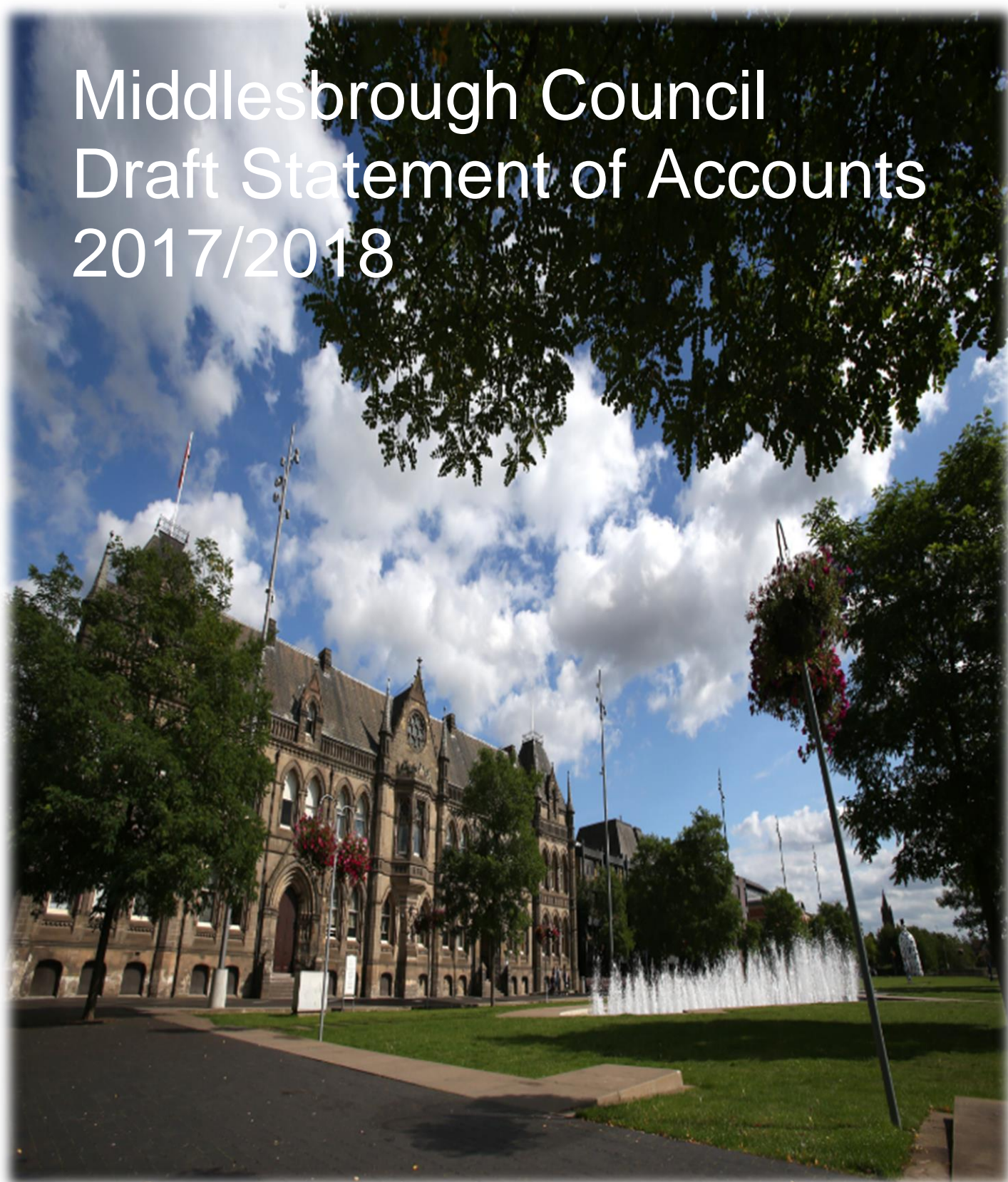


Middlesbrough Council Draft Statement of Accounts 2017/2018



1 Municipal Buildings

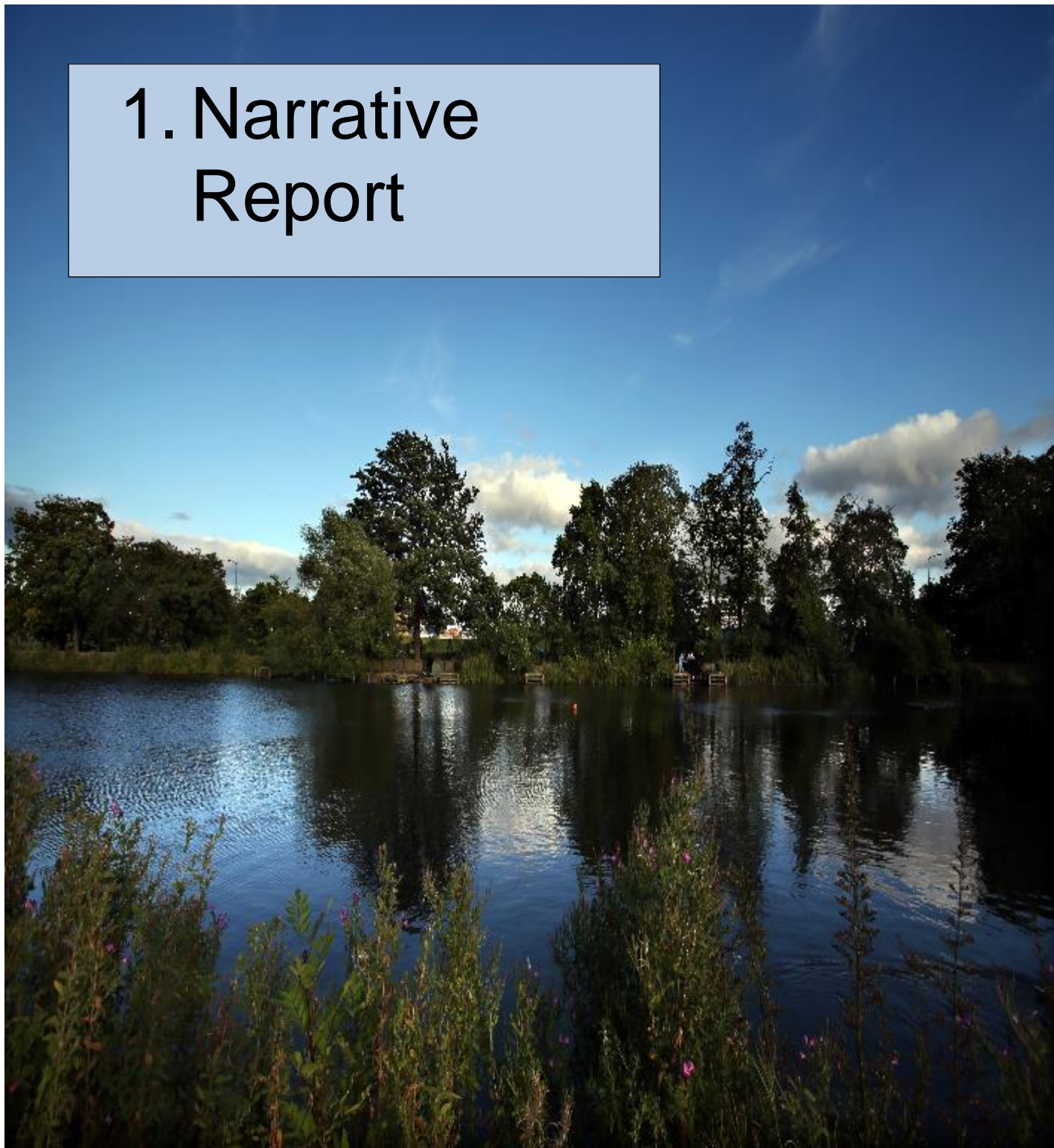
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Narrative Report	Movement In Reserves Statement	Detailed notes to the Accounts	Income and Expenditure Account	Income and Expenditure Account			
Councillor's Preface	Comprehensive Income and Expenditure Statement		Notes to the Collection Fund	Notes to the Pension Fund			
Chief Finance Officer's Statement	Balance Sheet			Pension Fund Statement of Accounts and Supplementary Notes			
Council Performance	Cash Flow Statement						
Statement of Responsibilities for the Statement of Accounts	Expenditure and Funding Statement						
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The Draft Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2018 and a summary of its income and expenditure during 2017/2018. 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 2017/2018, and International Financial Reporting Standards. The draft accounts are available on the Council's website: www.middlesbrough.gov.uk

Statement of Accounts are expected to be approved by the Council's Audit and Corporate Affairs Committee on 26th July 2018, 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.

1. Narrative Report



2 Albert Park

Narrative Reports

Review of the Year

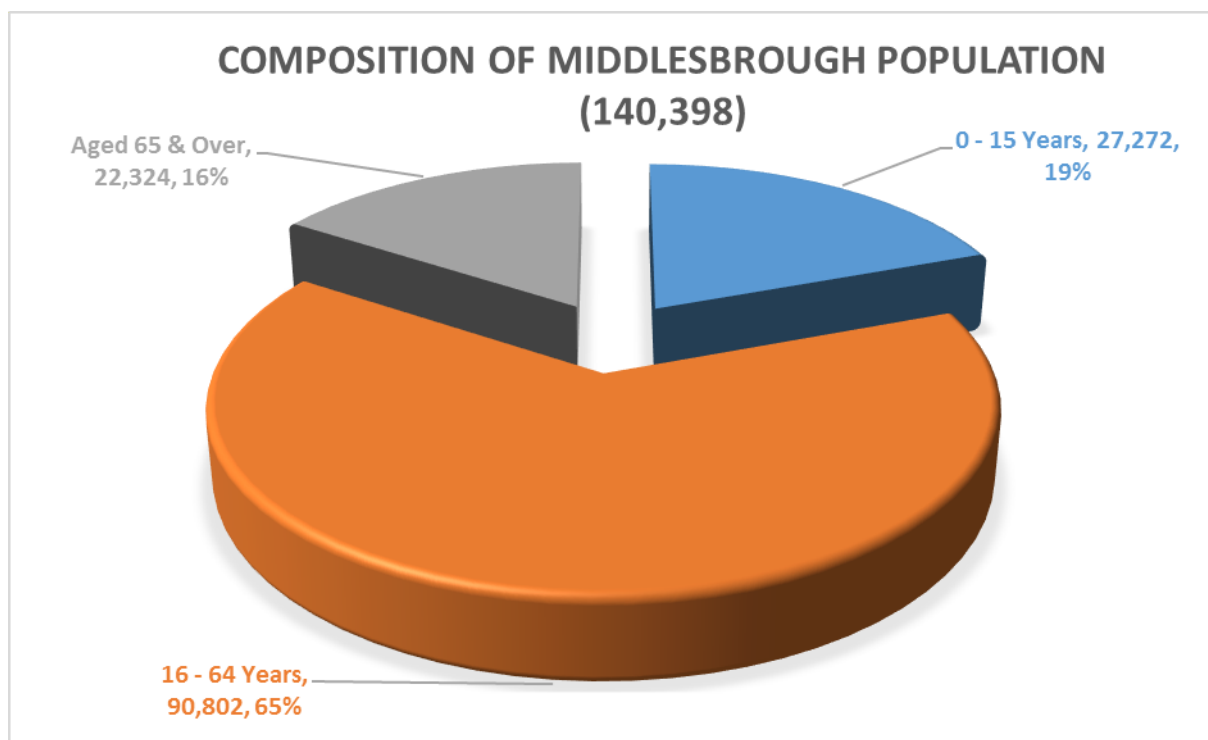
Middlesbrough Council is a large and diverse organisation and the aim of this Narrative Report is to provide both guidance and context to the accounts, presenting a summary of the Council's financial position, financial performance, and non-financial performance for the year, its prospects for future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

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



Source: Office of National Statistics Mid-Year Estimates 2016

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.

Economic data from Nomis Official Labour Market Statistics for the period January 2017– December 2017 shows the following:

	Middlesbrough	North East	Great Britain
Gross Weekly Pay (Median)	£471.20	£504.10	£552.70
Unemployment rate (16 – 64) (as proportion of economically active)	7.7%	6.2%	4.4%

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

Political Structure in 2017/2018

The Council operates a Mayoral style of local 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 as well as the annual approval of its revenue budget and investment strategy.

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).

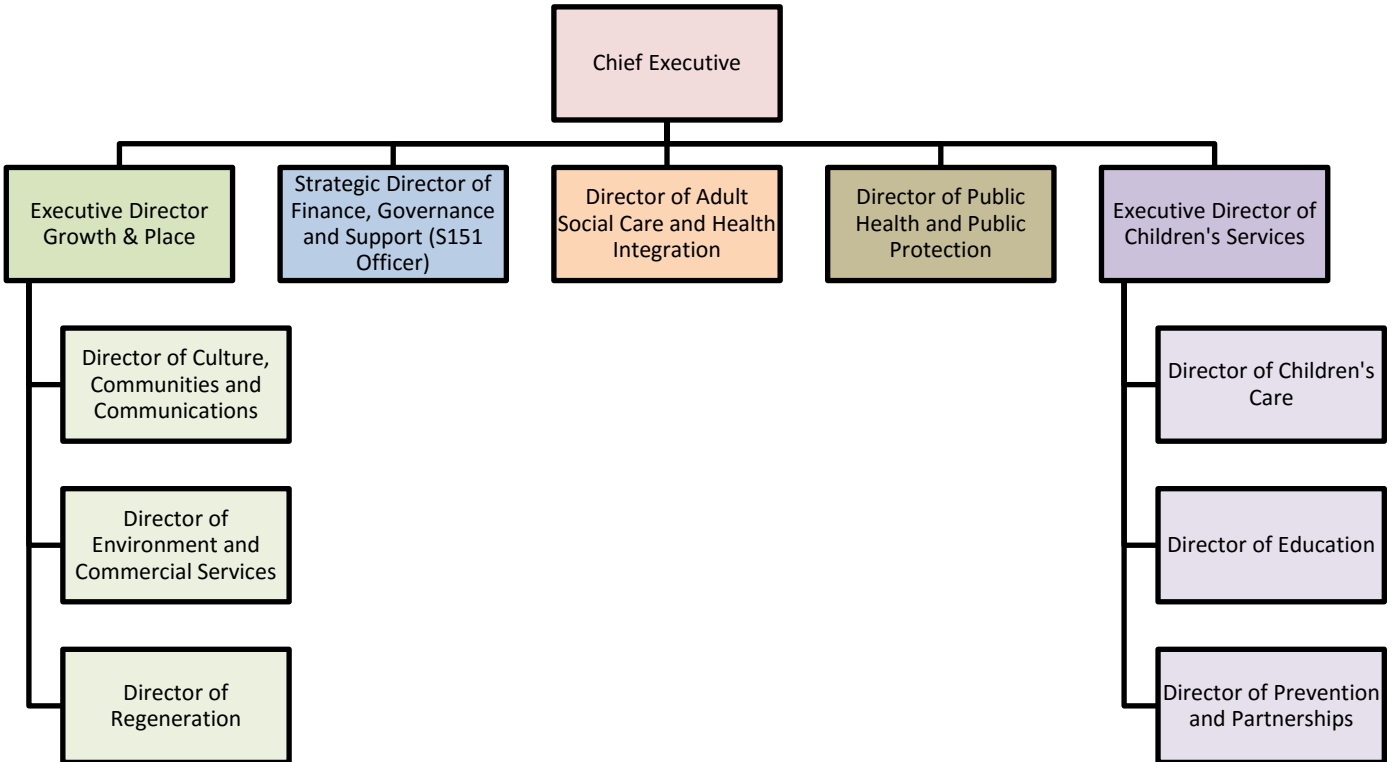
Middlesbrough Council is made up of 20 wards with between one and three Councillors representing each ward. Councillors are elected for a four-year term. The political make-up of the Council at 31 March 2018 is:

Elected Members	47
Mayor David Budd (Labour)	
Conservative	5
Independent	5
Labour (including Elected Mayor)	32
Middlesbrough Independent Councillors' Association	5

Management Structure

Leadership Team

The existing Leadership Team structure came into effect operationally on 31st January 2017 and is set out below.



The Mayor's Vision for Middlesbrough – Fairer, Safer, Stronger

The Mayor's Vision for Middlesbrough in 2025 – *Fairer, Safer, Stronger* was endorsed by Council on 11 May 2016. The Vision for is overarching, priority-setting document for Middlesbrough, setting out the Mayor's ambitions for the town in the medium to long-term.

The document also sets the direction for the Council's Strategic Plan and its role as community leader, in which it will work with communities and partners to achieve Vision priorities.

In the past year, the Council's approach to delivering the Mayor's Vision has crystallised around three strategic themes:

- **Business Imperatives** - Ensuring that the Council operates efficiently and effectively so that Physical and Social Regeneration outcomes are maximised.
- **Physical Regeneration** – Investing in Middlesbrough to provide and improve facilities which act to increase the town's reputation, create social opportunity and improve the Council's finances.
- **Social Regeneration** – Working with our communities and other public service organisations to improve the lives of Middlesbrough's residents.

Strategic Plan

On 28th March 2018, the Council approved the Strategic Plan for the period 2018 to 2021. The Strategic Plan is the Council's overarching business plan, outlining its contribution to the Mayor's Vision for Middlesbrough and providing a broad overview of high-level improvement activity in the medium term, within the financial parameters outlined in its Medium Term Financial Plan. The Plan is central to the Council's corporate governance framework and is updated annually. It is also the basis of the Council's performance management framework, with progress reviewed on a quarterly basis and reported to Executive and Overview and Scrutiny Board.

This latest iteration of the Strategic Plan is designed to:

- Set out clearly how the Council contributes to the Mayor's Vision and is organised around the three aims referred to on page 6.
- Celebrate successes and 'sell' the Council's plans for the future.
- Be more useful in communicating the above to staff, partners, residents and businesses.
- Inform a more streamlined approach to strategic performance management from 2018/19.

The Plan sets out the Council's priorities for the next four years including the following:

Business Imperatives

- Improve the financial performance of services we charge for and look for new income through our commercial strategy.
- Achieve greater value for money when buying services and managing contracts.
- Look at new ways of delivering services with local communities and a range of partners.
- Make it easier to access our services on line and by phone through our digital strategy
- Introduce a 'unit cost' budgeting approach to our services to try and identify further efficiency savings.

Physical Regeneration

- Develop Middlehaven as an education, leisure, sports and entertainment centre of national significance.
- Improve Middlesbrough's rail connections, promote investment in the Historic Quarter to encourage business growth and continue to improve our road network.
- Build 2,300 new homes to meet the needs and ambitions of a growing population.
- Continue to grow our business base, with new commercial workspace and support for innovation sectors.
- Work with local communities to redevelop Middlesbrough's disadvantaged estates and put in place our empty homes strategy.

Social Regeneration

- Continue to strengthen the local economy, creating 3,500 new jobs and increasing the number of local services we commission.
- Take action to promote financial inclusion and reduce income inequality within the town, including improving community advice and welfare services and launching Middlesbrough's Community Bank.
- Transform children's social work and early help, to allow more families to stay together where it is safe for them to do so and reduce the need for the children to be looked after by us.
- Work to improve local health and wellbeing and reduce health inequalities within the town, focusing particularly on self-care, community-led prevention and early intervention.
- Improve the town's environment, working with local communities to make sure our roads, streets and open spaces are well-designed, clean and safe.

Investment Strategy for Middlesbrough

An update of the Medium Term Financial Plan (MTFP) was presented to Council on 7th March 2018. It was integrated with and updates the Investment Strategy for Middlesbrough. In the update, the plan is extended to cover the 2020/21 financial year and includes additional investment, increasing Council resources dedicated to supporting the strategy to £86.8 m. This strategy is intended to attract a total of £625m of third party investment into the town and its infrastructure. The investment will support a number of major regeneration schemes outlined in the Middlesbrough Investment Prospectus including:

- the Snow Centre development in Middlehaven
- the development of a premier office development in Centre Square
- the refurbishment of Middlesbrough Town Hall
- Teesside Media and Innovation Village
- Teesside Advanced Manufacturing Park
- the development of Middlesbrough rail and road connectivity
- the development of new housing in the town

Customer Strategy

The vision of the Customer Programme is to **transform delivery of our services**, providing customers with **excellent service** and **access to self-serve** through an extensive range of services.

Our ambition is that a customer-centric culture, Council self-serve facilities, improved payment facilities and transactional online services, will be underpinned by a simple, service led and driven website and intranet, with straight-to-the-point e-forms, all underpinned by a knowledge-based customer relationship management system, reducing the need for face to face contact. Customers will experience an overall improvement and flexibility in their choice of how to access Council services and the drive for 'digital by default' will increase access to Council services as a result.

Our Values

Our Values are a critical element of the Council's strategy to create a brighter future for Middlesbrough. Our Values are at the heart of everything we do and form the foundation for how we operate, behave and make decisions.

Our Values:

- Passionate about Middlesbrough
- Integrity at our heart
- Creative in our thinking
- Collaborative in our approach
- Focussed on what matters

Performance

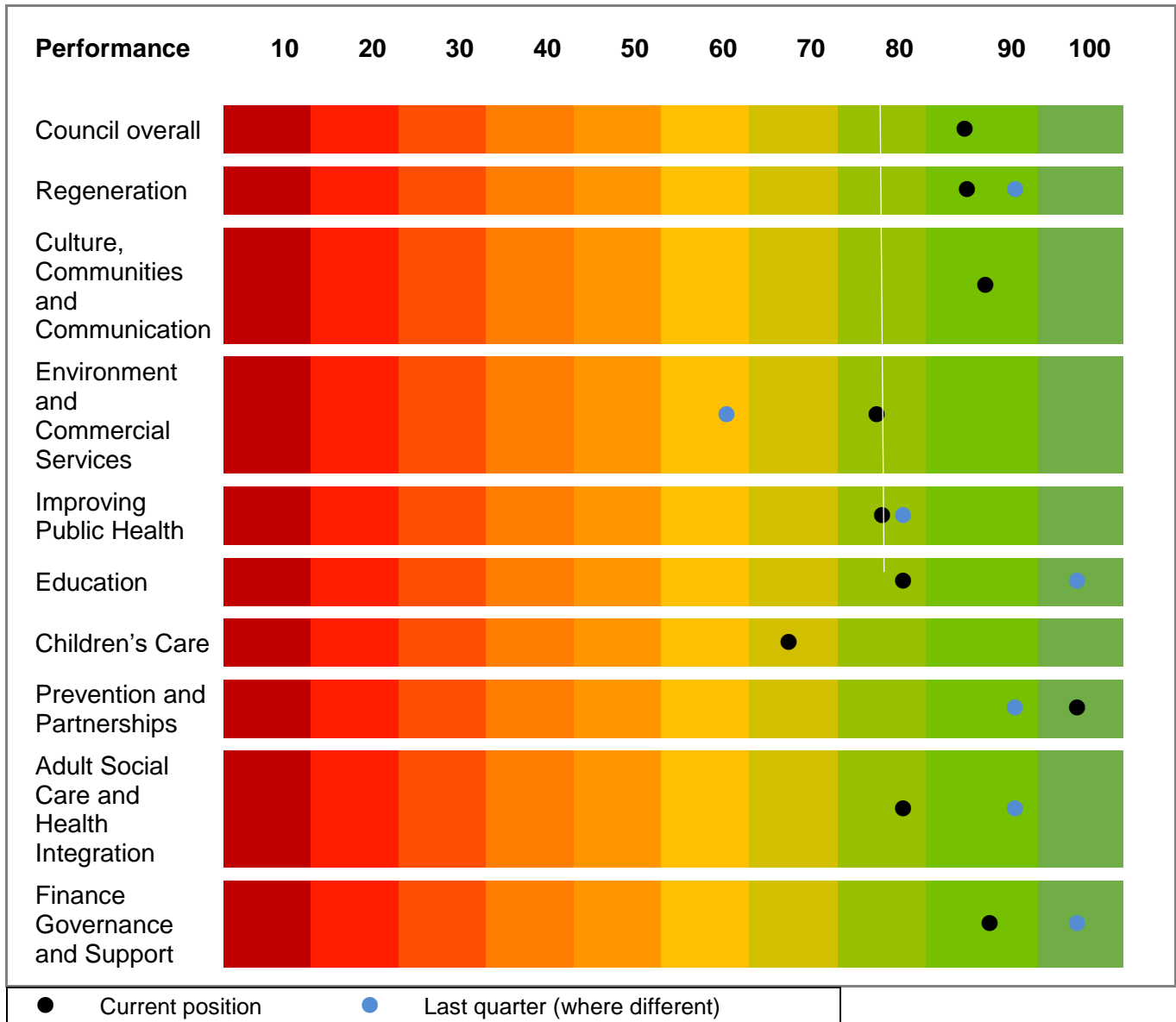
The Council uses a Balanced Scorecards model to measure performance. The scorecard for each Directorate is split into quadrants; Customer, Business, Finance and People. The Customer and Business quadrants primarily comprise of performance indicators prioritised by Directorates in line with their Directorate Delivery Plans, which set out how they will develop in the medium – term to support the achievement of the 2025 Vision for Middlesbrough. Several standard measures are also included within all relevant Scorecards to ensure that key corporate priorities are delivered. These are as follows;

Standard measure	Associated corporate priority	Target
Projected achievement of Strategic Plan actions	Delivering the Strategic Plan / major projects	80%
Projected achievement of risk mitigation activity	Improving risk management	90%
Projected expenditure of revenue budget and attainment of savings targets	Balancing the budget by delivering agreed savings	100%
Projected expenditure of capital budget	Improving programme and project management	95%
Employees with appraisals completed by 30 April deadline	Embedding the Middlesbrough Manager and Employee Frameworks	95%
% working time lost to sickness absence and employees satisfied with working in their service area	Improving employee health and wellbeing	4.69% & 80%

Targets for non-standard measures are set by Directorates, in view of (i) position against regional and national averages where relevant and (ii) ambitions for the development of services as set out in Directorate Delivery Plans. All targets must be SMART (Specific, Measurable, Achievable, Realistic and Time-bound).

Each quadrant is then weighted to reflect the respective priority of each to overall performance for the area, as identified in the Strategic Plan and Directorate Delivery Plans. An overall score for each Directorate can then be summarised in 'thermometer' format.

The Council's overall performance for 2017/18 is set out below.



Seven of the nine Directorates exceeded the corporate standard of meeting 75% or more of performance targets.

Governance

The Council's governance arrangements are set out in the Annual Governance Statement that accompanies the financial statements (see Section 8).

Future Challenges/Uncertainties

The Local Government Pay Award

The Local Government Pay agreement for 2018/19 and 2019/20 is more generous than was originally envisaged and this has needed reflecting in the Council's 2018/19 revenue budget and in the MTFP. The Council's policy of paying the Living Wage Foundation rate as a minimum has meant that the increase in

the pay bill is less than it would have been otherwise but an additional investment of £1.4m has been required in the 2018/19 revenue budget.

Children's Services Demand Pressures

Demand pressures of as much as £2bn are recognised for Children's Services nationally. This has been impacted further by the implementation of the new Ofsted inspection framework from November 2017 which sets out an even more rigorous and testing regime. The introduction of the Believe in Families Transformation programme scheduled for the period 2018/19 to 2021/22 is expected to deliver savings by transforming the way children's needs are met and reducing the number of children who require care. It will mean that over time children in Middlesbrough are better provided for at a lower cost to the Council. The gross impact of the increased demand on the service in 2018/19 is estimated at £2.61million although this will be partially mitigated by expected savings following the implementation of the Believe in Families Transformation Programme totalling £2.156m.

The Local Government Finance Settlement

The Council's Revenue Support grant is facing a £4.52 million (22%) reduction from 2017/18 to 2018/19; as part of the four year settlement this figure will continue to reduce by a further £4.58 million in 2019/20. There is a Government expectation that the gap will be made up by revenue raised locally from Council Tax and Business Rates.

A new Local Government finance system is expected to be implemented commencing from the 2020/21 financial year following the outcome of the Fair Funding Review. The new system is intended to be based upon 75% retention of Business Rates by Local Government and an end to the Revenue Support Grant system. It is not yet clear what the detailed arrangements for Local Government Finance will look like from 2020/21 onwards but as part of the settlement announcement, the Government committed to further consultation with the sector during 2018. It is hoped that this process will provide additional information to allow more accurate financial forecasting from 2020/21 onwards.

Adult Social Care Demand Pressures

The level of future demand for Adult Social Care services is very difficult to predict. The demand modelling the Council employed at the beginning of 2017/18 proved to be accurate in terms of the numbers of individuals coming into and leaving our services, however some unanticipated financial pressure was experienced in terms of care package costs growing for some individuals already within services. This appears to be linked to the rapidly increasing complexity of needs for some individuals with chronic health conditions in receipt of personal budgets and the exacerbation of their health conditions as the budget holders have grown older. The consequential financial pressure in 2017/18 was able to be met using elements of the Improved Better Care Fund (BCF), which is intended to support demand pressure within Adult Social Care. The phenomenon of increasing complexity within personal budgets will be reflected in the Directorate's future demand model and in the Council's Medium Term Financial Plan

Financial Review 2017/18

Revenue Budget 2017/2018

In preparing the 2017/2018 draft revenue budget and medium term financial plan, the following principles, consistent with budget strategies in previous years and statements made by Executive were adopted: -

- to ensure that resources were directed to Council priorities in accordance with the agreed Mayor's 2025 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 ensure appropriate provisions were made for assessed liabilities
- 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 identified.

- to ensure structural budget issues were addressed services received, in full, the impact of contractual inflationary increases (including pay awards). No inflation was provided for general supplies and services, which were expected to be met from efficiency savings
- to ensure effective budget consultation processes were followed.
- to ensure that the impact of legislative changes were considered as part of the budget setting process

In setting the revenue budget for 2017/18, service budget reductions totalling £10.3 million were approved by the Council on 1st March 2017 together with a 3.99% increase in Council Tax.

The budget also provided an extra gross £3.9 million investment to meet increased demand in key services including £1.5 million for Children's Social Care and £1.2 million for Adult Social Care.

The revenue budget for 2017/18 was set at £113.669 million, funded as set out below:

	£m
Revenue Support Grant	21.051
Top Up Payment	25.712
Local Share of Non Domestic Rates	16.850
Council Tax	49.134
Collection Fund Balance	0.922
Total net revenue budget in 2017/18	113.669

Budget Outturn 2017/18

The Budget Outturn was reported to Executive on 15th May 2018 and summarised the Council's outturn in respect of the revenue budget and capital programme.

Revenue

The Council's total net revenue expenditure for 2017/18 was £113.382 million, a net saving of £287,000 against the net budget of £113.669 million. The table below summarises the position by Department/Directorate.

Department / Directorate	Full Year Budget £'000	Full Year Outturn £'000	Over/(under) spend £'000
Growth and Place	27,785	27,870	85
Public Health and Public Protection	120	(8)	(128)
Children's Services	32,872	34,132	1,260
Adult Social Care and Health Integration	35,511	35,106	(405)
Finance, Governance and Support	9,769	9,686	(83)
Central costs	7,612	6,596	(1,016)
Revenue outturn	113,669	113,382	(287)

Capital

The table below summarises the capital outturn position for 2017/18. Total capital expenditure of £34.73 million was incurred against a revised budget of £37.652m. This was a result of some re-profiling across the four year strategy period.

Department / Directorate	Revised Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Regeneration	14,970	14,077	(893)
Culture, Communities and Communications	6,186	6,120	(66)
Environment and Commercial Services	5,400	5,549	149
Public Health and Public Protection	485	528	43
Education	3,209	2,861	(348)
Children's Care	323	293	(30)
Prevention and Partnerships	315	313	(2)
Adult Social Care and Health Integration	3,114	2,185	(929)
Finance, Governance and Support	3,650	2,804	(846)
Total	37,652	34,730	(2,922)

Summary by Outcome Area of the Year's Highlights

Regeneration

- The commencement of a £10 million Highways Infrastructure project at Middlehaven incorporating a vehicular dock bridge and northern access road.
- The completion of the comprehensive restoration and enhancement of Middlesbrough's Town Hall concert venue.
- Planning application for the Snow centre at Middlehaven was approved, a key milestone in the ambitious transformation of the area.
- Middlesbrough's housing delivery programme continues at pace with 476 houses being built during the year.

Culture, Communities and Communication

- The Navigator Project was launched involving six authorities and four providers and a successful bid for DCLG funding to develop specialist accommodation based support for Domestic Abuse victims with complex needs/BME communities.
- The Tees Valley Homeless Prevention Trailblazer (Key-Step) was launched involving five Local Authorities and two Social Landlords collaborating to offer a homelessness prevention service for people aged 18-35.
- A pilot project was established with the Police to address begging and rough sleeping in the Town Centre. This has increased local business confidence in how the issue is being addressed but also improved outcomes for those affected by targeting individuals with complex needs who are not currently engaging with any services and who do not meet the threshold for Adult Social Care.
- The Selective Licensing Team were nominated for Outstanding Contribution to Prevention at the Cleveland Safety Awards for their work on addressing antisocial behaviour.
- The Town Hall achieved National Portfolio Organisation status from the Arts Council England.

- Funding of more than £630,000 over the next four years has been secured from national charity Youth Music towards the musical inclusion *musinc* project.

Improving Public Health

- The opening of the Live Well Centre, a unique Town Centre wellbeing hub offering a wide range of support to people in Middlesbrough.
- As part of joint partnership with Redcar and Cleveland, the Council was chosen as one of 10 Sport England local delivery pilot areas with a share of £130 million funding over four years promoting the use of physical activity focusing on four wards across the boundary of the two authorities.
- The provision of local smoking cessation services has contributed to Adult smoking prevalence in Middlesbrough falling to below the regional average. Middlesbrough also has the second lowest smoking prevalence at age 15 in the region and has achieved the highest reduction in maternal smoking in the region.
- The Teeswide sexual health contract has been remodelled to improve service efficiencies and incentivise continuous service improvement.

Education

- Commitment of the Council to improve educational outcomes shown by the investment of £2 million in a School Improvement Programme.
- Significant improvement in outcomes for children, but especially Key Stage 2 where the Council is now at the national average for reading, writing and maths.
- The development of Learning Hubs for English, Maths, Leadership and Assessment/Data led by the strongest schools in Middlesbrough.
- Support from the Council for Teaching schools to work together to complement each other in specialisms and in their offer ensuring lack of duplication.
- Looked After Children school attendance above the national average.
- Big improvement in Progress 8 scores (GCSE) for Looked After Children between 2016 and 2017.
- Key Stage 2 Looked After Children performance at or better than the national average.

Children's Care

- Introduction of the Believe in Families transformation programme.
- Investment by the Council in social workers within Children's Care, including reducing caseloads and increasing capacity, staff development programmes, and the introduction of recruitment and retention packages.
- Improvements to the Liquidlogic Children's System and investment in the Early Help Module.
- Gleneagles Centre which provides respite care for up to nine young people with learning or physical disabilities up to the age of 18, was rated outstanding following a visit from Ofsted.
- Development of a Tees Valley Regional Adoption Agency, which will go live on 1st May 2018.

Environment and Commercial Services

- Like most of the UK, our Highways Winter Maintenance team were hit with Snow later in the year than expected. Working collaboratively with the other Tees Valley agencies and other authorities we managed to keep Middlesbrough moving and also assisted other authorities where possible.
- Area Care carried out Environment improvements throughout the Town Centre, Car Parks and along the main corridors of Middlesbrough. Improving street furniture, Shrub removal, planting schemes around car parks etc. This has ensured that Middlesbrough is a clean and attractive place to live, visit and work

- The council has retained seven green flags within parks, cemeteries and open spaces these provide an invaluable space for the citizens of Middlesbrough and help promote health life styles in Middlesbrough.
- Property Services has completed a refurbishment of Middlesbrough House, resulting in a modern agile enabled working environment. This has reduced costs to the council and provided better value for the tax payer.
- Refurbishment of front of house facilities at Middlesbrough Theatre resulting in improved reception and toilet facilities.
- To support the communities of Ackalm and Marton the service has undertaken refurbishment and remodelling of Libraries into multi use community hubs

Finance, Governance & Support

- A new Data Centre has been opened bringing greater resilience to the Council's ICT networks and potential commercial opportunities
- The implementation of the new HR pay system has continued to progress well with the successful roll out of People Manager and the Staff Portal enabling all staff to have access to the Council intranet (including 1,300 new users who previously did not have access to the intranet) .
- The drive to ensure procurement and commissioning is secured at a local level has continued with 35% of Council spend directed to our local economy, supporting local business and service providers.
- Completion of the Accounting Service review.
- A new Council Tax Support Scheme has been approved for 2018/19 meaning that those residents least able to pay will have less to pay in future.

Prevention and Partnerships

- Middlesbrough not in education employment or training (NEET) rate for 16 and 17 year olds is better than for statistical neighbours, the North East and England averages.
- Middlesbrough Children Centres are performing at good/outstanding, against the Children Centre Ofsted Framework.
- The nursery readiness integrated model with health has been evaluated by the Early Intervention Foundation, as hugely innovative.
- Assessments in Youth Offending Service - the successful embedding of Assetplus, introduction of desistance based approaches. Feedback from pilot inspection held December 2017 identified this as a strong area of practice.
- A successful recruitment event, jointly run by Troubled Families and Department for Work and Pensions which has been held has been viewed as good practice by National Troubled Families Programme.

Annual Statement of Accounts

The Statement of Accounts is the main method of external financial reporting produced by the Council. It comprises of a number of sections and statements following the CIPFA Code of Practice on local authority accounting. These are briefly explained below:

Narrative Report - this introductory section provides information on the format of the Statement of Accounts as well as a review of the financial position, performance and cash flows of the Council for the financial year 2017/18.

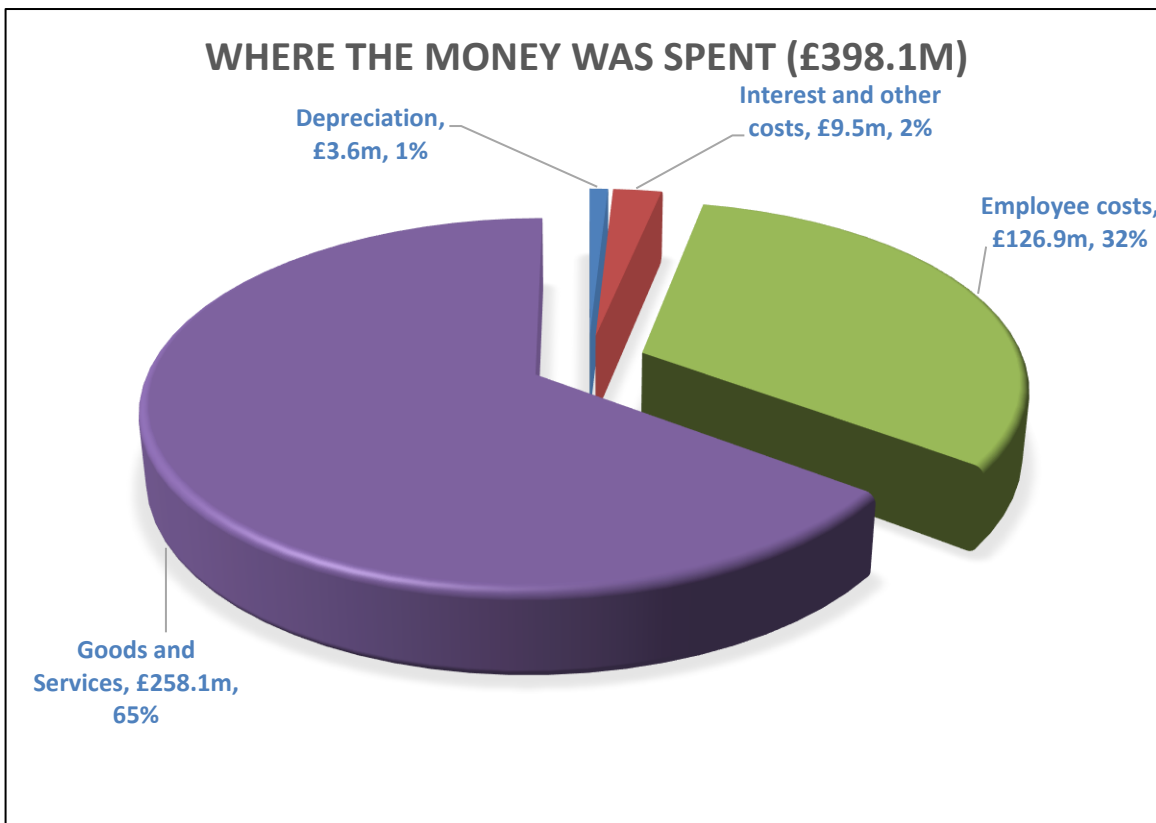
Statement of Responsibilities - this details the responsibilities of the Council and the Chief Finance Officer (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

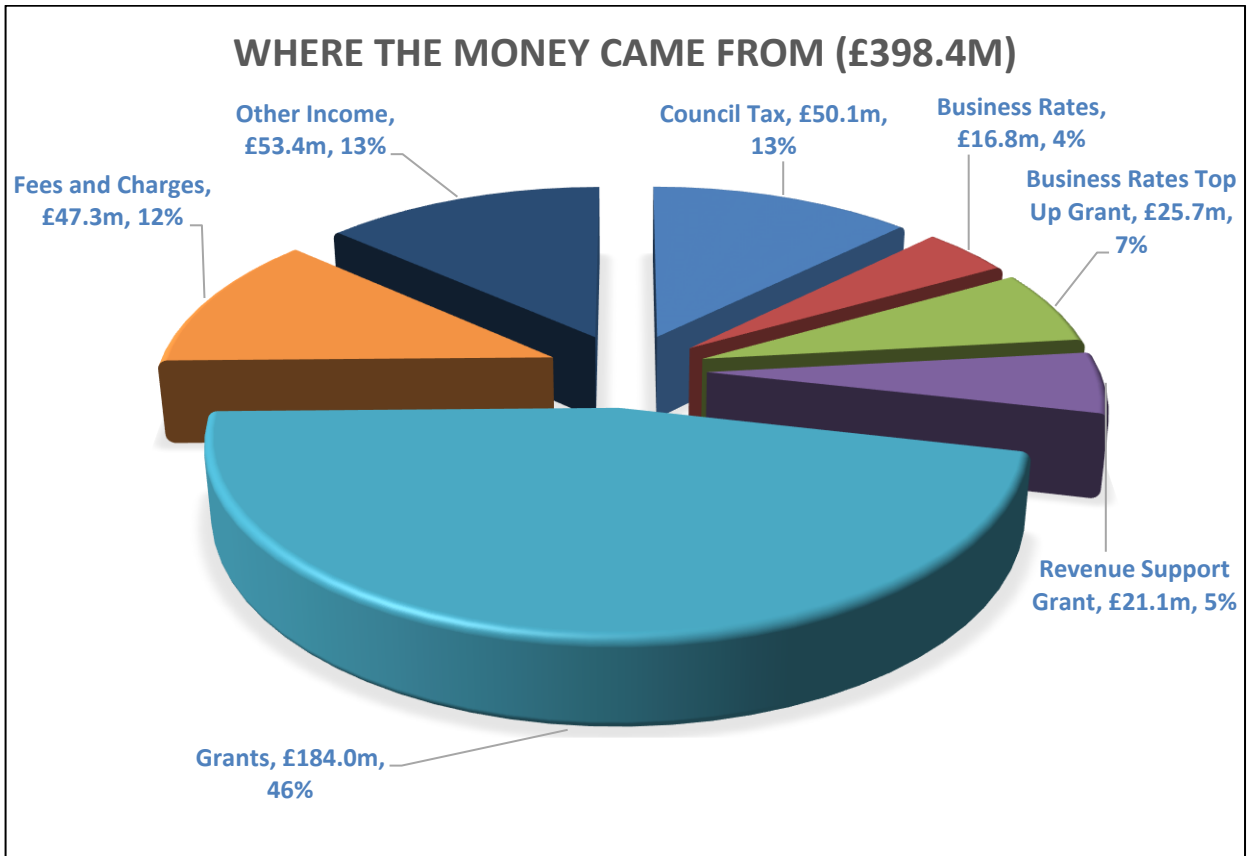
Independent Auditor's Report to the Council - the external auditor, Ernst & Young LLP will prepare this report on completion of their audit.

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 2017/18 and will be published with the audited accounts.

The **Main Accounting Statements** comprise:

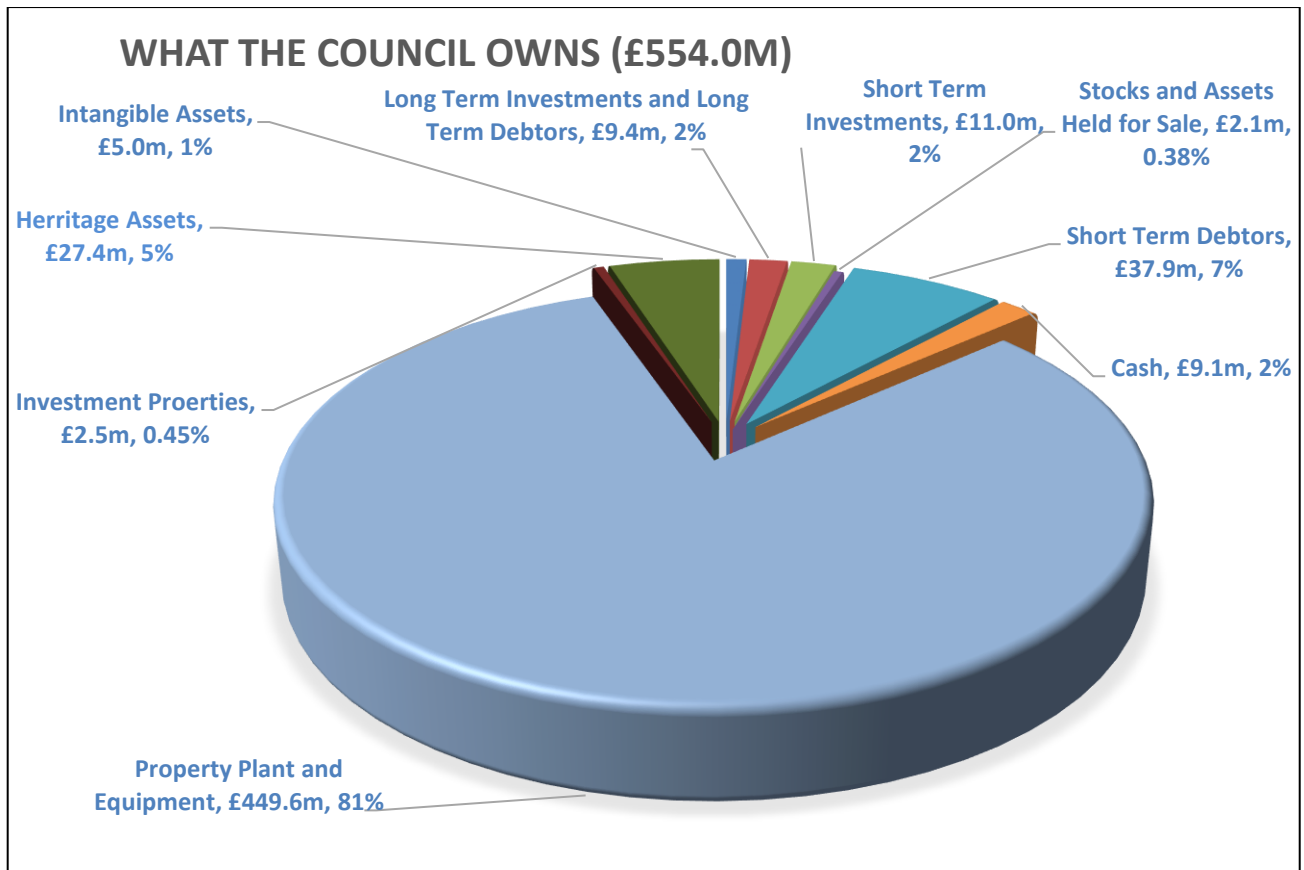
- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with the statutory and CIPFA Accounting Code of Practice requirements.
- The charts below and overleaf illustrate where the money has come from and how it has been spent.





- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets and liabilities owned or owed by the Council. The net assets (assets less liabilities) are matched by the revenue and capital reserves held by the Council.

The following charts summarise what the Council owns:



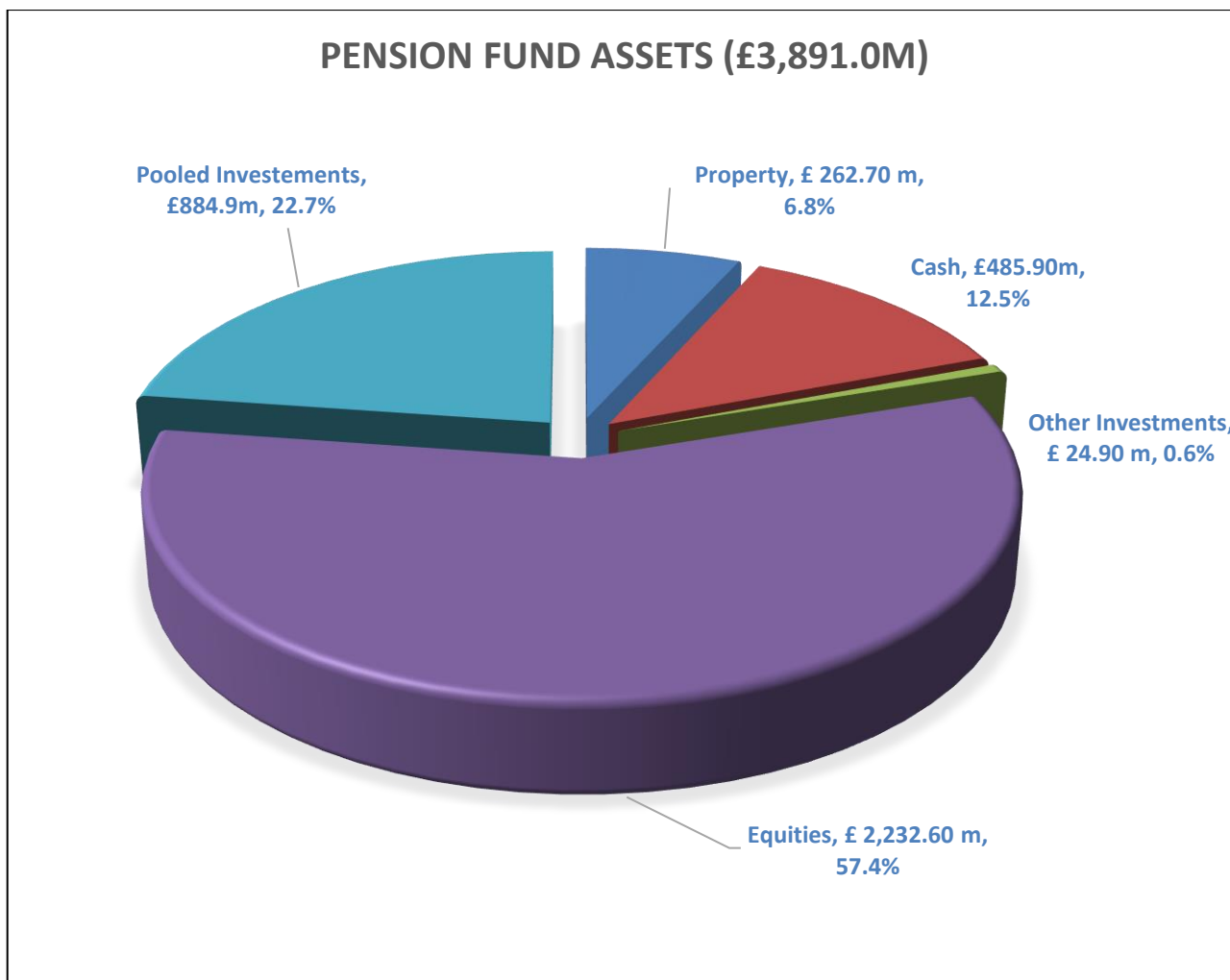
- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves (arising mainly as a result of 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 Middlesbrough 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 2017/2018, assets, and liabilities as at 31 March 2018.

The following charts summarise the assets of the Fund:



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.

Statement of Responsibilities

The Authority's Responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to nominate that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer (Strategic Director – Finance, Governance & Support).
- 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 2018 and its income and expenditure for the year ended 31 March 2018.

James Bromiley

**Strategic Director Finance,
Governance & Support**

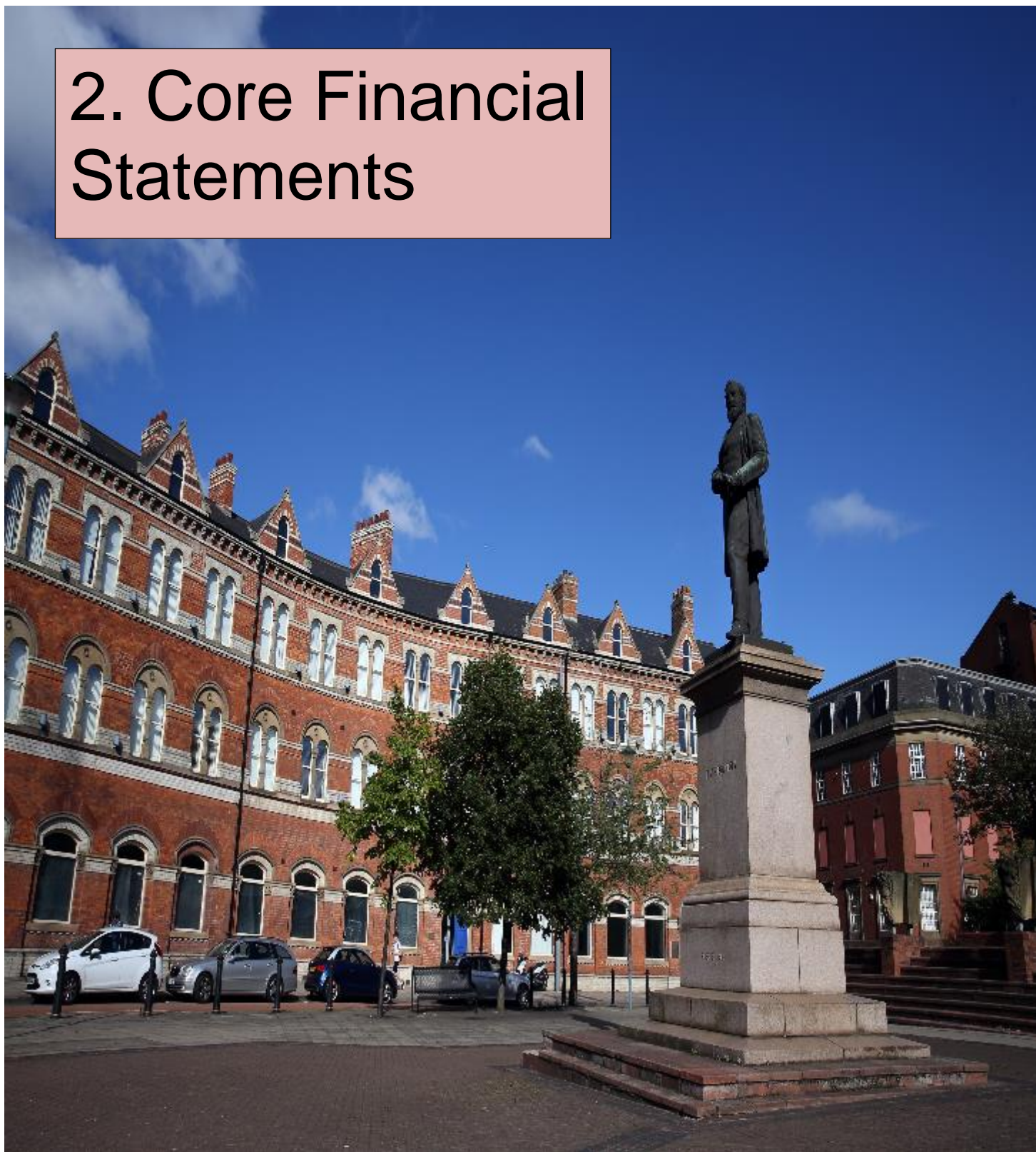
Date 29 May 2018

Vic Walkington

**Chair, Corporate Affairs and
Audit Committee**

Date 26 July 2018

2. Core Financial Statements



3 Exchange Square

Movement in Reserves Statement

This statement shows the movement in the different reserves held by the Council over the financial year. These reserves can be analysed into usable reserves, those that can be applied to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

2017/18	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2017	(41,732)	(3,396)	(9,491)	(54,619)	(106,080)	(160,699)
Movement in reserves during 2017/18						
Total Comprehensive Income and Expenditure	31,342	0	0	31,342	(25,068)	6,274
Adjustments between accounting basis & funding basis under regulation (note 36)	(31,083)	3,394	1,550	(26,139)	26,139	0
Transfers to/(from) other reserves	0	0	0	0	0	0
Net (Increase) / Decrease in year	258	3,394	1,550	5,202	1,071	6,274
Balance at 31 March 2018 carried forward	(41,474)	(2)	(7,941)	(49,417)	(105,009)	(154,426)

General Fund Analysis	£000
Amounts Earmarked (note 29)	(26,321)
Amounts uncommitted	(15,153)
Total General Fund Balance	(41,474)

2016/17	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016	(50,795)	(9,199)	(3,525)	(63,519)	(170,116)	(233,635)
<u>Movement in reserves during 2016/17</u>						
Total Comprehensive Income and Expenditure	94,260	0	0	94,260	(21,324)	72,936
Adjustments between accounting basis & funding basis under regulation (note 36)	(85,197)	5,803	(5,966)	(85,360)	85,360	0
Transfers to/(from) other reserves	0	0	0	0	0	0
Net (Increase) / Decrease in year	9,063	5,803	(5,966)	8,900	64,036	72,936
Balance at 31 March 2017 carried forward	(41,732)	(3,396)	(9,491)	(54,619)	(106,080)	(160,699)

General Fund Analysis	£000
Amounts Earmarked (note 29)	(27,267)
Amounts uncommitted	(14,465)
Total General Fund Balance	(41,732)

Comprehensive Income and Expenditure Statement

This Statement brings together both income and expenditure relating to all of the Council's day to day services for the year and also shows how this is financed from a combination of local taxation, government grants and other income. This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2018							
*Restated 2016/17					2017/18		
Gross Expenditure	Gross Income	Net Expenditure (Income)	Cost of Services by Service Area	Note	Gross Expenditure	Gross Income	Net Expenditure (Income)
£000	£000	£000			£000	£000	£000
31,142	(8,563)	22,579	Regeneration		23,951	(4,684)	19,267
17,475	(5,747)	11,728	Culture, Communities and Communication		15,442	(6,796)	8,646
16,865	(17,663)	(798)	Improving Public Health		17,367	(19,356)	(1,989)
85,372	(77,715)	7,657	Education		78,002	(74,863)	3,139
31,465	(1,059)	30,406	Children's Care		35,793	(1,006)	34,787
69,115	(30,452)	38,663	Adult Social Care and Health Integration		72,611	(34,987)	37,624
49,698	(11,904)	37,794	Environment and Commercial Services		48,556	(13,250)	35,306
111,773	(91,834)	19,939	Finance Governance & Support		103,803	(85,523)	18,280
7,232	(3,935)	3,297	Prevention and Partnerships		5,142	(2,598)	2,544
505	(4,611)	(4,106)	Central Costs		764	(7,456)	(6,692)
420,642	(253,483)	167,159	Total Cost of Service		401,431	(250,519)	150,912
56,322	(7,039)	49,283	Other Operating Income and Expenditure	2	9,944	(2,181)	7,763
43,437	(33,931)	9,506	Financing & Investment Activities	3	38,862	(30,611)	8,251
0	(131,688)	(131,688)	Taxation and Non Specific Grants	4	0	(135,584)	(135,584)
520,401	(426,141)	94,260	(Surplus) or Deficit on Provision of Service		450,237	(418,895)	31,342
			<i>Items that will not be re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(10,493)	(Surplus) or Deficit on revaluation of Property Plant and Equipment Assets	5, 15			(14,774)
		(3,534)	Actuarial (Gains) or Losses on Pension Fund charged to the Pensions Reserve	24			(3,176)
		(7,296)	Depreciation written out to the Revaluation reserve	5			(7,118)
		(21,323)	Other Comprehensive Income and Expenditure				(25,068)
		72,937	Total Comprehensive Income and Expenditure				6,274

* The 2016/17 Comprehensive Income and Expenditure Statement has been restated to reflect the change in the Council's management structure that came into effect operationally on 31st January 2017.

Balance Sheet

This is a statement of the financial position of the Council and shows the balances and reserves at its disposal, its long term indebtedness, and the fixed and net current assets employed in its operations, as at 31 March 2018.

31 March 2017		Note	31 March 2018
£000			£000
433,117	Property, Plant & Equipment	5	449,603
27,382	Heritage Assets	8	27,382
2,389	Investment Property	10	2,546
4,535	Intangible Assets	14	4,962
309	Long Term Investments	16	309
0	Long Term Assets Held for Sale	15	985
7,394	Long Term Debtors	20	8,110
475,126	Total Long Term Assets		493,898
11,500	Short Term Investments	16	11,000
750	Short Term Assets Held for Sale	15	0
1,988	Inventories	19	2,121
28,357	Short Term Debtors	20	37,888
11,464	Cash and Cash Equivalents	21	9,111
54,059	Total Current Assets		60,120
(30,986)	Short Term Borrowing	16	(14,032)
(37,186)	Short Term Creditors	22	(38,433)
(739)	Short Term Provisions	23	(2,045)
(68,911)	Total Current Liabilities		(54,510)
(14,852)	Net Current Liabilities		5,610
(131)	Long Term Provisions	23	0
(106,073)	Long Term Borrowing	16	(142,803)
(2,022)	Other Long Term Liabilities	16	(1,880)
(191,349)	Pension Liability	24	(200,398)
(299,575)	Total Long Term Liabilities		(345,081)
160,699	Net Assets		154,426
(54,619)	Usable Reserves	28	(49,417)
(106,080)	Unusable Reserves	30	(105,009)
(160,699)	Total Reserves		(154,426)

Cash Flow Statement

This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities.

Cash Flow Statement for the Year ended 31 March 2018		
Year to 31 March 2017 £000		Year to 31 March 2018 £000
(94,260)	Surplus / (Deficit) on provision of services transferred to the General Fund	(31,342)
	Adjustment for items not affecting cash flow	
16,658	Depreciation of Property Plant and Equipment (PPE)	16,679
1,384	Amortisation of Intangible Assets	1,731
24,326	Impairments to PPE	5,786
455	Impairments to Assets held for sale	2,388
(286)	Fair Value gain on Investment Properties	(124)
(892)	Donated PPE and heritage Assets	(3,792)
(40)	Donated Investment Properties	0
56,641	Net Book Value on Disposal of Non-current assets	9,877
1,514	Difference between Current Service Cost and Contributions made to the Pension Scheme	7,398
7,733	Impact of Changes to Actuarial Assumptions applied to the Pension Scheme Deficit	4,827
(2,553)	Movement in Provisions	1,175
10,680	Surplus on provision of services after non cash adjustments	14,603
(7,738)	Adjustments for items that are Financing or Investing Activities	(2,321)
	Other operating cash flows	
(5,043)	Cash absorbed by the reduction in creditors	1,942
(1,109)	Cash absorbed by the increase in debtors	(10,247)
(249)	Cash absorbed by the increase in inventories	(133)
(3,459)	Net cash flow from operating activities	3,844
(30,209)	Investing Activities	(25,831)
36,316	Financing Activities	19,634
2,648	Net increase/(decrease) in cash and cash equivalents	(2,353)
8,816	Cash and Cash Equivalents at the start of the period	11,464
11,464	Cash and Cash Equivalents at the end of the period	9,111

Expenditure and Funding Statement

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.

Expenditure Funding Analysis						
2016/17			Service Area	2017/18		
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	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000	£000
3,601	18,978	22,579	Regeneration	3,625	15,642	19,267
6,209	5,519	11,728	Culture Communities and Communication	6,127	2,519	8,646
1,229	(2,027)	(798)	Improving Public Health	(8)	(1,981)	(1,989)
(370)	8,027	7,657	Education	528	2,611	3,139
29,027	1,379	30,406	Children's Care	31,376	3,411	34,787
39,768	(1,105)	38,663	Adult Social Care & Health Integration	35,106	2,518	37,624
18,735	19,059	37,794	Environment & Commercial Services	18,119	17,187	35,306
10,748	9,191	19,939	Finance Governance & Support	9,687	8,593	18,280
2,828	469	3,297	Prevention and Partnerships	2,227	317	2,544
3,922	(8,028)	(4,106)	Central Costs	6,596	(13,288)	(6,692)
115,696	51,463	167,159	Net Cost of Service	113,383	37,529	150,912
(115,912)	43,013	(72,899)	Other Income and Expenditure	(113,669)	(5,901)	(119,570)
(216)	94,476	94,260	Surplus or Deficit	(286)	31,628	31,342
		11,594	Opening General Fund Balance			14,465
		216	Less/Plus Surplus or (Deficit) on General Fund Balance in year			286
		3,000	Transfer from Earmarked Reserves			0
		(345)	Used in year			(1,453)
		0	Contributions in year			1,855
		14,465	Closing General Fund at 31 March			15,153

Adjustments between Funding and Accounting Basis				
2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration	10,682	466	4,494	15,642
Culture Communities and Communications	997	692	830	2,519
Improving Public Health	1,715	279	(3,975)	(1,981)
Education	3,830	0	(1,219)	2,611
Children's Care	702	2,382	327	3,411
Adult Social Care and Health Integration	880	1,395	243	2,518
Environment & Commercial Services	9,892	1,783	5,512	17,187
Finance Governance & Support	3,279	1,352	3,962	8,593
Prevention and Partnerships	51	538	(272)	317
Central Costs	0	(1,296)	(11,992)	(13,288)
Net Cost of Services	32,028	7,591	(2,090)	37,529
Other Income and Expenditure from the Expenditure and Funding Analysis	(10,864)	4,634	329	(5,901)
Difference between general Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	21,164	12,225	(1,761)	31,628

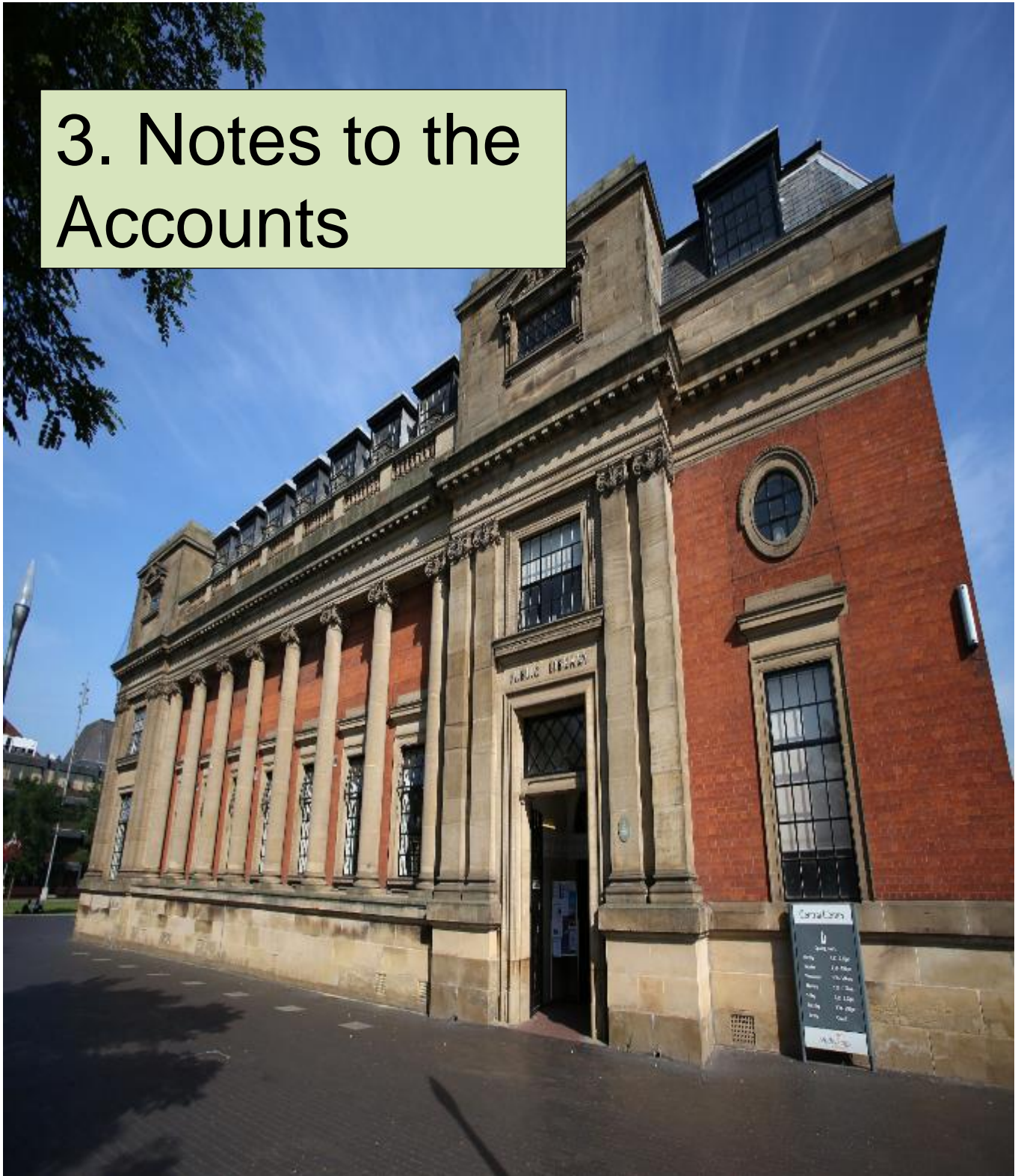
Adjustments between Funding and Accounting Basis				
Restated 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration	17,615	216	1,146	18,978
Culture Communities and Communications	2,238	248	3,031	5,519
Improving Public Health	1,371	96	(3,494)	(2,027)
Education	6,578	503	946	8,027
Children's Care	(226)	411	1,194	1,379
Adult Social Care and Health Integration	(204)	460	(1,361)	(1,105)
Environment & Commercial Services	14,005	575	4,479	19,059
Finance Governance & Support	2,748	2,039	4,404	9,191
Prevention and Partnerships	469	0	0	469
Central Costs	0	(1,396)	(6,633)	(8,028)
Net Cost of Services	44,595	3,152	3,716	51,463
Other Income and Expenditure from the Expenditure and Funding Analysis	37,585	6,095	(667)	43,013
Difference between general Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	82,177	9,247	3,052	94,476

Expenditure & Funding Analysed by Nature

Income and expenditure segmental basis is analysed below:

Expenditure & Income Analysed by Nature		
	2016/17 £000	2017/18 £000
Expenditure		
Employees	151,970	155,137
Other Service Expenditure	258,630	247,971
Depreciation and other Capital Charges	105,181	42,413
Interest Payments	4,493	4,580
Precepts and Levies	127	136
Total Expenditure	520,401	450,237
Income		
Government Grants	(268,086)	(229,330)
Income from Council Tax and Non Domestic Rates	(66,627)	(65,500)
Interest and Investment Income	(428)	(441)
Fees, Charges and Other Service Income	(91,000)	(123,624)
Total Income	(426,141)	(418,895)
Deficit on the Provision of Services	94,260	31,342

3. Notes to the Accounts



4 Central Library

Notes to the Accounts

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

Basis of Accounting

The draft Statement of Accounts summarises the Authority's transactions for the 2017/2018 financial year and its position at the year end of 31st March 2018.

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 Council Accounting in the United Kingdom 2017/2018, 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

As referred to in the narrative report the Council changed its Leadership Team structure with effect from 31st January 2017. The Comprehensive Income and Expenditure Statement has been amended to reflect this new structure and the 2016/17 statement has been amended for comparative purposes.

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

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

Recognition of Income and Expenditure

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the grant will be received and all conditions associated with the grant will be satisfied.

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

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

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

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

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

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

Allocation of Income and Expenditure to Services

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

Comprehensive Income and Expenditure Account and the General Fund

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

Amounts appropriated under Statutory Provisions

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

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

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

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

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

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

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

Amounts set aside

The Authority sets aside specific amounts as reserves for future liabilities or to cover contingencies by transferring amounts out of the General Fund to Earmarked Reserves. When expenditure to be financed from a reserve is

incurred, it is charged to the appropriate service and transferred back into the General Fund. Amounts set aside and transferred back are shown in the Movement in Reserves Statement.

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 a review for componentisation where their individual carrying value is above 0.25% of the total carrying value of its asset class (Land and Buildings). On review, assets are componentised when by doing so would produce a depreciation charge of over £100,000 or more than double the difference compared with the depreciation charge if the asset isn't componentised.

Measurement

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

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

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

- Land and Buildings are carried at fair value. Fair value is determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) for assets for which there is an active market (e.g. offices) and Depreciated Replacement Cost (DRC) for assets for which there is not an active market (e.g. schools). They are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.
- Infrastructure and Community Assets and Assets under Construction are valued at depreciated historical cost.
- Surplus assets are defined as those that are not being used to deliver services and don't fulfil the criteria to be classified as either Investment Properties or Assets Held for Sale. They are carried at fair value i.e. the price that would be received if an asset is sold or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. They are revalued regularly (every five years as a minimum) to ensure their carrying amount is not materially different from their fair value at the balance sheet date.
- 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.

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.

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 have 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

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.

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	10	1	3	14
Voluntary Aided (VA)	1	0	0	1
Foundation	7	0	0	7
Maintained	18	1	3	22
Academies (not under the control of LA)	24	8	1	33
Total	42	9	4	55

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

During the course of the year one school converted to independent Academy status resulting in £5.7 million worth of assets being removed from the council's balance sheet.

Employer's Pension Liability

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

Teachers' Pension Scheme

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

Investment Properties

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

Depreciation

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

Business Rates Retention Scheme

The Business Rates Retention Scheme was introduced with effect from 1st April 2013. The main aim of the scheme is to provide an incentive to Councils to encourage business growth, as Local Authorities can now retain a share of any Business Rates account surplus. However if Business Rates 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 regulations, Councils are now liable to fund a proportionate share of successful appeals against the level of rates chargeable to businesses. The Business Rates Fund Appeals Provision at 31st March 2017 was £1.5 million (Middlesbrough Council share £0.735 million). The provision was increased by £2.664 million in 2017/18 leaving a total fund closing provision balance at 31st March 2018 of £4.164 million. (Middlesbrough Council share £2.040 million).

Charges to Revenue for Non-Current Assets

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

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

Employee Benefits

Benefits Payable during Employment

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 charges or credited to Financing and Investment Activities in the Comprehensive Income and Expenditure Statement.

Financial Instruments

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

Financial Liabilities (Borrowing)

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

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

Financial Assets (Cash Balances and Investments)

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

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

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

Leases

IAS 17 - Leases identifies two classes of lease. 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

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

Operating Leases

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

Cash and Cash Equivalents

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

Provisions and Contingent Liabilities

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities are not recognised in the Balance Sheet or Comprehensive Income & Expenditure Statement due to their uncertainty. 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. Only a narrative description of the liability and any estimation of the potential cost will be disclosed in the note to the accounts.

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.

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 authorized for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- 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 Standards that have been issued but not yet adopted

The following new standards and amendments to existing standards have been issued but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom.

IFRS 9 *Financial Instruments* – This introduces changes to the classification and measurement of financial assets and a new 'expected credit loss' model for impairing financial assets.

IFRS 15 *Revenue from Contracts with Customers* – The standard specifies how and when to recognise income and also has a requirement to provide users of Financial statements with more informative and relevant disclosures. The standard provides a single, principles based five step model to be applied to all contracts with customers.

IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses* - IAS 12 has been amended to clarify recognition of Deferred Tax Assets for unrealised losses related to debt instruments measured at fair value.

IAS 7 *Statement of Cash Flows: Disclosure Initiative* - amendments to IAS 7 will potentially require more disclosures about the Council's financing activities.

Note 2 Other Operating Income and Expenditure

The line, Other Operating Income and Expenditure, below the Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2016/17		2017/18
£000		£000
127	Town and Parish Council Precepts	136
49,156	(Gains)/Losses on the disposal of non-current assets	7,627
49,283	Total	7,763

Note 3 Financing and Investment Activities

The line, Financing and Investment Income and Expenditure, below the Cost of Services in the Comprehensive Income and Expenditure Statement can be analysed as follows:

2016/17		2017/18
£000		£000
4,494	Interest payable and similar charges	4,580
13,313	Trading Services Activities (Note 41)	12,231
161	Charges in relation to Investment Property and changes in their fair value	(56)
25,470	Pension Interest Cost (Note 24)	22,107
43,438	Total Expenditure	38,862
(19,375)	Expected return on Pensions Assets (Note 24)	(17,473)
(431)	Interest receivable and similar income	(446)
(700)	Income from Investment Property Assets	(140)
(13,426)	Trading Services Activity (Note 41)	(12,552)
(33,932)	Total Income	(30,611)
9,506	Total	8,251

Note 4 Taxation and Non Specific Grant Income

The line, Taxation and Non-Specific Grant Income, below the Net Cost of Services in the Comprehensive Income and Expenditure Statement holds a number of grants and contributions that are used on a corporate basis. The grants and contributions for 2017/18 are as follows:

2016/17		2017/18
£000		£000
(47,224)	Council Tax Income	(50,037)
(19,402)	Distribution from Non-Domestic Rates	(15,463)
(54,028)	Non ring-fenced government grant (Note 26)	(51,789)
(932)	Value of Donated Property, Plant and Equipment Assets (Note 5 and Note 10)	(3,792)
0	Value of Donated Heritage Assets (Note 8)	0
(10,102)	Capital Grants and Contributions	(14,503)
(131,688)	Total	(135,584)

Note 5 Property, Plant and Equipment (PPE)

For local authority property, plant and equipment it would require a valuation to be at the asset's highest and best use and is a measure of financial capacity. However, service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services. This is therefore the basis on which those charged with the stewardship of assets and the management of these scarce resources would need to be held to account.

Movements in tangible non-current assets for the year 2017/18:

2017/18	Other Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<u>Cost or Valuation</u>							
At 1 April 2017	295,181	0	40,432	183,811	8,216	2,052	529,692
Other Movements – reclassification to surplus properties at 1 st April 2017	(46,790)	46,790	0	0	0	0	0
Additions	11,222	998	2,071	5,808	30	5,628	25,757
Donations	1,489	445	0	1,858	0	0	3,792
Revaluation increases/(decreases) to Revaluation Reserve	8,759	6,016	0	0	0	0	14,774
Revaluation increases/(decreases) to Surplus/Deficit on Provision of Services	(6,616)	(1,282)	0	0	0	0	(7,898)
Derecognition - Disposals	(9,580)	(86)	(2,875)	(33)	0	0	(12,574)
Assets reclassified (to)/from Held for Sale	(2,582)	0	0	0	0	0	(2,582)
Assets reclassified (to)/from Assets – other categories	(240)	115	0	25	0	0	(100)
At 31 March 2018	250,843	52,995	39,628	191,469	8,246	7,680	550,861

2017/18	Other Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
<u>Accumulated Depreciation and Impairment</u>							
At 1 April 2017	(6,721)	0	(29,566)	(60,288)	0	0	(96,575)
Adjustment to opening Balance brought forward	1	0	(1)	1	0	0	1
Other Movements-reclassification to Surplus Properties at 1 st April 2017	17	(17)	0	0	0	0	0
Depreciation charge for the year	(6,415)	(27)	(3,288)	(6,949)	0	0	(16,679)
Depreciation written out to the Revaluation Reserve	7,090	28	0	0	0	0	7,118
Depreciation written out to the Surplus/Deficit on Provision of Services	2,112	0	0	0	0	0	2,112
Derecognition - Disposals	39	0	2,715	11	0	0	2,765
Assets reclassified (to)/from other categories	16	(16)	0	0	0	0	0
At 31 March 2018	(3,861)	(32)	(30,140)	(67,225)	0	0	(101,258)
Net Book Value	246,982	52,963	9,488	124,244	0	0	449,603

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Infrastructure – 20 to 40 years.
- Vehicles, Plant and Equipment – 3 to 10 years.
- Land is not depreciated.
- Buildings depreciated over the lifespan denoted by the valuer.

Movements in tangible non-current assets for the year 2016/17:

2016/17	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
<u>Cost or Valuation</u>						
At 1 April 2016	270,510	46,366	176,191	7,733	10,385	511,185
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) to Revaluation Reserve	10,038	0	0	0	0	10,038
Revaluation increases/(decreases) to Surplus/Deficit on 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 Investment Properties	85,198	0	0	125	(8,370)	76,953
At 31 March 2017	295,181	40,432	183,811	8,216	2,052	529,692

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
<u>Accumulated Depreciation and Impairment</u>						
At 1 April 2016	(15,339)	(35,179)	(53,761)	0	0	(104,279)
Adjustment to opening Balance brought forward	10	4,135	0	0	0	4,145
Depreciation charge for the year	(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
Depreciation written out to the 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
At 31 March 2017	(6,721)	(29,566)	(60,288)	0	0	(96,575)
Net Book Value	288,460	10,866	123,523	8,216	2,052	433,117

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. The vehicles, plant, furniture and equipment transferred under the arrangement and were removed from the balance sheet. The land and building remained on the balance sheet

at their current value. A summary the values of these land and buildings assets as at 31st March 2018 are shown below. All properties were revalued at the date of transfer on 1st April 2016.

	Net Book Value at 31 March 2018
	£000
The Manor Youth and Community Centre	1,621
Neptune Centre	8,314
Rainbow Centre	8,431
Middlesbrough Sports Village	18,143
Golf Course	583
Total	37,092

Note 6 Revaluations of Property, Plant and Equipment

The Council maintains a revaluation rolling programme which ensures that all Property, Plant and Equipment required to be measured at fair value are 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 2017/2018 is 1st April 2017.

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 2017/2018 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.

	Other Land and Buildings	Surplus Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost at 31 March 2018			9,488	124,244	8,246	7,680	149,658
Valued at current value as at:							
31 March 2018	59,147	46,073	0	0	0	0	105,220
31 March 2017	120,355	4,812	0	0	0	0	125,167
31 March 2016	24,114	217	0	0	0	0	24,331
31 March 2015	14,945	1,203	0	0	0	0	16,148
31 March 2014	28,422	657	0	0	0	0	29,079
Total Cost or Valuation	246,983	52,962	9,488	124,244	8,246	7,680	449,603

Note 7 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 5 and 10 and 15 reconciling the movement over the year in the Property, Plant and Equipment, Investment Property and Intangible asset balances.

During 2017/18 the Council has recognised a net loss of £8.0 million mainly due to the following changes which have affected valuation calculations.

- Downward revaluation of Vancouver House after reclassification to Asset Held for Sale of £2.5million.
- Downward Revaluation of Hemlington Recreational Centre of £1.9m due to change in valuation method since previous valuation.
- Downward revaluation of Cannon Park Car & Lorry Park of £1.1m due to previous valuation being under Investment Property classification and therefore Fair Value base was applied. The asset has since been recategorised to Operational Property and therefore Existing Use Value base applied to the revaluation.
- Downward revaluation on Abingdon Childrens Centre of £1.2m due to changes in the occupational arrangement of the property since last valuation.
- Other downward revaluations total £6m.
- Upward revaluation of £0.2m for 10 properties classified as Investment and required to be revalued every year.
- Upward revaluation of £5.0m 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 to properties which are 'specialised' in nature and therefore valued using the DRC method.

Note 8 Heritage Assets

Heritage assets are 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. Reconciliation of the value of Heritage Assets held by the Council.

There were no changes in the valuation of heritage assets during 2017/18. A rolling programme of revaluations is being developed on these assets and will apply from the 2018/19 financial year onwards. A breakdown of the current valuations is set out below:

	Collections				Total
	Ceramic	Art	Natural World	Other Cultural Interests	
	£000	£000	£000	£000	£000
At 31 March 2018	2,082	8,537	9,012	7,751	27,382

Valuation Methods

The Council's Fine Art collection has been valued by Christies. Ceramics have been valued by MAAK and Jewellery by Galerie Ra (a Dutch gallery). The William Kelly book collection was valued by Sothebys. The remainder of the Heritage Asset collection has been valued using Insurance valuations on the advice of the Council's curators. Further information on Heritage Assets is included in Note 9.

Note 9 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 Museum's Collection Management Plan, this is approved by the Executive Member for Economic Regeneration & Culture.

Note 10 Investment Properties

Investment Properties are property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:

- a) Use in the production or supply of goods or services or for administrative purposes, or
- b) Sale in the ordinary course of operations.

If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for as property, plant and equipment rather than investment property. Social housing is delivering a service and shall be accounted for as property, plant and equipment.

2016/17		2017/18
£000		£000
79,463	Balance at start of the year	2,389
	<u>Additions:</u>	
0	Purchases	0
40	Donated	0
(447)	Disposals	(68)
286	Net gains/(losses) from fair value adjustments	125
	<u>Transfers:</u>	
(76,953)	(To)/From Property, Plant and Equipment and Assets Held for Sale	100
0	Other Changes	0
2,389	Balance at end of the year	2,546

During the 2016/17 financial year the Council extensively reviewed its investment property portfolio and a significant amount of the portfolio was reclassified to property, plant and equipment. There are currently only 11 property assets under this classification which have all been revalued during the 17/18 financial year due to them being held at fair/market value.

Fair Value Hierarchy

All 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 considered.

Note 11 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 Comprehensive Income and Expenditure Statement. The following amounts are the values relating to Investment property income and costs for 2017/2018.

2016/17		2017/18
£000		£000
(68)	Rental Income from Investment Property	(5)
6	Direct operating expenses arising from Investment Property	0
(62)	Net Gain	(5)

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.

Note 12 Capital Expenditure and Capital Financing

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 to the Capital Financing Requirement. This occurs where assets are funded by borrowing. The Capital Financing Requirement therefore shows the underlying need of the Council to borrow to finance its capital assets. The Capital Financing Requirement is analysed in the table below:

2016/17		2017/18
£000		£000
169,189	Opening Capital Financing Requirement	175,943
	<u>Capital Investment</u>	
28,470	Property, Plant and Equipment	29,548
0	Held for Sale	41
1,578	Intangible Assets	2,158
40	Investment Properties	0
7,808	Revenue Expenditure Funded from Capital under Statute	6,776
37,896	Total Capital Investment	38,523
	<u>Sources of Finance</u>	
(13,543)	Capital Receipts	(5,716)
(6,036)	Revenue Expenditure Funded from Capital under Statute – Grant Received	(81)
(5,069)	Government Grants and other contributions applied in year:	(19,844)
	<u>Sums Set Aside from Revenue</u>	
(1,461)	Direct revenue contributions	(53)
(9)	Reduction in Long term Debtors	(11)
(5,024)	MRP/Loans Fund Principal	(3,599)
175,943	Closing Capital Financing Requirement	185,162
	<u>Explanation of movement in year</u>	
11,787	Increase in underlying need to borrow (unsupported by government assistance)	12,829
(9)	Reduction in Long Term Debtors	(11)
(5,024)	MRP/loans fund Principal	(3,599)
6,754	Increase in Capital Financing Requirement	9,219

Note 13 Capital Commitments

The Council has an approved 2018/19 budget for the construction or enhancement of Property, Plant and Equipment of £39,862,000.

Contracts are already in place for the following schemes:

Project	2018/19 Approved Budget £000
Network Refresh replacement servers	463
Waste Disposal Plant Investment	2,808
Crematorium	517
Accommodation Strategy	1,000
Town Centre Investment	1,090
Middlehaven Relief Road	4,552
Housing Growth	1,020
Teesside Advanced Manufacturing Park	8,500
Stainton Way / Dixons Bank Junction	1,465
Gresham Project	1,863
Local Transport Plan	586
Town Hall Venue Development	366
Disabled Facilities Grant	1,365
Preventative Services Accommodation	1,049
Total	26,644

Note 14 Intangible Assets

The Council accounts for its software as intangible assets as the software is not an integral part of a particular IT system. The hardware is accounted for within 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:

2016/17 £000		2017/18 £000
	Balance at Start of Year	
15,431	Gross Carrying Amount	8,667
(7,065)	Adjustment to Balance Brought forward	0
(10,982)	Accumulated amortisation	(4,132)
7,065	Adjustment to amortisation Brought forward	0
4,449	Net Carrying amount at start of the year	4,535
1,578	Additions : purchases	2,158
(1,384)	Amortisation for the period	(1,731)
(108)	Disposals	0
4,535	Net Carrying amount at the end of the year	4,962
	Comprising	
8,667	Gross Carrying amount	10,753
(4,132)	Accumulated amortisation	(5,791)
4,535	Net Carrying amount at the end of the year	4,962

Note 15 Assets Held for Sale

If an asset is 'held for sale', the economic benefit of that asset is obtained through the asset's sale rather than through its continuous use in the business (future economic benefit). Such assets cease to be depreciated as they are no longer being consumed through service provision by the business.

The Council currently has one Asset Held for Sale, Vancouver House. It has been revalued and reclassified in 2017/18 from a Short Term to a Long Term Asset Held for Sale in accordance with the requirements of IRFS 5.

2016/17		2017/18
£000		£000
	<u>Current Assets</u>	
1,273	Balance outstanding at start of year	750
	Assets newly classified as held for sale	
0	- Property, Plant and Equipment	(750)
0	Additions	0
0	Revaluation losses	0
0	Revaluation gains	0
	Assets declassified as held for sale:	
(523)	Assets sold	0
750	Balance outstanding at year end	0
	<u>Non-Current assets</u>	
0	Balance outstanding at start of year	0
	Assets newly classified as held for sale	
0	- Property, Plant and Equipment	3,332
0	Additions	41
0	Revaluation losses	(2,388)
0	Revaluation gains	0
	Assets declassified as held for sale:	
0	Assets sold	0
0	Balance outstanding at year end	985



5 Vancouver House

Note 16 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.

Financial Instruments: Balances

The investments and borrowing disclosed in the Balance Sheet are made up of the following categories of Financial Instruments.

Long Term			Current	
2016/17	2017/18		2016/17	2017/18
£000	£000		£000	£000
		Financial Assets – Loans and Receivables		
		Held as Investments		
309	309	Long Term Investments	0	0
0	0	Short Term Investments	11,500	11,000
0	0	Cash and Cash Equivalents	11,464	9,111
309	309	Total Investments	22,964	20,111
		Held as Debtors		
7,394	6,860	Long term debtors	0	0
0	0	Short Term Debtors	4,225	13,922
7,394	6,860	Total Debtors	4,225	13,922
7,703	7,169	Total Financial Assets – Loans and Receivables	27,189	34,033
		Financial Liabilities – at Amortised Cost		
		Held as Borrowings		
(106,073)	(142,803)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(30,986)	(14,032)
(106,073)	(142,803)	Total Borrowings	(30,986)	(30,986)
		Held as Other Payables		
0	0	Short Term Creditors	(10,308)	(4,689)
(2,022)	(1,880)	Long Term Creditors	0	0
(2,022)	(1,880)	Total Held as Other Payables	(10,308)	(4,689)
(108,095)	(144,683)	Total Financial Liabilities – at Amortised Cost	(41,294)	(18,722)

Long Term Creditor relates to deferred lease income under IAS17.

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

Note 17 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 carry amounts are assumed to be approximate to fair value.
- The fair value of PWLB and market loans have been calculated by reference to the 'premature repayment' set of rates as at 31 March 2018
- 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 are as follows:

2016/17			2017/18	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Assets – Loans and Receivables		
23,273	23,273	Held as Investments	20,420	20,420
11,619	11,619	Held as Debtors	20,782	20,782
34,892	34,892	Financial Assets – Loans and Receivables	41,202	41,202
		Financial Liabilities – as Amortised Cost		
(137,059)	(201,140)	Held as Borrowings	(150,023)	(218,220)
(12,330)	(12,330)	Held as Creditors	(6,569)	(6,569)
(149,389)	(213,470)	Financial Liabilities – at Amortised Cost	(156,592)	(224,789)

Financial Instruments: Risks

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 the counterparty to a financial instrument will fail to meet its contractual obligations, *causing* a monetary loss to the Council.
- Liquidity risk - the possibility that the Council might not have the cash available to make contracted payments on time.
- Market risk - the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates on equity prices.
- Re-Financing Risk – The possibility that maturing amounts cannot be refinanced in interest terms that reflect the provisions made by the organisation.

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 1st March 2017 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2017/2018 was set at £211.1m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £189.4m. 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 and at no point during the 2017/18 financial year were any of these key indicators breached. The Council also 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 on an annual basis.

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,

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 2018 (A)	Historical experience of default (B)	Maximum exposure at 31 March 2018 (A x B)	Maximum Exposure as 31 March 2017
	£000	%	£000	£000
Bonds	0	0	0	0
Customers	41	14.83	6	6
TOTAL	41		6	6

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 £9,063,090 of the £11,656,967 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:

2016/17		2017/18
£000		£000
1,063	Less than 3 months	6,561
888	Between 3 to 6 months	456
173	Between 6 months to one year	532
1,570	More than 1 year	1,514
3,694	TOTAL	9,063

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 2018 was £0.8m. (31 March 2017 - £0.6 million)

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:

2016/17		2017/18
£000		£000
(31,705)	Less than one Year	(14,829)
(1,008)	Between 1 – 2 Years	(14,524)
(6,621)	Between 2 – 5 Years	(17,137)
(19,571)	Between 5 – 10 Years	(28,419)
(5,627)	Between 10 – 15 Years	(9,924)
(4,931)	Between 15 – 20 Years	(4,924)
(9,899)	Between 20 – 25 Years	(9,899)
101	Between 25 – 30 Years	98
(912)	Between 30 – 35 Years	(8,412)
(16,912)	Between 35 – 40 Years	(9,491)
(39,974)	More than 40 Years	(40,000)
(137,059)	TOTAL	(157,461)

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

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 low 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.

Note 18 Financial Instruments: Income and Expenditure

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

2016/17			2017/18	
Financial Assets	Financial Liabilities		Financial Assets	Financial Liabilities
£000	£000		£000	£000
		Income		
(431)	(0)	Interest Income	(370)	(0)
		Expenditure		
0	4,460	Interest Expense	0	4,569
0	34	Fee Expense	0	24
0	4,494	Total Expenditure	0	4,592
0	4,063	Net Expenditure for the year	0	4,223

Note 19 Inventories

Inventories are materials or supplies that will be consumed in producing goods or providing services or will be sold or distributed as part of an authority's ordinary business.

2017/18 Financial Year	1 April 2017	Purchases	Expense in the year	Written off	31 March 2018
	£000	£000	£000	£000	£000
Stocks	1,988	7,120	(7,005)	18	2,121

2016/17 Financial Year	1 April 2016	Purchases	Expense in the year	Written off	31 March 2017
	£000	£000	£000	£000	£000
Stocks	1,739	7,114	(6,885)	20	1,988

Note 20 Debtors

Authorities should recognise a debtor where income has been recognised but consideration has not yet been received by the authority.

2016/17		2017/18
£000		£000
	Short Term Debtors	
5,936	Central Government Bodies	3,411
5,112	Other Local Authorities	9,080
2,866	NHS Bodies	4,472
14,443	Other entities and individuals	20,925
28,357	Total	37,888
	Long Term Debtors	
5,634	Cleveland Mall – Holiday Inn	6,539
379	Other Long Term Debtors	309
1,381	The Welding Institute	1,262
7,394	Total	8,110

Note 21 Cash and Cash Equivalents

Cash is represented by notes and coins held by the authority and deposits available on demand. 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.

2016/17		2017/18
£000		£000
67	Cash held by the Council	72
(503)	Bank current accounts	1,609
11,900	Short-term deposits with building societies	7,430
11,464	Total	9,111

Note 22 Short Term Creditors

This line includes the amounts owed by the authority for goods and services supplied to it and in relation to finance leases and PFI and similar contracts that meet the definition of 'current' (up to one year).

2016/17		2017/18
£000		£000
(6,545)	Central Government Bodies	(7,156)
(994)	Other Local Authorities	(1,230)
(627)	NHS Bodies	(1,033)
(29,020)	Other Entities and individuals	(29,014)
(37,186)	TOTAL	(38,433)

Note 23 Provisions

A provision is an amount that you put in aside in your accounts to cover a future liability.

The purpose of a provision is to make a current year's balance more accurate, as there may be costs which could, to some extent, be accounted for in either the current or previous financial year. These costs that distinctly belong to a specific year could be misleading if accounted for in the future.

A provision is not a form of saving, even though it is an amount that is put aside for a future plausible cost or obligation.

Current Provisions	Balance at 1 April 2017	Additional Amount in year	Amounts used in year	Unused amounts reversed in year	Balance at 31 March 2018
	£000	£000	£000	£000	£000
Business Rates Appeals	(735)	(2,041)	735	0	(2,041)
School Kitchen Replacement	(4)	0	0	0	(4)
Total	(739)	(2,041)	735	0	(2,045)

Business Rates Appeals – The Council's share of the Collection Fund business rate appeals provision

Long Term Provisions	Balance at 1 April 2017	Additional Amount in year	Amounts used in year	Unused amounts reversed in year	Balance at 31 March 2018
	£000	£000	£000	£000	£000
Kier ICT Contract	(131)	0	(131)	0	0
Total	(131)	0	(131)	0	0

Note 24 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 2016/17 £000	Unfunded 2016/17 £000	Comprehensive Income and Expenditure Statement	Funded 2017/18 £000	Unfunded 2017/18 £000
		Charged to the Surplus or Deficit on the Provision of Services		
		As cost of Service:	19,412	0
14,358	0	Current Service cost	193	0
1,638	0	Settlements and Curtailments	0	0
5,072	1,023	As Financing and Investment Income and Interest on net defined benefit/(asset)	3,870	764
21,068	1,023	Total charged to the Surplus or Deficit on the Provision of Services	23,475	764
		Charged to Other Comprehensive Income and Expenditure		
(5,065)	1,531	Actuarial Gains / (Losses)	(3,475)	299
16,003	2,554	Total to the Comprehensive Income and Expenditure Statement	20,000	1,063

Movement in Reserves Statement (General Fund)

Funded 2016/17 £000	Unfunded 2016/17 £000	Movement in Reserves Statement (General Fund)	Funded 2017/18 £000	Unfunded 2017/18 £000
(21,068)	(1,023)	Reversal of total charged to the surplus or Deficit on the Provision of Service	(23,475)	(764)
		Actual Amount charged for pensions in the year:		
10,648	2,196	Employers contributions payable to scheme	10,060	1,954
(10,420)	1,173	Total amount included in the General Fund for the year	(13,415)	1,190

Assets and Liabilities in Relation to Post-Employment Benefits

Funded 2016/17	Unfunded 2016/17	Reconciliation of Liabilities	Funded 2017/18	Unfunded 2017/18
£000	£000		£000	£000
(729,565)	(31,174)	Opening Balance at 1 April	(864,112)	(31,532)
(14,358)	0	Current Service Cost	(19,412)	0
(24,447)	(1,023)	Interest Cost	(21,343)	(764)
(3,938)	0	Contributions by Scheme participants	(4,038)	0
(115,615)	(1,531)	Actuarial Gains / (Losses)	(4,216)	(299)
25,449	2,196	Benefits Paid	25,197	1,954
(1,638)	0	Past Service Curtailments	(193)	0
(864,112)	(31,532)	Closing Balance 31 March	(888,117)	(30,641)

Reconciliation of fair value of scheme assets

Funded 2016/17	Unfunded 2016/17	Reconciliation of fair value of scheme assets	Funded 2017/18	Unfunded 2017/18
£000	£000		£000	£000
575,103	0	Opening Balance at 1 April	704,295	0
19,375	0	Expected return on plan assets	17,473	0
120,680	0	Actuarial Gains / (Losses)	7,691	0
10,648	2,196	Employer Contributions	10,060	1,954
3,938	0	Contributions by Scheme participants	4,038	0
(25,449)	(2,196)	Benefits Paid	(25,197)	(1,954)
704,295	0	Closing Balance 31 March	718,360	0

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

The actual return on scheme assets in the year was £25.164 million gain (2016/2017 £140.055 million loss).

Scheme History	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(671,804)	(691,655)	(771,686)	(760,739)	(895,644)	(918,758)
Fair value of assets	513,449	558,838	596,527	575,103	704,295	718,360
Scheme Deficit	(158,355)	(132,817)	(175,159)	(185,636)	(191,349)	(200,398)

The scheme deficit shown above includes £30.641 million in respect of unfunded defined benefit obligations (2016/2017 £31.532 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 2019 is £10.060 million.

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 2017.

The principal assumptions used by the actuary have been:

	2016/17	2017/18
Mortality Assumptions		
Longevity at 65 for current pensioners		
• Men	22.80	22.90
• Women	24.90	25.00
Longevity at 65 for future pensioners		
• Men	25.00	25.10
• Women	27.20	27.30
Other Assumptions		
Rate of Inflation (RPI)	3.10%	3.20%
Rate of Inflation (CPI)	2.00%	2.10%
Rate of increase in salaries	3.30%	3.10%
Rate of increase in pensions	2.00%	2.10%
Rate of discounting scheme liabilities	2.50%	2.60%
Take up of option to convert annual pension into retirement lump sum	80.00%	80.00%

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

	2016/17	2017/18
Equity Investments	81.5%	81.6%
Gilts	0.2%	0.0%
Other Bonds	0.2%	0.0%
Property	6.9%	7.3%
Cash / Liquidity	11.2%	11.1%
	100.0%	100.0%

History of Experience Gains and Losses

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

	2013/14	2014/15	2015/16	2016/17	2017/18
	%	%	%	%	%
Difference between expected and actual return on assets	5.80	4.63	(5.35)	17.13	3.60
Experience gains and losses on liabilities	2.00	(0.60)	(3.83)	13.08	0.50

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected service cost for the year ending 31 March 2019 is set out on the following page, sensitivity on unfunded benefits have not been included due to materiality grounds:

Disclosure rate assumption		
Adjustment to discount rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	872,805	903,698
% change in present value of total obligation	-1.7%	1.8%
Projected service cost (£000's)	19,449	20,617
Approximate % change in projected service cost	-2.9%	3.0%

Rate of general increase in salaries		
Adjustment to salary rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	890,069	885,193
% change in present value of total obligation	0.3%	-0.3%
Projected service cost (£000's)	20,026	20,026
Approximate % change in projected service cost	0	0

Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	900,722	875,706
% change in present value of total obligation	1.4%	-1.4%
Projected service cost (£000's)	20,617	19,449
Approximate % change in projected service cost	3.0%	-2.9%

Post retirement mortality assumption		
Adjustment to mortality age rating assumption*	-1 year	+1 year
Present value of total obligation (£000's)	917,857	861,576
% change in present value of total obligation	3.0%	-3.0%
Projected service cost (£000's)	20,758	19,300
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.

Note 25 Pensions 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 £3.45 million (2016/2017 – 3.53 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 16.48% (2016/2017 – 16.48%) of pensionable pay.

Note 26 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/2018.

Revenue Grants Credited to Taxation and Non Specific Grant Income		
2016/17		2017/18
£000		£000
(27,645)	Revenue Support	(21,051)
(21,810)	Business Rates Top-up	(25,712)
(3,171)	New Homes Bonus	(2,854)
(1,345)	Business Rates Section 31	(2,172)
(14)	Minor (less than £100k each)	0
(43)	Other Grants	0
(54,028)	Total (note 4)	(51,789)
Revenue Grants Credited to Services		
2016/17		2017/18
£000		£000
	Department for Education	
(63,402)	Dedicated Schools	(63,457)
(5,736)	Pupil Premium	(5,348)
(265)	Education Funding Agency	(84)
(1,185)	Education Services	(290)
(1,967)	Skills Funding Agency	(2,137)
(843)	Universal Infant Free School Meals	(881)
(800)	High Needs Sixth Form Funding	(802)
(915)	Other DfE grants	(932)
	Ministry of Housing, Communities and Local Government	
(2,013)	Independent Living	(1,946)
0	Adult Social Care Grant	(761)
0	Improved Better Care Fund	(4,328)
548	Troubled Families	(866)
(628)	Other DCLG	(1,671)
	Home Office	
(801)	Youth Offender Services	0
0	Youth Justice Good Practice Grant	(805)
(382)	Other Home Office	(629)
	Department for Business, Energy and Industrial Strategy	
(181)	DfB grants	(167)
	Department for Digital, Culture, Media and Sport	
(172)	DCMS grants	(403)
	Department for Work and Pensions	
(78,751)	Housing Benefit Subsidy	(73,608)
(1,186)	Housing benefit Admin	(1,148)
(660)	Other Grants	(755)
	Department of Health and Social Care	
(17,665)	Public Health	(17,155)
(7,008)	Better Care Fund	(7,338)
(134)	Other Department of Health grants	(218)
	Department for Environment Food and Rural Affairs	
(21)	DeFRA grants	(80)
	Department for Transport	
(78)	DfT grants	(75)
	Lottery Grants	
(108)	Other Lottery Grants	(123)
	Cabinet Office	
0	Elections	(163)
(108)	Other Grants	(112)

Other Contributions		
(8,620)	South Tees Clinical Commissioning Group	(9,400)
(2,009)	Redcar and Cleveland Borough Council	(2,273)
(919)	Stockton-on-Tees Borough Council	(996)
(427)	Tees, Esk and Wear Valleys NHS Foundation Trust	(292)
(609)	South Tees Hospitals NHS Foundation Trust	(631)
(561)	Hartlepool Borough Council	(368)
100	North of England Commissioning Support Unit	(151)
(116)	Tees Valley Combined Authority	(234)
(193)	Other Contribution	(668)
(197,920)	Total revenue Grants Credited to Services	(201,295)
2016/17	Capital Grants	2017/18
£000		£000
Department for Education		
(763)	Capital Maintenance / Basic Need	0
(949)	School Condition Allocation	(935)
(956)	Other DfE grants	(198)
Ministry of Housing, Communities and Local Government		
(50)	ERDF Grant	0
0	Bringing Empty Homes into use	0
(1,086)	Site Assembly Middlehaven	0
(178)	Other DCLG grants	0
Department of Health and Social Care		
(1,563)	Disabled Facility	(1,876)
(44)	Other Department of Health grants	(98)
Department for Transport		
(2,910)	Local transport Plan	(3,021)
	Other DoT Grants	(641)
Department for Digital, Culture, Media and Sport		
(460)	Arts Council Captain Cook Museum	(40)
(500)	Arts Council Town Hall Development	0
Lottery Grants		
(791)	Heritage Lottery Fund	(2,681)
(4,174)	Other Grants	(8,562)
Other Contributions		
(156)	Teesside University	(50)
(609)	Urban & Civic Redcliffe	0
(949)	Other Contributions	(1,083)
(16,138)	Total Capital Grants	(19,185)
(6,036)	Amount Applied Directly to Services	(4,682)
(10,102)	Amount recognised as Taxation and Non Specific Income – Note 5	(14,503)
(16,138)	Total	(19,185)

Note 27 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in The School and Early Years Finance (England) Regulations 2013. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school.

Details of the deployment of the Dedicated Schools Grant receivable for 2017/2018 is as follows:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2017/18 before Academy recoupment			(129,171)
Academy figure recouped for 2017/18			(65,714)
Total DSG after Academy recoupment for 2017/18			(63,457)
Plus : Brought forward from 2016/17			(422)
Less : Carry Forward to 2018/19 agreed in advance			0
Agreed initial budgeted distribution in 2016/17	(15,240)	(48,639)	(63,879)
In year adjustments	0	0	0
Final Budgeted distribution for 2017/18	(15,240)	(48,639)	(63,879)
Less : Actual central expenditure	16,475	0	16,475
Less : Actual ISB deployed to schools	0	48,575	48,575
Balance Carried Forward	1,235	(64)	1,171

The total level of reserves and balances held by the schools can be found in Note 28.

Note 28 Usable Reserves

Reserves that contain resources that an authority can apply to the provision of services, either by incurring expenses or by undertaking capital investment, whether or not there are particular restrictions on exactly what the resources can be applied to. Relevant reserves include the General Fund Balance and any earmarked reserves under the General Fund umbrella, the Housing Revenue Account Balance and the Capital Receipts Reserve.

2016/17		2017/18
£000		£000
(9,491)	Capital Grants Unapplied Reserve	(7,657)
0	Capital Contributions Unapplied Reserve	(286)
(3,396)	Capital Receipts Reserve	0
(14,465)	General Fund	(15,153)
(27,267)	Earmarked Reserves	(26,321)
(54,619)	Total	(49,417)

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 35 and 29. 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 29.

Note 29 Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund.

	Amounts Transferred		Balance at 31 March 2018 £000	
	Balance at 1 April 2017	From General Fund		To General Fund
	£000	£000		£000
Schools Balances	(4,335)	(4,122)	(4,122)	
Development in future Provision of Schools	(716)	(324)	(324)	
Significant Revenue Reserves				
Invest to Save / Change Programme	(1,398)	(910)	(1,802)	
Revenue Grants Unapplied	(7,169)	(3,494)	(3,441)	
Adult Social Care demand risk	0	(712)	(712)	
Insurance Fund	(111)	(951)	(1,062)	
Schools Reserves	(3,501)	(593)	(1,751)	
Capital Re-Financing Reserve	0	(737)	(737)	
Public Health Reserve	(1,662)	(507)	(660)	
Business Rates Reserve	(3,479)	(655)	(4,134)	
Investment Fund Reserve	(3,217)	(2,700)	(5,917)	
Total Significant Reserves	(20,537)	(11,259)	(20,216)	
Other Revenue Reserves	(1,679)	(515)	(1,659)	
Total Earmarked Reserves	(27,267)	(16,220)	(26,321)	

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

Schools 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.

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 – In situations where there are no grant conditions or that conditions have already been met, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year end.

Adult Social Care Demand Risk Reserve - Demand for Adult Social Care services is highly volatile. The reserve has been set up to cover pressures on Adult Social Care budgets that the service need time to manage.

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.

Capital Re-Financing Reserve - Funding has been set aside to cover future increases in the cost of capital borrowing.

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 Business Rates tax base and collection rates.

Investment Fund Reserve - To be used to finance future investment opportunities.

Note 30 Unusable Reserves

Those reserves that an authority is not able to utilise to provide services. This category of reserves includes: Reserves that hold unrealised gains and losses adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund (and HRA) balance on a different basis from that expected by accounting standards as adopted by the Code

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

2016/17		2017/18
£000		£000
(81,185)	Revaluation Reserve	(97,485)
(217,138)	Capital Adjustment Account	(210,165)
(4)	Deferred Capital Receipts Reserve	(2)
191,349	Pensions Reserve	200,398
(722)	Collection Fund Adjustment Account	684
1,620	Accumulating Compensated Absences Adjustment Account	1,562
(106,080)	Total Unusable Reserves	(105,009)

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.

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.

Movement in Unusable Reserves Statement 2017/18

Movement in Reserves Statement	Revaluation Reserve	Capital Adjustment Account	Deferred Capital Receipts Reserve	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2017	(81,185)	(217,138)	(4)	191,349	(722)	1,620	(106,080)
Allocated from Other Comprehensive Income and Expenditure	(21,892)	0	0	(3,176)	0	0	(25,068)
Transfers from Usable Reserves (Note 29)	0	12,565	2	12,225	1,405	(58)	26,139
Other Movements and Transfers	0	0	0	0	0	0	0
Difference between fair value and historical cost depreciation	2,297	(2,297)	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	3,295	(3,295)	0	0	0	0	0
Balance at 31 March 2018	(97,485)	(210,165)	(2)	200,398	683	1,562	(105,009)

Movement in Unusable Reserves Statement 2016/17

Movement in Reserves Statement	Revaluation Reserve	Capital Adjustment Account	Deferred Capital Receipts Reserve	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016	(80,955)	(275,432)	(6)	185,636	(552)	1,193	(170,116)
Allocated from Other Comprehensive Income and Expenditure	(17,790)	0	0	(3,534)	0	0	(21,324)
Transfers from Usable Reserves (Note 29)	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
Balance at 31 March 2017	(81,185)	(217,138)	(4)	191,349	(722)	1,620	(106,080)

Note 31 Cash flow Statement – Investing Activities

Cash flows from investing activities details transactions related to acquisition and disposal of an authority's long-term investments such as property, plant and equipment, investment in subsidiaries and associates, etc. Cash flows from investing activities the Council is investing in resources that are expected to result in increased profits in future periods or whether it is disposing out resources already owned.

2016/17		2017/18
£000		£000
(26,447)	Purchase of Property Plant and Equipment, Investment Property and Intangible Assets	(28,652)
(11,500)	Net Proceeds on change in Short Term Investments	500
0	Cash returned on Long Term Deposits	0
7,738	Proceeds from sale of PPE, Investment Property and Intangible Assets	2,321
(30,209)	Net Cash Flow from Investing Activity	(25,831)

Note 32 Cash flow Statement – Financing Activities

Cash flows from financing activities show the cash inflows and outflows related to transactions with the providers of finance i.e. the owners and the creditors of the company.

2016/17		2017/18
£000		£000
1,484	Amounts applied to finance lease repayments (Capital Element)	(142)
34,832	Net repayments of short and long term borrowing	19,777
36,316	Net Cash Flow from Financing Activity	19,635

Note 33 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:

2016/17		2017/18
£000		£000
2,284	No Later than one year	1,593
5,234	Later than one year and not later than five years	4,875
34,307	Later than five years	33,484
41,825	Total	39,952

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.

Note 34 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:

2016/17 £000		2017/18 £000
6	No Later than one year	6
24	Later than one year and not later than five years	23
8	Later than five years	3
38	Total	32

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

2016/17 £000		2017/18 £000
51	Minimum lease payments	6



6 Centre Square

Note 35 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the Total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustment between Accounting Basis and Funding Basis under regulations (for the year ended March 2018)

2017/18	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
<u>With the Comprehensive Income and Expenditure Statement</u>				
Impairment and depreciation to Property, Plant and Equipment (Note 5)	(16,679)	0	0	(16,679)
Revaluation Losses on Property, Plant and Equipment (Note 5,15)	(8,173)	0	0	(8,173)
Revaluation of Investment Properties and Assets for Sale (Note 10,15)	124	0	0	124
Amortisation of Intangible Assets (note 14)	(1,731)	0	0	(1,731)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0
Total Capital Grants (note 4)	14,502	0	0	14,502
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	(5,555)	(5,555)
Donated Assets (Note 5,10)	3,792	0	0	3,792
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(5,526)	0	0	(5,526)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	82	0	0	82
Non-current assets written off on disposal or sale (Note 5,10)	(9,876)	0	0	(9,876)
Total with the Comprehensive Income and Expenditure Statement	(23,484)	0	(5,555)	(29,040)
Amounts arising elsewhere				
Statutory provision for the financing of capital investment (Note 12)	3,599	0	0	3,599
Voluntary provision for the financing of capital investment	0	0	0	0
Capital Receipts Reserve used to finance new capital spend (note 12)	0	5,716	0	5,716
Capital expenditure charged against the General Fund (Note 12)	53	0	0	53
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	7,105	7,105
Total Amounts arising elsewhere	3,652	5,716	7,105	16,473
Total Amounts involving the Capital Adjustment Account	(19,832)	5,716	1,550	(12,567)
Amounts involving Deferred Capital Receipt Reserve				
Transfer on receipt of cash	0	(1)	0	(1)
Amounts involving the Pension Reserve				
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 24)	(24,239)	0	0	(24,239)
Employer's pension contribution payable in year (Note 24)	12,014	0	0	12,014

Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under stator requirements (Note 30)	(1,405)	0	0	(1,405)
Amounts with the Compensated Absences Adjustment Account				
Reversal of Accrual made at previous year end (note 30)	1,620	0	0	1,620
Creation of accrual for current year end (Note 30)	(1,562)	0	0	(1,562)
Amounts between Usable Reserves				
Cash proceeds on disposal of Non-Current Assets	2,321	(2,321)	0	0
Total Adjustments for the year ended 31 March 2018	(31,083)	(3,394)	1,550	(26,139)

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

2016/17	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
<u>With the Comprehensive Income and Expenditure Statement</u>				
Impairment and depreciation to Property, Plant and Equipment (Note 6)	(16,658)	0	0	(16,658)
Revaluation Losses on Property, Plant and Equipment (Note 5)	(24,781)	0	0	(24,781)
Revaluation of Investment Properties and Assets for Sale (note 10,15)	286	0	0	286
Amortisation of Intangible Assets (note 14)	(1,384)	0	0	(1,384)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0
Total Capital Grants (note 4)	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 5,10)	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)
Total with the Comprehensive Income and Expenditure Statement	(89,916)	0	(8,330)	(98,246)
Amounts arising elsewhere				
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		1,461
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	2,364	2,364
Total Amounts arising elsewhere	6,485	13,543	2,364	22,392
Total Amounts involving the Capital Adjustment Account	(83,341)	13,543	(5,966)	(75,854)
Amounts involving Deferred Capital Receipt Reserve				
Transfer on receipt of cash	0	(2)	0	(2)
Amounts involving the Pension Reserve				

Reversal of Pension items in the Comprehensive Income and Expenditure Statement	(22,091)	0	0	(22,091)
Employer's pension contribution payable in year	12,844	0	0	12,844
Amounts involving the Collection Fund				
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under stator requirements	170	0	0	170
Amounts with the Compensated Absences Adjustment Account				
Reversal of Accrual made at previous year end	1,193	0	0	1,193
Creation of accrual for current year end	(1,620)	0	0	(1,620)
Amounts between Usable Reserves				
Cash proceeds on disposal of Non-Current Assets	7,738	(7,738)	0	0
Total Adjustments for the year ended 31 March 2017	(85,197)	5,803	(5,966)	(85,360)

Note 36 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).

2017/18	Salary (including fees and allowances)	Total excluding pension contribution	Pension contributions paid for by the Council	Employer's contribution to early retirement costs to pension fund	Total including pensions contribution
	£	£	£	£	£
Chief Executive – Tony Parkinson	142,814	142,814	21,850	0	164,664
Director of Public Health and Public Protection	92,499	92,499	11,539	0	104,038
Strategic Director of Finance, Governance and Support / Section 151 Officer	98,780	98,780	15,144	0	113,924
Director of Adult Social Care and Health Integration	83,240	83,240	12,736	0	95,976
Executive Director Growth and Places	115,765	115,765	17,712	0	133,477
Director of Environment and Commercial Services	72,834	72,834	11,144	0	83,978
Director of Regeneration	79,103	79,103	12,103	0	91,206
Executive Director of Children's Services (Started August 2017)	70,250	70,250	10,748	0	80,998
Director of Children's Services	83,240	83,240	12,736	0	95,976
Director of Prevention and Partnerships (Started May 2017)	66,765	66,765	10,242	0	77,007
Director of Education	84,541	84,541	12,935	0	97,476
Head of Legal and Democratic Services – Monitoring Officer	59,500	59,500	9,103	0	68,603

The Council made payments to Penna PLC for the following during 2017/18
Director of Children's Services April 2017 - August 2017 £86,035.

2016/17	Salary (including fees and allowances)	Provision for compensation for loss of office	Total excluding pension contribution	Pension contributions paid for by the Council	Employer's contribution to early retirement costs to pension fund	Total including pensions contribution
	£	£	£	£	£	£
Chief Executive – Mike Robinson left August 2016	51,695	0	51,695	7,444	164,432	223,571
Chief Executive – Tony Parkinson from August 2016	89,705	0	89,705	12,918	0	102,623
Executive Director Growth and Places	114,619	0	114,619	16,505	0	131,124
Executive Director of Wellbeing Care and Learning Left September 2016	57,309	81,058	138,367	8,253	4,636	151,256
Executive Director of Commercial and Corporate Services until August 2016	41,904	0	41,904	6,034	0	47,938
Chief Finance Officer / Section 151 Officer	5,351	16,540	21,891	3,152	0	25,043
Strategic Director of Finance, Governance and Support / Section 151 Officer from September 2016	56,078	0	56,078	8,075	0	64,153
Director of Adult Social Care and Health Integration (DASS)	79,068	0	79,068	11,386	0	90,454
Director of Public Health and Public Protection (DHP)	85,035	0	85,035	13,017	0	98,052
Head of Legal and Democratic Service – Monitoring Officer	51,588	0	51,588	7,429	0	59,017

Other Employees' Remuneration

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeded £50,000 is shown below in bands of £5,000.

2016/17			Remuneration Band (£)	2017/18		
MBC	School	Total		MBC	School	Total
16	17	33	50,000 to 54,999	19	22	41
4	12	16	55,000 to 59,999	7	7	14
4	6	10	60,000 to 64,999	3	12	15
4	10	14	65,000 to 69,999	3	7	10
2	2	4	70,000 to 74,999	0	1	1
0	2	2	75,000 to 79,999	0	1	1
2	0	2	80,000 to 84,999	0	1	1
0	0	0	85,000 to 89,999	0	0	0
0	0	0	90,000 to 94,999	0	1	1
2	1	3	95,000 to 99,999	0	0	0
0	0	0	100,000 to 104,999	0	0	0
0	0	0	105,000 to 109,999	0	0	0
0	0	0	110,000 to 114,999	1	0	1
34	50	84	Total	33	52	85

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 2017/2018 2 staff were included in the above table due to one-off redundancy payments taking their total remuneration above £50,000 (2016/2017 3 staff).

Exit Packages

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

Exit Package Cost Band (Including Special Payments) £	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
							£000	£000
0 to 20,000	2	0	67	20	69	20	533	160
20,001 to 40,000	0	0	16	2	16	2	461	60
40,001 to 60,000	0	0	6	0	6	0	294	0
60,001 to 80,000	0	0	6	1	6	1	401	67
80,001 to 100,000	0	0	3	0	3	0	259	0
100,001 to 150,000	0	0	5	1	5	1	621	122
Over 150,001	0	0	1	0	1	0	164	0
Total	2	0	104	24	106	24	2,733	409

Note 37 Members' Allowances and Expenses

2016/17		2017/1/8
£000		£000
284	Basic Allowance Paid	295
254	Special Responsibility Allowances Paid	262
12	Expenses	9
550	Total	566

Note 38 Agency Services

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

Note 39 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:

2016/17		2017/18
£000		£000
115	Fees Payable for external audit service	115
10	Fees payable for the certification of grant claims and returns	11
3	Fees payable in respect of other services	4
128	Total	130

An additional £53,600 relating to work undertaken on Value for Money and Housing Benefits Certification during 2017/18 will be charged to the 2018/19 accounts.

Note 40 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 26. Debtor and Creditor balances for Central Government bodies are shown in notes 20 and 22.

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.

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 £9.9 million (2015/2016 - £9.2 million) and made charges to the Fund for Support Services of £2,277,000 (part of which was provided by Kier Business Services Ltd).

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 2018				
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 (ACTES)	31	0	0	0
Middlesbrough Environment City	0	18	0	1
North East Regional Employers Organisation	104	0	0	0
Citizens Advice Bureau	490	47	0	0
Middlesbrough Voluntary Development Agency	309	0	0	0
Tees, Esk and Wear Valley NHS Foundation Trust	270	435	0	25
North East Ambulance Service	0	16	0	0
Statinton & Thornton Parish Council	7	0	0	0
Teesside Ability Support Centre	417	3	0	0
Middlesbrough College	344	45	0	0
Marion Community Centre Group	0	22	0	2
Tees Valley Combined Authority	4,607	32	0	0

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

Note 41 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:

2016/17				2017/18		
Income	Expenditure	(Surplus) / Deficit		Income	Expenditure	(Surplus) / Deficit
£000	£000	£000		£000	£000	£000
(2,974)	2,671	(303)	Commercial and Industrial Properties	(3,073)	2,464	(609)
(2,787)	3,122	335	Building Maintenance, Cleaning and Security	(2,999)	3,167	168
(1,106)	1,051	(55)	Parking	(1,066)	982	(84)
(6,559)	6,469	(90)	Schools Catering	(5,414)	5,618	204
(13,426)	13,313	(113)	Total	(12,552)	12,231	(321)

Note 42 Pooled Budgets

A pooled budget (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities. Middlesbrough Council has two Pooled Budgets the Better Care Fund and Tees Community Equipment Service

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.

Better Care Fund

2016/17		2017/18
£000		£000
298	Balance Brought Forward	269
	Funding Provided to the Pooled Budget	
(1,864)	By the Council	(6,336)
(10,664)	By South Tees Clinical Commissioning Group	(10,855)
12,826	Total Funding	17,460
	Expenditure met from the Pooled Budget	
8,794	By the Council	13,510
3,612	By South Tees clinical Commissioning Group	3,492
12,406	Total Expenditure	17,002
151	Capital Amounts re-profiles to 2018/19	167
269	Net surplus arising on the Pooled Budget to be carried forward	291

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:

Tees Community Equipment Service

2016/17		2017/18
£000		£000
(614)	Balance brought forward	(576)
1,336	Gross Expenditure	1,487
(1,298)	Gross Income	(1,405)
(576)	Balance carried forward	(494)
	Contribution from Partners	
(122)	Middlesbrough Council	(134)
(114)	Stockton Borough Council	(122)
(131)	Redcar & Cleveland Borough Council	(139)
(84)	Hartlepool Borough Council	(91)
(376)	South Tees Clinical Commissioning Group	(413)
(354)	North Tees and Hartlepool NHS Foundation Trust	(396)
(117)	Other Income	(110)
(1,298)	Total	(1,405)

Note 43 Contingent Liabilities

At 31 March 2018, the Council held the following contingent liabilities:

Home House 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.

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.

Note 44 Contingent Assets

At 31 March 2018, the Council held the following contingent assets:

Public Private Partnership Bonds

A performance bond of £1.6 million exists as part of the Council's partnership Agreement with Kier.

Note 45 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 follow:

	Registered Charity Number – if applicable	Fund Balance at 1 April 2017	Surplus / (Deficit) in 2017/18	Fund Balance at 31 March 2018
		£	£	£
Teesside Education Endowment	514301	7,368	16	7,384
Capt J.V.Nancarrow Trust – Educational support	506937	109,570	235	109,805
Middlesbrough Educational Trust	532293	66,971	144	67,115
Hustler Playing Fields Trust – Sport	523381	1,520,660	1,988	1,522,648
W.M.Anderton Trust – Kings Manor School and Acklam 6 th Form College	509198	1,366	3	1,369
Teesside Relief in Sickness	229137	3,673	237	3,910
Lady Crosswaite Bequest – support for the older people	234932	476,839	1,595	478,434
King Edward VII & Sister Purvis – Convalescent Fund	226433	110,482	13,105	125,587
Wilson & Marwood Trust – support for disadvantaged people	221291	15,334	33	15,367
Sterwart Park Trust – Recreation	507075	8,642	19	8,661
Levick Trust – accommodation for over 60's	255056	337,374	27	337,401
Captain Cook Birthplace Trust	507317	8,882	19	8,901
Dorman Museum and Art Gallery Appeal Trust	n/a	3,263	7	3,270
Total		2,670,424	17,428	2,687,852

Note 46 Events after the Balance Sheet Date

No post balance sheet events have occurred

4. Collection Fund Accounts



7 Temenos

Collection Fund Income and Expenditure Account

The Collection Fund, which summarises the collection of Council tax and business rates, and the redistribution of some of that money to Cleveland Police and Crime Commissioner, Cleveland Fire Authority and Central Government.

2016-17		2017-18		
		£000	£000	£000
		Council Tax	Business Rates	Total
	Income			
(58,721)	Council Tax	(60,733)	0	(60,733)
(42,459)	Income from Business Rates Payers	0	(34,679)	(34,679)
(101,180)	Total Income	(60,733)	(34,679)	(95,412)
	Expenditure			
	Precepts and Demands:			
46,179	Middlesbrough Council	49,134	0	49,134
6,767	Cleveland Police and Crime Commissioner	7,064	0	7,064
2,306	Cleveland Fire Authority	2,405	0	2,405
	Business Rates			
20,350	Payments to Central Government	0	17,194	17,194
407	Payments to Cleveland Fire Authority	0	344	344
19,943	Payments to Middlesbrough Council	0	16,851	16,851
177	Costs of Collection	0	172	172
	Bad & Doubtful Debts			
2,221	Write Offs	255	561	816
2,181	Provision for Bad Debts	797	(276)	521
500	Provision for Appeals	0	2,664	2,664
101,031	Total Expenditure	59,655	37,510	97,165
	Contributions towards previous year's estimate			
(158)	Collection Fund Deficit / (Surplus)	2,047	(1,609)	438
(307)	Deficit / (Surplus) for the Year	969	1,222	2,191
	COLLECTION FUND BALANCE			
151	Balance brought forward a 1 April	(1,868)	1,712	(156)
(307)	Deficit / (Surplus) for the year (as above)	969	1,222	2,191
(156)	Balance carried forward at 31 March	(899)	2,934	2,035
	Allocated to:			
(722)	Middlesbrough Council	(754)	1,438	684
(229)	Cleveland Police and Crime Commissioner	(108)	0	(108)
(61)	Cleveland Fire Authority	(37)	29	(8)
856	Central Government	0	1,467	1,467
(156)		(899)	2,934	2,035

Notes to the Collection Fund

Note 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	Band D Equivalent Dwellings
			£000	
A*	36	+5/9	30	20
A	17,102	+6/9	17,015	11,401
B	7,691	+7/9	8,927	5,982
C	8,732	+8/9	11,583	7,762
D	4,387	+9/9	6,547	4,387
E	1,987	+11/9	3,624	2,429
F	705	+13/9	1,520	1,018
G	445	+15/9	1,107	742
H	31	+18/9	93	62
	41,116		50,446	33,803
Less: Adjustments for assumed non-collection based on budgets assumption of 97.4% collection rate			(1,312)	(879)
Total			49,134	32,924

A* - Band A properties receiving Disabled Relief

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

Note 2 Income from Business Rate

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 2018 was £103,507,154 (£110,670,367 at 31 March 2017) and the national non-domestic multiplier for the year was 47.9p (49.7p in 2016/17).

Note 3 Previous Years 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:

2016/17		2017/18
£000		£000
(1,711)	Middlesbrough Council	(707)
(251)	Cleveland Police and Crime Commissioner	(101)
(85)	Cleveland Fire Authority	(35)
(2,047)	Total Deficit / (Surplus)	(843)

Note 4 Council Tax and Business Rates Bad Debt Provision

The basis for calculating the bad debt provision for Council Tax and Business Rates was reviewed in 2017/18 in order to better reflect current levels of debt repayment. The revised basis is as follows: no provision made for debt less than one year old, 50% for debt between one and three years old, 75% for debt between four and five years old and 100% for debts over five years old. A provision of 90% is made for outstanding debt for Council Tax payers on Income Support.

A provision is also held for on-going appeals against rateable valuations set by the Valuation Office Agency (VOA) that had not settled as at 31st March 2018. The value of the provision as at 31st March 2018 was £4.164 million broken down as follows.

	£000
Opening Balance as at 1 st April 2017	1,500
Changes against the provision for appeals	(1,500)
Changes in the provision for appeals	4,164
Closing balance as at 31st March 2018	4,164

5. Teesside Pension Fund Accounts and Notes



8 MIMA and the Bottle of Notes

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 2018, 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 £46.4 million (2017 £42.0 million). After returns on investments of £83.3 million, the overall value of the Fund rose by £36.9 million to £3.9 billion.

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 tables overleaf summarises 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.

Membership of the Fund	2014	2015	2016	2017	2018
Active	23,734	22,566	22,637	23,791	23,295
Deferred	22,144	24,429	22,453	22,861	23,243
Pensioner	20,648	21,059	21,699	22,177	22,757
Total	66,526	68,054	66,789	68,829	69,295

Summary of Changes in Membership	Active Members	Deferred Members	Pensioner Members	Dependants	Total
At 1 April 2017	23,791	22,861	19,309	2,868	68,829
Adjustments	(1,079)	288	156	24	(611)
New Members	2,659	4	1	251	2,915
Change in Status	(1,673)	376	1,003	(11)	(305)
Leavers	(403)	(286)	(664)	(180)	(1,533)
At 31 March 2018	23,295	23,243	19,805	2,952	69,295
% of Total Membership	33.6%	33.5%	28.6%	4.3%	100.0%

During the year, 9 employers joined the scheme as scheduled bodies, and 6 employers joined as admitted bodies. Also, 8 admitted employers ceased to have active members in the scheme. At the year end, the Fund had 177 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.

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 of Finance, Governance and Support Responsibilities

The Strategic Director of 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 of 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 2018 and of its income and expenditure for the year then ended.

James Bromiley, Strategic Director of Finance, Governance and Support

26 July 2018.

**AUDITOR'S REPORT TO A LGPS ADMINISTERING AUTHORITY
REPORT ON PENSION FUND FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH
COUNCIL**

To follow in the final accounts

for and on behalf of Ernst & Young LLP, Appointed Auditor
Newcastle Upon Tyne
26 July 2018

Teesside Pension Fund Statement of Accounts

Fund Accounts for the year ended 31 March 2018

2016/17		Note	2017/18
£000			£000
	Dealings with members, employers and others directly involved in the Fund		
(85,887)	Contributions	6	(89,770)
(5,225)	Transfers in from other pension funds	7	(4,981)
(6,382)	Other income	8	(5,684)
(97,494)	Total Income from Members		(100,435)
125,785	Benefits payable	9	131,543
9,084	Payments to and on account of leavers	10	10,516
134,869	Total Expenditure to Members		142,059
37,375	Net (additions) / withdrawals from dealings with members		41,624
4,673	Management expenses	11	4,807
42,048	Net (additions) / withdrawals including fund management expenses		46,431
	Returns on investment		
(102,150)	Investment income	12	(107,394)
(666,369)	Profits and losses on disposal of investments and changes in market value of investments	13	24,100
(768,519)	Net returns on investments		(83,294)
(726,471)	Net (increase) / decrease in the net assets available for benefits during the year		(36,863)
3,133,118	Net assets of the scheme as at 1 April		3,859,589
3,859,589	Net assets of the scheme as at 31 March		3,896,452
2016/17	Net Assets Statement as at 31 March		2017/18
3,853,887	Investments Assets	13	3,891,011
10,009	Current Assets	14	10,241
(4,307)	Current liabilities	15	(4,800)
3,859,589	Net assets of the Fund at 31 March		3,896,452

Notes to Teesside Pension Fund Accounts

Note 1 Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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.

Note 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 of the financial instrument as at the date of acquisition.

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.

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 the Fund's custodians 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 rents from properties.

Net Assets Statement

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at 31st March 2018. 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 2018, 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 2018. 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).

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 2018.

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

There are currently no contingent liabilities.

Value Added Tax

Expenses and property purchase costs are charged net to the Pension Fund.

Note 3 Accounting standards been issued but not yet been adopted

The following new standards and amendments to existing standards have been issued but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom.

IFRS 9 Financial Instruments - This introduces changes to the classification and measurement of financial assets and a new 'expected credit loss' model for impairing financial assets.

IFRS 15 Revenue from Contracts with Customers - The standard specifies how and when to recognise income and also has a requirement to provide users of Financial statements with more informative and relevant disclosures. The standard provides a single, principles based five step model to be applied to all contracts with customers.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses - IAS 12 has been amended to clarify recognition of Deferred Tax Assets for unrealised losses related to debt instruments measured at fair value. Currently, the Fund does not hold such financial instruments.

IAS 7 Statement of Cash Flows: Disclosure Initiative - amendments to IAS 7 will potentially require more disclosures about financing activities.

Note 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 2018 was £Nil (Nil at 31st March 2017).

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.

Note 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 £631.6million 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 (5.66%) in the value of directly held property £14.9 million, on a fair basis of £262.7 million.

Note 6 Contributions

Contributions from both members and employers are accounted for on an accrual basis in the payroll period. The employers' percentage rate is set by the actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

			2016/17	2017/18
			£000	£000
Employers		Normal	(58,341)	(62,829)
		Additional Contributions	(31)	(41)
		Deficit Recovery Contributions	(1,622)	(720)
Members		Normal	(25,893)	(26,180)
Total			(85,887)	(89,770)

Analysis of Total Contributions

		2016/17	2017/18
		£000	£000
Administering Authority		(12,940)	(14,005)
Scheduled Bodies		(57,777)	(60,226)
Admitted Bodies		(15,170)	(15,539)
Total		(85,887)	(89,770)

Note 7 Transfers in from Other Pension Funds

Transfer values represent the capital sums receivable in respect of members who have either joined or left the Fund during the financial year.

		2016/17	2017/18
		£000	£000
Individual transfers in from other schemes		(5,225)	(4,981)
Total		(5,225)	(4,981)

Note 8 Other Income

Other income the Fund has received in year.

		2016/17	2017/18
		£000	£000
Capital Costs of Early Retirements		(5,256)	(4,499)
Other income		(1,126)	(1,185)
Total		(6,382)	(5,684)

Note 9 Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year.

		2016/17	2017/18
		£000	£000
Pensions		101,668	105,369
Commutations and lump sum retirement benefits		21,081	23,403
Lump sum death benefits		3,036	2,771
Total		125,785	131,543

Analysis of Total Benefits

	2016/17	2017/18
	£000	£000
Administering Authority	27,091	21,329
Scheduled Bodies	69,001	81,015
Admitted Bodies	29,693	29,199
Total	125,785	131,543

Note 10 Payments to and on account of leavers

	2016/17	2017/18
	£000	£000
Refunds to members leaving service	198	222
Payments for members joining state scheme	91	90
Group Transfers	0	0
Individual transfers to other schemes	8,795	10,204
Total	9,084	10,516

Note 11 Management Expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. This includes administrative expenses, investment management expenses and oversight and governance costs.

	2016/17	2017/18
	£000	£000
Administrative costs	1,870	1,672
Investment management expenses	2,596	2,451
Oversight and governance costs	207	684
Total	4,673	4,807

Note 11A Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of external managers and custodian are agreed in respective mandates governing their appointments.

	2016/17	2017/18
	£000	£000
Management fees	632	933
Custody fees	11	11
Transaction costs	1,281	815
Loans & investment support service charges	672	692
Total	2,596	2,451

Note 12 Investment Income

Investment income has been recognized as due on the ex-dividend date and is credited to the fund on the date of dividend.

	2016/17	2017/18
	£000	£000
Income from bonds	(1,038)	(93)
Income from equities	(85,854)	(87,723)
Income from pooled investment vehicles	(3,995)	(3,820)
Other Investment Income	0	(154)
Net rents from properties (see note below)	(10,293)	(14,042)
Interest on cash deposits	(970)	(1,562)
Total	(102,150)	(107,394)

Rental Income and Property Expenses

	2016/17	2017/18
	£000	£000
Gross Rental income	(10,851)	(14,230)
Property Expenses	558	188
Net Rents from Properties	(10,293)	(14,042)

Note 12A External Audit Costs

The cost charged to the Pension Fund for the audit of the accounts.

	2016/17	2017/18
	£000	£000
Payable in respect of external audit	28	28
Total	28	28

Note 13 Investment Assets

The Pension Fund invest in several different types of financial instruments in order to maximize the return on the investment for the Fund.

2017/18	Value at 31 March 2017	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	7,084	0	(6,903)	(181)	0
Equities	2,848,407	134,710	(718,318)	(32,224)	2,232,575
Pooled Investment Vehicles	296,697	913,444	(370,730)	516	839,927
Pooled Property Investments	42,667	0	(413)	2,745	44,999
Properties	204,325	53,321	0	5,044	262,690
	3,399,180	1,101,475	(1,096,364)	(24,100)	3,380,191
Cash Deposits	428,302				485,924
Other Investment Balances	26,405				24,896
Net Investment assets	3,853,887				3,891,011

2016/17	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
	2,989,756	202,800	(459,745)	666,369	3,399,180
Cash Deposits	104,908				428,302
Other Investment Balances	25,699				26,405
Net Investment assets	3,120,363				3,853,887

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 £249,107,611 and unrealised loss was £273,207,207. Prior year realised profit was £124,506,493 and unrealised gain was £541,862,222.

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 £815,029 (2016/2017 £1,280,704). 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 2017/18 the value at 31 March 2017 of the direct property portfolio was : £262,690,000
- For 2016/17 the value at 31 March 2016 of the direct property portfolio was : £204,325,000

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

The following investments represent more than 5% of the net assets of the scheme. They are both registered UK unit trusts.

Security	Market Value 31 March 2017 £'000	% of asset class	Market Value 31 March 2018	% of asset class £'000
SSGA MPF Pacific Basin ex-Japan Index	0	0.00%	344,369	10.19%
SSGA MPF Japan Equity Index	0	0.00%	235,563	6.97%

In addition, 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 2017 £'000	% of asset class	Market Value 31 March 2018 £'000	% of asset class
UK Fixed Interest				
DNB Boligkreditt 15-17/02/2020 FRN	999	33.34%	0	0.00%
Total Cap INTL 14-01/07/2019 FRN	1,997	66.66%	0	0.00%
Canada (Govt Of) 4.25% RRB 1/L 01/12/2021 CAD1000	2,225	54.43%	0	0.00%
Sweden (Kingdom Of) 4% 1/l 1/12/2020 SEK3102	1,863	45.57%	0	0.00%
UK Equities				
HSBC Hldgs ORD USDO.50 (UK REG)	68,507	5.61%	68,859	5.86%
Overseas Equities				
SSGA MPF Pacific Basin ex-Japan Index	0	0.00%	344,369	18.85%
SSGA MPF Japan Equity Index	0	0.00%	235,563	12.89%
Property				
Direct - Doncaster (Omega Boulevard)	0	0.00%	22,800	7.41%
Direct - Rotherham (Catcliffe Retail Park)	15,500	6.28%	16,350	5.31%
Direct - Gateshead (Team Valley Trading Estate)	0	0.00%	16,250	5.28%
Direct - Birmingham (Bromford Central)	13,925	5.64%	15,500	5.04%
Direct - Ipswich (Interchange Retail Park)	14,900	6.03%	15,250	4.96%
Direct - Rugby (Valley Park))	15,000	6.07%	15,200	4.94%
Direct - Stow-on-the-Wold (Fosse Way)	13,850	5.61%	13,900	4.52%
Direct - Cirencester (Retail Park)	13,475	5.46%	12,900	4.19%
Direct - Lutterworth (Magna Park)	11,800	4.78%	12,050	3.92%

Pooled Property Investments				
Standard Life Investments European Property Growth Fund	15,725	6.37%	16,659	5.41%
Alternatives				
Darwin Leisure Prop Units FDS Cls 'C'	17,692	27.94%	19,342	27.46%
Amedeo Air Four Plus Ltd	10,350	16.34%	10,600	15.05%
Innisfree PFI Continuation Fund	9,707	15.33%	9,707	13.78%
United States Oil Fund LP Units	7,183	11.34%	7,698	10.93%
ETFS Metal Security Physical Gold	9,106	14.38%	7,675	10.90%
Innisfree PFI Secondary Fund 2	6,880	10.86%	7,052	10.01%

Geographical Analysis of Investments

	2016/17		2017/18	
	£000	%	£000	%
United Kingdom	1,587,257	47%	1,934,040	57%
United States	562,092	17%	563,608	17%
Japan	221,808	7%	235,563	7%
Republic of Korea	134,870	4%	135,595	4%
Germany	91,566	3%	90,097	3%
France	87,846	2%	88,750	3%
Switzerland	83,013	2%	71,466	2%
Taiwan	89,645	2%	71,170	2%
Hong Kong	167,362	5%	10,319	0%
Australia	128,704	4%	8	0%
Singapore	61,110	2%	0	0%
Others	183,907	5%	179,575	5%
Total	3,399,180	100.00%	3,380,191	100%

Bonds and Index – Linked Securities

	2016/17	2017/18
	£000	£000
UK Public Sector quoted	0	0
UK Corporate quoted	2,995	0
Overseas Public Sector quoted	0	0
Overseas Corporate quoted	4,089	0
Total	7,084	0

Equities

	2016/17	2017/18
	£000	£000
UK quoted	1,096,185	1,072,771
Overseas quoted	1,752,222	1,159,804
Total	2,848,407	2,232,575

Pooled Investment Vehicles and Properties

	2016/17	2017/18
	£000	£000
UK Equity	125,304	102,409
Commodities	11,323	9,767
Pooled Property investment Vehicle	42,667	44,999
Private Equity	0	0
Infrastructure	16,587	22,786
Other Alternative Investments	28,236	30,178
UK Unit and Investment Trusts Total	224,117	210,139
Commodities	7,183	7,698
Overseas Equities	108,064	667,089
Overseas Unit and Investment Trusts Total	115,247	674,787
Total	339,364	884,926

UK Properties

	2016/17	2017/18
	£000	£000
Freehold	159,650	217,365
Leasehold	44,675	45,325
Total	204,325	262,690

The properties were valued on the basis of Market Value as at 31 March 2018 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

	2016/17	2017/18
	£000	£000
Sterling Cash deposits	428,302	485,924

Other Investment Balances

	2016/17	2017/18
	£000	£000
Cash deposits with custodian	14,149	15,894
Outstanding dividend entitlements	12,100	8,595
Interest due on cash deposits	156	407
Total	26,405	24,896

Outstanding Commitments

As at 31 March 2018, the Fund had outstanding commitments to five investments:

	Vintage Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2018
		£	£	£
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	9,620,011	379,989
Hearthstone Residential Fund LP	2016	10,000,000	2,584,374	7,415,626
Gresham House British Strategic Investment Fund LP	2017	40,000,000	3,442,424	36,557,576
Total		70,000,000	25,355,307	44,644,693
		USD	USD	USD
Markham Rae	2016	15,000,000	225,671	14,774,329
Total		15,000,000	225,671	14,774,329

Note 14 Current Assets

Current assets are cash and any other asset that will be turning into cash within one financial year.

Receivables		2016/17	2017/18
		£000	£000
Other receivables		2,228	1,828
Sundry receivables		789	581
Contributions due in respect of	Employers	4,783	5,156
	Members	2,052	2,110
Capital cost of early retirements		98	473
Cash balances		59	93
Total		10,009	10,241

Analysis of Receivables		2016/17	2017/18
		£000	£000
Other local authorities		5,454	4,445
Other entities and individuals		4,496	5,703
Add cash balances		59	93
Total		10,009	10,241

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

Note 15 Current Liabilities

Current Liabilities are the amounts owing within the next financial year.

Amounts due within one year	2016/17	2017/18
	£000	£000
Rents received in advance	(1,859)	(2,344)
Accrued expenses	(1,082)	(851)
Other payables	(1,366)	(1,605)
Total	(4,307)	(4,800)

Analysed by	2016/17	2017/18
	£000	£000
Other local authorities	(827)	(349)
Other entities and individuals	(3,480)	(4,451)
Total	(4,307)	(4,800)

Note 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:

	Restated	
	2016/17	2017/18
	£000	£000
Support Service Recharges payable for the year	1,184	1,191

The 2016/17 figures have been restated to include all support services payments due during the year.

Middlesbrough Council has a 6 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 2017/18:

Employee's contributions of £168,000

Employer's contributions of £436,000

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.

Note 17 Actuarial Valuations

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
	£ million	£ million
Net Liabilities	2,919	3,122
Assets	2,956	3,133
Surplus	37	11
Funding Level	100%	100%

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 IAS19/26 valuation was carried out for the Fund as at 31st March 2018 by Aon Hewitt with the following results:

	2016/17	2017/18
	£ million	£ million
Present value of promised retirement benefits	4,642	
Fair value of scheme assets	3,860	
(Deficit)	(782)	

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 pension's legislation.

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2018 were:

Funding Assumptions

RPI increases	
CPI increases	
Salary increases	
Pension increases	
Discount rate	

The assumed life expectancy from age 65 (years) assumptions

Mortality Assumptions:	Years
Longevity at 65 for current pensioners:	
• Men	
• Women	
Longevity at 65 for future pensioners :	
• Men	
• Women	

Note 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. 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

	201/17	2017/18
	£000	£000
With Profits and Deposit Accounts	4,093	4,332
Unit Linked Accounts	2,930	3,001
Total	7,023	7,333

The total value of AVC contributions paid during the year was £1,448,964 (2016/17 £1,320,332).

Note 19 Financial Instruments

Net Gains and Losses on Financial Instruments

Financial Assets	2016/17	2017/18
	£000	£000
Fair Value through profit and loss account	666,369	(24,100)

Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	2016/17		2017/18	
	£000	£000	£000	£000
Fixed Interest Securities	2,995	2,995	0	0
Equities	2,848,407	2,848,407	2,232,575	2,232,575
Index-linked securities	4,089	4,089	0	0
Pooled Investments	339,364	339,364	839,927	839,927
Properties	204,325	204,325	307,689	307,689
	3,399,180	3,399,180	3,380,191	3,380,191
Loans and receivables	454,955	454,707	518,710	510,820
	3,854,135	3,853,887	3,898,901	3,891,011

Valuation of Financial Instruments Carried at Fair Value

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

Level 1

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge 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 an independent valuer, Cushman & Wakefield, in accordance with RICS valuation 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 Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2018	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	2,337,547	148,378	631,576	3,117,501
Non-financial assets through profit and loss account	0	0	262,690	262,690
Loans and receivables	518,710	0	0	518,710
Total Financial Assets	2,856,257	148,378	894,266	3,898,901

Valuation of Financial Instruments carried at fair value - re-stated due to re-analysis of levels 1, 2 and 3 for 2016/17

	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	2,954,797	170,215	69,843	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
Total Financial Assets	3,409,752	170,215	274,168	3,854,135

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 2018.

Valuation of Financial Instruments carried at fair value – 31 March 2018

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - UK Equity	7.82%	6,713	7,238	6,188
Pooled Investments - Overseas Equity	10.71%	579,931	642,042	517,820
Property Pooled Investments	5.66%	22,146	23,400	20,893
Direct Property	5.66%	262,690	277,558	247,822
Pooled Infrastructure	5.94%	22,786	24,140	21,433
Total		894,266	974,378	814,156

Valuation of Financial Instruments carried at fair value – 31 March 2017

	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	4.93%	16,587	17,405	15,769
Total		274,168	290,536	257,802

Reconciliation of Fair Value Measurements within level 3 during 2017/18

Period 2017/18	Market Value 1 April 2017 (Restated)	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	6,338	0	0	0	376	0	6,714
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	16,587	0	6,700	0	(502)	0	22,785
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	26,122	0	559,235	0	(5,426)	0	579,931
Pooled Property Investment - Unit & Investment Trusts UK	20,796	0	0	(400)	1,750	0	22,146
Property	204,325	0	53,321	0	5,044	0	262,690
Total	274,168	0	619,256	(400)	1,242	0	894,266

Reconciliation of Fair Value Measurements within level 3 during 2016/17 - Restated due to re-analysis of levels 1, 2 and 3 for 2016/17

Period 2016/17	Market Value 1 April 2016	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2017 (Restated)
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	5,372	0	0	(250)	1,174	42	6,338
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	16,298	0	50	(36)	275	0	16,587
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	19,165	0	0	0	6,957	0	26,122
Pooled Property Investment - Unit & Investment Trusts UK	13,662	0	0	(508)	7,642	0	20,796
Private Equity	43	0	0	(1)	0	(42)	0
Property	184,450	0	31,219	(13,050)	(1,126)	2,832	204,325
Total	238,990	0	31,269	(13,845)	14,922	2,832	274,168

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 cash flows. 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.

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 2017/2018 reporting period.

2017/18 Price Risk		Value	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	1,072,771	7.82%	1,156,662	988,880
	Non UK	1,159,804	10.71%	1,284,019	1,035,589
	Total	2,232,575		2,440,681	2,024,469
Fixed Interest Securities	UK	0		0	0
	Non UK	0		0	0
	Total	0		0	0
Index Linked	UK	0		0	0
	Non UK	0		0	0
	Total	0		0	0
Managed and Unitised Funds	UK	598,579	7.82%	645,388	551,770
	Non UK	286,347	10.71%	317,015	255,679
	Total	884,926		962,403	807,449
Property	UK	262,690	5.66%	277,558	247,822
Total		3,380,191		3,680,642	3,079,740

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
Total		3,399,180		3,675,502	3,122,858

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 2018 is set out below:

Asset Type at 31 March	2016/17	2017/18
	£000	£000
Cash and cash equivalents	428,302	485,924
Cash balances	26,405	24,896
Bonds	2,995	0
Total	457,702	510,820

Sensitivity Analysis

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

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31 March 2018	£000	£000	£000
Cash and cash equivalents	485,924	1,215	(1,215)
Cash balances	24,896	62	(62)
Bonds	0	0	0
Total	510,820	1,277	(1,277)

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31 March 2017	£000	£000	£000
Cash and cash equivalents	428,302	1,071	(1,071)
Cash balances	26,405	66	(66)
Bonds	2,995	7	(7)
Total	457,702	1,144	(1,144)

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 2018, showing the sensitivity analysis of foreign exchange movements.

Currency Risk 31 March 2018	Value £000	Change %	Value on Increase	Value on Decrease
Australian Dollar	8	12.14%	9	7
Danish Krone	20,466	9.07%	22,322	18,610
Euro	249,832	9.08%	272,517	227,147
Hong Kong Dollar	10,319	10.01%	11,352	9,286
Indian Rupee	4,199	10.49%	4,639	3,759
Japanese Yen	235,563	8.71%	256,081	215,045
South Korean Won	135,595	12.01%	151,880	119,310
Norwegian Krone	9,475	14.13%	10,814	8,136
Swedish Krona	25,543	9.88%	28,067	23,019
Swiss Franc	71,466	10.51%	78,977	63,955
Taiwan Dollar	71,170	9.50%	77,931	64,409
US Dollar	589,191	9.70%	646,343	532,039
Asia Pacific ex Japan basket	344,850	11.05%	382,956	306,744
Emerging Basket	33,327	8.10%	36,026	30,628
Europe Basket	43,590	9.06%	47,539	39,641
Europe ex UK Basket	16,659	9.06%	18,168	15,150
Total	1,861,253		2,045,621	1,676,885

Currency Risk 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
Total	1,898,801		2,091,218	1,706,384

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 2018. 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.

Note 20 Senior Employees' Remuneration

	2016/17 £000	2017/18 £000
Key Management Personnel		
Short Term Benefits	65	62
Post-Employment Benefits	8	9
Other Long Term Benefits	0	0
Termination Benefits	0	0
Share Based Payments	0	0
Total	73	71

The key management Personnel are the Strategic Director of Finance Governance and Support and the Head of Investments.

Note 21 Events after the Balance Sheet Date

There are no adjusting events after the end of the reporting period which will impact on the 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 Governance Policy and Compliance Statement can be seen at

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

Full details of the changes to the scheme, along with updated scheme guides, are on our website at 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=ISS>

The Funding Strategy Statement

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

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

The current policy document can be viewed at:

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

Communications Policy

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

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

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

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

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

Actuary's Statement

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Teesside Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had slightly decreased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £3,133.1M) covering 100% of the liabilities allowing, in the case of pre - 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
 - 15.7% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)

Less

- 0.1% of pensionable pay to reduce the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2017 (the secondary rate).
3. In practice, each individual employer's or pool of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
 4. The funding plan adopted in assessing the contributions for each individual employer or pool is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the administering authority reflecting the employers' circumstances.
 5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate	4.7% p.a.
Rate of pay increases	3.0% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

The assets were valued at market value.

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Other than as permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of Guaranteed Minimum Pension's in public sector schemes, has made an announcement to extend the indexation of Guaranteed Minimum Pension's to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as this Actuarial Valuation Report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.
9. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required. This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation. Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Middlesbrough Borough Council, the Administering Authority of the Fund, in respect of this Statement.
10. The report on the actuarial valuation as at 31 March 2016 is available on the Fund's website at the following address: http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation_2016.pdf

Aon Hewitt Limited

May 2018

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 2017 to 31 March 2018 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

	Employers Rate %	Employees £000	Employers £000
Action for Children	15.60%	1	3
All Saints Academy	15.60%	22	57
Ash Trees Academy	15.60%	53	145
Beamish Museum Ltd	14.30%	153	350
Billingham Town Council	15.20%	5	13
Brougham Primary School	15.60%	20	54
Business and Enterprise North East Ltd	10.70%	2	56
Caldicotes Primary Academy	15.60%	7	18
Care Quality Commission	17.90%	1,332	3,137
Carillion J M Ltd	18.40%	11	36
Catcote Academy	15.60%	93	247
Caterlink - Ironstone	15.60%	8	23
Caterlink - RCBC	15.10%	23	61
Caterlink - St_Oswalds	15.10%	7	19
Chandlers Ridge Academy	15.60%	7	19
Cleveland College of Art and Design	15.20%	111	265
Cleveland Fire Brigade	16.10%	229	612
Cleveland Fire Support Network	16.10%	3	6
Coast and Country Housing	17.20%	571	1,483
Community Integrated Care	23.00%	2	9
Conyers School	15.60%	70	182
Creative Management Services Ltd	17.00%	5	16
Diocese of Middlesbrough Trustee	23.60%	8	20
Durham Tees Valley Airport Limited	21.20%	57	287
Dyke House Academy	15.60%	83	210
Easterside Academy	15.60%	26	70
Ecocleen Services Ltd	20.00%	0	1
Egglescliffe Primary School	15.60%	3	7
Emmanuel School Foundation	15.60%	51	133
English Martyrs Educational Trust	15.60%	62	159
Enquire Learning Trust (Central)	15.60%	64	117
Erimus Housing	16.00%	68	158
Eskdale Academy	15.60%	14	38
Extol Academy Trust (Eldon Grove)	15.60%	27	69
Fabrick Housing Group	16.00%	839	1,983

Fleet Factors Ltd	21.40%	0	2
Fleet Factors RCBC	16.00%	1	3
Frederick Nattrass Primary Academy	15.60%	19	51
Future Regeneration of Grangetown	19.60%	2	5
Galileo Multi Academy Trust	15.60%	1	1
Grangefield Academy	15.60%	35	89
Green Lane Primary Academy	15.60%	30	83
Guisborough Town Council	15.20%	5	13
Hardwick Green Primary Academy	15.60%	18	49
Harrow Gate Primary Academy	15.60%	29	78
Hartlepool Borough Council	15.20%	2,963	7,056
Hartlepool Care Services Ltd	18.80%	2	7
Hartlepool College of Further Education	15.20%	159	406
Hartlepool Sixth Form College	15.20%	35	89
Hemlington Hall Academy	15.60%	21	58
Hillsview Academy	15.60%	36	93
Holy Trinity Primary School	15.60%	6	16
Horizons Specialist Academy Trust	15.60%	168	436
Housing Hartlepool Ltd	16.00%	81	195
Ian Ramsey Church of England Academy	15.60%	45	118
Ingleby Barwick Town Council	15.20%	2	5
Ingleby Manor Free School & Sixth Form	15.60%	19	51
Jesmond Gardens Primary School	15.60%	21	57
Kader Academy	15.60%	12	33
KGB Cleaning Ltd - LJS	14.80%	1	4
Kier Business Services Ltd	15.30%	129	258
KTS Academy	15.60%	53	142
Liberata UK Ltd	0.00%	38	0
Lockwood Parish Council	15.20%	1	3
Loftus Town Council	15.20%	2	4
Macmillan Academy	15.60%	69	173
Manor Community Academy	15.60%	65	175
Mellors Catering Services Ltd (Central)	17.20%	14	43
Mellors Catering Ltd (Dormanstown)	17.20%	1	4
Mellors Catering Services Ltd (Normanby)	17.20%	3	10
Middlesbrough College	15.20%	461	1,120
Middlesbrough Council	15.30%	4,069	9,936
NMRN Operations	17.00%	8	22
Normanby Primary School	15.60%	24	68
North Ormesby Primary Academy	15.60%	15	43
North Shore Academy	15.60%	42	110

Norton Primary Academy	15.60%	23	63
Nunthorpe Academy	15.60%	90	220
Nunthorpe Primary Academy	15.60%	13	36
Oak Tree Academy	15.60%	26	71
OCS Limited	16.10%	0	0
One Awards Limited	14.60%	27	65
One IT Services and Solutions Ltd	15.20%	41	97
One IT Services and Solutions Ltd - Porter	17.00%	2	5
Onsite Building Trust	17.00%	3	10
Orian Solutions Ltd	17.00%	1	4
Ormesby Primary School	15.60%	13	36
Our Children 1 st Academy Trust	15.60%	28	77
Our Lady & St Bede Catholic Academy	15.60%	42	113
Our Lady of Light Catholic Academy Trust - Christ the King	15.60%	12	32
Our Lady of Light Catholic Academy Trust - St Patrick's Catholic College	15.60%	29	76
Our Lady of Light Catholic Academy Trust - St Patrick's Primary	15.60%	20	56
Our Lady of Light Catholic Academy Trust - St Therese of Lisieux	15.60%	11	31
Outwood Academy Acklam	15.60%	58	156
Outwood Academy Bishopsgarth	15.60%	35	95
Outwood Academy Bydales	15.60%	30	81
Outwood Academy Ormesby	15.60%	41	109
Outwood Academy Redcar	15.60%	13	33
Pentland Academy	15.60%	16	44
Police & Crime Commissioner for Cleveland	13.60%	63	105
Redcar Academy	15.60%	13	34
Redcar and Cleveland Borough Council	16.00%	3,132	7,894
Redcar and Cleveland College	15.20%	97	237
Riverdale Primary School	15.60%	6	17
River Tees Multi Academy Trust	15.60%	37	88
Rosebrook Primary School	15.60%	40	111
Rose Wood Academy	15.60%	21	56
Rye Hills Academy	15.60%	74	191
Sacred Heart Secondary Catholic Voluntary Academy	15.60%	25	66
Saint Benedict's Primary Catholic Voluntary Academy	15.60%	15	42
Saltburn, Marske & New Marske Parish Council	15.20%	3	8
Skelton and Brotton Parish Council	15.20%	3	7
Skelton Primary School	15.60%	33	81
SLM Community Leisure Charitable Trust	17.60%	38	116
SLM Fitness and Health Ltd	17.60%	2	6
SLM Food and Beverage Ltd	17.60%	2	7
SLM Charitable Trust (MBC)	15.30%	64	157
SLM Food and Beverage Ltd (MBC)	15.30%	4	11

SLM Fitness and Health Ltd (MBC)	15.30%	4	11
South Tees Development Corporation	17.00%	3	7
St Aidans Primary School	15.60%	7	20
St Bede's Catholic Academy	15.60%	18	48
St Bede's Primary Catholic Voluntary Academy	15.60%	17	42
St Gabriel's Catholic Voluntary Primary Academy	15.60%	14	38
St Gregory's RC Academy	15.60%	20	52
St Hilda's Catholic Academy Trust	15.60%	197	526
St Joseph's Primary Catholic Voluntary Academy	15.60%	9	26
St Mark's Academy	15.60%	14	40
St Margaret Clitherow's Catholic Voluntary Primary Academy	15.60%	18	50
St Mary's Catholic Voluntary Primary Academy	15.60%	17	44
St Michael's Catholic Academy	15.60%	34	89
St Paulinus Primary Catholic Voluntary Academy	15.60%	11	31
St Peter's Catholic Voluntary Academy of Maths and Computing	15.60%	37	97
St Thomas of Canterbury MAT	15.60%	32	88
Stagecoach Transit	27.20%	5	185
Sopra Steria Ltd	13.60%	416	868
Stockton Borough Council	15.30%	4,519	10,828
Stockton Riverside College	15.20%	229	557
Stranton Academy Trust (Stranton)	15.60%	32	84
Sunnyside Academy	15.60%	47	128
Tascor Services Ltd - Custody	17.40%	2	5
Tascor Services Ltd - PFI	17.40%	2	5
Tees Active Limited	14.80%	122	279
Tees Valley Collaborative Trust	15.20%	64	162
Tees Valley Combined Authority	15.90%	188	375
Tees Valley Community Asset Preservation Trust	17.00%	2	6
Tees Valley Education Trust	15.60%	69	181
Teesside Learning Trust	15.60%	101	257
Teesside University	14.30%	1,836	4,105
The Big Life Company Ltd	17.80%	3	8
The Chief Constable for Cleveland	13.60%	727	1,466
Tristar Homes Limited	16.00%	93	226
Unity City Academy	15.60%	56	144
Vision Academy Learning Trust	15.60%	100	258
Viewley Hill Academy Trust	15.60%	15	40
West Park Primary School	15.60%	15	41
West View Primary School and Sports Academy	15.60%	49	126
Wynyard Church of England Primary School	15.60%	5	14
Yarm Primary School	15.60%	24	66
Yarm Town Council	15.20%	2	4

Zetland Primary School	15.60%	17	47
Total Contributions 2017/18		26,180	63,590

6. Annual Governance Statement



9 Albert Park

DRAFT Annual Governance Statement 2017/18

Introduction

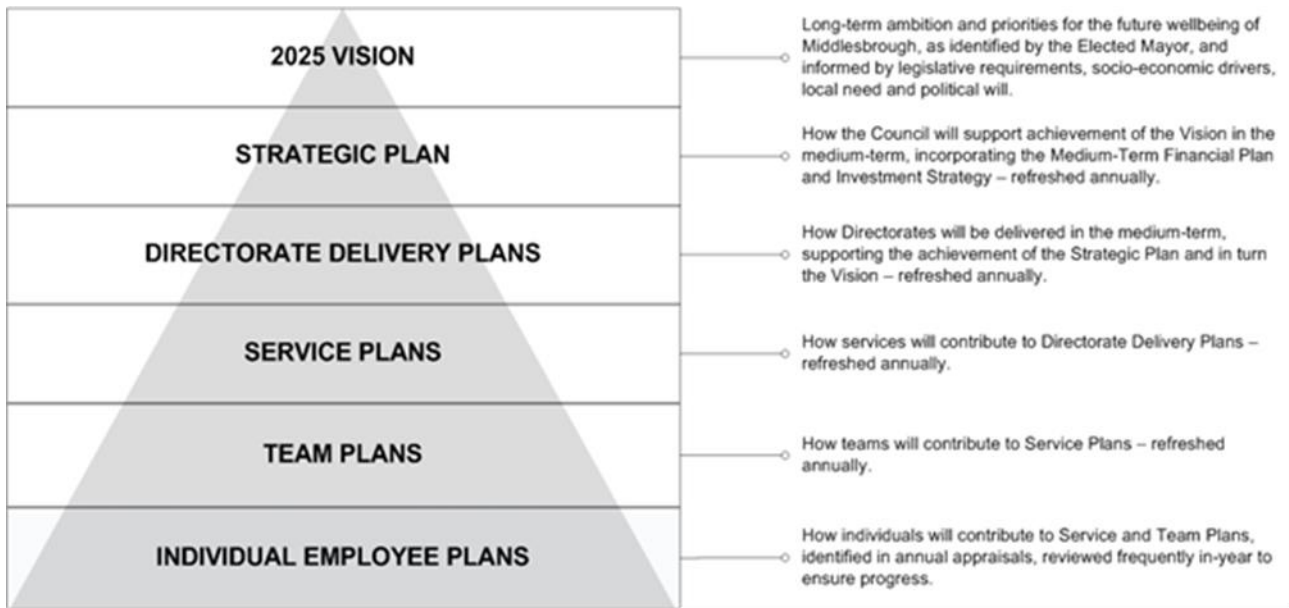
1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework. This framework comprises the culture, values, systems and processes of the Council, which together ensure that it does the right things, at the right time and in the right way.
2. The Council's Code of Corporate Governance aligns 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 2017/18 including an outline of the work undertaken to address the 2016/17 External Audit qualification in relation to asset disposal governance arrangements;
 - a position statement against the Code of Corporate Governance; and
 - governance priorities for 2018/19.
6. The development of the AGS was coordinated by the Strategy, Information and Governance service, in conjunction with statutory and other officers with responsibility for corporate governance processes, and with input from Internal Audit.

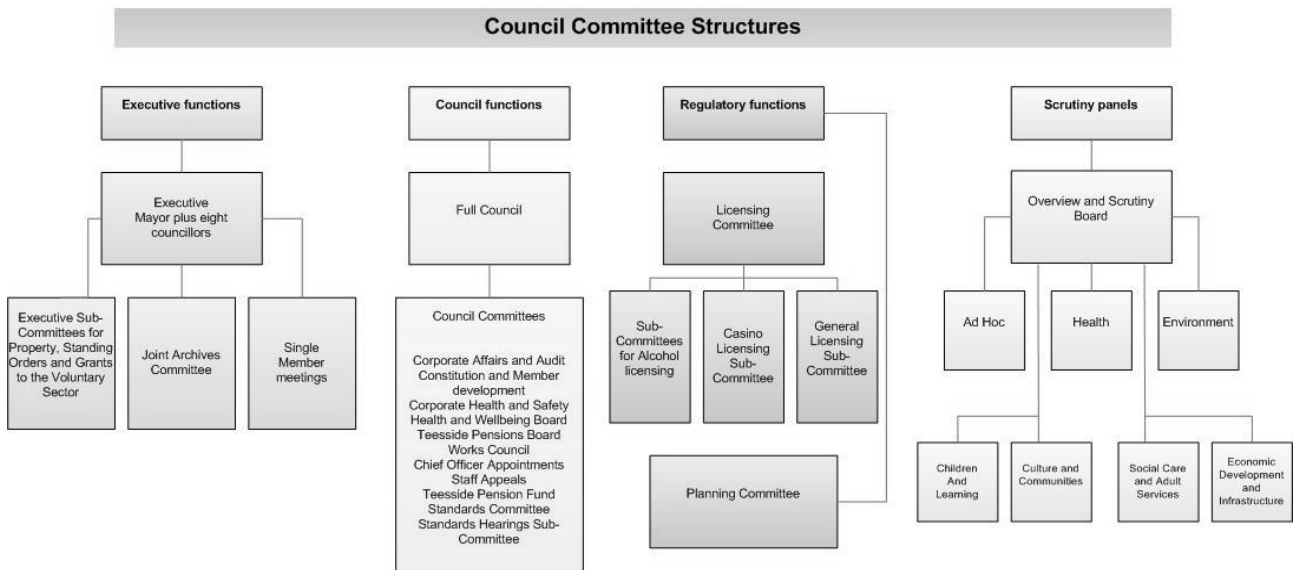
The Governance arrangements of the Council

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:



Progress made during 2017/18

Implementing actions from the 2016/17 AGS

9. The 2016/17 AGS outlined a range actions that would be taken to strengthen corporate governance during 2017/18.

Action: Establish a multi-disciplinary group to monitor delivery of improvement actions and regularly assess alignment of Council processes with the Code of Corporate Governance.	Lead: Head of Performance and Partnerships (now Strategy, Information and Governance) Progress: Completed. The group has provided oversight of delivery of the actions during the year.
Action: Test compliance against changes to corporate governance frameworks made during 2016/17.	Lead: Head of Internal Audit Progress: The results are expected in mid to late May and therefore the opinion will be reflected in the final version of the Annual Governance Statement.
Action: 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.	Lead: Head of Internal Audit Progress: The results are expected in mid to late May and therefore the opinion will be reflected in the final version of the Annual Governance Statement.
Action: Plans to provide further communication and training to staff on the Council's decision making and governance requirements in place.	Lead: Members and Statutory Services Manager Progress: Completed. Heads of Service have received a presentation on decision-making, and e-learning materials are now available. Complementary work was also undertaken to review the committee report format and training on this was provided, with additional training on report expectations. The call in procedure was also reviewed in-year to further strengthen governance.
Action: Checks of compliance with the decision making process put in place.	Lead: Members and Statutory Services Manager Progress: Commenced from June 2017, with quarterly reports provided to senior officers. Further work is planned to provide a guidance note to strengthen the quality assurance process.
Action: Develop a Competency Skills 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.	Lead: Members and Statutory Services Manager Progress: Completed. A skills framework has been implemented and an associated development programme is now being delivered.
Action: Develop the Strategic HR function to deliver the development of a Workforce Strategy.	Lead: Organisational Development Manager Progress: Completed. The Council's People Strategy 2017-19 was agreed by Executive during 2017/18 and is now in delivery, with an assurance report provided to Corporate Affairs and Audit Committee in the year.
Action: Put in place plans to commence delivery of Middlesbrough Manager Phase 3.	Lead: Organisational Development Manager Progress: Completed. The Middlesbrough Manager profile was refreshed with input from Heads of Service. In addition, 360 degree feedback programme has been agreed and piloted, and will be rolled out in 2018/19 to inform training plans for Phase 3.
Action: Creation of an officer oversight board; delivery of training on procurement and state aid issues and provision of further Value for Money guidance.	Lead: Strategic Director of Finance, Governance and Support Progress: Completed. Chaired by the Chief Executive, the board has been place from August 2017 and includes senior representation from Finance, Governance and Support, economic development and property.

10. The last action represents one of the steps put in place to ensure good governance around asset disposals. In the 2016/17 External Audit issued an 'except for' VfM judgement in relation to the Council's governance arrangements for property disposals because the revised arrangements had not been fully embedded by 31 March 2017.
11. The asset disposal process is now well-embedded. There are regular meetings of the board established to oversee this process, which is supported an asset disposal policy amended to reflect Internal Audit recommendations, and robust procedures including oversight by the Section 151 officer, and audits of compliance by staff and Internal Audit. In addition, during 2017/18 training on asset disposals has been delivered to relevant officers. This is currently subject to testing by External Audit and the outcome Of that testing will be reflected within the final version of the Annual Governance statement considered by the Committee in July 2018.

Internal Audit during 2017/18

12. During 2017/18 Internal Audit has undertaken the following audits – (D) indicates where the report is still in draft and therefore the opinion may change:

Audited System /Service	Assurance Opinion	Priority		
		P1	P2	P3
Purchasing Cards	Moderate	0	3	1
Youth Offending Service	Moderate	0	4	1
Declarations of Interest	Moderate	0	4	1
Town Hall Project Management	Strong	0	1	2
Planning Enforcement	Moderate	0	4	1
Data Protection Reforms	Cause for Concern	1	7	1
Highways and Winter Maintenance	Moderate	0	3	3
Compliance with Contract Procedure Rules	Strong	0	1	0
Capital Accounting	Strong	0	0	0
Income Targets	Strong	0	0	1
Property and Commercial Services	Strong	0	1	1
Social Care Payments	Moderate	0	5	1
Street Lighting Contract	Cause for Concern	0	7	0
Trading Breach	Cause for Concern	2	2	6
HR Policies Compliance	Good	0	3	6
Volunteer Controls (D)	Good	0	3	1
Road Safety (D)	Strong	0	0	2
Decision Making (D)	Moderate	0	5	0
Pension Fund Investments (D)	Strong	0	0	0
Medium Term Financial Plan (D)	Strong	0	0	0
Debtors (D)	Good	0	2	4
Capital Programme (D)	Strong	0	0	0
	Total¹ : 89	3	55	32

13. The opinions used by Internal Audit during 2017/18 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.

¹ Further audit reports will be included in this list and reflected in the final version of this document considered by the Committee in July 2018.

- 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.

14. 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.

15. There are currently a number of audits completed during 2017/18 where work is still ongoing and the draft opinions are to be concluded. The audits are listed below and will be added to the table in paragraph 12 when completed.

Audit Title	Audit Title
Project Management	Housing Benefits
Financial Planning and Control	Council Tax and Business Rates
Risk Management	Main Accounting
Partnership Governance	Laboratories
Data Quality	Pension Fund Admin
Complaints Management	Payroll
Creditors	

16. During 2017/18 Internal Audit has also tested progress made by the Council to address the implementation and embedding of its land and property disposal framework. This has been the subject of previous internal audit concern and was also the remaining issue upon which the External Auditor qualified its value for money opinion for the 2016/17 Statement of Accounts. Testing identified the progress that has been made to embed the process but highlighted some further areas for development which were accepted by management. This work was carried out in December 2017 and therefore it is expected that further progress will have been made since then. External testing is currently underway to provide a more up to date conclusion and the outcome of this will be reflected in the final document considered by the Committee in July 2018.

Corporate Affairs and Audit Committee during 2017/18

17. 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 six times during 2017/18. During the year, the Committee considered:

- Internal Audit's annual report, its planned programme and in-year progress updates;

- the Council's 2016/17 Statement of Accounts;
 - reports from External Audit including the Annual Audit letter, certification of claims and the year-end planning report as well as the Audit results report;
 - disqualification criteria for Councillors and Mayors;
 - anti-money laundering and counter fraud policies and an annual counter fraud management report; and
 - the annual review of the local Code of Corporate Governance.
18. During 2017/18 the Council widened its reporting to Corporate Affairs and Audit Committee to include a wider range of governance issues, with the committee receiving assurance reports on the following:
- the approach to property, regeneration and asset development projects;
 - the corporate programme and project management framework;
 - business continuity;
 - risk management;
 - health and safety;
 - HR and organisational development; and
 - information governance – presented as the annual report of the Senior Information Risk Owner (SIRO).
19. The SIRO's report provided a detailed briefing on the legal obligations upon the Council in relation to information governance, set out the information governance risks being managed by the Council and planned priorities for 2018/19 which include:
- ensuring the Council complies with the requirements of the EU General Data Protection Regulation, in place from 25 May 2018;
 - the development and implementation of a new Information Strategy;
 - refreshing the approach to data protection breach investigations; and
 - upgrading the Electronic Document and Records Management System to support information management.

Overview and Scrutiny during 2017/18

20. 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 2017/18, the Council's Overview and Scrutiny committees considered the following items that are relevant to corporate governance:
- quarterly budget and balanced scorecard reports;
 - the Executive Forward Work Programme; and
 - the Council's provisional budget and savings proposals for 2018/19 and the proposed approach for consulting on these.
21. In addition the committee has considered three call-ins during 2017/18 relating to governance concerns, though it should be noted that none of these concerns were upheld upon investigation by the committee. The call-ins were in relation to the following decisions:
- the future of the Southlands Centre;
 - the Centre Square East office development; and
 - the Member Small Scheme allocation process.

Governance related events during 2017/18

22. In the 2016/17 Annual Governance Statement, the Council reported three significant issues that actually occurred during 2017/18 – the Employment Tribunal of the Council's former Monitoring Officer, the Grenfell disaster and the major security breach of the NHS's ICT systems.

23. 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.
24. The Grenfell Tower disaster occurred in June 2017. Seventy one 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, and progress is being reported to full Council.
25. 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 had the patch correctly applied.
26. During 2017/18 the National Audit Office released a report on local authority finances identifying that, if council tax is excluded, funding from government to local government fell by 49.1% in real terms from 2010/11 to 2017/18, with the forecast reduction to 2019/20 56.3%. At the same time Northamptonshire County Council (NCC) became the first Council in 20 years to issue a section 114 notice to Councillors, outlining concerns of the section 151 officer that the authority's expenditure was likely to exceed its resources. In addition, the Secretary of State for Housing, Communities and Local Government commissioned a Best Value inspection of NCC which identified a range of serious governance concerns in the organisation.
27. The Council has taken the opportunity to analyse the findings of the NCC inspection, and has completed a self-assessment to it applies any learning from these findings. This analysis has been separately reported to members of the Corporate Affairs and Audit Committee, and actions outlined within this Annual Governance Statement align with that report.
28. The recent Facebook and Cambridge Analytica data harvesting scandal has significantly raised public awareness of rights and duties around data protection. While there are no direct implications for the Council from this particular situation, the EU General Data Protection Regulation (GDPR), which will come into force during 2018/19, is a significant governance change that has also received international media attention. GDPR updates the rights put in place by the Data Protection Act 1998 to reflect the digital age. During 2017/18 an Internal Audit report (requested by the SIRO) identified a cause for concern in relation to the Council's preparations for this, which was expected given the stage at which the audit took place, however all recommendations made in that report to rectify this position have now been implemented.
29. The collapse of Carillion, a public sector support services provider, did not directly impact on the Council, however it did raise a number of questions for all organisations to consider around the resilience of outsourced services. During 2017/18, the Council purchased a robust contract management system which, along with a risk management framework, will ensure the most significant contracts across the council are robustly performance-managed and issues relating to financial stability identified early.

Position statement against the Council's Code of Corporate Governance

Self-assessment

30. The Council has completed a position statement against its Code of Corporate Governance for the 2017/18 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; and
 - findings from Internal Audit's review programme, and engagement with the Council's external auditor.

31. 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 2018/19, and these are set out in the following section.

Code of Corporate Governance principle	Self-assessed RAG
Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.	Green
Code of Corporate Governance principle	Self-assessed RAG
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

32. 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.

33. The overall opinion of the Audit and Assurance Manager on the controls operating in the Council during 2017/18 will be provided in the final version of the Annual Governance statement. This opinion will be based on the work performed by the internal audit team during the year 2017/18.

34. For the previous year 2016/17, approximately 112 internal audit recommendations were made of which all but 17 (15 Priority 2 and 2 Priority 3) have been implemented during 2017/18. Only 7 of the 17 have passed their agreed target date. Again, this information will be updated in the final version of this document.

35. The internal audit opinion will take into account the number of different reports issued at each assurance level. To date, three priority one actions have been raised during the year and no P1 are outstanding from previous years. Two of the three P1 actions from this year have already been implemented. 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 whereas the focus during 2017/18 has been on compliance with those frameworks.

36. During the year, Internal Audit identified many areas where controls and governance was assessed as being strong or good and the financial control audits continue to consistently receive a high level of assurance. The number of management actions that pass their due date but remain outstanding is lower than in previous years. The main areas where control was found to be weaker are outlined below.
37. One area related to compliance with processes, the need for greater management monitoring and oversight in some areas and the scope for more effective monitoring of service or contract performance. Although these issues may not be Council wide, they did emerge in a number of audits throughout the year. Whilst many of the recommended actions have since been implemented, the need for management scrutiny and monitoring needs to be maintained in accordance with the Middlesbrough Manager framework.
38. Another area that was highlighted for governance attention during the year was the process for declarations of interest, gifts and hospitality. This area had been subject to an internal audit two years ago, and a 'cause for concern' opinion given. When this year's audit commenced, it was apparent that many of the actions recommended and agreed in the original audit around a consistent approach to the recording and management of declarations had not been fully implemented. However, steps have since been taken to improve the control environment, and all recommendations have since been confirmed as implemented. LMT has now requested that it is briefed on any Internal Audit findings that are moderate or below so they are aware of the issues, mitigating actions and timescales to deliver these, and receive regular updates on progress.
39. Data Protection Reforms – this was a cause for concern report at the time of its issue. Although the Council has specialist knowledge and awareness of the Data Protection reforms and their impact and had identified some strategic actions that need to be undertaken, testing at the time of the audit identified the need for improvements in the strategic governance, planning, documenting, and resourcing the Council's approach and response to meeting the reforms. The report included one P1 action which has since been implemented.
40. To date, Internal Audit has issued three reports (one of which was an investigation) with a cause for concern opinion: street lighting contract; trading limits breach investigation and Data Protection Reforms.

External opinion

41. The Council's External Auditor for 2017/18 will provide an audit opinion on the Council. The finalised Annual Governance Statement will reflect that opinion.

Priorities for 2018/19

42. The above-detailed information has been used to identify governance improvement actions for 2018/19. 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 the People Strategy

43. 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 if everything the Council does.

Governance of partnerships

44. 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.

Information Strategy

45. During 2018/19 action will be taken to put in place an Information Strategy for the organisation to set out how the Council will ensure legal compliance in data handling while also ensuring the organisation improves the way in which it uses data to create added value.

Summary of actions

46. The Council's priority governance improvement actions for 2018/19 can be summarised as follows:

Issue	Action	Expected Outcome(s)	Lead officer	Deadline
Ensuring the constitution is kept up to date	Initiate a rolling review of the constitution by the Constitution and Member Development committee during 2018/19.	A constitution that is up to date to support good governance and effective decision making	Bryn Roberts, Head of Legal and Democratic Services	December 2018
Ensuring Members have the skills and knowledge to operate effectively	Review the member induction process to ensure it is suitable for Members joining the organisation following the May 2019 local elections.	A Member induction programme that is fit for purpose.	Sylvia Reynolds, Member and Statutory Service Manager	March 2019
Delivery of the People Strategy	Continue to embed the values in everything the Council does during 2018/19 by delivering the People strategy, but also reviewing all HR documents and processes to embed the values within these.	Ensuring the values of the organisation are effectively embedded within all practices	Pip Schofield, Head of Human Resources	March 2019
Ensure continual improvements around contract management	Roll out of the Contract Management framework across the Council, prioritising delivery during 2018/19.	Effective contract management oversight arrangements are in place.	Louise Grabham, Head of Strategic Commissioning and Procurement	March 2019
Reflecting Social value within procurement	Develop a Middlesbrough guide for social value in procurement and commissioning during 2018/19 (March 2019)	That guidance will be in place by March 2019 to ensure social value is consistently considered within procurement and commissioning processes.	Louise Grabham, Head of Strategic Commissioning and Procurement	March 2019
Ensure compliance with new data protection	Ensure the Council complies with the immediate requirements of GDPR by 2 May 2018 and has plans in place to ensure full compliance within 2 years	That Information Asset Registers will be in place and there is an action plan in place to deliver full compliance	Paul Stephens, Head of Strategy, Information and Governance	May 2018
Refresh the Performance framework to reflect changes in the Strategic Plan agreed by Council in March 2018	Refresh the Performance and Risk Management Framework to reflect the revised Strategic Plan during 2018/19.	That the Council's Performance and Risk Management Framework ensures a 'golden thread' exists from the Mayor's vision, through the Strategic Plan and into the Strategic and operational performance plans of the organisation.	Paul Stephens, Head of Strategy, Information and Governance	June 2018

Issue	Action	Expected Outcome(s)	Lead officer	Deadline
Update the Customer Strategy to reflect progress to date and refresh against likely future customer service expectations and the aspirations of the Council	Refresh the Customer Strategy to ensure it continues to support the Council's ambitions and customer expectations.	That a refreshed Customer Strategy will be put in place	Paul Stephens, Head of Strategy, Information and Governance	June 2018
Information Strategy	Creation of an Information Strategy to ensure a coherent approach to Information Governance	Information Strategy in place	Paul Stephens, Head of Strategy, Information and Governance	August 2018
Ensuring complaints data is used to improve service delivery	Implementation of a new approach to complaints including quarterly management information and lessons learnt reports	Ensure that complaints data influences service deliver.	Paul Stephens, Head of Strategy, Information and Governance	July 2018 onwards
Improve consideration of social value within project documentation	Refresh the Project Management Framework during by March 2019 to improve consideration of social value within projects	That Council project documentation supports consideration of Social Value.	Paul Stephens, Head of Strategy, Information and Governance	March 2019
Improved demand management in children's and adult social care	Include a robust forecast of demand for children's and adult social care within the MTFP	That the Council is able to more accurately forecast future demand for children's and adult social care.	Alison Brown, Director of Children's Care, Erik Scollay, Director of Adult Social Care and Health Integration, and Ian Wright, Head of Financial Planning and Support	March 2019
Continuing effective MTFP planning	Review the Public Health grant to ensure it continues to be appropriately used to deliver against Public Health required outcomes	That the grant continues to be appropriately used to support commissioning priorities in Public Health	Edward Kunonga, Director of Public Health and Public Protection and Louise Grabham, Head of Strategic Commissioning and Procurement	March 2019

Signed on behalf of Middlesbrough Council

SIGNED:

David Budd
Elected Mayor

Tony Parkinson
Chief Executive

James Bromiley
Strategic Director, Finance, Governance and Support

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"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<ul style="list-style-type: none"> • Work diligently and with integrity to achieve the Elected Mayor's Vision of a Fairer, Safer, Stronger Middlesbrough by 2025. • Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these. • Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour. • Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities. • Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes. 	<ul style="list-style-type: none"> • Middlesbrough's Constitution and supporting documentation including Officer and Member Codes of Conduct, financial procedure rules and schemes of delegation. • Corporate Values are now in place and have been rolled out and steps taken to ensure they are embedded. • Member and Officer relationship Code of Conduct, and mandatory training on the Code of Conduct. • Promotion of individual sign-up to the Code of Conduct, which all members have signed. • Strategic Plan and Directorate Delivery Plans. • Member induction process, which includes provision of ethical awareness training, and member development programme. • Council staff induction process. • Officer and Member declarations register maintained, which has been reviewed in 2017/18 • Middlesbrough Manager and Middlesbrough Employee appraisal systems that take account of skills and behaviours. • Extensive internal and external communications and engagement from Senior Managers to reinforce behaviours expectations. • Declaration of interests recording for officers and members which is up to date. • Anti-Fraud, Bribery and Corruption Policy regularly updated. • Whistleblowing policy in place. • Corporate Complaints policy. • Standards Committee in place. • Scrutiny call in processes. • HR recruitment and selection policies. • Gender pay statement published. • Procurement Policy. • No evidence of non-compliance with statutory guidance. • Job descriptions and role specifications. • Compliance with the CIPFA statement on the role of the Chief Financial Officer (2015). • Required training for Members of the Corporate Affairs and Audit committee 	<p>Review the member induction process to ensure it is suitable for Members joining the organisation following the May 2019 local elections (March 2019)</p> <p>Initiate a rolling review of the constitution by the Constitution and Member Development committee during 2018/19.</p>

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
		<p>and any substitutes available, which is supplemented with additional relevant training on a voluntary basis.</p> <ul style="list-style-type: none"> Internal Audit reviews of compliance. 	
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> Openness Engaging comprehensively with institutional stakeholders Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> Document and operate a culture of openness and transparency within the organisation. Maintain a culture of accountability, so that members and officers understand for what they are accountable and to who. Consult appropriately with stakeholders on the development of its budget, key plans and service development. Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant. 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. Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges. 	<ul style="list-style-type: none"> Council constitution and supporting documentation, in particular the Schemes of Delegation. Corporate Consultation policy and use of consultation feedback mechanisms. Budget setting process. Establishment of the Council's values. Freedom of Information publication scheme. Online Council Tax information and inclusion of an information leaflet with annual bills. Comprehensive, easy to use website. Member and officer schemes of delegation and associated decision making recording processes. Standard report templates, which were reviewed during 2017/18. Joint Strategic Needs Assessment. Health and Wellbeing Strategy. Scrutiny reports. Annual Governance Statement. Public consultations. Executive forward work programme. Impact Assessment policy. Executive Forward Work Programme. Committee diary planner published on an annual basis and approved by Members and accessible through e-genda. Publication of all public papers via e-genda. Open Data compliance published on Council website. Engagement forums for third party providers Key documents section on Council website. 	<p>Initiate a rolling review of the constitution by the Constitution and Member Development committee during 2018/19.</p> <p>Continue to embed the values in everything the Council does during 2018/19 by delivering the People strategy, but also reviewing all HR documents and processes to embed the values within these.</p> <p>Refresh the Customer Strategy to ensure it continues to support the Council's ambitions and customer expectations.</p>

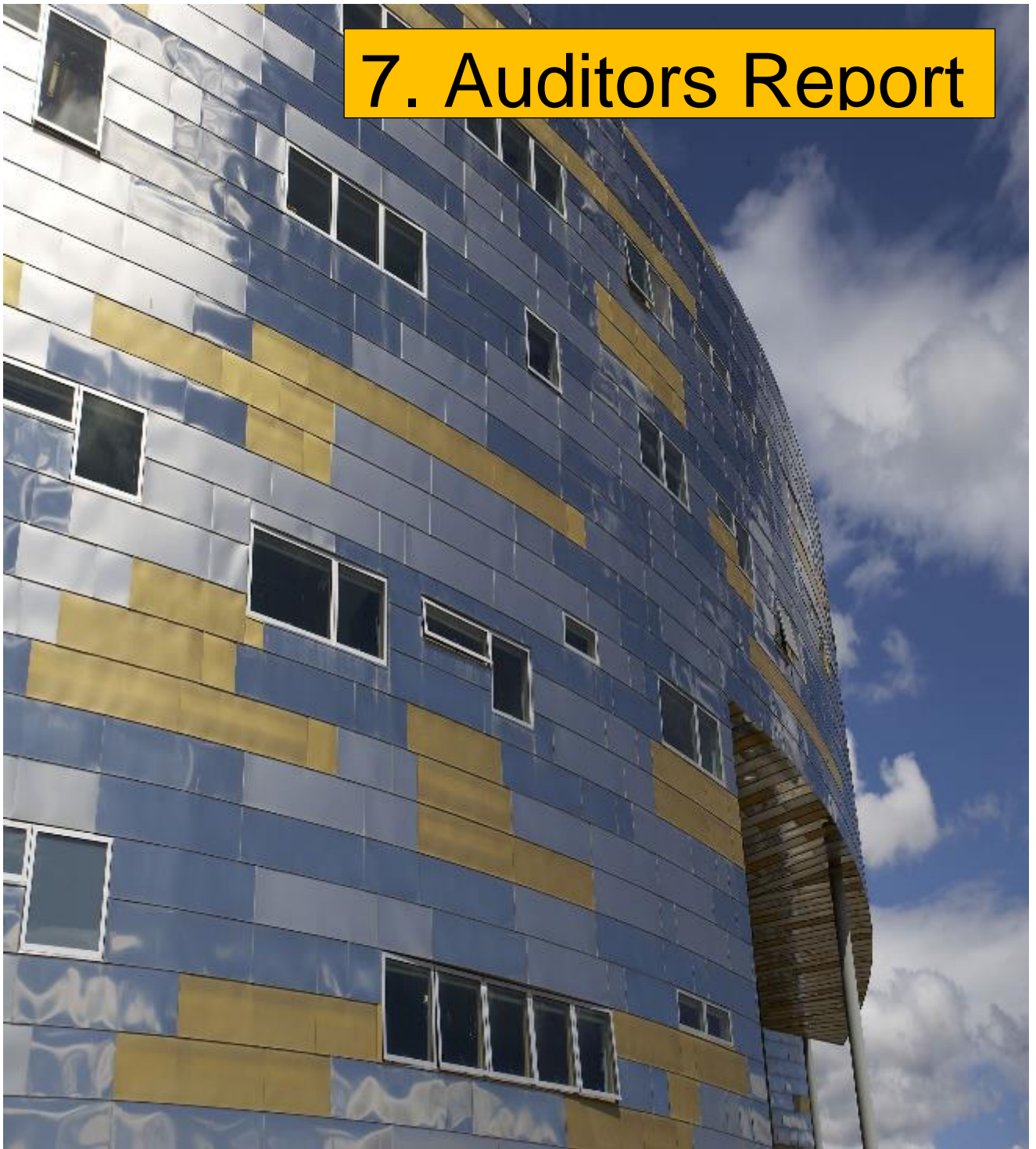
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> • Defining outcomes • Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> • 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. • Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment. • Ensure that it delivers defined outcomes on a sustainable basis within available resources. • Effectively identify and manage risks to the achievement of targeted outcomes. • Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services. 	<ul style="list-style-type: none"> • Strategic Plan and Outcome Delivery Plans. • Balanced scorecards and supporting processes. • Revenue Budget and investment strategy process • Risk Management Framework and the Risk Register structure. • Project Management Framework and Programme Management Office in Place • Change Fund • Investment Strategy and Prospectus. • Decision making records. • Fair access to services protocols. • Customer Strategy. • Needs assessments, children and young people's needs assessment was refreshed during 2017/18 • Market position statements which use needs assessments to inform commissioning priorities. • Consultation Strategy. 	<p>Refresh the Performance and Risk Management Framework to reflect the revised Strategic Plan during 2018/19.</p> <p>Refresh the Project Management Framework during by March 2019 to improve consideration of social value within projects.</p>
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> • Determining interventions • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • 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. • 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. • Ensure achievement of social value through service planning and commissioning. • Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets. • Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these. • Ensure medium and long term resource 	<ul style="list-style-type: none"> • Standard report templates, reviewed during 2017/18 to improve content. • Corporate Consultation policy. • Impact Assessment policy. • Budget setting process. • Executive Forward Work Programme. • Decision making protocols in place on key decisions and officer member delegated decision making. • Committee dates set annually. • Strategic Plan and Outcome Delivery Plans cycle. • Performance Management Framework. • Risk Management Framework. • Balanced scorecards. • Health and Wellbeing Board. • Strategic Plan and Outcome Delivery Plans. • Medium Term Financial Planning process. • Change Programme. 	<p>Develop a Middlesbrough guide for social value in procurement and commissioning during 2018/19 (March 2019)</p> <p>Refresh the Performance and Risk Management Framework to reflect the revised Strategic Plan during 2018/19.</p> <p>Refresh the Project Management Framework during by March 2019 to improve consideration of social value within projects.</p>

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
	<p>planning is realistic, sustainable and inclusive.</p> <ul style="list-style-type: none"> Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP. 	<ul style="list-style-type: none"> Strategic Procurement Strategy, which was refreshed during 2017/18 'How to do Business with Middlesbrough Council' guidance for providers. 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 Affairs and Audit Committee in 2016/17. No report will be provided if there have been no disposals that meet this criteria. 	
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> Developing the Council's capacity Developing the capability of the Council's leadership and other individuals 	<ul style="list-style-type: none"> Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research. Work collaboratively and in partnerships where added value can be achieved. Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver. Clearly define roles, responsibilities and terms of engagement for members and employees. 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. Develop the capabilities of members and senior management to achieve effective shared leadership. Ensure there are appropriate structures in place to encourage public participation. Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate. 	<ul style="list-style-type: none"> Strategic Plan and Outcome Delivery Plans. Performance Management Framework. Health and Wellbeing Board and associated work. Constitution and associated documentation that sets out role profiles. Job descriptions and person specifications for all staff roles. Effective communication and engagement between senior officers and Members. Schemes of Delegation and decision making processes. Middlesbrough Learns and range of training solutions offered by the Organisational Development team. Middlesbrough Manager training and other training that supports the Middlesbrough Manager principles for Senior Managers. Member Development programme. Member induction processes. Mandatory training for members on the Code of Conduct for all, Audit and Governance, planning and licensing training (for Members of regulatory committees). Staff induction processes. All staff who have access to a PC have completed the corporate induction process during 2018/19 as part of the council's commitment to ensure core skills and knowledge are embedded within all job roles. 	<p>Complete delivery of the People Strategy actions planned for 2018/19.</p>

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
		<ul style="list-style-type: none"> • People Strategy now in place, refreshed Middlesbrough Manager profile and the Council's values are all in place. There are a number of actions planned within the strategy over the next 12 months. • Corporate Consultation policy, Voiceover panels and the consultation portal. • Public involvement in determining scrutiny priorities. • Process in place to enable the public to petition Council and register questions to be considered by full Council. • Strategic Partnership frameworks. 	
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control • Managing data • Strong public financial management 	<ul style="list-style-type: none"> • 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. • Ensure effective performance management of service delivery, and provide members and senior managers with timely updates on service performance and progress towards outcomes. • 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. • 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. • 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. • Ensure effective counter fraud and anti-corruption policies and arrangements are in place. • Ensure effective internal control arrangements exist for sound financial management. • Maintain an effective audit committee function. 	<ul style="list-style-type: none"> • Risk Management Framework. • Performance Management Framework. • Performance and Budget clinics • Strategic Plan. • 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. • Standard report formats, refreshed during 2017/18. • Officer training on report writing, refreshed during 2017/18. • Committee dates diarised for the municipal year. • Annual Governance Statement. • Information Strategy. • Data Protection Policy and monitoring arrangements. • Money Laundering Policy, reviewed during 2017/18 by Corporate Affairs and Audit Committee. • Whistleblowing Policy. • External inspection of accounts. • Internal Audit annual plan. • Internal audit reports. • Data Quality policy. • Member briefings. 	<p>Roll out of the Contract Management framework across the Council, prioritising delivery during 2018/19.</p> <p>Refresh the Performance and Risk Management Framework to reflect the revised Strategic Plan during 2018/19.</p>

Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle:	Action identified
	<ul style="list-style-type: none"> • Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data, • Put in place arrangements to ensure that data used to support decision-making is accurate and clear. • Ensure financial management arrangements support both long term outcome delivery and day-to-day operations. 	<ul style="list-style-type: none"> • Corporate Affairs and Audit committee full membership, clear terms of reference and training for the role provided. • Information Sharing protocol guidance in place. • Information Governance Framework in place. • Toolkit in place to Support Information Governance compliance, reviewed on an annual basis. • Contract Management framework in place from April 2018 	
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective accountability 	<ul style="list-style-type: none"> • Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity. • Report regularly on performance, delivery of value for money and stewardship of resources. • Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement. • Ensure compliance with good governance principles extends to its partnership arrangements. • Ensure that recommendations made by external audit are addressed • Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements. • Welcome and positively engage with peer challenges, reviews and inspections of its services. 	<ul style="list-style-type: none"> • Constitution in place. • Standard report formats, refreshed during 2017/18. • Urgent decision process and records in place and reported to Council annually. • Council website contains key data, including information required by the Transparency Code. • Annual Governance Statement. • Governance documents of partnerships. • Corporate Affairs and Audit Committee papers including regular reports from Internal Audit and assurance reports provided on a range of governance topics. • Strategic Plan. • Internal Audit action tracker. • Performance and Financial monitoring processes. 	<p>Initiate a rolling review of the constitution by the Constitution and Member Development committee during 2018/19.</p>

7. Auditors Report



10 Middlesbrough College

Auditor's Report

Independent auditor's report to the members of Middlesbrough Council

Opinion on the Authority's financial statements

This report will be included upon completion of the audit.

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

8. Glossary of Terms



11 Middlesbrough 5k Run

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 out sourcing 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.

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.

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 receipt 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.

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.

Curtailement (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.

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.

Impairment

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 how organisations 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.

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.

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.

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