435.10

#### 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 31 March 2017 was £110,670,367 (£109,562,047 at 31 March 2016) and the national non-domestic multiplier for the year was 49.7p (49.3p in 2015/16).

## 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:

	2015/2016 £000	2016/2017 £000
Middlesbrough Council	(1,001)	(1,711)
Cleveland Police and Crime Commissioner	(150)	(251)
Cleveland Fire Authority	(51)	(85)
<b>Total Deficit / (Surplus)</b>	<b>(1,202)</b>	<b>(2,047)</b>

### 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 31 March 2017. This is the fourth year of this provision.

	£000
Opening Balance as at 1 April 2016	1,000
Charges against the provision for appeals	0
Changes in the provision for appeals	500
Closing Balance as at 31 March 2017	<b>1,500</b>

## 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 scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio is the responsibility of the Strategic Director, Finance, Governance and Support (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 £3.9 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 Fund's 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 2017, 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 £42.0 million (2016 £41.3 million)

During the year the overall value of the Fund rose from £3.1 billion to £3.9 billion mainly due to a change in the market value of its investments, an increase of £666 million (2015/2016 a decrease of £164 million).

### 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 an overall fall in active members, and an increasing number of members who have deferred rights or are drawing pensions.

<b>Membership of the Fund</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Active	23,908	23,734	22,566	22,637	<b>23,791</b>
Deferred	20,738	22,144	24,429	22,453	<b>22,861</b>
Pensioner	19,850	20,648	21,059	21,699	<b>22,177</b>
<b>Total</b>	<b>64,496</b>	<b>66,526</b>	<b>68,054</b>	<b>66,789</b>	<b>68,829</b>



## Section 7 :Teesside Pension Fund Statement of Accounts

<b>Summary of Changes in Membership</b>	<b>Active Members</b>	<b>Deferred Members</b>	<b>Pensioner Members</b>	<b>Dependants</b>	<b>Total</b>
At 1 April 2016	22,637	22,453	18,949	2,750	<b>66,789</b>
Adjustments	925	262	40	31	<b>1,258</b>
New Members	2,257	3	0	252	<b>2,512</b>
Change in Status	(1,620)	386	942	(10)	<b>(302)</b>
Leavers	(408)	(243)	(622)	(155)	<b>(1,428)</b>
At 31 March 2017	<b>23,791</b>	<b>22,861</b>	<b>19,309</b>	<b>2,868</b>	<b>68,829</b>
% of Total Membership	<b>34.6%</b>	<b>33.2%</b>	<b>28.1%</b>	<b>4.2%</b>	<b>100.0%</b>

During the year, 12 employers joined the scheme as scheduled bodies, and 11 employers joined as admitted bodies. Also, 3 admitted employers ceased to have active members in the scheme. At the year end, the Fund had 170 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.

Employers participating in the Teesside Pension Fund Accounts include:

- Scheduled bodies - local authorities or similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies - organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an out sourcing to the private sector.

## **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 Strategic Director, Finance, Governance and Support (Section 151 Officer) of the Council and
- 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 Strategic Director, Finance, Governance and Support Responsibilities**

The Strategic Director, Finance, Governance and Support is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Strategic Director, Finance, Governance and Support 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.

#### **Confirmation 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 2017 and of its income and expenditure for the year then ended.

**James Bromiley, Strategic Director, Finance, Governance and Support 28 September 2017.**

## **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 MIDDLESBROUGH COUNCIL**

#### **Opinion on the pension fund statements**

We have audited the pension fund financial statements for the year ended 31 March 2017 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 2016/17.

This report is made solely to the members of Middlesbrough Council 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 authority and the authority'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 84, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, 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 2017 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 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.

## Section 7 :Teesside Pension Fund Statement of Accounts

### 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 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### Opinion on other matters

In our opinion, the information given in the 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  
28 September 2017

The maintenance and integrity of the Middlesbrough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

## Section 7 :Teesside Pension Fund Statement of Accounts

### Fund Accounts for the year ended 31 March 2017

2015/16		Note	2016/17
£000			£000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(85,056)	Contributions	6	(85,887)
(2,285)	Transfers in from other pension funds	7	(5,225)
(3,332)	Other income	8	(6,382)
(90,673)	Total Income from Members		(97,494)
119,787	Benefits payable	9	125,785
7,053	Payments to and on account of leavers	10	9,084
126,840	Total Expenditure to Members		134,869
36,167	<b>Net (additions) / withdrawals from dealings with members</b>		37,375
5,153	Management expenses	11	4,673
41,320	<b>Net (additions) / withdrawals including fund management expenses</b>		42,048
	<b>Returns on investment</b>		
(94,312)	Investment income	12	(102,150)
163,668	Profits and losses on disposal of investments and changes in market value of investments	13	(666,369)
69,356	<b>Net returns on investments</b>		(768,519)
110,676	<b>Net (increase) / decrease in the net assets available for benefits during the year</b>		(726,471)
3,243,794	<b>Net assets of the scheme as at 1 April</b>		3,133,118
3,133,118	<b>Net assets of the scheme as at 31 March</b>		3,859,589
<b>2015/16</b>	<b>Net Assets Statement as at 31 March</b>		<b>2016/17</b>
3,120,363	Investments Assets	13	3,853,887
15,953	Current Assets	14	10,009
(3,198)	Current liabilities	15	(4,307)
3,133,118	<b>Net assets of the Fund at 31 March</b>		3,859,589

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 17.

## Section 7: Teesside Pension Fund Statement of Accounts

### Notes to the Pension Fund Accounts

#### 1 Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

#### 2 Summary of Significant Accounting Policies

##### Accruals

The accounts have been prepared on an accruals basis, and the accruals threshold set by management is £100,000. The exception to this accruals basis, is individual transfer values which are recognised on a cash transfer basis.

##### Fund Account - Revenue Recognition

##### Contributions income

Normal contributions, from both the members and the employers, are accounted for on an accruals basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year end are accrued, according to the accruals threshold.

##### Transfer Values

Transfer values represent the capital sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfer values in and out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits, are accounted for on a receipts basis within transfers in.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

##### Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

##### Interest Income

Interest income is recognised in the Fund account when it is received and is accrued at the year end, using the effective interest rate

##### Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year end is disclosed in the net assets statement as a current financial asset.

##### Distributions from Pooled Funds

Distributions from Pooled funds are recognised on the date of issue. Any amount not received at the year end is disclosed in the net assets statement as a current financial asset.

##### Property Related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a cash collection basis.

##### Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

##### Fund Account - Expense items

##### Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

## Section 7: Teesside Pension Fund Statement of Accounts

### Taxation

The Fund is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non recoverable tax.

### Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's guidance, "*Accounting for Local Government Pension Scheme Management Expenses* (2016)".

#### Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for actuarial, audit and legal fees are paid directly by the Fund.

#### Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The costs of the Council's in house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

### Property expenses

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net

### Net Assets Statement

#### Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at 31st March 2017. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account.

The value of investments as shown in the net assets statement have been determined as follows;

#### Market Quoted Investments

Investments are valued at fair value as at 31st March 2017, as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

#### Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices 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.

#### Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned is accrued within the investment income receivable.

#### Unquoted Investments

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.

#### Freehold and Leasehold properties

Properties are shown as valued at 31st March 2017. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition).

## Section 7: Teesside Pension Fund Statement of Accounts

### Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, BNP Paribas Securities Services. Exceptions to this are directly owned properties, money market 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.

### **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

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

### Foreign Currency Transactions

Foreign income and sales and purchase of investments in foreign currencies received during the year have been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year end have been valued at the closing exchange rates on 31st March 2017.

### **Outstanding Commitments**

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relative manager. These are shown in Note 13.

### **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.

### **Disposal of Investments**

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

### **Interest on cash balances**

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

### **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 17.

### **Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd and Phoenix Life Plc as the current providers. AVCs are paid to the AVC providers by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4 (1)b of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016, but are disclosed as a note only (Note 18).

### **Contingent Liabilities**

The Pension Fund has no contingent liabilities.

### **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.



## Section 7: Teesside Pension Fund Statement of Accounts

### 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 2017 was £Nil (£42,586 at 31 March 2016).

#### 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 17. 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 £83.56 million.
Pooled Investment Vehicles	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.	Unobservable market values amount to £16,587k and are relating to infrastructure, real estate, and pooled equity vehicles.
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	The effect of variations in the factors supporting the valuation would be an increase or decrease (5.59%) in the value of directly held property £11.4 million, on a fair basis of £204.3 million.

### 6 Contributions

			2015/16	2016/17
			£000	£000
Employers		Normal	57,747	58,341
		Additional Contributions	16	31
		Deficit Recovery Contributions	1,602	1,622
Members		Normal	25,691	25,893
<b>Total</b>			<b>85,056</b>	<b>85,887</b>

#### Analysis of Total Contributions

		2015/16	2016/17
		£000	£000
Administering Authority		13,272	12,940
Scheduled Bodies		54,925	57,777
Admitted Bodies		16,859	15,170
<b>Total</b>		<b>85,056</b>	<b>85,887</b>

## Section 7: Teesside Pension Fund Statement of Accounts

### 7 Transfers in from other Pension Funds

	2015/16	2016/17
	£000	£000
Individual transfers in from other schemes	2,285	5,225
<b>Total</b>	<b>2,285</b>	<b>5,225</b>

### 8 Other Income

	2015/16	2016/17
	£000	£000
Capital Costs of Early Retirements	2,199	5,256
Other income	1,133	1,126
<b>Total</b>	<b>3,332</b>	<b>6,382</b>

### 9 Benefits Payable

	2015/16	2016/17
	£000	£000
Pensions	98,348	101,668
Commutations and lump sum retirement benefits	19,364	21,081
Lump sum death benefits	2,075	3,036
<b>Total</b>	<b>119,787</b>	<b>125,785</b>

#### Analysis of Total Benefits

	2015/16	2016/17
	£000	£000
Administering Authority	25,163	27,091
Scheduled Bodies	70,243	69,001
Admitted Bodies	24,381	29,693
<b>Total</b>	<b>119,787</b>	<b>125,785</b>

### 10 Payments to and on Account of Leavers

	2015/16	2016/17
	£000	£000
Refunds to members leaving service	177	198
Payments for members joining state scheme	118	91
Group Transfers	0	0
Individual transfers to other schemes	6,758	8,795
<b>Total</b>	<b>7,053</b>	<b>9,084</b>

### 11 Management Expenses

	2015/16	2016/17
	£000	£000
Administrative costs	1,558	1,870
Investment management expenses	3,418	2,596
Oversight and governance costs	177	207
<b>Total</b>	<b>5,153</b>	<b>4,673</b>

### 11A Investment Management Expenses

	2015/16	2016/17
	£000	£000
Management fees	629	632
Custody fees	15	11
Transaction costs	2,069	1,281
Loans & investment support service charges	705	672
<b>Total</b>	<b>3,418</b>	<b>2,596</b>

## Section 7: Teesside Pension Fund Statement of Accounts

### 12 Investment Income

	2015/16	2016/17
	£000	£000
Income from bonds	2,971	1,038
Income from equities	77,916	85,854
Income from pooled investment vehicles	3,689	3,995
Other Investment Income	96	0
Net rents from properties (see note below)	8,999	10,293
Interest on cash deposits	641	970
<b>Total</b>	<b>94,312</b>	<b>102,150</b>

### Rental Income and Property Expenses

	2015/16	2016/17
	£000	£000
Gross Rental income	9,255	10,851
Property Expenses	(256)	(558)
<b>Net Rents from Properties</b>	<b>8,999</b>	<b>10,293</b>

### 12A External Audit Costs

	2015/16	2016/17
	£000	£000
Payable in respect of external audit	28	28
<b>Total</b>	<b>28</b>	<b>28</b>

### 13 Investment Assets

	Value at 31 March 2016	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Bonds	92,460	0	(88,964)	3,588	7,084
Equities	2,397,104	155,839	(305,318)	600,782	2,848,407
Pooled Investment Vehicles	275,367	15,731	(49,013)	54,612	296,697
Pooled Property Investments	40,375	0	(548)	2,840	42,667
Properties	184,450	31,230	(15,902)	4,547	204,325
	<b>2,989,756</b>	<b>202,800</b>	<b>(459,745)</b>	<b>666,369</b>	<b>3,399,180</b>
Cash Deposits	104,908				428,302
Other Investment Balances	25,699				26,405
<b>Net Investment assets</b>	<b>3,120,363</b>				<b>3,853,887</b>

	Value at 31 March 2015	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2016
	£000	£000	£000	£000	£000
Bonds	162,830	10,664	(78,446)	(2,588)	92,460
Equities	2,430,944	386,142	(260,195)	(159,787)	2,397,104
Pooled Investment Vehicles	329,736	18,303	(63,591)	(9,081)	275,367
Pooled Property Investments	39,046	0	(1,333)	2,662	40,375
Properties	169,630	25,890	(16,196)	5,126	184,450
	<b>3,132,186</b>	<b>440,999</b>	<b>(419,761)</b>	<b>(163,668)</b>	<b>2,989,756</b>
Cash Deposits	73,803				104,908
Other Investment Balances	26,597				25,699
<b>Net Investment assets</b>	<b>3,232,586</b>				<b>3,120,363</b>

## Section 7: Teesside Pension Fund Statement of Accounts

### 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 £124,506,493 and unrealised gain was £541,862,222. Prior year realised profit was £109,112,233 and unrealised loss was £272,780,233.

### 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 £1,280,704 (2015/2016 £2,068,647). 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 2016/2017 the value at 31 March 2017 of the direct property portfolio was: £204,325,000
- for 2015/2016 the value at 31 March 2016 of the direct property portfolio was: £184,450,000

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

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 2016	% of asset class	Market Value 31 March 2017	% of asset class
	£'000		£'000	
<b>UK Fixed Interest</b>				
DNB Boligkreditt 15-17/02/2020 FRN	0	0.00%	999	33.34%
Total Cap INTL 14-01/07/2019 FRN	0	0.00%	1,997	66.66%
BAT Intl. Finance 7.25% MTN 12/03/2024 GBP	3,424	6.55%	0	0.00%
HSBC Bank FRN 16/05/2016	3,001	5.74%	0	0.00%
Next PLC 5.875% 06-12/10/2016	2,045	3.91%	0	0.00%
Treasury 1.75% 07/09/2022 GBP0.01	3,352	6.42%	0	0.00%
Treasury 4.25% 07/09/2039 GBP0.01	2,731	5.23%	0	0.00%
Treasury 5% 07/03/2025 GBP100	2,530	4.84%	0	0.00%
<b>UK Index-Linked</b>				
National Grid Gas PLC 4.1875% / IDX LKD BDS 14/12/2022	1,498	9.20%	0	0.00%
Tesco 1.982% IDX/LKD 24/03/2036 GBP	2,272	13.95%	0	0.00%
Treasury 2.5% I/L 17/07/2024 GBP	2,657	16.31%	0	0.00%
Treasury 2% I/L 26/01/2035 GBP0.01	3,532	21.68%	0	0.00%
Treasury 0.125% I/L 22/03/2044 GBP	3,539	21.73%	0	0.00%
Treasury 0.125% I/L 22/11/2055 GBP	2,790	17.13%	0	0.00%
<b>Overseas Bonds</b>				
Altria Group Inc. 4.25% Due 08-09-2042	3,247	13.57%	0	0.00%
Anglo American Capital 9.375% GTD 04/2019 USD Regs	2,177	9.10%	0	0.00%
Australia and New Zealand Bank 5.25% 14-13/03/2019	1,524	6.37%	0	0.00%
Australia (Commonwealth) 6% BDS 15/02/2017 AUD 1000	2,545	10.64%	0	0.00%
Canada (Govt Of) 1.5% 01/06/2023	1,335	5.58%	0	0.00%
Canada (Govt Of) 4.25% RRB 1/L 01/12/2021 CAD1000	2,047	8.56%	2,225	54.43%
Daimler 3% 10/07/2018	1,737	7.26%	0	0.00%
Diageo Capital 3.875% 29/04/2043	1,403	5.87%	0	0.00%
Imperial Tobacco Finance 2.05% 11/02/2018	2,094	8.75%	0	0.00%
New Zealand I/L 2% 20/09/2025 NZD	1,760	7.36%	0	0.00%
Reynolds America 8.125% 15-01/05/2040	2,245	9.39%	0	0.00%
Sweden (Kingdom Of) 4% 1/1 1/12/2020 SEK3102	1,808	7.56%	1,863	45.57%
<b>UK Equity</b>				
HSBC Hldgs ORD USDO.50 (UK REG)	48,380	4.35%	68,507	5.61%
<b>Property</b>				
Direct - Stow-on-the-Wold (Fosse Way)	13,850	6.16%	13,850	5.61%
Direct - Birmingham (Bromford Central)	13,600	6.05%	13,925	5.64%
Direct - Cirencester (Retail Park)	13,800	6.14%	13,475	5.46%
Direct - Lutterworth (Magna Park)	12,050	5.36%	11,800	4.78%
Direct - Ipswich (Interchange Retail Park)	15,000	6.67%	14,900	6.03%
Direct - Rotherham (Catcliffe Retail Park)	0	0.00%	15,500	6.28%
(Valley Park)	0	0.00%	15,000	6.07%
<b>Pooled Property Investments</b>				
Standard Life Investments European Property Growth Fund	13,662	6.08%	15,725	6.37%

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Alternatives				
Amedeo Air Four Plus Ltd	5,000	8.14%	10,350	16.34%
Darwin Leisure Prop Units FDS Cls 'C'	15,900	25.88%	17,692	27.94%
ETFS Metal Security Physical Gold	7,472	12.16%	9,106	14.38%
Innisfree PFI Continuation Fund	9,487	15.44%	9,707	15.33%
Innisfree PFI Secondary Fund 2	6,811	11.08%	6,880	10.86%
Powershares DB Multi Sector Commodity Agriculture Fund	7,159	11.65%	0	0.00%
United States Oil Fund LP Units	5,737	9.34%	7,183	11.34%

### Geographical Analysis of Investments

	2015/16		2016/17	
	£000	%	£000	%
United Kingdom	1,524,081	51%	1,587,257	47%
United States	433,401	14%	562,092	17%
Hong Kong	143,895	5%	167,362	5%
Japan	174,641	6%	221,808	7%
Australia	111,170	4%	128,704	4%
Germany	75,157	3%	91,566	2%
Switzerland	71,525	2%	83,013	2%
Republic of Korea	96,558	3%	134,870	4%
Singapore	49,343	2%	61,110	2%
France	73,788	2%	87,846	3%
Taiwan	68,790	2%	89,645	2%
Others	167,407	6%	183,907	5%
<b>Total</b>	<b>2,989,756</b>	<b>100.00%</b>	<b>3,399,180</b>	<b>100.00%</b>

### Bonds and Index - Linked Securities

	2015/16	2016/17
	£000	£000
UK Public Sector quoted	19,401	0
UK Corporate quoted	49,135	2,995
Overseas Public Sector quoted	9,496	0
Overseas Corporate quoted	14,428	4,089
<b>Total</b>	<b>92,460</b>	<b>7,084</b>

### Equities

	2015/16	2016/17
	£000	£000
UK quoted	1,004,761	1,096,185
Overseas quoted	1,392,343	1,752,222
<b>Total</b>	<b>2,397,104</b>	<b>2,848,407</b>

### Pooled Investment Vehicles and Properties

	2015/16	2016/17
	£000	£000
UK Equity	108,272	125,304
Commodities	9,116	11,323
Pooled Property investment Vehicle	40,375	42,667
Private Equity	43	0
Infrastructure	16,298	16,587
Other Alternative Investments	23,092	28,236
<b>UK Unit and Investment Trusts Total</b>	<b>197,196</b>	<b>224,117</b>
Commodities	12,896	7,183
Overseas Equities	105,650	108,064
<b>Overseas Unit and Investment Trusts Total</b>	<b>118,546</b>	<b>115,247</b>
<b>Total</b>	<b>315,742</b>	<b>339,364</b>

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### UK Properties

	2015/16	2016/17
	£000	£000
Freehold	139,800	159,650
Leasehold	44,650	44,675
<b>Total</b>	<b>184,450</b>	<b>204,325</b>

The properties were valued on the basis of Market Value as at 31 March 2017 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.

### Cash Deposits

	2015/16	2016/17
	£000	£000
Sterling Cash deposits	104,908	428,302

### Other Investment Balances

	2015/16	2016/17
	£000	£000
Cash deposits with custodian	4,382	14,149
Outstanding dividend entitlements	21,291	12,100
Interest due on cash deposits	26	156
<b>Total</b>	<b>25,699</b>	<b>26,405</b>

### Outstanding Commitments

As at 31 March 2017, the Fund had outstanding commitments to three investments:

	Vintage Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2017
		£	£	£
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	8,946,441	1,053,559
<b>Total</b>		<b>20,000,000</b>	<b>18,654,939</b>	<b>1,345,061</b>
		<b>USD</b>	<b>USD</b>	<b>USD</b>
Markham Rae	2016	15,000,000	92,618	14,907,382
<b>Total</b>		<b>15,000,000</b>	<b>92,618</b>	<b>14,907,382</b>

## 14 Current Assets

		2015/16	2016/17
		£000	£000
<b>Receivables</b>			
Other receivables		8,434	2,228
Sundry receivables		375	789
Contributions due in respect of	Employers	4,812	4,783
	Members	2,095	2,052
Capital cost of early retirements		60	98
Cash balances		177	59
<b>Total</b>		<b>15,953</b>	<b>10,009</b>

	2015/16	2016/17
	£000	£000
<b>Analysis of Receivables</b>		
Other local authorities	5,970	5,454
Other entities and individuals	9,806	4,496
Add cash balances	177	59
<b>Total</b>	<b>15,953</b>	<b>10,009</b>

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

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### 15 Current Liabilities

	2015/16	2016/17
<b>Amounts due within one year</b>	<b>£000</b>	<b>£000</b>
Rents received in advance	(695)	(1,859)
Accrued expenses	(1,576)	(1,082)
Other payables	(927)	(1,366)
<b>Total</b>	<b>(3,198)</b>	<b>(4,307)</b>

	2015/16	2016/17
<b>Analysed by</b>	<b>£000</b>	<b>£000</b>
Other local authorities	(989)	(827)
Other entities and individuals	(2,209)	(3,480)
<b>Total</b>	<b>(3,198)</b>	<b>(4,307)</b>

### 16 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:

	2015/16	2016/17
	<b>£000</b>	<b>£000</b>
Support Service Recharges payable for the year and outstanding at the year end	133	319

Middlesbrough Council has a 7 year Partnership with Kier Business Services for the provision of support services which expires in 2022.

The Strategic Director of Finance Governance and Support is a director of Horizons Special Academy Trust which made the following contributions to the Pension Fund in 2016/17:

Employees contributions of £154,000

Employers contributions of £372,000.

The following Members of the Pensions Investments Panel are all receipt of a pension from the Teesside Pension Fund Cllr J Beall, Cllr B Brady and J Rostron. Additionally Pension Board Members Mr C Monson and Cllr B Woodhouse also receive a pension from the Fund.

### 17 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 2016 using the 'Projected Unit Method' which produced the following results:

	2013	2016
	<b>£ million</b>	<b>£ million</b>
Net Liabilities	2,919	3,122
Assets	2,956	3,133
<b>Surplus</b>	<b>37</b>	<b>11</b>
<b>Funding Level</b>	<b>101%</b>	<b>100%</b>

#### 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", 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".

An IAS26/19 valuation was carried out for the Fund as at 31st March 2017 by Aon Hewitt with the following results:

	2015/16	2016/17
	<b>£ million</b>	<b>£ million</b>
Present value of promised retirement benefits	3,961	4,642
Fair value of scheme assets	3,130	3,860
<b>(Deficit)</b>	<b>(831)</b>	<b>(782)</b>

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 2017 were:

### Funding Assumptions

RPI increases	3.1%
CPI increases	2.0%
Salary increases	3.0%
Pension increases	2.0%
Discount rate	2.6%

### The assumed life expectancy from age of 65 (years) assumptions

Mortality Assumptions:	<b>Years</b>
Longevity at 65 for current pensioners:	
• Men	22.80
• Women	24.90
Longevity at 65 for future pensioners :	
• Men	25.00
• Women	27.20

## 18 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 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The value of AVC investments are as follows:

### Prudential AVC Balances

	2015/16	2016/17
	£000	£000
With Profits and Deposit Accounts	3,885	4,093
Unit Linked Accounts	2,482	2,930
<b>Total</b>	<b>6,367</b>	<b>7,023</b>

The total value of AVC contributions paid to Prudential during the year, was £1,320,332 (2015/16:£1,370,207).

## 19 Financial Instruments

### Net Gains and Losses on Financial Instruments

	2015/16	2016/17
<b>Financial Assets</b>	<b>£000</b>	<b>£000</b>
Fair Value through profit and loss account	(163,668)	666,369

### Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value		Carrying Value	
	2015/16		2016/17	
	£000	£000	£000	£000
Fixed Interest Securities	70,556	70,556	2,995	2,995
Equities	2,397,104	2,397,104	2,848,407	2,848,407
Index-linked securities	21,904	21,904	4,089	4,089
Pooled Investments	315,742	315,742	339,364	339,364
Properties	184,450	184,450	204,325	204,325
	<b>2,989,756</b>	<b>2,989,756</b>	<b>3,399,180</b>	<b>3,399,180</b>
Loans and receivables	130,615	130,607	454,955	454,707
	<b>3,120,371</b>	<b>3,120,363</b>	<b>3,854,135</b>	<b>3,853,887</b>

### 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.



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

The value of directly owned properties are valued by by an independent valuer, Cushman & Wakefield, in accordance with RICS valuation professional professional standards (*redbook*).

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	Total
Value as at 31 March 2017	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	2,946,091	232,177	16,587	3,194,855
Non financial assets through profit and loss account	0	0	204,325	204,325
Loans and receivables	454,955	0	0	454,955
<b>Total Financial Assets</b>	<b>3,401,046</b>	<b>232,177</b>	<b>220,912</b>	<b>3,854,135</b>

#### Valuation of financial instrument carried at fair value re-stated

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2016	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	2,561,736	189,030	54,540	2,805,306
Non financial assets through profit and loss account	0	0	184,450	184,450
Loans and receivables	130,615	0	0	130,615
<b>Total Financial Assets</b>	<b>2,692,351</b>	<b>189,030</b>	<b>238,990</b>	<b>3,120,371</b>

#### Sensitivity of Assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

#### Valuation of Financial Instrument Carried at Fair Value

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - UK Equity	6.05%	6,338	6,722	5,955
Pooled Investments - Overseas Equity	9.88%	26,122	28,703	23,541
Property Pooled Investments	5.59%	20,796	21,959	19,634
Direct Property	5.59%	204,325	215,747	192,903
Pooled Infrastructure Investments	4.93%	16,587	17,405	15,769
<b>Total</b>		<b>274,168</b>	<b>290,536</b>	<b>257,802</b>

#### Transfers between hierarchy

Freehold and leasehold property has been transferred from level 2 to level 3 due to the introduction of new CIPFA guidance in 2016/17.

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### Reconciliation of Fair Value Measurements within level 3

Period 2016/17	Market Value 1 April 2016	Transfers out of Level 3	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000
UK Unit Trusts (a)	5,372	(5,372)	0	0	0	0	0
Overseas Unit Trusts (a)	19,165	(19,165)	0	0	0	0	0
Pooled Property Fund (a)	13,662	(13,662)	0	0	0	0	0
Private Equity	43	0	0	(1)		(42)	0
Infrastructure	16,298	0	50	(36)	275	0	16,587
Property	184,450	0	31,219	(13,050)	(1,126)	2,832	204,325
<b>Total</b>	<b>238,990</b>	<b>(38,199)</b>	<b>31,269</b>	<b>(13,087)</b>	<b>(851)</b>	<b>2,790</b>	<b>220,912</b>

(a) transferred from level 3 to level 2 due to a reappraisal of valuation techniques

### 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. 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 the Investment Strategy Statement.

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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 Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2016/2017 reporting period.

2016/17 Price Risk		Value	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	1,096,185	6.05%	1,162,504	1,029,866
	Non UK	1,752,222	9.88%	1,925,342	1,579,102
	Total	2,848,407		3,087,846	2,608,968
Fixed Interest Securities	UK	2,995	2.08%	3,057	2,933
	Non UK	0	11.10%	0	0
	Total	2,995		3,057	2,933
Index Linked	UK	0	7.58%	0	0
	Non UK	4,089	11.10%	4,543	3,635
	Total	4,089		4,543	3,635
Managed and Unitised Funds	UK	224,117	6.05%	237,676	210,558
	Non UK	115,247	9.88%	126,633	103,861
	Total	339,364		364,309	314,419
Property	UK	204,325	5.59%	215,747	192,903
<b>Total</b>		<b>3,399,180</b>		<b>3,675,502</b>	<b>3,122,858</b>

2015/16 Price Risk		Value	Change	Value on Increase	Value on Decrease
Asset Type	Region	£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	20,119
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
<b>Total</b>		<b>2,989,756</b>		<b>3,279,221</b>	<b>2,700,291</b>

### 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 2017 and 31 March 2016 is set out below:

Asset Type at 31 March	2015/16	2016/17
	£000	£000
Cash and cash equivalents	104,908	428,302
Cash balances	25,699	26,405
Bonds	70,556	2,995
<b>Total</b>	<b>201,163</b>	<b>457,702</b>

## Section 7: Teesside Pension Fund Statement of Accounts

### 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
<b>Carrying value at 31 March 2017</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	428,302	1,071	(1,071)
Cash balances	26,405	66	(66)
Bonds	2,995	7	(7)
<b>Total</b>	<b>457,702</b>	<b>1,144</b>	<b>(1,144)</b>

Carrying value at 31 March 2016	£000	£000	£000
Cash and cash equivalents	104,908	262	(262)
Cash balances	25,699	64	(64)
Bonds	70,556	176	(176)
<b>Total</b>	<b>201,163</b>	<b>502</b>	<b>(502)</b>

### 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 2017 and as at 31 March 2016, showing the sensitivity analysis of foreign exchange movements.

Currency Risk by Currency at 31 March 2017	Value £000	Change %	Value on Increase	Value on Decrease
Australian Dollar	128,704	11.39%	143,363	114,045
Canadian Dollar	2,225	9.39%	2,434	2,016
Danish Krone	17,764	9.04%	19,370	16,158
EURO	250,756	9.06%	273,474	228,038
Hong Kong Dollar	167,362	10.01%	184,115	150,609
Indian Rupee	7,070	12.39%	7,946	6,194
Japanese Yen	221,809	12.85%	250,311	193,307
South Korean Won	134,870	11.11%	149,854	119,886
Malaysian Ringet	1,523	13.39%	1,727	1,319
Norwegian Krone	11,002	9.40%	12,036	9,968
New Zealand Dollar	4,282	10.97%	4,752	3,812
Swedish Krona	29,444	9.07%	32,115	26,773
Singapore Dollar	61,110	9.23%	66,750	55,470
Swiss Franc	83,013	12.39%	93,298	72,728
Taiwan Dollar	89,645	9.01%	97,722	81,568
US Dollar	580,273	9.08%	632,962	527,584
Asia Pacific ex Japan basket	20,353	10.69%	22,529	18,177
Emerging Basket	32,589	11.94%	36,480	28,698
Europe Basket	39,282	9.04%	42,833	35,731
Europe ex UK Basket	15,725	9.04%	17,147	14,303
<b>Total</b>	<b>1,898,801</b>		<b>2,091,218</b>	<b>1,706,384</b>

## Section 7: Teesside Pension Fund Statement of Accounts

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
<b>Total</b>	<b>1,559,654</b>		<b>1,684,544</b>	<b>1,434,764</b>

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the council considers the likely volatility associated with foreign exchange rate movements to be as shown above. A percentage 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 31st March 2017. 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 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.

## 20 Senior Employees' Remuneration

Key Management Personnel	2015/16	2016/17
	£000	£000
Short Term Benefits	58	65
Post Employment Benefits	9	8
Other Long Term Benefits	0	0
Termination Benefits	0	0
Share Based Payments	0	0
<b>Total</b>	<b>67</b>	<b>73</b>

## Section 7: Teesside Pension Fund Statement of Accounts

### 21 Events after the Balance Sheet Date

There were no adjusting events after the end of the reporting period which would impact the accounts.

## Section 7: Teesside Pension Fund Statement of Accounts

### 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](http://www.teespen.org.uk).

[www.teespen.org.uk](http://www.teespen.org.uk).

#### Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved in March 2017 and contains statements on:

- Investment responsibilities sets out the key responsibilities of the Teesside Pension Fund and Investment Panel, key officers of the Fund, the Fund's Custodian and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property 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 existing investment management arrangements and the extent of the Fund's commitment to pooling the investment management function.
- The Fund's position as a responsible investor and its promotion of ethical, social and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

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>

#### 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;

## Section 7: Teesside Pension Fund Statement of Accounts

- ◇ 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.
- 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 2016, 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 Ltd (previously Mouchel Business Services Ltd ) 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/content/2010/governance/PDF/Governance%20Compliance%20Policy%20May%2009%20\\_updated\\_.pdf](http://www.teespen.org.uk/documents/content/2010/governance/PDF/Governance%20Compliance%20Policy%20May%2009%20_updated_.pdf)

### **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.



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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/content/2010/201008%20Communication%20Strategy%20Teesside%20Pension%20Fund.pdf>

### Actuary's Statement

#### Introduction

The last full triennial valuation of the Teesside Pension Fund was carried out by AON Hewitt as at 31st March 2016. The results were published in our report dated March 2017.

#### 2016 Valuation

The 2016 valuation certified a common contribution rate of 15.7% 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 Contribution rates

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 2016 for valuation purposes was £3,133.1m 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            | 4.7% per annum |
| • Rate of increases in pay                 | 3.0% per annum |
| • Rate of Increases to pensions in payment | 2.0% 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 2016 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 2016 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.

## Section 7: Teesside Pension Fund Statement of Accounts

The next actuarial valuation is due as at 31st March 2019 and results will be reported during 2019/2020.

### Schedule of Contribution Rates

Net rate of contribution payable by each employing Organisation for the period 1 April 2016 to 31 March 2017 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

	Employers Rate %	Employees £000	Employers £000
4Children	13.40%	1	2
All Saints Academy	14.60%	21	51
Ash Trees Academy	14.60%	50	130
Beamish Museum Ltd	13.30%	149	313
Billingham Town Council	14.10%	5	11
Brougham Primary School	14.60%	15	39
Business and Enterprise North East Ltd	9.70%	2	58
Caldicotes Primary Academy	14.60%	7	16
Capita Managed IT Solutions Ltd	13.00%	5	10
Care Quality Commission	17.00%	1,480	3,298
Carillion J M Ltd	16.60%	14	41
Catcote Academy	14.60%	86	211
Chandlers Ridge Academy	14.60%	12	31
Cleveland College of Art and Design	13.60%	96	208
Cleveland Fire Authority	14.90%	214	487
Cleveland Fire Support Network	14.90%	3	5
Coast and Country Housing	16.40%	603	1,482
Community Integrated Care	23.00%	2	9
Conyers School	14.60%	59	143
Creative Management Services Ltd	15.10%	7	19
Diocese of Middlesbrough Trustee	25.60%	8	21
Durham Tees Valley Airport Limited	21.20%	80	233
Dyke House Academy	14.60%	89	214
Easterside Academy	14.60%	25	63
English Martyrs Educational Trust	14.60%	66	161
Enquire Learning Trust (Central)	14.60%	16	36
Erimus Housing	17.90%	260	705
Eskdale Academy	14.60%	16	40
Extol Academy Trust (Eldon Grove)	14.60%	22	54
Fabrick Housing Group	15.30%	125	248
Fleet Factors Ltd	20.40%	1	4
Fleet Factors RCBC	20.50%	1	4
Forward Swindon Ltd	19.20%	2	15
Frederick Nattrass Primary Academy	14.60%	19	49
Freebrough Academy	14.60%	25	59
Future Regeneration of Grangetown	18.30%	2	4

## Section 7: Teesside Pension Fund Statement of Accounts

Grangefield Academy	14.60%	40	94
Green Lane Primary Academy	14.60%	30	76
Guisborough Town Council	14.10%	5	11
Hardwick Green Primary Academy	14.60%	16	40
Harrow Gate Primary Academy	14.60%	30	76
Hartlepool Borough Council	14.20%	2,930	6,565
Hartlepool Care Services Ltd	17.00%	2	7
Hartlepool College of Further Education	13.60%	164	375
Hartlepool Sixth Form College	13.60%	40	87
Hemlington Hall Academy	14.60%	18	47
Hillsview Academy	14.60%	43	107
Horizons Specialist Academy Trust	14.60%	154	372
Housing Hartlepool Ltd	14.80%	342	780
Ian Ramsey Church of England Academy	14.60%	46	114
Ingleby Barwick Town Council	14.10%	2	5
Ingleby Manor Free School & Sixth Form	14.60%	13	30
Jesmond Gardens Primary School	14.60%	10	24
Kader Academy	14.60%	13	34
KGB Cleaning Ltd - LJS	15.10%	1	3
KGB Cleaning and Support Services Ltd	15.00%	1	2
Kier Business Services Ltd	14.40%	127	251
Kings Academy	14.60%	66	163
KTS Academy	14.60%	47	116
Liberata UK Ltd	0.00%	41	0
Lockwood Parish Council	14.10%	1	2
Loftus Town Council	14.10%	1	3
Macmillan Academy	14.60%	73	172
Manor Community Academy	14.60%	74	181
Mellors Catering Services Ltd (Central)	15.10%	14	36
Mellors Catering Ltd (Dormanstown)	15.10%	1	3
Mellors Catering Services Ltd (Normanby)	15.00%	3	8
Middlesbrough College	13.60%	470	1,019
Middlesbrough Council	14.40%	3,942	8,997
NMRN Trading	17.00%	7	20
Normanby Primary School	14.60%	24	63
North Ormesby Primary Academy	14.60%	14	37
North Shore Academy	14.60%	46	111
Norton Primary Academy	14.60%	24	62
Nunthorpe Academy	14.60%	87	198
Nunthorpe Primary Academy	14.60%	13	32
Oak Tree Academy	14.60%	26	66
OCS Limited	14.90%	1	2
One Awards Limited	13.60%	41	88
One IT Services and Solutions Ltd	14.20%	40	89
One IT Services and Solutions Ltd - Porter	17.00%	1	3

## Section 7: Teesside Pension Fund Statement of Accounts

Onsite Building Trust	17.00%	2	8
Orian Solutions Ltd	17.00%	1	3
Ormesby Primary School	14.60%	6	17
Our Lady & St Bede Catholic Academy	14.60%	44	111
Our Lady of Light Catholic Academy Trust - Christ the King	14.60%	12	30
Our Lady of Light Catholic Academy Trust - St Patrick's Catholic College	14.60%	28	70
Our Lady of Light Catholic Academy Trust - St Patrick's Primary	14.60%	19	49
Our Lady of Light Catholic Academy Trust - St Therese of Lisieux	14.60%	11	28
Outwood Academy Acklam	14.60%	53	132
Outwood Academy Bishopsgarth	14.60%	14	34
Outwood Academy Bydales	14.60%	25	62
Outwood Academy Ormesby	14.60%	47	114
Police & Crime Commissioner for Cleveland	12.60%	59	89
Prior Pursglove College	13.60%	4	9
Prior Pursglove and Stockton Sixth Form College	13.60%	55	123
Redcar Academy	14.60%	26	62
Redcar and Cleveland Borough Council	15.10%	3,157	8,182
Redcar and Cleveland College	13.60%	88	195
River Tees Multi Academy Trust	14.60%	35	75
Rosebrook Primary School	14.60%	18	45
Rose Wood Academy	14.60%	20	51
Sacred Heart Secondary Catholic Voluntary Academy	14.60%	25	61
Saint Benedict's Primary Catholic Voluntary Academy	14.60%	15	39
Saltburn, Marske & New Marske Parish Council	14.10%	3	7
Skelton and Brotton Parish Council	14.10%	3	6
Skelton Primary School	14.60%	32	78
SLM Community Leisure Charitable Trust	16.60%	44	123
SLM Fitness and Health Ltd	16.60%	3	7
SLM Food and Beverage Ltd	16.60%	2	6
SLM Charitable Trust (MBC)	14.40%	77	178
SLM Food and Beverage Ltd (MBC)	14.40%	6	16
SLM Fitness and Health Ltd (MBC)	14.40%	5	12
St Bede's Catholic Academy	14.60%	18	45
St Bede's Primary Catholic Voluntary Academy	14.60%	15	36
St Gabriel's Catholic Voluntary Primary Academy	14.60%	12	30
St Gregory's RC Academy	14.60%	19	48
St Hilda's Catholic Academy Trust	14.60%	201	496
St Joseph's Primary Catholic Voluntary Academy	14.60%	11	30

## Section 7: Teesside Pension Fund Statement of Accounts

St Margaret Clitherow's Catholic Voluntary Primary Academy	14.60%	17	45
St Mary's Catholic Voluntary Primary Academy	14.60%	14	34
St Michael's Catholic Academy	14.60%	32	80
St Paulinus Primary Catholic Voluntary Academy	14.60%	11	28
St Peter's Catholic Voluntary Academy of Maths and Computing	14.60%	34	82
St Thomas of Canterbury MAT	14.60%	31	80
Stagecoach Transit	27.20%	8	198
Sopra Steria Ltd	12.60%	453	883
Stockton Borough Council	14.30%	4,706	10,497
Stockton Riverside College	13.60%	213	459
Stockton Sixth Form College	13.60%	1	3
Stranton Academy Trust (Stranton)	14.60%	26	66
Sunnyside Academy	14.60%	45	113
Tascor Services Ltd - Custody	16.40%	9	22
Tascor Services Ltd - PFI	16.40%	3	7
Taylor Shaw - Holy Rosary	15.00%	1	2
Tees Active Limited	13.10%	127	258
Tees Valley Combined Authority	19.80%	119	417
Tees Valley Education Trust	14.60%	71	172
Teesside Learning Trust	14.60%	49	117
Teesside University	13.30%	1,761	3,710
The Big Life Company Ltd	14.50%	3	8
The Chief Constable for Cleveland	12.60%	648	1,215
Thornaby Academy	14.60%	18	42
Tristar Homes Limited	14.80%	392	1,142
Unity City Academy	14.60%	53	130
Venn Academy Learning Trust	14.60%	54	131
Viewley Hill Academy Trust	14.60%	15	38
West Park Primary School	14.60%	15	39
West View Primary School and Sports Academy	14.60%	42	102
Wolseley UK Ltd	22.00%	1	29
Wynyard Church of England Primary School	14.60%	3	7
Yarm Primary School	14.60%	24	62
Yarm Town Council	14.10%	1	2
Zetland Primary School	14.60%	8	21

## Section 8: Annual Governance Statement

### Annual Governance Statement 2016/17

#### Introduction

1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework. This framework comprises the culture, values, systems and processes of the Council, which together ensure that it does the right things, at the right time and in the right way.
2. In 2016/17 the Council revised its Code of Corporate Governance to align with the latest CIPFA / Solace guidance, which sets out the following principles of good governance:
  - behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
  - ensuring openness and comprehensive stakeholder engagement;
  - defining outcomes in terms of sustainable economic, social and environmental benefits;
  - determining the interventions necessary to optimise the achievement of the intended outcomes;
  - developing the entity's capacity, including the capability of its leadership and the individuals within it;
  - managing risks and performance through robust internal control and strong public financial management; and
  - implementing good practices in transparency, reporting, and audit to deliver effective accountability.
3. The purpose of the Annual Governance Statement (AGS) is to assess the extent to which the Council complies with its Code of Corporate Governance, how it has monitored and improved the effectiveness of its governance arrangements in the past year, and identify actions to strengthen these arrangements going forward.
4. The AGS forms part of the Statement of Accounts that the Council must produce on an annual basis and as such must be approved by the Mayor of Middlesbrough and the Council's Chief Executive and Section 151 Officer.

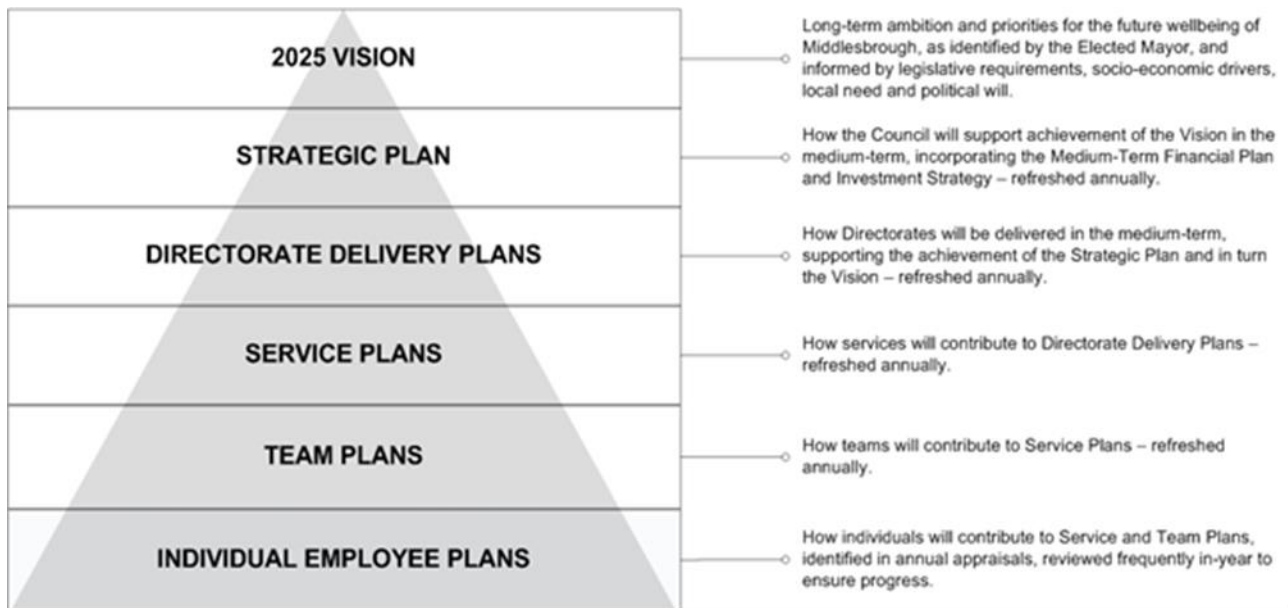
#### **Structure of the AGS**

5. The AGS comprises the following sections:
  - an overview of the Council's governance arrangements
  - progress made on governance during 2016/17;
  - a position statement against the Code of Corporate Governance; and
  - governance priorities for 2017/18.
6. The development of the AGS was coordinated by the Performance and Partnerships service, in conjunction with statutory and other officers with responsibility for corporate governance processes, and with input from Internal Audit.

## Section 8: Annual Governance Statement

### The Governance arrangements of the Council

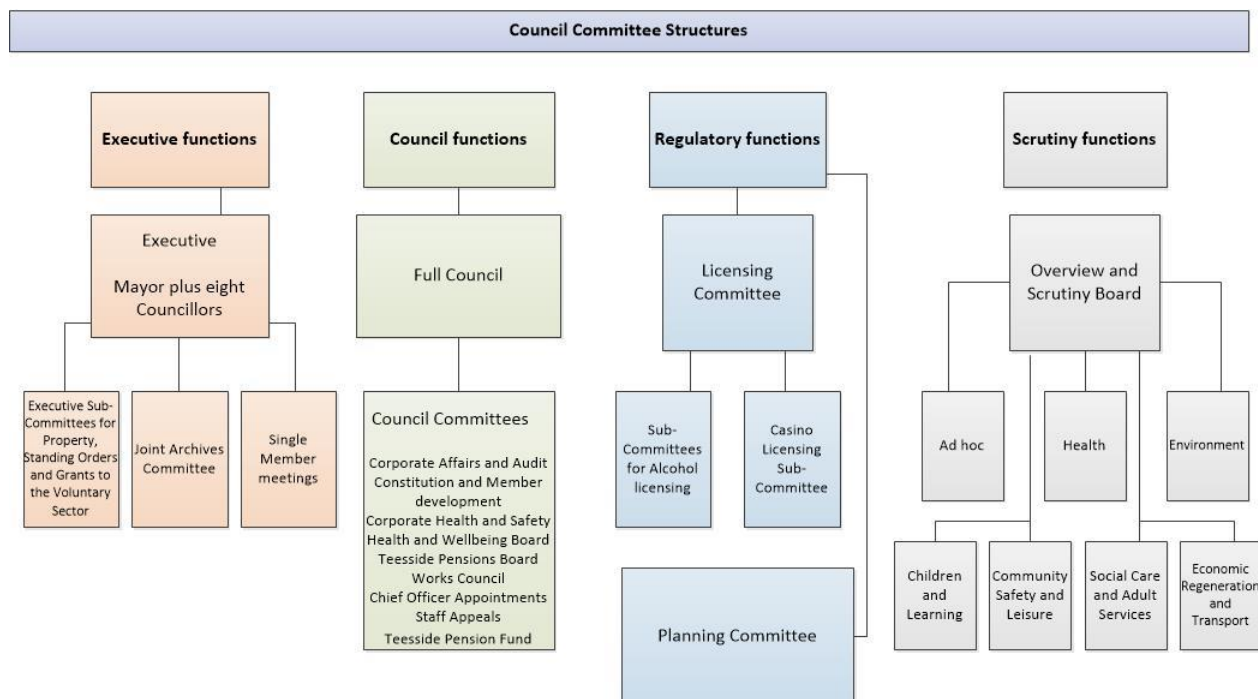
7. The Strategic vision for the Council is provided by the elected Mayor for Middlesbrough's [2025 Vision for Middlesbrough – Fairer, Safer, Stronger](#). The Council's contribution to the vision is articulated by the [Strategic Plan](#). There is a 'golden thread' which runs from these two documents through the rest of the Council's governance and policy frameworks.



### **Roles and responsibilities**

8. The Mayor and Councillors are supported by a senior management structure that is designed to support effective compliance with the Council's legal responsibilities. The Council's [Constitution](#) clearly defines the roles of Councillors and Officers. It outlines expected standards and behaviours and supports effective working relationships across the Council. The Council's Constitution also provides clear direction on the various roles that are in place to ensure effective corporate governance arrangements are in place. This diagram sets out the Committee structure of the Council:

## Section 8: Annual Governance Statement



### Progress made during 2016/17

#### Implementing actions from the 2015/16 AGS

9. The 2015/16 AGS outlined a range of actions that would be taken to strengthen corporate governance during 2016/17. These actions were delivered via an overarching Council Improvement Plan (CIP), agreed by Executive, which alongside Corporate Audit and Affairs Committee received regular progress updates throughout the year. The table below summarises the progress made in implementing these actions:

<b>Action:</b> Programme and Project Management governance – implementation of new methodologies to support effective control and monitoring	<b>Lead:</b> Head of Performance and Partnerships
<p><b>Progress:</b> Following the 2016 peer review, the Council commissioned its former auditors, Deloitte, to provide expertise and additional capacity within the Programme Management Office (PMO) to enable delivery of improvements to its processes and support staff to upskill in programme and project management practice.</p> <p>During 2016/17 the Council has implemented a Programme and Project Management (PPM) framework with two tiers of complexity, recognising that some projects will only require a light touch approach, while others will require a full suite of documentation and associated governance arrangements. It has also implemented a Project Management ICT solution to support programme and project managers. Training to support staff to use the PPM software solution, along with extensive and comprehensive training on PPM principles and the approach to be applied within the Council has been delivered to over 100 staff. The long term capacity of the PMO has also been strengthened to enable it to provide monitoring and ongoing support in relation to project management and use of the ICT solution.</p> <p>A review of the Change Programme (managed under the PPM Framework) by Internal Audit during 2016-17 found that there was <b>STRONG</b> control environment.</p>	
<b>Action:</b> Organisational development – delivery of cultural changes necessary to embed Middlesbrough Manager	<b>Lead:</b> Organisational Development Manager
<p><b>Progress:</b> During 2016-17 an Organisational Development Manager has been appointed and the capacity of the supporting Organisational Development / Workforce Development team has been increased. During 2017-18 a People Strategy for the organisation has been developed and will be delivered over the next two years.</p>	
<b>Action:</b> Asset disposals – improved assurance around value for money	<b>Lead:</b> Head of Financial Planning and Support



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**Progress:** During 2016-17 the Council revised the [Asset Disposal process](#) on 7 December 2016 to ensure it is fully documented and supported by a business case for disposal which details the market value along with any other outcomes required from the process e.g. job creation, community benefits, social value that can be achieved from the sale. There is a clear scheme of delegation in place from the Executive Sub-Committee for Property to enable officers to manage this process. There is now a consolidated Asset Disposal Control Document process in place for all current asset disposals, maintained by the Valuations and Estates team. Since this was agreed there have been six disposals approved from mid-December 2016 until 31 March 2017, which have had the new process applied as they have been brought forward for decision. All disposals achieved or exceeded anticipated values. During 2017/18 further work will be undertaken to ensure that the asset disposal process is fully embedded within the organisation to address the 2016/17 External Audit judgement that this process was not sufficiently embedded at 31<sup>st</sup> March 2017.

It also commissioned external expertise to support development of an Estates Strategy to provide the overarching property management strategy of the Council to ensure its estate is used in the most effective, efficient and economic manner.

**Action:** Capital Monitoring process

**Lead:** Head of Financial Planning and Support

**Progress:** During 2016-17 the Council implemented revised monitoring arrangements to ensure that monitoring was more holistic, focusing not only on financial spend, but also on achievement of project milestones and delivery of intended benefits.

There has been a significant reduction in slippage in Capital Programme spend and a review of the Capital Programme by Internal Audit during 2016-17 found that there was a **STRONG** control environment.

The capital budget setting and monitoring processes are also now fully integrated with performance management and revenue setting and monitoring processes.

**Action:** Medium Term Financial Planning processes

**Lead:** Head of Financial Planning and Support

**Progress:** In November 2016, Council approved a Strategic Plan for 2016-20 focused on investment, growth and efficiency, incorporating a Medium-Term Financial Plan (MTFP) and Investment Strategy for the same period. The MTFP and Strategic Plan processes are now fully integrated. The MTFP is now more reflective of the organisation's plans for the future and its assumptions around the future operating and funding model of the organisation.

The Council has taken an inclusive approach to development of the MTFP involving managers from all areas of the Council to ensure the MTFP is a living document, owned by the Council's senior managers and fully aligned with the Strategic Plan and the Mayor's vision. An Internal Audit review conducted during 2016-17 found that there was a **STRONG** control environment around the MTFP process. The MTFP is refreshed twice a year in line with the Strategic Plan / budget setting process (currently 2017 – 21).

**Action:** Performance Management

**Lead:** Head of Performance and Partnerships

**Progress:** During 2016-17 the Council has taken the following steps to strengthen its approach to Performance Management:

- Rolled out the Corporate Performance and Risk Management Framework.
- Refinement and development of the Balanced Scorecard process to strengthen links between this and the Change Programme and changes to the model to enable it to reflect differences in size, complexity and priorities across Directorates.
- Provision of training for staff and members on the new framework.
- Integration of finance and performance information within the Balanced Scorecard.

Development of a proof of concept Business Intelligence 'self-service' dashboard to improve managers' access to live management information has been completed. It will support the shift from performance recording to performance management to be rolled out over the next 18 months.

**Action:** Risk Management

**Lead:** Head of Performance and Partnerships

**Progress:** The Council implemented a revised Performance and Risk Management Framework during 2016-17.

During 2016-17 the Council has fully delivered its Risk Improvement Plan. This has included:

- delivery of training to staff and Members on Risk Management
- quality assurance sessions to challenge risk register content within projects and the Business As Usual (BAU) environment.
- improved Member awareness and ownership of Risk Management has been strengthened with the re-introduction of annual reports to Corporate Affairs and Audit Committee on Risk and Business Continuity.

**Action:** Constitution required review to enhance clarity and transparency of roles and responsibilities of Councillors and Officers to reflect the creation of the Combined Authority and the Senior Management Structure

**Lead:** Head of Legal and Democratic Services

## Section 8: Annual Governance Statement

of the organisation	
<b>Progress:</b> A review of the constitution was completed during 2016/17 by the Constitution Committee and was then approved by full Council.	
<b>Action:</b> Roll out of Middlesbrough Learns solution to support Middlesbrough Managers with appropriate e-learning	<b>Lead:</b> Organisational Development Manager
<b>Progress:</b> Completed during March 2017 as per target. Managers and staff are now empowered to identify learning needs and undertake e-learning where applicable or self-select onto demand led training.	

### Internal Audit during 2016/17

10. During 2016/17 Internal Audit has undertaken the following audits:

Audited System /Service	Assurance Opinion	Priority		
		P1	P2	P3
Cash Handling & Controls	Moderate	0	7	8
Thorntree Primary School	Strong	0	1	3
Marton Manor Primary School	Good	0	0	6
Agresso	Moderate	0	7	3
Lingfield Primary School	Good	0	2	1
Pallister Park Primary School	Strong	0	0	1
Park End Primary School	Strong	0	0	1
Youth Employment Initiative	Strong	0	0	1
Early Help Hub	Strong	0	1	1
Budget Monitoring & Control	Strong	0	0	1
Capital Programme	Strong	0	0	1
Medium Term Financial Plan	Strong	0	0	0
Family Case Work	Good	0	0	2
Prevention	Strong	0	1	1
Change Programme/Project Management	Strong	0	0	0
Connected Persons' Placements	Good	0	3	0
Procurement of External Residential Placements	Good	0	1	0
Economic Growth	Strong	0	0	1
IT Strategy/Management Framework	Good	0	3	0
Compliance with Contract Procedure Rules	Good	0	2	2
Main Accounting/Bank Reconciliation	Good	0	2	1
Payroll	Good	0	2	2
Pension Fund Admin	Strong	0	1	0
Pension Fund Investments	Strong	0	1	0
Council tax and Business Rates	Strong	0	0	1
Safeguarding Adults Team	Moderate	0	5	2
Debtors	Good	0	3	2

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Audited System /Service	Assurance Opinion	Priority		
		P1	P2	P3
Creditors	Good	0	2	2
Capital Accounting	Strong	0	0	2
Housing and Council tax Benefits	Strong	0	0	0
Emergency Planning	Good	0	4	3
<b>Total</b>	<b>96</b>	<b>0</b>	<b>48</b>	<b>48</b>

11. The opinions used by Internal Audit during 2016/17 are explained below:

- Strong – Overall, a Strong Control Environment in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation and is applied consistently.
- Good – Overall, a Good Control Environment with room for improvement in relation to the areas examined. Based on the audit work undertaken, an effective system of internal control is in operation but is not always applied consistently.
- Moderate – Overall, a Moderate Control Environment with some weaknesses in relation to the areas examined. Based on the audit work undertaken, an acceptable internal control environment is in operation, but there are a number of improvements that could increase its consistency and effectiveness.
- Cause for Concern – Overall, Cause for concern in relation to the areas examined. Weak management of risk exists within a key area(s) that is/are crucial to the achievement of objectives. Major improvements need to be made to the system or area in order to ensure the control environment is effective.
- Cause for Significant Concern – Overall, Cause for Considerable Concern in relation to the areas examined. Fundamental failures exist within the control environment and the Council is exposed to unacceptable levels of risk. Key areas that are crucial to the achievement of objectives need fundamental improvements.

12. The following categories of opinion are also applied to individual recommendations agreed with management:

- Priority 1 (P1) – A fundamental risk exists to the achievement of the system/service objectives and it is of an unacceptable level. Management should initiate immediate action to address this system weakness.
- Priority 2 (P2) – A significant risk exists which has the potential to adversely affect the achievement of the system/service objectives. Management should initiate timely action to address the weakness.
- Priority 3 (P3) – System objectives are not exposed to significant risk but the issue merits attention by management as it offers service improvements by complying with best practice, and strengthening the overall control environment.

13. There are currently a number of audits completed during 2016/17, which are to be finalised. These are outlined below in addition to the anticipated outcome where known:

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Audit Title	Draft or Indicative Opinion
Asset Management	Moderate
Cultural Services	Good
Counter Fraud Policy Framework	Moderate
<b>Total</b>	<b>16</b>

14. During 2016/17 Internal Audit also considered a number of issues raised including a detailed investigation into concerns raised by a whistle-blower regarding a number of historic land and property disposals. These transactions had also been the subject of a previous audit report issued during the 2015/16 financial year, the overall opinion of which was included in last year's annual report. The Council had incorporated the required actions into its Improvement Plan following the 2015/16 report and produced a new land and property disposal process which was approved in December 2016. The scope of this year's additional work was wider than the original audit. The report summarising the findings from the additional work has been finalised. In summary, the findings of this extra work confirmed the original opinion of cause for concern and would not cause the auditors (based on the scope of the original audit work) to materially change that opinion. Taking all three of the disposals together, the overall opinion from the additional work carried out would be a cause for concern bordering on significant concern.

### Corporate Affairs and Audit Committee during 2016/17

15. The Council's Corporate Affairs and Audit Committee is in place to review the Council's arrangements for Corporate Governance and make recommendations from time to time to ensure compliance with best practice. It met seven times during 2016/17. During the year, the Committee considered:

- progress reports from Internal Audit and the Council's external auditor, EY;
- progress reports on delivery of the Council Improvement Plan;
- a Risk Management Improvement Plan;
- the annual review of the Council's Business Continuity Plans;
- an updated Anti-Fraud, Bribery and Corruption Policy;
- the revised Programme and Project Management Framework; and
- a report on the revised Balanced Scorecard performance management tool.

### Overview and Scrutiny during 2016/17

16. The Council has an Overview and Scrutiny Board in place, supported by a range of topic specific scrutiny panels to scrutinise executive decisions and the performance of Council services. During 2016/17 the Council's Overview and Scrutiny committees conducted one investigation that was relevant to corporate governance issues, relating to project management within the Capital Programme. The Committee noted the proactive approach to project management / contract monitoring that had been undertaken in the two projects it reviewed, and recommended that this approach was adopted for other capital projects. The service response to these recommendations outlined compliance with the PPM framework.

## **Section 8: Annual Governance Statement**

### **Significant issues that have occurred after the end of the Financial Year**

17. There are three significant issues that have occurred since the closure of the financial year on which this governance statement is based; the Employment Tribunal of the Council's former Monitoring Officer, the Grenfell disaster and the major security breach of the NHS's ICT systems.
18. The Tribunal did not make any judgements on the council's corporate governance arrangement as this was beyond its remit. There were however a number of allegations made in relation to corporate governance. These allegations were from a time prior to implementation of the Council Improvement Plan (CIP).
19. The Grenfell Tower disaster occurred in June 2017. At least eighty people are known to have died in the fire and although there is a planned national inquiry, lessons are already being learnt from the disaster on a national basis. The Council and its partners have established a task and finish group to assess and manage the risk of a similar disaster occurring in Middlesbrough. Progress is being reported to full Council.
20. In May 2017, parts of the NHS experienced a Ransomware attack. The attack exploited a weakness in operating systems that had been previously identified by the supplier and a patch issued, however some organisations had failed to apply the patch or had applied it incorrectly. During the attack, the Council's ICT team assessed the risk to the Council and took steps to further mitigate the likelihood of a successful attack on the Council's network which had the patch correctly applied.

### **Position statement against the Council's Code of Corporate Governance**

#### **Self-assessment**

21. The Council has completed a position statement against its Code of Corporate Governance for the 2016/17 year, informed by:
  - the professional opinion of statutory and other officers with responsibility for the development and maintenance of the internal control environment;
  - reports from Overview and Scrutiny, and Corporate Affairs and Audit Committee's examinations of governance processes;
  - findings from Internal Audit's review programme, and engagement with the Council's external auditor; and
  - external evaluation and assessment of the Council's governance processes, including outstanding actions from the Council Improvement Plan.
22. The position statement is appended to the AGS. In summary, the Council considers that it demonstrates good governance in all areas, as illustrated below. Nonetheless, a number of actions have been identified to further improve the Council's approach during 2017/18, and these are set out in the following section.

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Code of Corporate Governance principle	Self-assessed RAG
Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.	Green
Ensuring openness and comprehensive stakeholder engagement.	Green
Defining outcomes in terms of sustainable economic, social and environmental benefits.	Green
Determining the interventions necessary to optimise the achievement of the intended outcomes.	Green
Developing the Council's capacity, including the capability of its leadership and the individuals within it.	Green
Managing risks and performance through robust internal control and strong public financial management.	Green
Implementing good practices in transparency, reporting, and audit to deliver effective accountability.	Green

### Internal Audit opinion

23. TVAAS undertakes its programme of work in accordance with the standards set out in the Public Sector Internal Audit Standards (PSIAS). Standard 2450 states that the Council's chief audit executive should provide an annual internal audit opinion and report on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual opinion should be supported by sufficient, reliable, relevant and useful information. The annual report should cover:

- (a) the scope of the work undertaken and the time period to which that opinion refers;
- (b) a summary of the audit work used to form an opinion;
- (c) the opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (d) any qualifications to be made to the overall opinion and reasons for them,
- (e) any issues of relevance to the Council's Annual Governance Statement;
- (f) a statement on conformance with the PSIAS and the results of the internal audit service's quality assurance and improvement programme.

24. The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2016/17 is that they provide Good Assurance. This opinion is based on the work performed by the internal audit team during the year 2016/17.

25. Whilst internal audit work during the previous financial year (2015/16) confirmed that improvements were required to the Council's overall corporate governance framework, the action to address governance issues throughout the year to effect such improvements has been acknowledged. For the year 2015/16, approximately 154 internal audit recommendations were made of which all but one (Priority 2) have been implemented during 2016/17. This demonstrates the Council's commitment to improvement.

26. The opinion of Good takes into account that assurance can be obtained by the number of reports where the overall opinion is Strong or Good. It is noted that no priority one actions have been raised during the year and none are outstanding from previous years following the closure of the only outstanding P1 as a result of delivery of actions

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within the Council Improvement Plan. Audit work has identified considerable progress to improve the project management framework which was a governance issue raised in previous years. It is highlighted however that the scope of much of the audit work during 2016/17 was focussed on the setting up of a strong governance framework, consisting of appropriate policies, procedures and frameworks for areas such as project and programme management, budgetary control and financial planning, land and property disposals and capital programme. The Council has worked with Deloitte on its improvement plan with the latter providing positive feedback on the progress made to date.

27. Many audits undertaken during 2016/17 were able to confirm that suitable policies and procedures have been established but it was too early to be able to conclude on the extent to which such policies and procedures have become embedded within the Council's overall culture. The overall internal audit opinion of Good for 2016/17 is therefore an assessment of the policy and procedural framework but is not yet an assessment of the extent to which that framework is being complied with or has become embedded into the Council's culture and business as usual. Embedding and compliance will be the main focus for audit work undertaken during 2017/18.
28. The main area of governance that Internal Audit would raise as requiring further attention relates to land and property disposals. An internal audit recently carried out in this area has given a provisional opinion of Moderate assurance (report is still in draft). Management has acknowledged that there is still further progress to be made but given that the internal audit opinion on this area was a cause for concern in 2015/16, it is encouraging to note the progress that has been made.

### External opinion

#### Deloitte

29. To ensure that delivery of actions within the CIP would effectively address the issues identified, additional resources were agreed by Executive and subsequently secured to support delivery of these actions, provide external validation of progress and assure members that governance arrangements were robust. The Council's former external auditor, Deloitte, was appointed to undertake this work, which was carried out over three phases:
- review current reporting and governance arrangements (Phase 1);
  - review the draft CIP content (Phase 2); and
  - oversee delivery of the CIP with provision of advice and quality assurance as required (Phase 3).
30. Following completion of Phase 2, Phase 3 was split into project management and assurance around delivery of the CIP, and provision of specific capacity to support improvement actions in relation to Programme and Project Management.
31. Deloitte has now completed its work and its independent opinion on progress made and has provided [two detailed reports](#) to the Council – one on progress against the CIP overall, and another covering progress on programme and project management. These

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reports have been published and circulated to all members. They accord with the Council's own assessment of progress, and Internal Audit assessments.

32. The report on progress against the CIP concludes:

*"The progress that has been made in the 9 months since the initial CIP review (Phase 2 above) was undertaken in June 2016 demonstrates the high level of commitment from the Council and efforts made by key staff, particularly the identified leads for each CIP area.*

*The implementation of the majority of actions arising from the CIP, with the remaining actions well underway, has allowed the organisation to move towards a robust framework of governance processes and systems. This has been evidenced by a number of Internal Audit reviews of key governance areas conducted during the last 9 months which have resulted in findings of a strong control environment in place in each area.*

*The key overarching observations made after the June 2016 CIP review have now been significantly progressed:*

- Senior staff remain committed to making changes that drive improvement in the Council's governance arrangements.*
- The quality of performance related information provided to Members and senior officers has substantially improved, enabling more effective scrutiny and oversight to take place.*
- Staff are held accountable for delivery within their areas through a number of new corporate Boards, groups and performance clinics, as well through existing bodies such as the LMT.*
- Drafted frameworks for new governance structures and processes have been rolled out to staff, with supporting toolkits and suitable training provided for key areas of the CIP such as risk management and performance management.*
- Plans for implementation of improvement actions or schemes are now documented, with identified timescales for delivery of each milestone. The level and standard of documentation used across the Council in other key areas such as programme and project management has also significantly improved.*

*Developments within the Council, such as the follow up peer review visit by the Local Government Association in April 2017 or future changes to legislation, will inevitably lead to a requirement for further refinement of governance structures, systems and processes, however the organisation is now in a place where staff are bought into a culture of continuous improvement and strong governance. This should allow the Council to meet these challenges whilst maintaining its current momentum towards a strongly embedded culture of scrutiny and accountability."*

33. Deloitte's Programme Management Office report identified strong progress in implementing a robust governance arrangements from programme and project management within the Council. The report concludes:



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*“The significant progress that has been made in the last six months is evidence of the high levels of commitment from the Council. The implementation of a fully functioning PMO and associated systems and structures is a complex and difficult endeavour, and what has been developed will allow the organisation to support the implementation of key projects in a robust manner.”*

*All objectives set out in our Phase One Diagnostic Report dated June 2016 have been addressed to a high standard. The only area where progress achieved needs more time before the Council can be confident that permanent change has occurred is with regard to developing the ‘Culture of Accountability’. This is not because the Council have not improved in this area, but because embedding a cultural change can take a significant amount of time, far beyond the timescales of this project. However, the progress made is in line with what would be expected at this stage of development and is very encouraging.*

*Further development of the PPM Framework, Governance Structures and Systems will take place over the next 12-18 months as processes bed in, which should be approached in a spirit of continuous improvement, ensuring the PMO is as effective as possible for the Council.”*

34. A report to Executive in April 2017 signed off the CIP and agreed that the few remaining outstanding actions would be incorporated within the AGS action plan.

### EY – External Auditors of the Council

The Council’s External Auditor for 2016/17 have provided an audit opinion on the Council. This finalised Annual Governance Statement reflects that opinion. EY’s audit opinion for 2016/17 is able to positively reflect the improvement made in relation to project management and the capital programme and declare that these areas were no longer part of an ‘except for’ Value for Money judgement. EY judged that at 31<sup>st</sup> March 2017, the end of the period covered by their judgement, while the Council had made improvements to asset disposal governance arrangements during 2016/17, it had not yet fully embedded those arrangements as a number of key actions were not completed until after 31 March 2017.

### Priorities for 2017/18

35. The above-detailed information has been used to identify governance improvement actions for 2017/18. Building on the Council’s commitment to continuous improvement across governance processes, once delivered, these actions will ensure that the Council is fully compliant with best practice in corporate governance.

### **Delivering more, for less**

36. While the Council continues to face challenging budget reductions over the next four years, it will also continue to take a transformational approach to delivery of savings. During 2016/17, work was undertaken to begin to identify savings opportunities across Directorates within the following thematic areas, reflecting the Strategic Plan’s focus on investment, growth and efficiency:

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- Growing our economic base;
- Partnership and integration;
- Online and self-serve;
- Value for money; and
- Return on investment.

37. The Council has also adopted a [Customer Charter](#), which sets out how it will continue to ensure that the customer will continue to be at the heart of everything it does during the implementation of its transformation programme.

38. During 2016/17, the Council strengthened its Programme and Project Management Framework to ensure there was effective governance in place to support delivery of projects that will be developed within each of above transformational themes. During 2017/18, the Council will fully embed PPM documentation and processes within the culture of the organisation.

39. As part of this the Council is committed to ensuring that it delivers a People Strategy over the next two years that ensures it has a workforce that is high performing, highly motivated and engaged workforce with customers at the forefront of everything the Council does.

### **Governance of partnerships**

40. Increasingly, the Council is working in an environment where complex partnership-based arrangements are needed to deliver services that meet local needs and improve outcomes. The size and type of these arrangements vary from relatively simple shared service arrangements to new and innovative ways of working with a range of partners. The challenge for the Council is to ensure that governance arrangements for all partnerships are robust, proportionate and transparent.

### **Member support**

41. During 2016/17 the Council introduced a revised Member Development policy, structured around the following elements:

- clear expectations and responsibilities of members;
- a core set of training available to all members; and
- an additional range of training available to all senior members.

42. During 2017/18, the Council will develop a competency framework for all members, aligned to the Local Government Association's Political Skills Framework. The Council's training and development programme will then be aligned to this framework, to ensure that members have the opportunity to access training which supports them to meet the required competencies.

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### Governance of asset transactions

43. Middlesbrough Council holds a significant asset portfolio that is used to deliver services, support businesses and contribute to the well-being of the town. The Council is committed to a process of continuous improvement around the management of its assets. Effective asset management will be a key component of the Council's budget management over the coming years, maximising business rates creation, generating new income streams and increasing the Council Tax base.

44. A range of steps have been taken to strengthen transparency around this process with an asset disposal framework developed and Estates Strategy reviewed. During 2017/18 further work will be undertaken to ensure the Asset Disposal process is fully embedded within the Council to address the Council's 2016/17 Value for Money qualification around asset disposal governance arrangements. A full internal review of compliance with the asset disposal policy has already been commissioned which gave assurance around the process.

### Summary of actions

45. The Council's governance improvement actions for 2017/18 can be summarised as follows:

Issue	Action	Expected Outcome(s)	Lead officer	Deadline
Improved oversight of Annual Governance Statement improvement actions.	Establish a multi-disciplinary group to monitor delivery of improvement actions and regularly assess alignment of Council processes with the Code of Corporate Governance.	Improved oversight of delivery of improvement actions.	Head of Performance and Partnerships	Quarterly from September 2017 onwards
Test compliance with governance frameworks	Test compliance against changes to corporate governance frameworks made during 2016/17	To provide assurance that the revised corporate governance frameworks are being complied with	Head of Internal Audit	March 2018
Governance structures within Partnerships	As part of the wider Internal Audit 2017/18 work programme to test compliance with governance frameworks, undertake an internal audit of governance within partnership settings	To provide assurance that there is effective governance within partnership settings	Head of Internal Audit	March 2018
Outstanding CIP action to strengthen training around decision making.	Plans to provide further communication and training to staff on the Council's decision making and governance requirements in place.	Ensure effective and robust governance arrangements are in place to support delivery of the Council's priorities within a transparent framework.	Members and Statutory Services Manager	Completed
	Checks of compliance with the decision making process put in place.	Provide those charged with oversight of the Council's governance arrangements with assurance that these processes have become fully embedded within the Council and to hold staff accountable for instances of non-compliance.	Members and Statutory Services Manager	Commenced from June 2017 onwards

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Issue	Action	Expected Outcome(s)	Lead officer	Deadline
member support.	Framework for all Members, aligned to the Local Government Association's Political Skills framework. The Council's training and development programme will then be aligned to that framework.	enable Members to have assurance that they have the necessary skills for their roles.	Statutory Services Manager	December 2017 from September 2017
Outstanding CIP action to embed Business Change.	Develop the Strategic HR function to deliver the development of a Workforce Strategy.	Ensure business change is fully embedded for key governance frameworks and processes to ensure the organisation has the capabilities to comply with the governance frameworks.	Organisational Development Manager	Completed
	Put in place plans to commence delivery of Middlesbrough Manager Phase 3.	Staff technical training requirements are met and the good practice set out in the Council's governance frameworks or guidance are fully implemented in a prioritised manner that takes cognisance of the interdependencies between these areas and the potential to overwhelm staff with a number of new requirements.	Organisational Development Manager	Completed
Asset management	Creation of an officer oversight board; delivery of training on procurement and state aid issues and provision of further Value for Money guidance.	There is a forum within the supporting governance arrangements for asset management that is able to take a holistic view of opportunities around assets and support implementation of the Estates Strategy.	Strategic Director of Finance, Governance and support	Completed

Signed on behalf of Middlesbrough Council

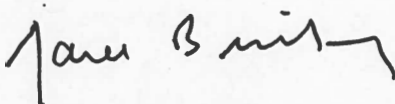
SIGNED:



David Budd  
Elected Mayor



Tony Parkinson  
Chief Executive



James Bromiley  
Strategic Director, Finance, Governance and Support

## Section 8: Annual Governance Statement

### Annex 1: Position statement against the Council's Code of Corporate Governance

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.</p> <ul style="list-style-type: none"> <li>• Behaving with integrity</li> <li>• Demonstrating strong commitment to ethical values</li> <li>• Respecting the rule of law</li> </ul>	<ul style="list-style-type: none"> <li>• Work diligently and with integrity to achieve the Elected Mayor's Vision of a Fairer, Safer, Stronger Middlesbrough by 2025.</li> <li>• Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these.</li> <li>• Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour.</li> <li>• Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities.</li> <li>• Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes.</li> </ul>	<ul style="list-style-type: none"> <li>• Middlesbrough's Constitution and supporting documentation including Officer and Member Codes of Conduct, financial procedure rules and schemes of delegation.</li> <li>• Member and Officer relationship Code of Conduct, and mandatory training on the Code of Conduct.</li> <li>• Promotion of individual sign-up to the Code of Conduct, which all members have signed.</li> <li>• Strategic Plan and Directorate Delivery Plans.</li> <li>• New member induction process, which includes provision of ethical awareness training, and member development programme.</li> <li>• Council staff induction process.</li> <li>• Officer and Member declarations register maintained.</li> <li>• Middlesbrough Manager and Middlesbrough Employee appraisal systems that take account of skills and behaviours.</li> <li>• Extensive internal and external communications and engagement from Senior Managers to reinforce behaviours expectations.</li> <li>• Declaration of interests recording for officers and members which is up to date.</li> <li>• Anti-Fraud, Bribery and Corruption Policy regularly updated.</li> <li>• Whistleblowing policy in place.</li> <li>• Corporate Complaints policy.</li> <li>• Standards Committee in place.</li> <li>• Scrutiny call in processes.</li> <li>• HR recruitment and selection policies.</li> <li>• Procurement Policy.</li> <li>• No evidence of non-compliance with statutory guidance.</li> <li>• Job descriptions and role specifications.</li> <li>• Compliance with the CIPFA statement on the role of the Chief Financial Officer (2015).</li> <li>• Mandatory training for Members of the Corporate Affairs and Audit committee and any substitutes, which is supplemented with additional relevant training on a voluntary basis.</li> <li>• Internal Audit reviews of compliance.</li> </ul>	<p>During 2017-18 work will be undertaken to map training provided to members against the Skills Competency Framework. This will identify if additional training should be offered to Members.</p>

## Section 8: Annual Governance Statement

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> <li>• Openness</li> <li>• Engaging comprehensively with institutional stakeholders</li> <li>• Engaging with individual citizens and service users effectively</li> </ul>	<ul style="list-style-type: none"> <li>• Document and operate a culture of openness and transparency within the organisation.</li> <li>• Maintain a culture of accountability, so that members and officers understand for what they are accountable and to who.</li> <li>• Consult appropriately with stakeholders on the development of its budget, key plans and service development.</li> <li>• Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant.</li> <li>• Publish all Executive and Committee reports and decision papers, unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests.</li> <li>• Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges.</li> </ul>	<ul style="list-style-type: none"> <li>• Council constitution and supporting documentation, in particular the Schemes of Delegation.</li> <li>• Corporate Consultation policy and use of consultation feedback mechanisms.</li> <li>• Budget setting process.</li> <li>• Freedom of Information publication scheme.</li> <li>• Online Council Tax information.</li> <li>• Comprehensive, easy to use website.</li> <li>• Member and officer schemes of delegation and associated decision making recording processes.</li> <li>• Standard report templates.</li> <li>• Joint Strategic Needs Assessment.</li> <li>• Health and Wellbeing Strategy.</li> <li>• Scrutiny reports.</li> <li>• Annual Governance Statement.</li> <li>• Public consultations.</li> <li>• Executive forward work programme.</li> <li>• Council Improvement Plan process and reports.</li> <li>• Impact Assessment policy.</li> <li>• Executive Forward Work Programme.</li> <li>• Committee diary planner published on an annual basis and approved by Members and accessible through e-genda.</li> <li>• Publication of all public papers via e-genda.</li> <li>• Open Data compliance published on Council website.</li> <li>• Key documents section on Council website.</li> </ul>	<p>Undertake further work to embed reporting and publication of officer decisions across the organisation – Action included in the 17/18 AGS</p> <p>Delivery of the e-learning modules on report writing and report decision workflows – Action included in the 17/18 AGS</p> <p>The Council is committed to excellence within its organisational Development agenda. As part of this work will be undertaken during 2017/18 to map and articulate the Council's values to the organisation.</p> <p>Internal Audit of partnership governance to be undertaken during 2017/18 to test the effectiveness of governance arrangements.</p>

## Section 8: Annual Governance Statement

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental benefits</li> </ul>	<ul style="list-style-type: none"> <li>Clearly set out its contribution to delivery of the Vision for Middlesbrough, and use this as the basis for its overall strategy, planning and other decisions.</li> <li>Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment.</li> <li>Ensure that it delivers defined outcomes on a sustainable basis within available resources.</li> <li>Effectively identify and manage risks to the achievement of targeted outcomes.</li> <li>Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services.</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Plan and Outcome Delivery Plans.</li> <li>Balanced scorecards and supporting processes.</li> <li>Risk Management Framework and the Risk Register structure.</li> <li>Investment Strategy and Prospectus.</li> <li>Decision making records.</li> <li>Fair access to services protocols.</li> <li>Customer Strategy.</li> <li>Needs assessments.</li> <li>Consultation Strategy.</li> </ul>	<p>Regular refreshes of needs assessments are planned. During 2017-18 the overarching Adults, Children's and Older Persons Joint Strategic Needs Assessments will be refreshed and will include strengthened sections on prioritisation of needs within these documents.</p>
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> <li>Determining interventions</li> <li>Planning interventions</li> <li>Optimising achievement of intended outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved.</li> <li>Ensure that external and internal stakeholders are engaged with when the Council is determining how services should be planned and delivered, and the outcome of consultations is considered when decisions are made.</li> <li>Ensure achievement of social value through service planning and commissioning.</li> <li>Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets.</li> <li>Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these.</li> <li>Ensure medium and long term resource planning is realistic, sustainable and inclusive.</li> <li>Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP.</li> </ul>	<ul style="list-style-type: none"> <li>Standard report templates.</li> <li>Corporate Consultation policy.</li> <li>Impact Assessment policy.</li> <li>Budget setting process.</li> <li>Executive Forward Work Programme.</li> <li>Decision making protocols in place on key decisions and officer member delegated decision making.</li> <li>Committee dates set annually.</li> <li>Strategic Plan and Outcome Delivery Plans cycle.</li> <li>Performance Management Framework.</li> <li>Risk Management Framework.</li> <li>Balanced scorecards.</li> <li>Health and Wellbeing Board.</li> <li>Strategic Plan and Outcome Delivery Plans.</li> <li>Medium Term Financial Planning process.</li> <li>Change Programme.</li> <li>Commissioning Framework.</li> <li>Annual reports to be provided to Corporate Affairs and Audit Committee on disposals on the grounds of social value will be provided from 2017/18 onwards as agreed by Corporate</li> </ul>	<p>Work will be undertaken during 2017-18 to further embed Officer decision making processes and compliance will be tested by Internal Audit during 2017-18.</p> <p>Further work to move towards performance management away from performance reporting to identify corrective action needed by implementing the Business Intelligence solution by March 2018.</p> <p>Work being undertaken in 2017-18 in partnership with the VCS to look at how Social Value is embedded in the work of the Council.</p>

## Section 8: Annual Governance Statement

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> <li>• Developing the Council's capacity</li> <li>• Developing the capability of the Council's leadership and other individuals</li> </ul>	<ul style="list-style-type: none"> <li>• Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research.</li> <li>• Work collaboratively and in partnerships where added value can be achieved.</li> <li>• Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver.</li> <li>• Clearly define roles, responsibilities and terms of engagement for members and employees.</li> <li>• Maintain and regularly review its schemes of delegations that outline the types of decisions that are delegated and those that are reserved for collective decision-making.</li> <li>• Develop the capabilities of members and senior management to achieve effective shared leadership.</li> <li>• Ensure there are appropriate structures in place to encourage public participation.</li> <li>• Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate.</li> </ul>	<p>Affairs and Audit Committee in 2016/17.</p> <ul style="list-style-type: none"> <li>• Strategic Plan and Outcome Delivery Plans.</li> <li>• Performance Management Framework.</li> <li>• Health and Wellbeing Board and associated work.</li> <li>• Constitution and associated documentation that sets out role profiles.</li> <li>• Job descriptions and person specifications for all staff roles.</li> <li>• Effective communication and engagement between senior officers and Members.</li> <li>• Schemes of Delegation.</li> <li>• Middlesbrough Learns and range of training solutions offered by the Organisational Development team.</li> <li>• Middlesbrough Manager training and other training that supports the Middlesbrough Manager principles for Senior Managers.</li> <li>• Member Development programme.</li> <li>• Member induction processes.</li> <li>• Mandatory training for members on the Code of Conduct for all, Audit and Governance, planning and licensing training (for Members of regulatory committees).</li> <li>• Staff induction processes.</li> <li>• Corporate Consultation policy, Voiceover panels and the consultation portal.</li> <li>• Public involvement in determining scrutiny priorities.</li> <li>• Process in place to enable the public to petition Council and register questions to be considered by full Council.</li> <li>• Strategic Partnership frameworks.</li> </ul>	<p>The Council will develop a People Strategy by June 2017 and an associated implementation plan to provide a Council-wide approach to supporting staff.</p> <p>The Member competency framework and alignment of this with the member development programme will be complete by December 2017</p> <p>Internal Audit of partnership governance to be undertaken during 2017/18 to test the effectiveness of governance arrangements.</p>



## Section 8: Annual Governance Statement

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> <li>• Managing risk</li> <li>• Managing performance</li> <li>• Robust internal control</li> <li>• Managing data</li> <li>• Strong public financial management</li> </ul>	<ul style="list-style-type: none"> <li>• Embed a proportionate approach to risk management within all activities, ensure that progress is reviewed regularly and that risk is considered as part of decision making.</li> <li>• Ensure effective performance management of service delivery, and provide members and senior managers with timely updates on service performance and progress towards outcomes.</li> <li>• Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved.</li> <li>• Ensure effective, member-led scrutiny is in place that provides constructive challenge and debate on objectives and policies before, during and after decisions are taken.</li> <li>• Ensure an effective, risk-led Internal Audit service is in place to provide assurance on the overall adequacy and effectiveness of the Council's governance arrangements.</li> <li>• Ensure effective counter fraud and anti-corruption policies and arrangements are in place.</li> <li>• Ensure effective internal control arrangements exist for sound financial management.</li> <li>• Maintain an effective audit committee function.</li> <li>• Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data,</li> <li>• Put in place arrangements to ensure that data used to support decision-making is accurate and clear.</li> <li>• Ensure financial management arrangements support both long term outcome delivery and day-to-day operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Management Framework.</li> <li>• Performance Management Framework.</li> <li>• Strategic Plan.</li> <li>• Constitution including relevant documents on financial procedures, procurements rules, anti-fraud, interests, gifts and hospitality recording, codes of conduct, schemes of delegation, roles and responsibilities descriptors.</li> <li>• Standard report formats.</li> <li>• Standard report templates.</li> <li>• Officer training on report writing.</li> <li>• Committee dates diarised for the civic year.</li> <li>• Annual Governance Statement.</li> <li>• Information Strategy.</li> <li>• Data Protection Policy and monitoring arrangements.</li> <li>• Money Laundering Policy.</li> <li>• Whistleblowing Policy.</li> <li>• External inspection of accounts.</li> <li>• Internal Audit annual plan.</li> <li>• Internal audit reports.</li> <li>• Data Quality policy.</li> <li>• Member briefings.</li> <li>• Corporate Affairs and Audit committee full membership, clear terms of reference and training for the role provided.</li> <li>• Information Sharing protocol guidance in place.</li> <li>• Information Governance Framework in place.</li> <li>• Toolkit in place to Support Information Governance compliance, reviewed on an annual basis.</li> </ul>	<p>Continue to embed Project and Programme Management Governance within the culture of the organisation and test compliance during 2017-18.</p> <p>Continue to embed Risk Management within the culture of the organisation and test compliance during 2017-18.</p> <p>While the Council has a Data Quality Policy in place it requires review. This will be undertaken during 2017-18 and embedded within an Information Strategy</p> <p>The Committee Report templates will be revised during 2017-18 to ensure they continue to effectively capture corporate governance best practice.</p>

## Section 8: Annual Governance Statement

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> <li>• Implementing good practice in transparency</li> <li>• Implementing good practices in reporting</li> <li>• Assurance and effective accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity.</li> <li>• Report regularly on performance, delivery of value for money and stewardship of resources.</li> <li>• Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement.</li> <li>• Ensure compliance with good governance principles extends to its partnership arrangements.</li> <li>• Ensure that recommendations made by external audit are addressed</li> <li>• Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements.</li> <li>• Welcome and positively engage with peer challenges, reviews and inspections of its services.</li> </ul>	<ul style="list-style-type: none"> <li>• Standard report formats.</li> <li>• Council website contains key data, including information required by the Transparency Code.</li> <li>• Annual Governance Statement.</li> <li>• Governance documents of partnerships.</li> <li>• Council Improvement Plan process.</li> <li>• Corporate Affairs and Audit Committee papers including regular reports from Internal Audit.</li> <li>• Peer Reviews by the LGA on communications, highways and corporate governance commissioned.</li> <li>• Strategic Plan.</li> <li>• Internal Audit action tracker.</li> <li>• Performance and Financial monitoring processes.</li> </ul>	<p>Internal Audit of partnership governance to be undertaken during 2017/18 to test the effectiveness of governance arrangements.</p>

## **Section 9: Glossary of Terms**

### **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 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.

### **Admitted Bodies**

Organisations that participate in the Teesside Pension Fund under an admission agreement between the Fund, and the relevant organisation. Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an outsourcing to the private sector.

### **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.
- It's 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 to 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.

### **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".

### **Collection Fund Account**

This account records the income received by the Council in relation to local taxation and non-domestic community asset transfer is a change in management and / or ownership of land or buildings, from public bodies, (most commonly local authorities), to communities, (community and voluntary sector groups, community enterprises, social enterprises, etc.)

### **Community Asset Transfer**

A change in management and/or ownership of land or buildings from public bodies (most commonly local authorities) to communities (community and voluntary sector groups, community enterprises, social enterprises, etc.)

### **Component Accounting**

Where assets can be broken down into different components which have a material value and substantially different economic lives, then each component should be separately valued.

### **Contingency**

The sum of money set aside to meet unforeseen expenditure or liability.

## **Section 9: Glossary of Terms**

### **Contingent Asset**

A contingent asset arises in a situation where a potential inflow or economic benefit to the authority will only be confirmed by the occurrence or otherwise of some future event but where the value of the benefit cannot be measured reliably.

### **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**

Those activities and costs that provide the infrastructure that allows council services to be provided. It includes all aspects of members' activities including corporate, programme and service policy making and more general activities relating to governance and the representation of local interests.

### **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 following financial year (e.g. stocks and debtors).

### **Current Liabilities**

These are amounts owed by the Council due for payment within the following financial year (e.g. creditors or cash overdrawn).

### **Current Service Costs (Pensions)**

The increase in the present value of a defined benefit pension scheme's liabilities arising from an employee's service in the current financial year.

## **Section 9: Glossary of Terms**

### **Curtailment (Pensions)**

An event that reduces the expected years of future service of present employees in a defined benefit pension scheme or reduces the defined benefits for some or all of their future service.

### **Debtors**

Income due to the Council for services carried out or grants/contributions due in the financial year for which payment has not been received by the end of that year.

### **Deferred Pensions**

Individuals who have ceased to be active members of a pension scheme but are entitled to benefits payable at a later date.

### **Defined Benefit Scheme**

A pension scheme which calculates benefits due from the scheme independently to the contributions payable and the return on the investments made by the scheme.

### **Deminimus**

For capital accounting, a deminimus value is set below which any items of expenditure are excluded from the capital accounts and instead treated as revenue expenditure. The Council's deminimus levels are outlined in the statement of accounting policies.

### **Depreciation**

The allocation of the cost of consuming a tangible asset cost over its useful life. 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**

The financing of capital projects from revenue resources.

### **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.

## **Section 9: Glossary of Terms**

### **Earmarked Reserves**

Funding set-a-side to be used for a specific purpose at some point in the future.

### **Equity**

The net value of the Council's assets and liabilities represented by reserves and balances.

### **Expected Rate of Return on Pension Assets**

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**

Transactions that fall outside of the ordinary activities of the council and are not expected to reoccur.

### **Financial Reporting Standard (FRS)**

Standards developed by the Accounting Standards Board to regulate the preparation and presentation of financial statements in the UK.

### **Fixed Assets**

Assets that have a useful life and yield benefits to the Council and the services it provides for a period of more than one year.

### **General Fund**

The main revenue account used to fund the cost of providing Council services. The main sources of income credited to the fund are the council tax and business rates precepts and the revenue support grant (RSG) from central government.

### **Heritage Assets**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### **Impairment**

The diminishing in quality, strength amount, or value of an asset.



## **Section 9: Glossary of Terms**

### **International Financial Reporting Standards - IFRS**

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board and specify exactly organisations should must maintain and report their accounts. Local Authorities have had to prepare their accounts in accordance with IFRS requirements since April 2010.

### **Intangible Assets**

An asset that is not physical in nature. Examples of this type of asset include IT software and other licences and patents and trademarks.

### **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.

### **Leases**

A lease is a contract between a lessor and lease for the hire of a specific asset with the ownership of the asset being retained by the lessor. There are two main types of lease, operating and finance leases.

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee and the minimum lease payments amount to substantially all (90% or more) of the fair value of the leased asset. An operating lease is a lease other than a finance lease.

### **Local Management of Schools**

Under the Local Management of Schools Funding arrangements, the Council is required to pass on the calculated share of each funding stream budget directly to all its schools. Individual schools have direct responsibility for managing their budgets and any surplus or deficit incurred in the financial year is carried forward to the following financial year as part of the schools balances earmarked reserve.

### **Materiality**

A figure is classified as material if its omission or misstatement could influence decisions users take on the basis of the financial statements.

### **Minimum Revenue Provision (MRP)**

The minimum amount Local Authorities are required to set aside each year for the repayment of outstanding long-term debt.

## **Section 9: Glossary of Terms**

### **Movement in Reserves Statement**

This statement highlights the movement in the year for the earmarked reserves held by the Council. This is split between 'usable reserves' (those held to fund future expenditure) and unusable reserves (technical accounting adjustments).

### **Non-Domestic Rates (also known as Business Rates)**

Charges paid by occupiers of non- domestic properties for council services. The charge is calculated by multiplying the rateable value of a property by a multiplier set by Central Government.

### **Net Book Value**

The current value of a fixed asset after taking account of depreciation.

### **Non-Distributed Costs**

Costs that cannot be allocated to a specific service area.

### **Non-Operational Assets**

Fixed assets owned by the Council but not currently being used in the delivery of services. They include surplus properties awaiting disposal, investment properties and assets under construction.

### **Operational Assets**

Fixed assets owned by the Council and used in the delivery of Council services.

### **Operating Segments**

The breakdown of the Council's activities into distinct service divisions/ outcome areas.

### **Past Service Cost**

The increase in the present value of a defined pension scheme liabilities relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits.

### **Post Balance Sheet Events**

There are two types of post balance sheet events. Adjusting events are those events that provide additional evidence of conditions that existed at the balance sheet date and require adjustments to be made the accounts. Non adjusting events are those events after the balance sheet date which provide evidence of conditions not existing at the balance sheet date. These may require disclosure in the accounts stating the nature of the event and an estimate of the financial impact.

## **Section 9: Glossary of Terms**

### **Precept**

The levy made on the council by other bodies for income collected from Council taxpayers on their behalf e.g. Fire or Police Authority.

### **Provisions**

Funds set aside to cover 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 accounting principle that requires liabilities and expenses to be recorded as soon as they occur, but revenues only when they are assured or realised.

### **Related Parties**

Two or more parties are considered to be 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 balance sheet reserve that records increases in the valuation of fixed assets that have not yet been realised through the disposal of the asset. Decreases in asset valuations are also taken to the revaluation reserve if an asset has previously had an increase in valuation.

### **Reserves**

Unutilised resources set- a- side to fund future costs.

## **Section 9: Glossary of Terms**

### **Revenue Expenditure**

The day-to-day costs incurred in providing Council services. This includes staffing, supplies & services, transport and utility costs etc.

### **Revenue Support Grant**

The main source of Central Government grant funding for Local Authorities.

### **Service Reporting Code of Practice**

SeRCOP is a code of practice for all UK local authority services to ensure consistent financial reporting for local authority budgets, performance indicators and Statements of Accounts.

### **Scheduled Bodies**

Local authorities or similar organisations whose staff are automatically entitled to become members of the Teesside Pension Fund.

### **Specific Grants**

Government grants awarded to Local Authorities and earmarked for specific services, e.g. Standards Fund Grant for Children's Services.

### **Stocks (Inventories)**

Goods or merchandise available for sale or distribution held at the balance sheet date. This can include the following:

- 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 Council will derive benefits from the use of a fixed asset.

### **Work in Progress**

The total value of the materials and labour costs incurred to date on unfinished projects