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Nottingham City Council

TO FOLLOW AGENDA ITEMS

This is a supplement to the original agenda and includes which were marked 'to follow'.

NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 22 September 2017

Time: 10.30 am

Place: LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG

Governance Officer: Zena West **Direct Dial:** 0115 876 4305

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Agenda Item 4

AUDIT COMMITTEE – 22 SEPTEMBER 2017

Title of paper:	Statement of Accounts 2016/17	
Director(s)/ Corporate Director(s):	Geoff Walker Strategic Director of Finance	**Wards affected:** All
Report author(s) and contact details:	Susan Risdall susan.risdall@nottinghamcity.gov.uk / 0115 8763653	
Other colleagues who have provided input:	Strategic Finance – Technical Team	

Recommendation(s):	
1	The external auditors' report (Appendix A) to those charged with governance is considered
2	The Statement of Accounts (Appendix B), as attached, is considered and approved for signature by the Chair of the Audit Committee.
3	The Draft Management Representation Letter (Appendix C) is approved for signature by the Chair of the Audit Committee.

1 REASONS FOR RECOMMENDATIONS

1.1 Our external auditors (KPMG) have completed the audit of the draft 2016/17 Statement of Accounts (the Statements) and provided their findings in their "report to those charged with governance" (ISA 260). In order to conclude the audit, KPMG are required to present the ISA 260 to the Audit Committee by 30th September 2017.

1.2 The Accounts and Audit Regulations 2015 require the Audit Committee to approve the Statement of Accounts. The Chair of the Audit Committee and the Chief Finance Officer are then required to sign a Statement of Responsibilities, including approval of the accounts.

1.3 As part of the audit, KPMG require the Council to make certain statements in a management representation letter, including confirmation that the statements have been constructed accurately and on an appropriate basis, and that relevant and complete disclosures have been made.

2 BACKGROUND

2.1 On the 12 June 2017, the Strategic Director of Finance approved the draft Statement for 2016/17 as giving a true and fair view of the financial position, income and expenditure in accordance with the Accounts and Audit Regulations 2015.

2.2 At this point, the Statements were also subject to external audit. This report, along with the ISA260 is intended to help Committee consider any relevant issues before approving the Statements for signature by the Chair of the Audit Committee.

3 CHANGES TO THE FORMAT AND CONTENT OF THE ACCOUNTS

3.1 Colleagues continue to review the format and content of the Statement, in order to make improvements and ensure best practice.

There are also new reporting requirements in the 2016/17 Code of Practice as part of CIPFA's 'Telling the Story' project which aims to make the financial statements more understandable for the reader. This has resulted in some significant presentational changes to the accounts to help explain the link between how services are managed during the year and how they are reported in the accounts. The cost of services in the Comprehensive Income and Expenditure Account (CIES) is no longer based on the standard headings in CIPFA's Service Reporting Code of Practice (SERCoP), but is now presented by portfolio to give a clearer link between monitoring reports, out-turn reporting and the financial statements.

A new note to the accounts, the Expenditure and Funding Analysis (EFA) takes the net expenditure that is chargeable to Council Tax (and rents) and reconciles it to the CIES. Together with the Narrative Report, which replaced the Explanatory Foreword last year, the EFA is a key tool in explaining the financial results to stakeholders.

4 AMENDMENTS TO THE STATEMENTS FOLLOWING AUDIT REVIEW

4.1 KPMG have undertaken an audit of the accounts and the ISA 260 report sets out the findings of the 2016/17 Statement of Accounts audit.

Amendments to the accounts have been agreed with KPMG and incorporated into the 2016/17 Statement of Accounts presented to Audit Committee for approval.

There are no changes to the financial statements from the draft published on the website and the intranet, which impact on the General Fund or Housing Revenue Account. There is a reclassification on the Balance Sheet of Short-Term and Long-Term debtors re NET to align these to the balance in the PFI model (£2.858m). There are a small number of presentational changes, including the separating out of the revaluation gain for Council dwellings to show it as an exceptional item on the face of the Comprehensive Income and Expenditure Statement.

4.2 A number of minor changes to narratives have been made to the Narrative report and the notes to the accounts to give more clarity for the reader.

4.3 Group Accounts have been updated to reflect any changes between draft and final accounts for the Council's group entities.

5 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

5.1 Statement of Accounts working papers
KPMG External Audit Plan 2016/17

6 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

6.1 Code of Practice on Local Authority Accounting in the United Kingdom 2016/17,
Guidance Notes for Practitioners 2016/17 Accounts,
The Accounts and Audit Regulations 2015

Nottingham City Council

A safer, cleaner, ambitious Nottingham
A city we're all proud of

Statement of Accounts 2016/17

Contents

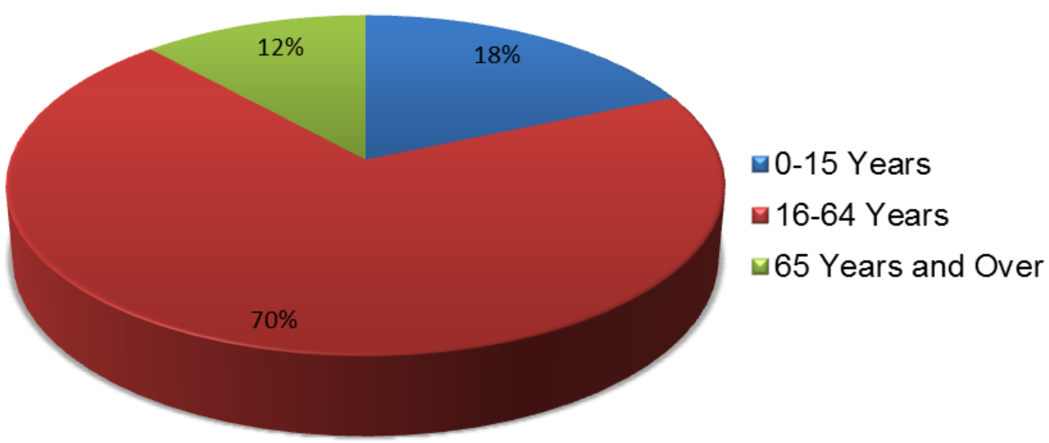
Contents - Notes to the Financial Statements

Section 1
Narrative Report

1.1 Introduction to Nottingham City Council

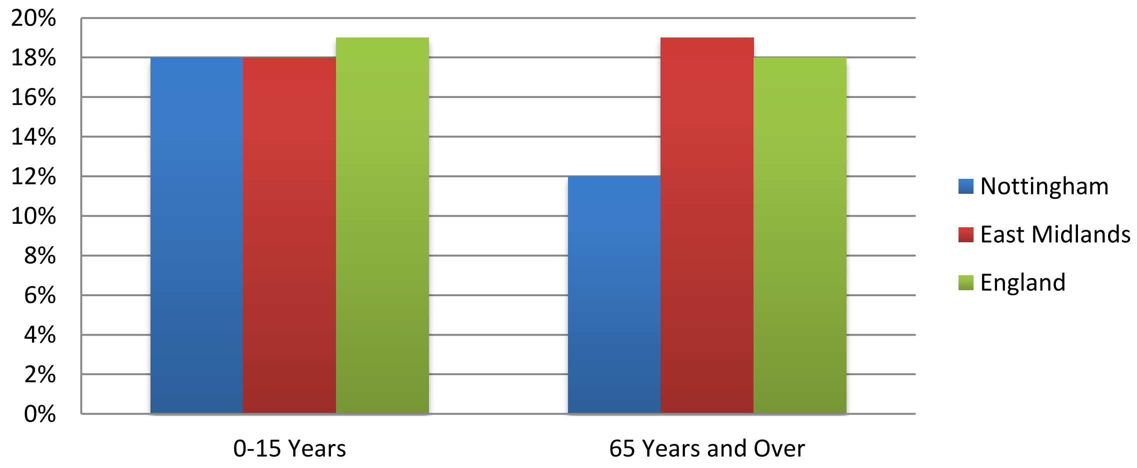
The Office for National Statistics Mid-Year Estimates for 2015 reported that Nottingham's estimated population was 318,901 with the age profile as presented below.

Composition of Nottingham City Population



In comparison with local and national population age profiles, Nottingham has a higher proportion of 16-64 years, is comparable for 0-15 years and has a lower over 65 years profile.

Comparing Nottingham Age Profile Locally and Nationally



Non- Financial Performance

Design Limited was commissioned by Nottingham City Council to conduct the 2016 Nottingham Citizens' Survey. The fieldwork was undertaken in October and November 2016 and involved face-to-face interviews with 2006 citizens (approximately 100 per ward, depending on relative population size). This methodology has been consistently applied for the past 6 years to allow comparison of results.

The survey gathers citizens' perceptions on a variety of subjects including health and wellbeing, community cohesion, general feelings about Nottingham as a place to live, satisfaction with the Council and experiences due to the current economic climate.

Overall results are similar to those from the 2015 survey and continue to show high levels of satisfaction or positive outcomes across a broad range of indicators.

Perceptions about the local area:

- 85% of respondents are satisfied with their local area as a place to live,
- 71% are satisfied with the cleanliness of their local area,
- 88% feel that their local area is a place where people from different backgrounds get on well together,
- 80% are satisfied with city centre cleanliness
- 50% feel that they can influence decisions affecting their local area

Perceptions of Nottingham City Council:

- 71% are satisfied with the way the Council runs things,
- 63% feel the City Council provides value for money,
- 85% agree that the Council treats them fairly

Contact with the Council:

- 90% of respondents find Council information easy to understand,
- 76% of respondents feel well informed about Council services and benefits.
- 47% have contacted the Council in the last 12 months, of which:
  - 73% were satisfied with the handling of their query
  - 73% agreed that those handling their query delivered as promised

The Economy and External Environment

- Nottingham retained its place as sixth in a poll of European cities in fDi Magazine's Top 10 Mid-Sized European Cities of the Future 2016/17. This poll is to award places to cities and regions who have successful strategies to attract national and international investors.

- National Statistics compared average annual GDP growth in Local Enterprise Growth (LEP) areas and the D2N2 LEP between Nottingham and Derby was placed in the top 5.

- The number of people claiming Job Seekers allowance in Nottingham has fallen by over 50% in the last five years. In 2012, the number of people claiming Job Seekers was 14,677 but by January 2017, the number has more than halved to 7000.

  Unemployment in Nottingham City fell by 1% as at November 2016, due in part to partnership working under the Nottingham Jobs banner. Nottingham Jobs is a nationally unique partnership between Nottingham City Council, Job Centre Plus and Futures Advice. Since 2012, Nottingham Jobs has helped over 10,000 people into work or training.

The Council Plan for 2015-2019 gives a commitment to guarantee a job, training place or further education place for every citizen in the city aged 18 to 24 years. In support of this, a new campaign was launched in 2017 aimed at making more people aware of the free support, advice and training available for those seeking jobs. The posters tell the stories of real jobseekers in the city who secured a job or apprenticeship through the 'Nottingham Jobs' service.

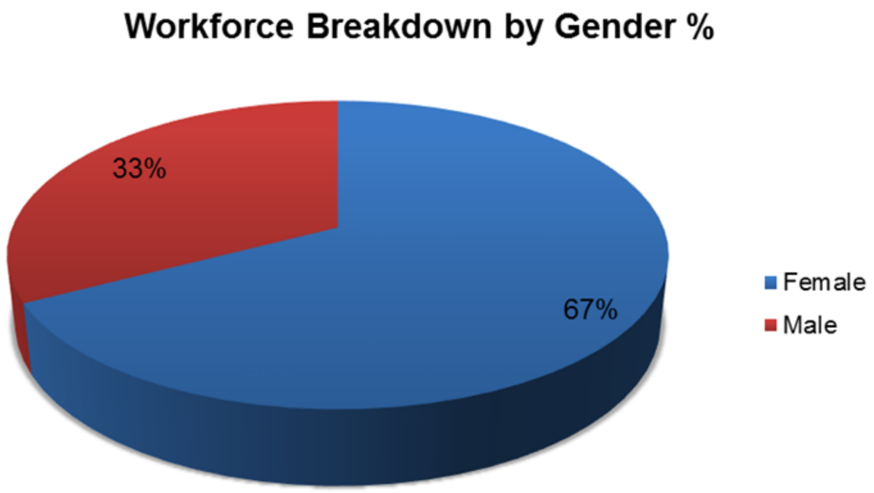
The national unemployment rate has been relatively stable at around 1.8% since May 2015. Over the same time period, Nottingham's rate has fallen from 3.6% to 3.0%, reducing the gap between the local and national rates to 1.2%.

- Nottingham has been named as the eighth most deprived area in the country in a report published by Government. Figures released by the Office of National Statistics show deprivation in the city has risen by almost 8% in the last five years which mean that more than a third of neighbourhoods in the city are in the top 10% for the most deprived areas.

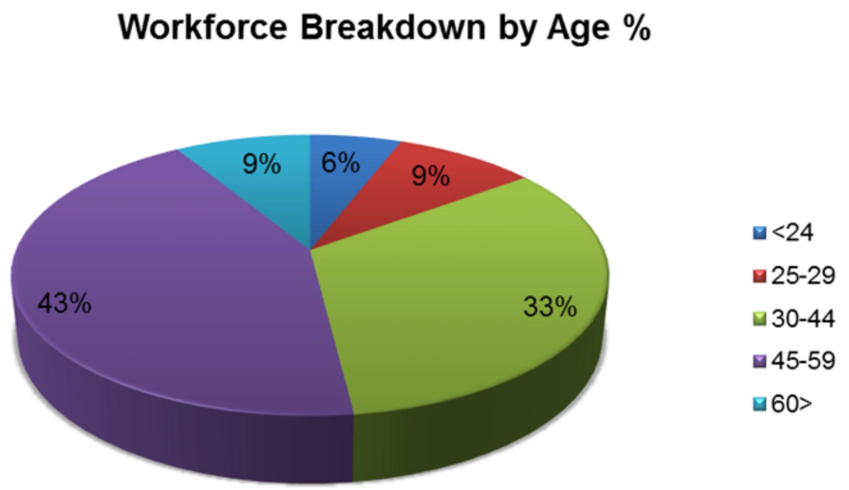
Employees

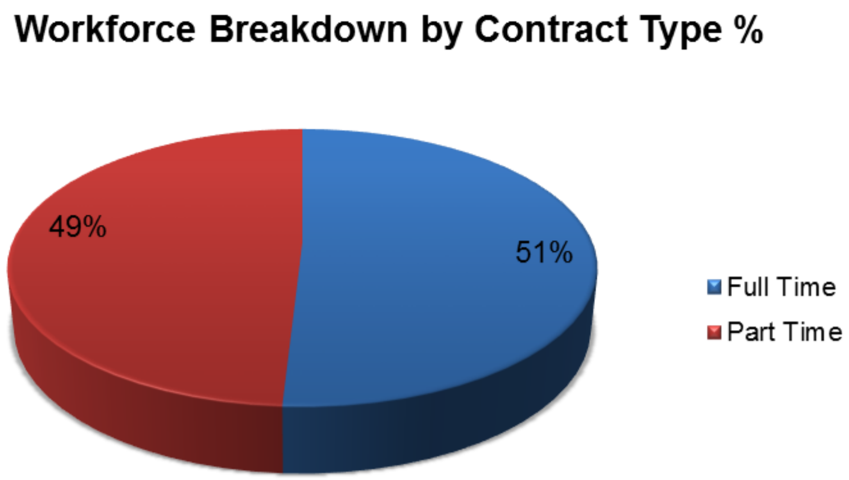
As at 31 March 2017 Nottingham City Council employs 9,148 people in full time and part time contracts, the data within this section include School workforce employed by Nottingham City Council.

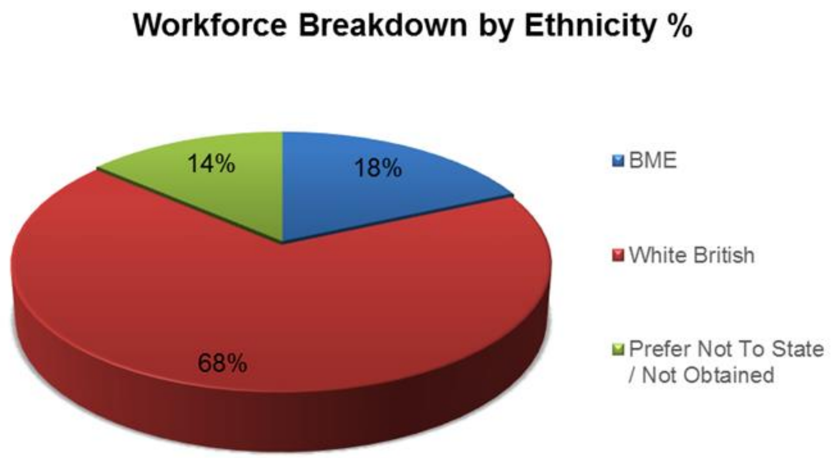
The charts below give a breakdown of Council employees by gender, age, contract type, ethnicity and disability.

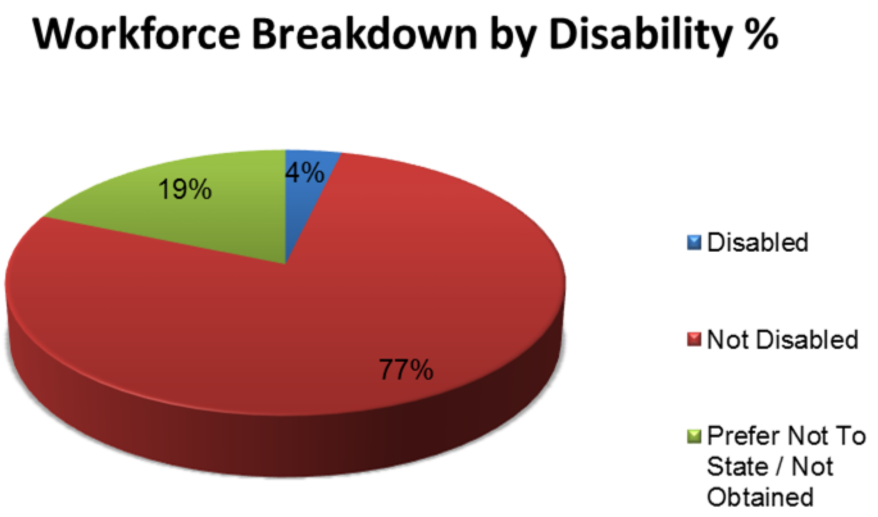


The Council's gender breakdown including School employees is 67% Female and 33% Male.


Workforce Breakdown by Age %
9%
6%
9%
43%
33%
<24
25-29
30-44
45-59
60>


Workforce Breakdown by Contract Type %
49%
51%
Full Time
Part Time


Workforce Breakdown by Ethnicity %
14%
18%
68%
BME
White British
Prefer Not To State / Not Obtained



1.2 Financial Performance

1.2.1 Economic and Funding Overview

The financial environment remains challenging with reducing government grant, increased demand for services, particularly social care and the economic uncertainty as a consequence of the decision to leave the European Union.

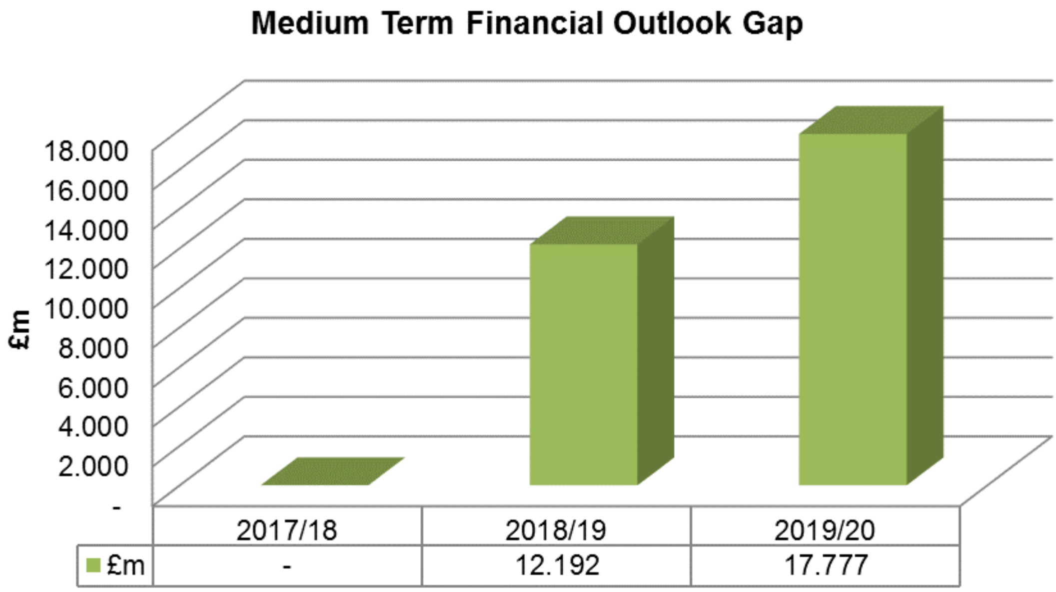
Nottingham City Council, in line with local authorities across the country has seen a substantial reduction in Government funding as a result of Government policies to address the national fiscal deficit. As a consequence of these policies, the Revenue Support Grant (RSG) as a proportion of the Council's total revenue funding has substantially reduced and will continue to do so in the future. RSG is predicted to fall from £126.819m in 2013/14 to £25.332m in 2019/20.

Alongside the reduction in grant income, Nottingham has seen increased demand for a number of services, in particular Adult Social Care and Children in Care, which already accounts for half of the Council's net budget. The increased demand for care, given continuing funding cuts will significantly impact on the Council's ability to fund other local services.

In the period from 2010/11 to 2016/17, the Council has had to make annual savings of £203.961m. Savings of £24.448m will be made in 2017/18 to produce a balanced budget.

In response to the current financial climate, the Council continues to work with council networks including the Local Government Association and the Special Interest Group of Municipal Authorities (SIGOMA) to campaign for a fairer funding settlement from central government for cities like Nottingham. As one of the ten Core Cities in the UK, the Council is campaigning for control over funding programmes and for powers to be devolved to cities to give more freedom to grow local economies and reform public services to get better outcomes for citizens.

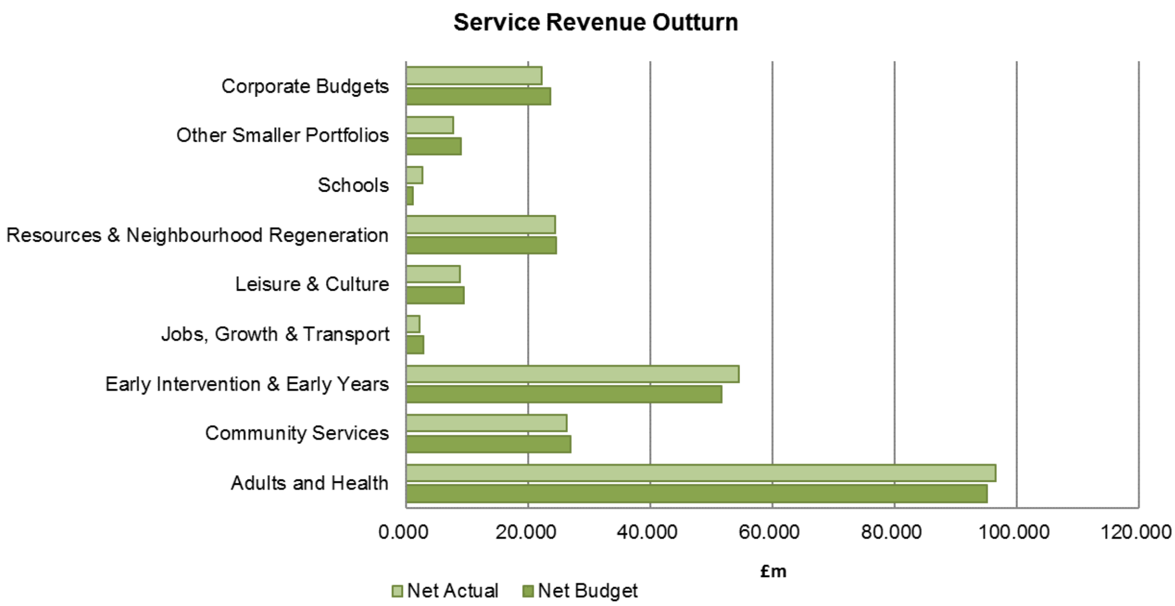
The revenue budget reductions included in the Medium Term Financial Strategy (MTFS) and Medium Term Financial Outlook (MTFO) reported to the Executive Board in February 2017 highlighted that the Council will have to continue making budget savings. The gap between the assumed net budget and assumed funding is shown in the diagram below:



1.2.2 Revenue

The Council's 2016/17 revenue outturn position is shown in the chart below. The original budget set at full Council in March 2016, agreed how the Council planned to allocate its funding during the year in order to deliver services to the citizens and communities of Nottingham.

The pre-audit revenue outturn for 2016/17 reported to Executive Board in June 2017 is an overspend of £2.522m (£1.558m overspend plus carry forwards of £0.964m – see page 33.



1.2.3 Capital

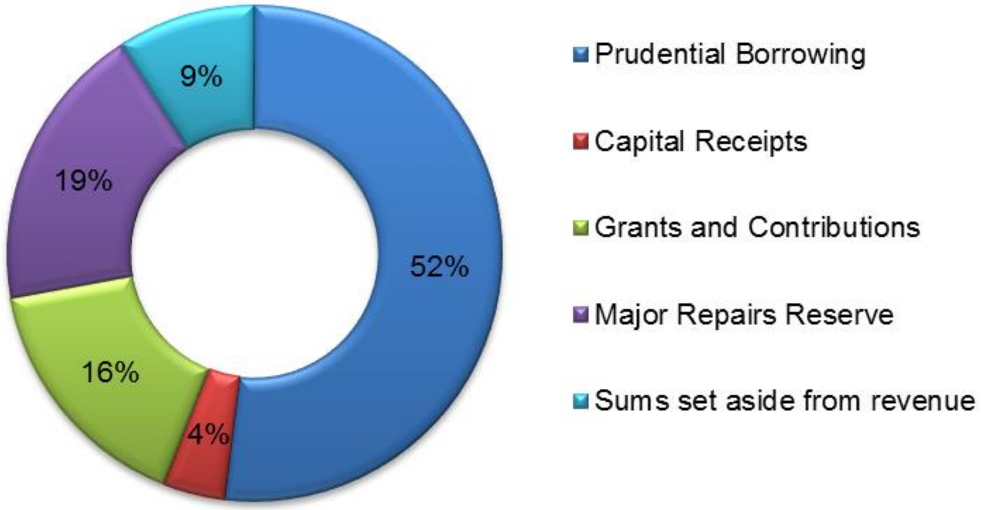
2016/17 Expenditure and Funding

The Council's capital position as against the approved 2016/17 capital programme is shown below:

	Budget / Projection 2016/17 £m	Actual 2016/17 £m
General Fund Capital Programme		
Transport Schemes	20.368	17.629
Education / Schools	18.223	15.503
Adults, Health and Community Sector	1.791	0.961
Early Intervention and Early Years	0.938	0.312
Leisure and Culture	5.109	4.110
Jobs, Growth and Transport	7.750	4.729
Energy & Sustainability	7.195	7.276
Planning and Housing	3.093	2.080
Strategic Regeneration, Development & Community Sector	29.913	26.994
Community Services	4.751	1.947
Resources & Neighbourhood Regeneration	76.758	98.702
Total Capital Programme General Fund	**175.889**	**180.243**
Public Sector Housing	57.868	54.218
TOTAL PROGRAMME	**233.757**	**234.461**

The above table shows an increased capital spend within Resources and Neighbourhood Regeneration from the projected spend at quarter 3. This increase is due to the Council acquiring a number of investment properties during quarter 4 of 2016/17 (please refer to section 6.3.3 for further details).

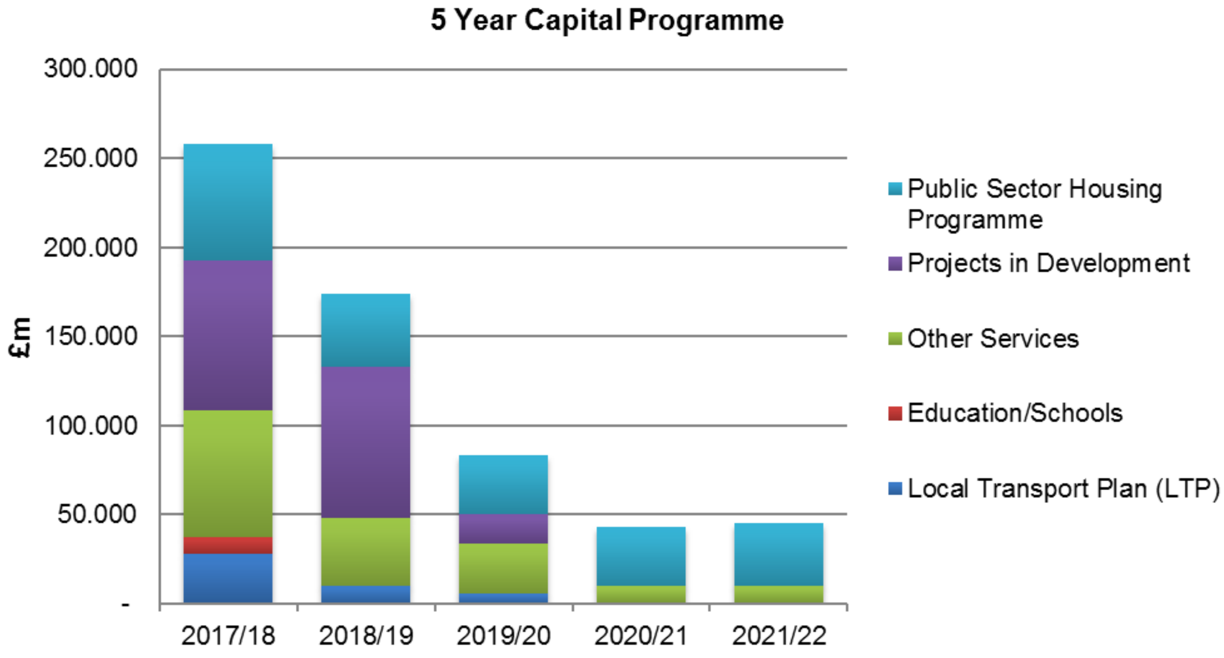
The chart below shows that Prudential Borrowing is the largest proportion of funding in the 2016/17 programme, accounting for over half of the actual financing.

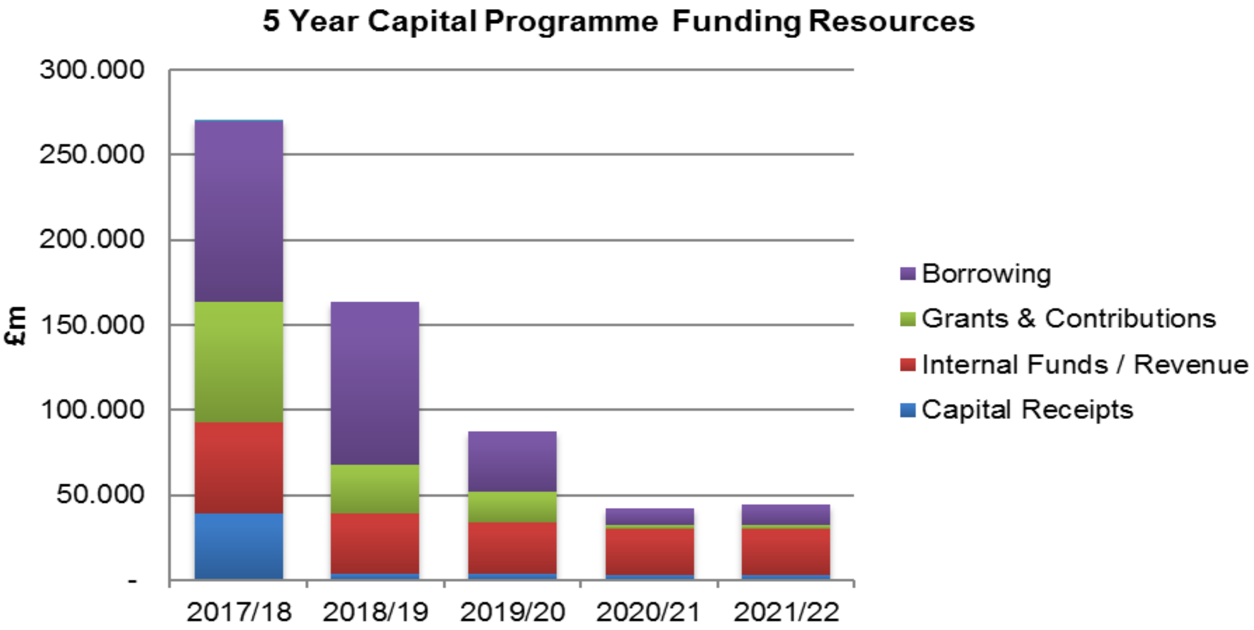


Capital Programme and Funding

A summary of all approved major schemes (i.e. excluding schemes in development) is shown below the table whereby total project expenditure exceeds £20m. The table contains the scheme name, capital expenditure incurred to 2016/17, the planned / approved expenditure during 2017/18 to 2021/22 and a brief explanation about the capital scheme.

CAPITAL SCHEME	Spend to 2016/17 £m	2017/18 to 2021/22 £m	TOTAL £m	DETAIL
Expansion of Bio-City	29.620	2.330	31.950	Expansion of the Bio-City area.
Nottingham Castle	1.517	28.466	29.983	Improvements to Nottingham Castle to help make it a major tourist attraction.





The resources surplus / shortfall on the general fund items (i.e. projects excluding the Public Sector Housing Programme) over the next 5 years is as follows:

PROGRAMME ELEMENT	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	TOTAL £m
Resource (Surplus)/Shortfall	(2.758)	0.072	(0.871)	0.500	(0.050)	(3.107)

1.2.4 Balance Sheet

Despite the financial challenges facing the Council the balance sheet remains in a strong position:

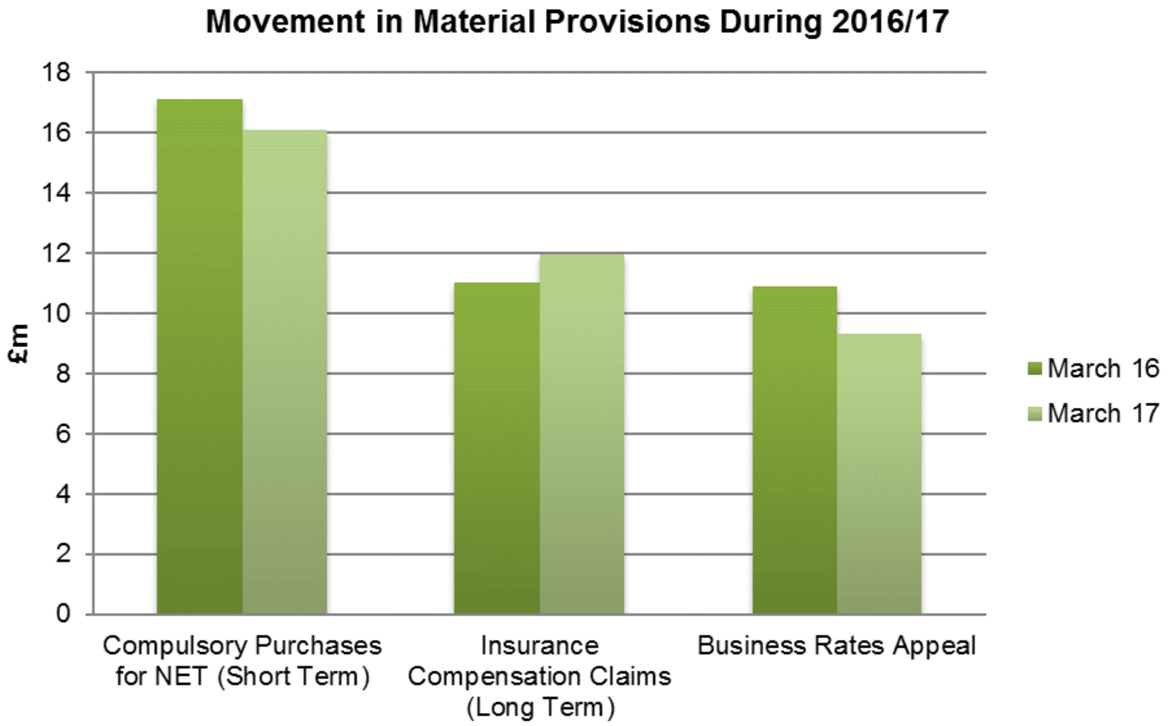
	31 March 2016 £m	31 March 2017 £m
Long Term Assets	2,352.221	2,654.943
Net Current Assets	(36.088)	(153.350)
Long Term Liabilities	(1,552.716)	(1,783.566)
NET ASSETS	**763.417**	**718.027**
Useable Reserves	252.490	223.020
Unusable Reserves	510.927	495.007
TOTAL RESERVES	**763.417**	**718.027**

Long Term Assets have increased in 2016/17 due to a net increase in Property Plant & Equipment of £206.496m, please refer to note 6.3.1 for further details. During 2016/17, the Council purchased a number of material investment properties with a total capital expenditure of £87.466m

Nottingham City Council has three material provisions (greater than £5m) being carried within the balance sheet the details of which are summarised below:

- Compulsory Purchases for NET (Short Term Provision) – The carrying value at March 17 (£16.107m) is for compulsory purchases of land and property required for the NET PFI where the purchase price has yet to be agreed.
- Insurance Compensation Claims (Long Term Provision) – The carrying value at March 17 (£11.946m) is to meet the cost of claims arising from self-insured risks and risks, which fall below the external policy retention levels, and for payment of external insurance premiums.
- Business Rates Appeals (Long Term Provision) – The carrying value at March 17 (9.305m) is due to the Council bearing a risk of non-collection of business rates following appeal.

For further information, please refer to note 6.3.10 provisions.



Surpluses and deficits from previous financial years are reflected in the reserve figures brought from the Movement in Reserves Statement. (See section 3.4 – Movement in Reserves Statement).

	31 March 2016 £m	Movement 2016/17 £m	31 March 2017 £m
General Fund	11.231	(2.768)	8.463
Earmarked General Fund Reserves	174.931	(17.448)	157.483
Other Usable Reserves	66.328	(9.254)	57.074
Unusable Reserves	510.927	(15.920)	495.007
TOTAL AUTHORITY RESERVES	**763.417**	**(45.390)**	**718.027**

1.2.5 Pension Liability

The Council is a member of the Nottinghamshire County Council pension fund and assets and liabilities of that fund that may be attributed to the Council are evaluated on an annual basis by an independent actuary. The actuary has estimated that, at 31 March 2017, the Council's fund was in deficit by £860.824m (£623.310m as at 31 March 2016). The actuary undertakes tri-annual valuations of the fund and sets the Council's contribution with a view of recovering the deficit in the longer term. A deficit recovery plan is in place and our estimated duration of the liability is 19 years.

1.3 Non-Financial Performance

1.3.1 Key Headlines from the Council Plan 2015-2019

The plan sets out how the City Council aims to make Nottingham a great city with citizens at the heart of everything we do.

The latest Council Plan, approved by Full Council on 9 November 2015, sets out the Council's ambitions for the city over the next four years to 2019. The Plan underpins the council's wider Good to Great journey, with a continued emphasis on placing citizens at the heart of everything we do to shape our service delivery going forward. This includes five key objectives for the Council to deliver:

- Ensure that every child in Nottingham is taught in a school that is judged good or outstanding by Ofsted
- Build 2,500 new homes that Nottingham people can afford to rent or buy
- Cut the number of victims of crime by a fifth and continue to reduce anti-social behaviour
- Tackle fuel poverty by setting up a not for profit energy company, to sell energy at the lowest possible price to Nottingham people
- Guarantee a job, training place or further education plan for every 18-24 year old

Link to Council Plan:
http://www.nottinghamcity.gov.uk/about-the-council/council-plan-puts-citizens-at-the-heart/

1.3.2 Citizens at the Heart

This strategy ensures that all areas of the City Council’s work have the ‘Citizen at the Heart’. This strategy has four elements to it being:

- Great City - Shared Prosperity – Reduced Poverty
- Great Workforce - Working Together
- Great Services – The Nottingham Way
- Great Council – Delivering on Promises

1.4 Explanation of Accounting Statements

The Statement of Accounts provides a summary of the Council's financial performance for 2016/17. It is comprised of core statements and supplementary financial statements with relevant supporting notes and is shown as both single entity accounts and as consolidated group accounts. The format of the Statement of Accounts is defined by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and International Financial Reporting Standards.

An Abbreviation and Glossary section has been included at the end of this document.

The Statement of Accounts includes the following **Core Statements**:

- The **Expenditure and Funding Analysis (EFA)** brings together Council performance reported on the basis of expenditure measured under proper accounting practices (IFRS) with statutorily defined charges to the General Fund (including HRA). Proper accounting practices measure the resources that have been generated and consumed in the year including such things as the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the Council's expenditure needs to be met from council tax each year.

- The **Comprehensive Income and Expenditure Statement (CIES)** states the Council's income and expenditure activity for the financial year. This statement analyses the income and expenditure by portfolio and a breakdown of corporate transactions and funding. In line with the new CIPFA reporting requirements the service part of the CIES is now based on the organisational structure of the Council i.e. portfolios (previously based on the Service Reporting Code of Practice). The CIES no longer includes the transactions in relation to the apportionment of support services and other overheads. The 2015/16 CIES and associated notes have been restated where required.
- The **Movement in Reserves Statement** summarises the changes within the Councils reserves over the financial year. These reserves are either:
  - Useable (i.e. those that can be applied to fund expenditure or reduce local taxation), or
  - Unusable (i.e. not available to support services and are set aside for specific purposes).
- The **Balance Sheet** shows the financial position of the Council evidencing the assets, liabilities, cash balances and reserves as at the 31 March 2017.
- The **Cash Flow Statement** shows the movement in the Council's cash balances during the year and sets out whether the change is due to operating activities, new investment or financing activities.

The accounts include the following **Supplementary Financial Statements**:

- The **Housing Revenue Account** records all revenue expenditure and income relating to the provision of council dwellings and related services.
- The **Collection Fund** summarises the collection of Council Tax and Business Rates, and the redistribution of some of the money to the precepting authorities and central government.

Section 2
Introductory Statements

2.1 Accounting Policies

2.1.1 Basis of Accounting

The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2015 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) which is based on approved accounting standards. In addition, the Council's accounts also comply with the Service Reporting Code of Practice 2016/17, which ensures consistency and comparability in financial reporting across Councils. The accounts are supported by IFRS and statutory guidance issued under section 7 of the 2015 Act.

2.1.2 Accounting Developments and Changes

Developments and other changes during 2016/17

The Council has not chosen to change any of its Accounting Policies since the last financial year.

Prior Year Reclassifications

In line with the new CIPFA reporting requirements the service part of the CIES is now based on the organisational structure of the Council i.e. portfolios. This section was previously based on the Service Reporting Code of Practice. The 2015/16 CIES and any affected notes have therefore been restated.

Accounting Standards Issued but not adopted

The Code of Practice on Local Authority Accounting requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the 2016/17 Code.

The Code has introduced changes in accounting policies which will be required from 1 April 2017 and will therefore be valid for the 2017/18 accounts. The changes introduced by the 2017/18 Code are:

- A new disclosure relating to pension fund scheme transaction costs.
- Clarification to the reporting of pension fund investment concentration.

These changes relate to pension fund accounts and do not have any implications for the Council.

2.1.3 Choices permitted under IFRS

For some policies IFRS provides different options that can be used and the Council has, for a number of years, chosen to apply the following:

De Minimis Capital Expenditure

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet:

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. The Council has chosen to only apply componentisation where the value of the asset is in excess of £3m.

Depreciation (including amortisation of intangible assets)

Certain property, plant and equipment components and intangible assets are written down over time and charged to revenue. IFRS allows the Council to choose the period over which this write down occurs as well as the depreciation method. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years
- Dwellings, based upon major components current price data allocated on a straight line basis over the useful life

2.1.4 Critical Accounting Policies

Only the critical Accounting Policies used in preparing these statements are provided below. A full list of Accounting Policies can be found at Appendix B.

Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet.

Government Grants and Contributions

Government Grants and contributions are credited to income in the CIES only when there is reasonable assurance that any attached conditions will be met. Specific grants are credited to the relevant service line, while non-ring fenced and capital grants are credited to Taxation and Non-specific grant income.

Any grants received where conditions have not been met are carried in the Balance Sheet as creditors.

Charges to CIES for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

Valuation of Non-Current Assets

Generally non-current assets are valued initially at cost and subsequently revalued at fair value. The main exceptions are infrastructure, which is generally valued at depreciated historical cost, council dwellings, which are valued at Existing Use Value for Social Housing and heritage assets, which are individually valued at market values by an external valuer at appropriate intervals, and internally reviewed using indexation in years where no external valuation has been undertaken.

Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

2.1.5 Critical Judgments in applying Accounting Policies

In applying the accounting policies set out in Section 10 (Appendix B), the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Accounting standards determine that all maintained schools are considered to be entities controlled by the Council. However, maintained schools are included within the single entity financial statements rather than the Group Accounts. This treatment is in line with the adaptation to the definition of single entity financial statements by the Code.
- There are a number of other different types of schools in Nottingham. The Council recognises schools in line with the provisions of the Code and, consequently, schools are recognised on the balance sheet only if the future economic benefits or service potential associated with the school will flow to the Council. As a result, each type of school has been separately assessed for inclusion on the Council's Balance Sheet. The table below summarises the treatment for each type of school:

School Type	Balance Sheet Treatment
Community	On
Voluntary Aided	On
Academy	Off

- When a school that is held on the Council's balance sheet transfers to Academy status this is recorded as a de-recognition for nil consideration with the assets transferring to the Academy under a finance lease arrangement.

  Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction, whilst the Academy is constructed. Once the construction is complete the Asset is transferred to Other Land and Buildings and, on the date of transfer to Academy the Council records this as a de-recognition for nil consideration.

- The Council has entered into a partnership arrangement with Leicestershire County Council to provide financial and human resources services. The structure of the partnership has been judged to be a "joint operation" with the Council's share of revenue, expenditure, assets and liabilities shown in the single entity financial statements in section 3.

- The Council has produced a set of Group Accounts after reviewing related organisations, evaluating whether the Council has the necessary material financial interest and/or level of control required for inclusion the Group.

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets might be impaired as a result of a need to close facilities and reduce levels of service provision.

2.2 Supplementary Comments

This Statement of Accounts is prepared according to International Financial Reporting Standards which specifically require some further information to be provided. This information is provided below.

2.2.1 Key Changes affecting 2016/17 Statements

For 2016/17 the Government has not implemented any legislative or funding changes that have made a material impact on the Council's Statement of Accounts.
The 2016/17 Code includes changes resulting from the 'Telling the Story Review' on improving the presentation of local authority financial statements. The Statement of Accounts includes the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and the introduction of the Expenditure and Funding Analysis and an Expenditure and Income Analysed by Nature note.

2.2.2 Assumptions about the Future and other Major Sources of Estimation Uncertainty

The preparation of the financial statements requires the Council to make estimates and assumptions that affect the application of policies and reported amounts. Although these are continually evaluated and are based on historical experience and other factors, including the expectation of future events that are believed to be reasonable under the circumstances, actual results may differ from these estimates. The estimates and assumptions which have a significant effect on amounts recognised in the financial statements are as follows:

- Business Rates - Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against rates charged to businesses. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2017, calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date.
- PPE – Assets are depreciated over their useful lives, with this period dependant on assumptions about the level of repairs and maintenance applied to individual assets. The current economic climate creates uncertainty about the levels of repairs and maintenance that will be maintained, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings excluding Council dwellings would increase by £1.429m for every year that useful lives had to be reduced. Further details can be found in Note 6.3.1.
- Council Dwellings – Council dwellings are valued using a social housing adjustment factor provided by the Department for Communities and Local Government. This reflects the fact that social housing rents generate a lower income stream than could be obtained in the open market. In 2016 the social housing adjustment factor for the East Midlands region was revised from 34% to 42% and, along with other factors including general increases in market values, higher valued new build properties and above average increases to properties along the tram link, resulted in a valuation gain of £197.578m in the 2016/17 accounts. £178.476m of this gain reversed previous revaluation losses charged to the HRA dating back to the previous reduction in the social housing adjustment factor in 2010/11. The balance of £19.102m was credited to the Revaluation Reserve.
- Post-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 expert advice about the assumptions to be applied. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See Note 6.3.14 and Section 11 for further details.

  There was a triennial valuation of the fund by the scheme actuary in March 2016. The purpose of this is to set the level of employer contributions necessary for the next three years to make good any fund deficit over the remaining working life of the employees.
- PFI and similar arrangements have been considered to have an implied finance lease within the agreement. In reassessing the leases the Council has estimated the implied interest rate within the leases in order to calculate interest and principal payments. In addition, the future RPI increase within the contracts has been estimated as remaining constant throughout the remaining period of the contract.

2.2.3 Events after the Reporting Date

After the reporting date of 31 May 2017, when the un-audited accounts were authorised for issue by the Chief Financial Officer, there were no subsequent material events that need to be reported.

Section 3

Core Financial Statements

3.1 Expenditure and Funding Analysis (EFA)

The objective of the EFA is to demonstrate to council tax payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Council in accordance with IFRS. The EFA also shows how this expenditure is allocated for decision making purposes between the Council's portfolios. Income and expenditure accounted for under IFRS is presented more fully in the CIES.

	2015/16			2016/17		
	Net Expenditure Chargeable to the General Fund and HRA Balances £m	Adjustments Between Funding and Accounting Basis £m	Net Expenditure in the Comprehensive Income and Expenditure Statement £m	Net Expenditure Chargeable to the General Fund and HRA Balances £m	Adjustments Between Funding and Accounting Basis £m	Net Expenditure in the Comprehensive Income and Expenditure Statement £m
Adults and Health	89.712	3.512	93.224	96.485	1.523	98.008
Business, Growth and Transport	4.982	19.429	24.411	2.204	21.007	23.211
Community Services	24.450	4.794	29.244	26.396	2.695	29.091
Early Intervention and Early Years	55.107	26.314	81.421	54.407	15.364	69.771
Education, Employment and Skills	1.568	0.344	1.912	2.680	0.289	2.969
Energy and Sustainability	6.270	1.473	7.743	11.770	2.096	13.866
Leisure and Culture	11.105	4.393	15.498	8.763	9.993	18.756
Planning and Housing	(44.288)	22.251	(22.037)	(43.767)	28.134	(15.633)
Resources and Neighbourhood Regeneration	23.735	20.003	43.738	20.657	(0.469)	20.188
Strategic Regeneration	0.334	1.173	1.507	(5.012)	22.164	17.152
Corporate Items	(35.171)	72.866	37.695	(31.115)	20.286	(10.829)
Exceptional revaluation gain on HRA Council Dwellings	-	-	-	-	(178.476)	(178.476)
Net Cost of Services	**137.804**	**176.552**	**314.356**	**143.468**	**(55.394)**	**88.074**
Other income and expenditure	(144.001)	(39.051)	(183.052)	(123.611)	(74.213)	(197.824)
(Surplus)/Deficit on Provision of Services	**(6.197)**	**137.501**	**131.304**	**19.857**	**(129.607)**	**(109.750)**
	Note 6.1.2	Note 6.1.1		Note 6.1.2	Note 6.1.1	
Opening General Fund, Earmarked General Fund Reserves and HRA Balance at 1 April	(183.965)			(190.162)		
(Surplus)/Deficit on General Fund and HRA Balance in Year	(6.197)			19.857		
Closing General Fund, Earmarked General Fund Reserves and HRA Balance at 31 March*	**(190.162)**			**(170.305)**		

*For a split of this balance between General Fund, Earmarked General Fund Reserves and HRA - see the Movement in Reserves Statement.

3.2 Comprehensive Income and Expenditure Statement (CIES)

This statement shows the net cost in the year of providing services in accordance with IFRS, rather than the amount to be funded from taxation (funding basis). Costs covered on the funding basis are calculated differently, in accordance with legislative requirements. The funding basis position is shown in the Expenditure and Funding Analysis, the Movement in Reserves Statement and in section 5.

Notes		Restated 2015/16 Gross Expenditure £m	Restated 2015/16 Gross Income £m	Restated 2015/16 Net £m	2016/17 Gross Expenditure £m	2016/17 Gross Income £m	2016/17 Net £m
	Adults and Health	157.217	(63.993)	93.224	181.303	(83.295)	98.008
	Business, Growth and Transport	62.082	(37.671)	24.411	65.436	(42.225)	23.211
	Community Services	68.833	(39.589)	29.244	62.353	(33.262)	29.091
	Early Intervention and Early Years	105.777	(24.356)	81.421	94.967	(25.196)	69.771
	Education, Employment and Skills	145.208	(143.296)	1.912	143.228	(140.259)	2.969
	Energy and Sustainability	12.467	(4.724)	7.743	15.137	(1.271)	13.866
	Leisure and Culture	48.846	(33.348)	15.498	54.181	(35.425)	18.756
	Planning and Housing	90.611	(112.648)	(22.037)	97.105	(112.738)	(15.633)
	Resources and Neighbourhood Regeneration	67.808	(24.070)	43.738	42.695	(22.507)	20.188
	Strategic Regeneration	13.988	(12.481)	1.507	31.295	(14.143)	17.152
	Corporate Items	247.144	(209.449)	37.695	190.225	(201.054)	(10.829)
	Exceptional revaluation gain on HRA Council Dwellings	-	-	-	(178.476)	-	(178.476)
6.2.1	**Cost of Services**	**1,019.981**	**(705.625)**	**314.356**	**799.449**	**(711.375)**	**88.074**
6.2.2	Other operating expenditure			49.184			28.783
6.2.3	Financing and investment income and expenditure			59.292			65.926
6.2.4	Taxation and non-specific grant income			(291.528)			(292.533)
6.2.5	**(Surplus)/Deficit on Provision of Services**			**131.304**			**(109.750)**
6.2.6	Revaluation of PPE/Heritage assets			(50.630)			(56.610)
6.2.7	Re-measurement of pension assets/liabilities			(123.604)			211.763
	Other gains/losses recognised required			0.013			(0.013)
	Other Comprehensive Income and Expenditure			**(174.221)**			**155.140**
	TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**(42.917)**			**45.390**

3.3 Balance Sheet

This statement shows the value, as at 31 March each year, of the assets and liabilities recognised by the Council. The net assets (i.e. assets less liabilities) are matched by the reserves held. Reserves are reported in two categories:

- Usable reserves - i.e. those reserves that may be used to help provide services or reduce taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- Unusable reserves – i.e. those reserves that the Council is not able to use to help provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to help provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Notes		31 March 2016 £m	31 March 2017 £m
6.3.1	Property, Plant & Equipment	2,154.173	2,360.669
6.3.2	Heritage Assets	55.461	56.815
6.3.3	Investment Property	59.292	146.809
6.3.4	Intangible Assets	4.558	5.608
6.3.15(a)	Long Term Investments	5.445	5.345
6.3.15(a)	Long Term Debtors	65.742	75.006
6.3.5	Assets Held for Sale (non-current)	7.550	7.550
	Long Term assets	**2,352.221**	**2,657.802**
6.3.5	Assets Held for Sale (current)	0.160	1.120
6.3.15(a)	Short Term Investments	47.941	18.135
6.3.6	Inventories	1.880	2.809
6.3.7	Short Term Debtors	104.581	105.440
6.3.8	Cash and Cash Equivalents	31.960	20.016
	Current Assets	**186.522**	**147.520**
6.3.15(b)	Short Term Borrowing	(42.961)	(138.847)
6.3.9	Short Term Creditors	(159.337)	(146.444)
6.3.10(a)	Provisions (current provisions)	(20.312)	(18.000)
	Current Liabilities	**(222.610)**	**(303.291)**
6.3.15(b)	Long Term Borrowing	(654.941)	(657.411)
6.3.15(b)	Other Long Term Liabilities	(235.766)	(228.403)
6.3.10(b)	Provisions (non-current)	(22.360)	(21.686)
6.3.13	Capital Grants Receipts in Advance	(16.339)	(15.680)
6.3.14	Defined Benefit Pension Scheme	(623.310)	(860.824)
	Long Term Liabilities	**(1,552.716)**	**(1,784.004)**
	NET ASSETS	**763.417**	**718.027**
6.3.11	Usable Reserves	252.490	223.020
6.3.12	Unusable Reserves	510.927	495.007
	TOTAL RESERVES	**763.417**	**718.027**

3.4 Movement in Reserves Statement

This statement shows the in-year movement of reserves, analysed into 'usable reserves' and 'unusable reserves' (see Section 3.3 above). The Total Comprehensive Income and Expenditure from the CIES is added to the opening balance for the year. However, adjustments are first made to reflect the statutory amounts required to be charged to the General Fund Balance and the HRA for council tax setting and dwellings rent setting purposes, to arrive at the Movement before Discretionary Transfers. The Council then has discretion to earmark General Fund Reserves for specific purposes as shown by the Discretionary Transfers line.

2016/17	General Fund £m	Earmarked General Fund £m	Housing Revenue Account £m	Capital Receipts £m	Major Repairs £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance at 31/3/16	**11.231**	**174.931**	**4.000**	**23.032**	**27.078**	**12.218**	**252.490**	**510.927**	**763.417**
Movement in 2016/17:									
Total CIE (Table 3.2)	(69.264)	-	179.014	-	-	-	**109.750**	(155.140)	**(45.390)**
Funding basis adjustments (Note 6.4.1)	49.048	-	(178.655)	3.427	(16.786)	3.746	(139.220)	139.220	-
Net increase/decrease before transfers to earmarked reserves	**(20.216)**	**-**	**0.359**	**3.427**	**(16.786)**	**3.746**	**(29.470)**	**(15.920)**	**(45.390)**
Transfers to/from earmarked reserves	17.448	(17.448)	-	-	-	-	-	-	-
Movement in Year	**(2.768)**	**(17.448)**	**0.359**	**3.427**	**(16.786)**	**3.746**	**(29.470)**	**(15.920)**	**(45.390)**
Balance at 31/3/17	**8.463**	**157.483**	**4.359**	**26.459**	**10.292**	**15.964**	**223.020**	**495.007**	**718.027**

* CIE - Comprehensive Income and Expenditure

2015/16	General Fund £m	Earmarked General Fund £m	Housing Revenue Account £m	Capital Receipts £m	Major Repairs £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance at 31/3/15	**19.553**	**160.105**	**4.307**	**22.550**	**28.470**	**15.899**	**250.884**	**469.616**	**720.500**
Movement in 2015/16:									
Total CIE (Table 3.2)	(141.070)	-	9.766	-	-	-	**(131.304)**	174.221	**42.917**
Funding basis adjustments (Note 6.4.1)	147.574	-	(10.073)	0.482	(1.392)	(3.681)	132.910	(132.910)	-
Net increase/decrease before transfers to earmarked reserves	**6.504**	**-**	**(0.307)**	**0.482**	**(1.392)**	**(3.681)**	**1.606**	**41.311**	**42.917**
Transfers to/from earmarked reserves	(14.826)	14.826	-	-	-	-	-	-	-
Movement in Year	**(8.322)**	**14.826**	**(0.307)**	**0.482**	**(1.392)**	**(3.681)**	**1.606**	**41.311**	**42.917**
Balance at 31/3/16	**11.231**	**174.931**	**4.000**	**23.032**	**27.078**	**12.218**	**252.490**	**510.927**	**763.417**

* CIE - Comprehensive Income and Expenditure

3.5 Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents held by the Council during the reporting period and how these are generated or used by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been used to generate resources intended to contribute to future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing).

Notes		2015/16 £m	2016/17 £m
	Net Surplus/(Deficit) on the provision of Services	**(131.304)**	**109.750**
6.5.1	Adjustments to net surplus or deficit on the provision of services for non-cash movements	224.396	1.685
6.5.2	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(71.341)	(53.629)
6.5.3	**Net Cash Flows from Operating Activities**	**21.751**	**57.806**
6.5.4	Investing activities	59.702	(160.721)
6.5.5	Financing activities	(102.902)	90.971
	Net Increase or Decrease in Cash and Cash Equivalents	**(21.449)**	**(11.944)**
	Cash and cash equivalents at the beginning of the reporting period	53.409	31.960
	CASH AND CASH EQUIVALENTS AT 31 MARCH 2017	**31.960**	**20.016**

Section 4
Certifications

4.1 Independent Auditor's Report to the members of Nottingham City Council (to be copied in at end of Audit)

4.2 Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that responsibility rests with the Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The statement of accounts was approved at a meeting of the Audit Committee on 22 September 2017.

Signed………………………………………………… Date: 22 September 2017

Councillor Sarah Piper
Chair of the Audit Committee

The Chief Finance Officer's Responsibilities

I am responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, I have:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that were reasonable and prudent.
- Complied with the local authority code.

I have also:

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

These financial statements give a true and fair view of the financial position of the authority at the reporting date and of its income and expenditure for the year ended 31 March 2017.

Signed………………………………………………… Date: 22 September 2017

Geoff Walker
Chief Finance Officer
Loxley House
Station Road
Nottingham

NG2 3NG

Section 5

Funding Basis and Budget Monitoring

Local Authorities are required by statute to make their funding decisions on a different basis from the Statement of Accounts, which is required to follow International Financial Reporting Standards (IFRS). The accounts used for resource allocation and budget management are shown on a funding basis and a number of adjustments are, therefore, required to produce the Statement of Accounts on an IFRS basis. The adjustments required to the CIES are generally offset by adjustments to unusable reserves. The impact on the CIES is shown in the Expenditure and Funding Analysis and in section 5.3, and the movements in reserves are shown in section 6.4.

5.1 Performance against Budget 2016/17

For budget management purposes, specific grant income, charges to users and expenditure items such as employees, premises, supplies and services are organised by groups of services known as portfolios (table 5.2). Using this basis the pre-audit outturn reported to Executive Board in June 2017 showed the net outturn as being £1.558m higher than that planned for the year.

5.2 Net Portfolio Spend on Funding Basis (management accounts)

The analysis of income and expenditure in the CIES is presented in line with the Council's organisational structure i.e. portfolios. The table below provides a more detailed analysis of Net Portfolio Spend on a funding basis.

2016/17	Adults and Health	Buiness, Growth & Transport	Community Services	Early Intervention & Early Years	Education, Employment & Skills	Energy & Sustainability	Leisure & Culture	Planning & Housing	Resources & Neighbourhood Regeneration	Strategic Regeneration	Corporate Items	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges, other income	(17.844)	(36.385)	(29.355)	(2.251)	(10.150)	(1.081)	(32.279)	(2.239)	(13.199)	(14.385)	(2.045)	**(161.213)**
Government Grants and contributions	(65.452)	(5.840)	(5.444)	(22.945)	(130.132)	(0.190)	(3.131)	(1.849)	(9.472)	(1.722)	(205.170)	**(451.347)**
Interest and investment income	-	-	-	-	(0.155)	-	(0.015)	-	(0.056)	(0.054)	(6.925)	**(7.205)**
Total Income	**(83.296)**	**(42.225)**	**(34.799)**	**(25.196)**	**(140.437)**	**(1.271)**	**(35.425)**	**(4.088)**	**(22.727)**	**(16.161)**	**(214.140)**	**(619.765)**
Employee Expenses	30.275	14.278	39.648	39.479	80.178	1.160	19.128	3.115	19.175	4.464	8.240	**259.140**
Levies	-	-	-	-	-	-	-	-	-	-	0.071	**0.071**
Other service expenses	149.083	30.048	21.411	39.816	55.848	11.881	25.228	3.585	28.668	4.996	228.068	**598.632**
Support service recharges	0.423	0.103	0.029	0.308	7.091	-	(0.167)	0.041	(0.768)	(0.080)	-	**6.980**
Total Expenditure	**179.781**	**44.429**	**61.088**	**79.603**	**143.117**	**13.041**	**44.189**	**6.741**	**47.075**	**9.380**	**236.379**	**864.823**
NET EXPENDITURE	**96.485**	**2.204**	**26.289**	**54.407**	**2.680**	**11.770**	**8.764**	**2.653**	**24.348**	**(6.781)**	**22.239**	**245.058**

2015/16	Adults and Health	Buiness, Growth & Transport	Community Services	Early Intervention & Early Years	Education, Employment & Skills	Energy & Sustainability	Leisure & Culture	Planning & Housing	Resources & Neighbourhood Regeneration	Strategic Regeneration	Corporate Items	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges, other income	(2.746)	(31.054)	(36.698)	(1.518)	(10.288)	(1.093)	(29.966)	(1.945)	(17.137)	(12.804)	(7.354)	**(152.603)**
Government Grants and contributions	(61.247)	(6.416)	(4.201)	(22.835)	(152.717)	(3.631)	(3.370)	(0.746)	(9.287)	(1.791)	(207.499)	**(473.740)**
Interest and investment income	-	(0.200)	-	(0.002)	(0.352)	-	(0.012)	-	(0.106)	(0.040)	(5.048)	**(5.760)**
Total Income	**(63.993)**	**(37.670)**	**(40.899)**	**(24.355)**	**(163.357)**	**(4.724)**	**(33.348)**	**(2.691)**	**(26.530)**	**(14.635)**	**(219.901)**	**(632.103)**
Employee Expenses	29.061	10.396	39.097	38.714	79.439	(0.065)	18.083	3.095	21.635	3.771	6.917	**250.143**
Levies	-	-	-	-	-	-	-	-	-	-	0.070	**0.070**
Other service expenses	123.942	32.159	25.868	40.420	79.204	11.059	26.510	2.735	28.207	10.576	249.873	**630.553**
Support service recharges	0.702	0.097	0.036	0.328	6.282	-	(0.140)	0.048	(0.673)	(1.218)	-	**5.462**
Total Expenditure	**153.705**	**42.652**	**65.001**	**79.462**	**164.925**	**10.994**	**44.453**	**5.878**	**49.169**	**13.129**	**256.860**	**886.228**
NET EXPENDITURE	**89.712**	**4.982**	**24.102**	**55.107**	**1.568**	**6.270**	**11.105**	**3.187**	**22.639**	**(1.506)**	**36.959**	**254.125**

5.3 Reconciliation of CIES between Funding Basis and IFRS basis

5.3.1 Adjustments Required

Contributions from the National Non-Domestic Rate (NNDR), income from Council Tax payers and Revenue Support Grant from the Government are managed outside portfolios. Council Tax income was generated by the Council setting a Band D Council Tax of £1,771.08 (2015/16 £1,708.51).

The table below shows the net surplus for the accounts on a funding basis together with the adjustments required to arrive at the equivalent IFRS figure for the Statement of Accounts:

	Restated 2015/16 £m	2016/17 £m
Funding Basis		
Net Portfolio Spend	254.125	245.058
(Use)/Contributions to Reserves included above	(4.813)	19.035
Expenditure financed from Council Tax and Non-specific Grants	249.312	264.093
Council Tax and NNDR	(148.456)	(161.451)
Non-Specific Grants	(101.100)	(85.915)
(SURPLUS)/DEFICIT ON FUNDING BASIS BEFORE TRANSFERS TO RESERVES	**(0.244)**	**16.727**
ADJUSTMENTS TO MOVE TO ACCOUNTING BASIS		
Other Comprehensive Items		
Revaluation of Property, Plant and Equipment / Heritage assets	(50.630)	(56.610)
Re-measurement of pension assets/liabilities	(123.604)	211.763
Other gains/losses recognised	0.013	(0.013)
Movements In Non Current Assets	190.845	114.087
Capital Financing		
Revenue Expenditure Funded From Capital Under Statute	3.125	1.014
Provision for Debt Redemption	(34.734)	(35.782)
Cap Exp charged to GFB - DRF	(1.207)	(0.225)
Cap Exp charged to GFB - Reserves	(7.804)	(14.651)
Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	2.147	2.103
Pension Fund - IAS 19 Adjustments	26.326	25.751
Other Movements		
Capital Grants & Contributions	(37.242)	(39.738)
Financial Instrument Adjustment Account	(0.333)	(0.217)
Employee Benefits	0.191	0.195
Additional items required by Accounting Basis:		
Housing Revenue Account	(9.766)	(179.014)
Total Comprehensive Income & Expenditure	**(42.917)**	**45.390**

5.4 Capital

5.4.1 Capital Expenditure and Capital Financing

Capital expenditure relates to the acquisition of new assets and the development of existing assets, which will be of benefit to the Council for more than one year. Expenditure by service over the last two years has been as follows:

The capital programme is actively managed throughout the year and varied in line with agreed approvals and changes in funding. Resources were identified during 2016/17 of £237.577m that after spending £234.461m the balance of £3.116m is therefore available to carry forward into 2017/18, to cover expenditure that has slipped between years.

	2015/16 £m	2016/17 £m
Planning and Housing	53.687	56.298
Jobs, Growth and Transport	124.601	22.358
Strategic Regeneration	39.310	125.696
Other	34.649	30.109
CAPITAL EXPENDITURE	**252.247**	**234.461**

The treatment of capital expenditure and financing generates some of the main differences between the funding basis and IFRS basis. The capital focus of the funding basis is ensuring that sufficient cash is raised to finance capital expenditure. The major differences are:

- Certain items of revenue expenditure which can be treated as capital under statute under the funding basis.
- Items of capital expenditure which are financed by a charge to revenue.
- Capital grants which are used to finance capital expenditure rather than being credited to revenue
- Making a revenue provision for repayment of borrowing (replacing depreciation) based on a calculation of the net capital financing requirement.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and Public Finance Initiative (PFI) contracts), together with the resources that have been used to finance it:

	2015/16 £m	2016/17 £m
Capital Investment on IFRS Basis		
Property, Plant and Equipment	122.597	135.661
Reduction Of Long Term Liabilities	100.000	-
Assets Held for Sale	0.632	-
Investment Properties	16.325	87.466
Intangible Assets	2.248	2.205
Long Term Debtors	1.600	6.200
Short Term Investments	-	-
Total Additions to Assets on IFRS Basis	**243.402**	**231.532**
Revenue Expenditure Funded from Capital under Statute	8.845	2.929
Other Items	-	-
Total Expenditure to be Financed from Capital Sources	**252.247**	**234.461**
Financing		
Capital receipts	(25.388)	(9.426)
Government grants and other contributions	(46.643)	(37.907)
Sums set aside from revenue	(45.397)	(65.363)
UNDERLYING BORROWING REQUIREMENT IN YEAR	**134.819**	**121.765**

5.4.2 Capital Financing Requirement (CFR)

The CFR is a measure of the capital expenditure incurred historically by the Council that has yet to be repaid. The CFR is also used to calculate the statutory minimum charge for debt repayment known as the Minimum Revenue Provision.

Where capital expenditure is financed by borrowing, the expenditure results in an increase in the CFR. Further adjustments are made to include assets acquired under PFI contracts included in the Balance Sheet, and provisions for debt repayment included in the funding basis in the table below:

	2015/16 £m	2016/17 £m
Opening Capital Financing Requirement	**960.733**	**1,195.943**
Increase in underlying need to borrow:		
Supported by government financial assistance	1.151	-
Unsupported by government financial assistance	133.668	121.765
Statutory Minimum Revenue Provision	(7.406)	(4.101)
Voluntary Revenue Provision	(24.102)	(24.725)
Voluntarily Set Aside Capital Receipts	(0.270)	-
Assets acquired under finance leases	-	-
Assets acquired under PFI/PPP contracts	236.921	-
PFI Liability Discharged	(103.852)	(10.321)
New Capital Loans not financed by Unsupported borrowing	-	0.863
Other Items	(0.900)	1.121
CLOSING CAPITAL FINANCING REQUIREMENT	**1,195.943**	**1,280.545**

5.5 Long Term Borrowing

The Local Government Act 2003 provides the legislative framework for borrowing undertaken by the Council including an operational boundary or limit on the value of borrowing undertaken. The Council approved an operational boundary on the level of external debt during 2016/17 of £1,041.2m (including PFI and finance lease related debt of £226.0m). Actual external debt on 1 April 2016 was £926.7m and this increased to £1,014.9m at 31 March 2017.

Section 6

Notes to the Financial Statements

These notes provide information that supports and helps in interpreting the Financial Statements.

6.1 Expenditure and Funding Analysis Notes

6.1.1 Adjustments between Funding and Accounting Basis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the CIES. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

	2015/16				2016/17			
	Adjustments for Capital Purposes £m	Net Change for the Pension Adjustments £m	Other Differences £m	Total Adjustments £m	Adjustments for Capital Purposes £m	Net Change for the Pension Adjustments £m	Other Differences £m	Total Adjustments £m
Adults and Health	1.970	1.542	-	**3.512**	0.630	0.893	-	**1.523**
Business, Growth and Transport	18.704	0.725	-	**19.429**	20.502	0.505	-	**21.007**
Community Services	2.784	2.010	-	**4.794**	1.516	1.179	-	**2.695**
Early Intervention and Early Years	25.575	0.739	-	**26.314**	15.758	(0.394)	-	**15.364**
Education, Employment and Skills	0.040	0.304	-	**0.344**	0.110	0.179	-	**0.289**
Energy and Sustainability	1.340	0.133	-	**1.473**	2.008	0.088	-	**2.096**
Leisure and Culture	3.413	0.980	-	**4.393**	9.414	0.579	-	**9.993**
Planning and Housing	22.063	0.188	-	**22.251**	28.025	0.109	-	**28.134**
Resources and Neighbourhood Regeneration	18.008	1.499	0.496	**20.003**	(1.165)	0.696	-	**(0.469)**
Strategic Regeneration	0.971	0.202	-	**1.173**	22.017	0.147	-	**22.164**
Corporate Items	77.449	(4.773)	0.190	**72.866**	19.863	0.228	0.195	**20.286**
Exceptional revaluation gain on HRA Council Dwellings	-	-	-	**-**	(178.476)	-	-	**(178.476)**
Net Cost of Services	**172.317**	**3.549**	**0.686**	**176.552**	**(59.798)**	**4.209**	**0.195**	**(55.394)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(67.294)	22.777	5.466	**(39.051)**	(92.084)	21.542	(3.671)	**(74.213)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**105.023**	**26.326**	**6.152**	**137.501**	**(151.882)**	**25.751**	**(3.476)**	**(129.607)**

6.1.2 Analysis of Items in Net Expenditure Chargeable to the General Fund and HRA

This note shows the income and expenditure on a portfolio basis.

2016/17	Adults and Health	Business, Growth and Transport	Community Services	Early Intervention and Early Years	Education, Employment and Skills	Energy and Sustainability	Leisure and Culture	Planning and Housing	Resources and Neighbourhood Regeneration	Strategic Regeneration	Corporate Items	Included in Cost of Service	Other Operating Expenditure	Financing and Investment Income and Expenditure	Taxation and Non-Specific Grant Income	Included in Other Income and Expenditure	Included in (Surplus)/Deficit on Provision of Services
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income																	
Council Tax and NNDR	-	-	-	-	-	-	-	-	-	-	-	**-**	-	-	(182.016)	**(182.016)**	**(182.016)**
Fees, charges, other income	(17.844)	(36.385)	(27.818)	(2.251)	(10.150)	(1.081)	(32.279)	(110.889)	(12.979)	(12.376)	(1.263)	**(265.315)**	-	(4.770)	-	**(4.770)**	**(270.085)**
Government Grants and Contributions	(65.452)	(5.840)	(5.444)	(22.945)	(130.132)	(0.190)	(3.131)	(1.849)	(9.472)	(1.722)	(199.741)	**(445.918)**	-	-	(63.808)	**(63.808)**	**(509.726)**
Interest and investment income	-	-	-	-	(0.155)	-	(0.015)	-	(0.056)	(0.045)	(0.051)	**(0.322)**	-	(7.031)	-	**(7.031)**	**(7.353)**
Total Income	**(83.296)**	**(42.225)**	**(33.262)**	**(25.196)**	**(140.437)**	**(1.271)**	**(35.425)**	**(112.738)**	**(22.507)**	**(14.143)**	**(201.055)**	**(711.555)**	**-**	**(11.801)**	**(245.824)**	**(257.625)**	**(969.180)**
Expenditure												**-**				**-**	**-**
Employee expenses	30.275	14.278	38.544	39.479	80.178	1.160	19.128	4.209	19.095	4.464	8.240	**259.050**	-	1.185	-	**1.185**	**260.235**
Interest payments	-	(0.023)	-	-	(0.003)	-	-	-	-	-	-	**(0.026)**	-	50.494	-	**50.494**	**50.468**
Levies	-	-	-	-	-	-	-	-	-	-	0.071	**0.071**	-	-	-	**-**	**0.071**
Other service expenses	149.083	30.071	21.085	39.816	55.851	11.881	25.228	61.928	24.836	4.747	161.629	**586.155**	-	0.770	-	**0.770**	**586.925**
Support service recharges	0.423	0.103	0.029	0.308	7.091	-	(0.167)	2.834	(0.768)	(0.080)	-	**9.773**	-	-	-	**-**	**9.773**
Adjustments for capital purposes	-	-	-	-	-	-	-	-	-	-	-	**-**	-	84.864	-	**84.864**	**84.864**
Other adjustments	-	-	-	-	-	-	-	-	-	-	-	**-**	-	0.183	(3.482)	**(3.299)**	**(3.299)**
Total Expenditure	**179.781**	**44.429**	**59.658**	**79.603**	**143.117**	**13.041**	**44.189**	**68.971**	**43.163**	**9.131**	**169.940**	**855.023**	**-**	**137.496**	**(3.482)**	**134.014**	**989.037**
Total included in the Net Expenditure Chargeable to the General Fund and HRA Balances	**96.485**	**2.204**	**26.396**	**54.407**	**2.680**	**11.770**	**8.764**	**(43.767)**	**20.656**	**(5.012)**	**(31.115)**	**143.468**	**-**	**125.695**	**(249.306)**	**(123.611)**	**19.857**

2015/16	Adults and Health £m	Business, Growth and Transport £m	Community Services £m	Early Intervention and Early Years £m	Education, Employment and Skills £m	Energy and Sustainability £m	Leisure and Culture £m	Planning and Housing £m	Resources and Neighbourhood Regeneration £m	Strategic Regeneration £m	Corporate Items £m	Included in Cost of Service £m	Other Operating Expenditure £m	Financing and Investment Income and Expenditure £m	Taxation and Non-Specific Grant Income £m	Included in Other Income and Expenditure £m	Included in (Surplus)/Deficit on Provision of Services £m
Income																	
Council Tax and NNDR	-	-	-	-	-	-	-	-	-	-	-	**-**	-	-	(180.595)	**(180.595)**	**(180.595)**
Fees, charges, other income	(2.746)	(31.054)	(35.388)	(1.518)	(10.415)	(1.093)	(29.966)	(111.903)	(14.678)	(10.654)	(1.672)	**(251.087)**	-	(6.263)	-	**(6.263)**	**(257.350)**
Government Grants and Contributions	(61.247)	(6.416)	(4.200)	(22.835)	(132.529)	(3.631)	(3.370)	(0.746)	(9.287)	(1.791)	(207.499)	**(453.551)**	-	(0.010)	(78.522)	**(78.532)**	**(532.083)**
Interest and investment income	-	(0.200)	-	(0.002)	(0.352)	-	(0.012)	-	(0.106)	(0.037)	(0.278)	**(0.987)**	-	(5.018)	-	**(5.018)**	**(6.005)**
Total Income	**(63.993)**	**(37.670)**	**(39.588)**	**(24.355)**	**(143.296)**	**(4.724)**	**(33.348)**	**(112.649)**	**(24.071)**	**(12.482)**	**(209.449)**	**(705.625)**	**-**	**(11.291)**	**(259.117)**	**(270.408)**	**(976.033)**
Expenditure												**-**				**-**	**-**
Employee expenses	29.061	10.396	38.377	38.714	79.439	(0.065)	18.083	4.118	21.481	3.772	6.987	**250.363**	-	0.837	-	**0.837**	**251.200**
Interest payments	-	(0.021)	-	-	(0.006)	-	-	-	-	-	-	**(0.027)**	-	45.966		**45.966**	**45.939**
Levies	-	-	-	-	-	-	-	-	-	-	0.070	**0.070**	-	-	-	**-**	**0.070**
Other service expenses	123.942	32.180	25.625	40.420	59.149	11.059	26.510	61.238	26.998	10.262	167.221	**584.604**	0.297	0.698	-	**0.995**	**585.599**
Support service recharges	0.702	0.097	0.036	0.328	6.282	-	(0.140)	3.005	(0.673)	(1.218)	-	**8.419**	-	-	-	**-**	**8.419**
Adjustments for capital purposes	-	-	-	-	-	-	-	-	-	-	-	**-**	-	79.242	-	**79.242**	**79.242**
Other adjustments	-	-	-	-	-	-	-	-	-	-	-	**-**	-	0.300	(0.933)	**(0.633)**	**(0.633)**
Total Expenditure	**153.705**	**42.652**	**64.038**	**79.462**	**144.864**	**10.994**	**44.453**	**68.361**	**47.806**	**12.816**	**174.278**	**843.429**	**0.297**	**127.043**	**(0.933)**	**126.407**	**969.836**
Total included in the Net Expenditure Chargeable to the General Fund and HRA Balances	**89.712**	**4.982**	**24.450**	**55.107**	**1.568**	**6.270**	**11.105**	**(44.288)**	**23.735**	**0.334**	**(35.171)**	**137.804**	**0.297**	**115.752**	**(260.050)**	**(144.001)**	**(6.197)**

6.2 Comprehensive Income and Expenditure Notes

6.2.1 Specific Grants Credited to Services

The following grants, contributions and donations for specific services are included within the Cost of Services as income:

	2015/16 £m	2016/17 £m
Revenue Grants		
Department for Communities and Local Government: PFI Grant	(2.898)	(2.898)
Department for Education: Dedicated School Grant	(115.279)	(115.210)
Department for Education: PFI Grant	(5.620)	(5.620)
Department for Education: Universal Free School Meals	(1.810)	(1.772)
Department of Transport: PFI Grants	(61.491)	(61.491)
Department for Work & Pensions: Housing Benefit Admin	(2.248)	(1.860)
Department for Work & Pensions: Innovation Fund	(0.143)	-
Growth Fund	(0.072)	(1.442)
Mandatory Rent Allowances: Subsidy	(82.162)	(79.114)
Public Health	(31.106)	(35.601)
Pupil Premium Grant	(8.427)	(8.348)
Rent Rebates Granted to HRA Tenants	(62.605)	(59.381)
Other Revenue Grants	(57.696)	(22.019)
Contributions	(21.994)	(51.162)
TOTAL	**(453.551)**	**(445.918)**

6.2.2 Other Operating Expenditure

Other Operating Expenditure includes the following items:

	2015/16 £m	2016/17 £m
Derecognition of Academies	34.138	15.792
Other Derecognition	20.052	15.018
Payments to the Government Housing Capital Receipts Pool	2.147	2.103
Revaluation increases / decrease on assets held for sale	0.598	-
Net Gain/Loss on the disposal of non-current assets	(7.751)	(4.130)
TOTAL	**49.184**	**28.783**

6.2.3 Financing and Investment Income and Expenditure

Financing and Investment includes the following items, further information on Trading Operations can be found in note 6.6.1:

	Restated 2015/16			2016/17		
	Expenditure £m	Income	Net	Expenditure £m	Income	Net
Net Interest on Pension Fund	22.752	-	22.752	21.521	-	21.521
Other interest	45.317	(2.455)	42.862	49.015	(1.990)	47.025
Trading Operations	1.560	(5.315)	(3.755)	1.895	(3.775)	(1.880)
Investment Property Revaluations	0.954	(1.020)	(0.066)	5.296	(1.536)	3.760
Other Finance and Investment items	-	(2.500)	(2.500)	-	(4.500)	(4.500)
TOTAL	**70.583**	**(11.290)**	**59.293**	**77.727**	**(11.801)**	**65.926**

6.2.4 Taxation and Non-Specific Grant Income

	2015/16 £m	2016/17 £m
Revenue:		
Council Tax income		
Demand on the collection fund	(89.108)	(94.212)
Apportionment of Collection Fund Surplus/Deficit	(4.132)	(2.010)
National Non domestic rates (NNDR)		
Demand on the collection fund	(60.468)	(61.782)
Top Up Grant	(27.308)	(27.536)
Apportionment of Collection Fund Surplus/Deficit	5.653	(2.749)
Other	(0.401)	(0.698)
Non-ringfenced government grants		
Revenue Support Grant *	(73.792)	(58.379)
New Homes Bonus	(4.730)	(5.429)
Capital:		
Government Departments	(28.483)	(35.871)
Other	(8.759)	(3.867)
TOTAL	**(291.528)**	**(292.533)**

6.2.5 Expenditure and Income analysed by Nature

	2015/16 £m	2016/17 £m
Income		
Council tax and NNDR	(175.763)	(188.987)
Fees, charges, other income	(257.350)	(270.085)
Government grants and contributions	(569.326)	(549.464)
Interest and investment income	(6.005)	(7.353)
Total Income	(1,008.444)	(1,015.889)
Expenditure		
Employee expenses	254.964	264.660
Interest payments	68.690	71.990
Levies	0.070	0.071
Other service expenses	589.220	587.939
Support service recharges	8.487	9.773
Capital charges including depreciation, amortisation, impairment, revaluations	169.427	(56.982)
Payments to Housing Capital Receipts Pool	2.147	2.103
Disposal of assets	46.743	26.585
Total Expenditure	1,139.748	906.139
Surplus or Deficit on the Provision of Services	**131.304**	**(109.750)**

6.2.6 Revaluation of Property, Plant and Equipment (PPE)/Heritage assets

During 2016/17 revaluation gains and losses charged to Other Comprehensive Income and Expenditure amounted to a net revaluation gain of £55.254m for PPE assets (see note 6.3.1) and £1.355m for Heritage Assets (see note 6.3.2). There are no charges within Other Operating Expenditure relating to physical damage and demolition of assets in 2016/17.

6.2.7 Transactions Relating to Post Employment Benefits (incl. Pensions)

The tables below show how the IAS19 standard impacts on the CIES:

	Local Government Pension Scheme		Teachers Benefits	
	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m
Cost of Services:				
Service cost	32.724	34.432	-	-
Administration expenses	0.019	0.314	-	-
Financing and Investment Income and Expenditure:				
Net interest on the defined liability (asset)	22.063	20.856	0.689	0.665
Total Charged to (Surplus)/Deficit on Provision of Services	**54.806**	**55.602**	**0.689**	**0.665**
Other Comprehensive Income and Expenditure (OCIE):				
Re-measurements of the net defined benefit liability (asset):				
Return on Fund assets in excess of interest	36.584	(169.488)	-	-
Other actuarial (gains)/losses on assets	-	4.333	-	-
Change in financial assumptions	(159.511)	392.033	(0.957)	4.237
Change in demographic assumptions	-	8.220	-	(0.066)
Experience (gain)/loss on defined benefit obligation	0.280	(35.164)	-	7.658
Total Charged to OCIE	**(122.647)**	**199.934**	**(0.957)**	**11.829**
Total Charged to the CIES	**(67.841)**	**255.536**	**(0.268)**	**12.494**

These transactions are summarised in the following table:

	2015/16 £m	2016/17 £m
Comprehensive Income and Expenditure Statement:		
Cost of services	32.743	34.746
Financing and Investment income and expenditure	22.752	21.521
Other Comprehensive Income and Expenditure	(123.604)	211.763
TOTAL	**(68.109)**	**268.030**

6.3 Balance Sheet Notes

6.3.1 Property Plant and Equipment

2016/17	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	635.302	849.487	208.339	654.246	31.005	36.301	40.030	**2,454.710**	**296.444**
Accumulated Depreciation b/f	-	(53.998)	(81.006)	(157.213)	(8.251)	-	-	**(300.468)**	**(7.611)**
Accumulated Impairment b/f	-	(0.069)	-	-	-	-	-	**(0.069)**	-
Net Book Value at 1st April 2016	**635.302**	**795.420**	**127.333**	**497.033**	**22.754**	**36.301**	**40.030**	**2,154.173**	**288.833**
Additions - Capital Expenditure	30.377	12.396	16.476	21.143	1.263	8.638	45.368	**135.661**	-
Additions - Donations	-	-	-	-	-	-	-	**-**	-
Additions - PFI	-	-	-	-	-	-	-	**-**	-
Depreciation Charge	(25.572)	(23.942)	(14.139)	(26.388)	(1.029)	(0.022)	-	**(91.092)**	(12.433)
Revaluations - Recognised in Revaluation Reserve	19.102	35.552	-	-	-	0.600	-	**55.254**	(0.343)
Revaluations - Recognised in the CIES	178.476	(28.847)	-	-	-	(0.640)	-	**148.989**	(2.272)
Derecognition - Disposals	(7.054)	(0.247)	(0.095)	-	-	(2.661)	-	**(10.057)**	-
Derecognition - Other	(4.660)	(18.394)	-	-	-	(7.756)	-	**(30.810)**	-
Impairments - Recognised in Revaluation Reserve		-	-	-	-	-	-	**-**	-
Impairments - Recognised in the CIES	-	0.055	-	-	(0.200)	-	-	**(0.145)**	-
Other Movements - Transfers to Held for Sale	-	-	-	-	-	(1.120)	0.160	**(0.960)**	-
Other Movements - Other	9.987	22.298	(5.410)	3.178	-	1.678	(32.075)	**(0.344)**	
Net Book Value at 31st March 2017	**835.958**	**794.291**	**124.165**	**494.966**	**22.788**	**35.018**	**53.483**	**2,360.669**	**273.785**
Gross Book Value c/f	835.958	854.468	218.355	678.567	32.268	35.018	53.488	**2,708.122**	290.321
Accumulated Depreciation c/f	-	(60.162)	(94.190)	(183.601)	(9.280)	-	(0.005)	**(347.238)**	(16.536)
Accumulated Impairment c/f	-	(0.015)	-	-	(0.200)	-	-	**(0.215)**	-
Net Book Value at 31 March 2017	**835.958**	**794.291**	**124.165**	**494.966**	**22.788**	**35.018**	**53.483**	**2,360.669**	**273.785**

2015/16	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	610.225	852.739	155.032	450.263	29.890	27.575	124.382	**2,250.106**	**99.087**
Accumulated Depreciation b/f	-	(54.833)	(74.390)	(139.197)	(7.273)	(0.028)	-	**(275.721)**	**(11.608)**
Accumulated Impairment b/f	-	-	-	-	-	-	-	**-**	-
Net Book Value at 1st April 2015	**610.225**	**797.906**	**80.642**	**311.066**	**22.617**	**27.547**	**124.382**	**1,974.385**	**87.479**
Additions - Capital Expenditure	33.251	8.070	13.912	21.501	1.115	6.894	37.854	**122.597**	-
Additions - Donations	0.151	-	-	-	-	-	-	**0.151**	-
Additions - PFI	-	-	55.944	180.977	-	-	-	**236.921**	236.921
Depreciation Charge	(25.425)	(23.852)	(13.371)	(18.015)	(0.978)	(0.619)	-	**(82.260)**	(4.091)
Revaluations - Recognised in Revaluation Reserve	(0.489)	43.078	-	-	-	7.755	-	**50.344**	(0.147)
Revaluations - Recognised in the CIES	7.529	(96.655)	-	-	-	(0.599)	(0.143)	**(89.868)**	(13.109)
Derecognition - Disposals	(11.460)	-	(0.015)	-	-	(1.690)	-	**(13.165)**	-
Derecognition - Other	(3.012)	(36.377)	-	-	-	(12.728)	(0.084)	**(52.201)**	(18.220)
Impairments - Recognised in Revaluation Reserve	-	-	-	-	-	-	-	**-**	-
Impairments - Recognised in the CIES	-	(0.069)	-	-	-	-	-	**(0.069)**	-
Other - Transfers to Held for Sale	24.532	103.319	(9.779)	1.504	-	9.741	(121.979)	**7.338**	-
Net Book Value at 31st March 2016	**635.302**	**795.420**	**127.333**	**497.033**	**22.754**	**36.301**	**40.030**	**2,154.173**	**288.833**
Gross Book Value c/f	635.302	849.487	208.339	654.246	31.005	36.301	40.030	**2,454.710**	296.444
Accumulated Depreciation c/f	-	(53.998)	(81.006)	(157.213)	(8.251)	-	-	**(300.468)**	(7.611)
Accumulated Impairment c/f	-	(0.069)	-	-	-	-	-	**(0.069)**	-
Net Book Value at 31 March 2016	**635.302**	**795.420**	**127.333**	**497.033**	**22.754**	**36.301**	**40.030**	**2,154.173**	**288.833**

Depreciation

In line with the Accounting Policies for PPE (section 2.1.3) the following useful lives and depreciation rates have been used in the calculation of depreciation:

	Standard Life	Overall Range
Council Dwellings – component based calculation	-	15-80 years
Other Land and Buildings	-	5-75 years
Furniture & Equipment	5 years	5-30 years
Vehicles	7 years	5-7 years
Infrastructure and Community Assets	25 years	16-75 years

Where the Council departs from standard lives, the lives used are within the overall range outlined in the table above.

Revaluations

The Council carries out a rolling programme that ensures that all PPE carried at 'current value' is revalued at least every 5 years. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historical cost as a proxy for current value.

During 2016/17, the Council's internal valuers completed asset valuations for operational properties in compliance with the 5-year requirement. In addition, internal valuers also completed a number of reviews outside the Council's 5-year property revaluation programme, for properties undergoing significant changes as a result of capital investment, material impairment or reclassification.

Valuers' Assumptions - Cyclical and Non Cyclical Valuations

States of Repair - All properties have been assumed to be in good condition unless specific disrepair has been identified and this has been taken into account in the valuation.

Contamination – Unless there is specific evidence, it is assumed that the properties are not, nor are likely to be affected by land contamination and that there are no ground conditions that affect the present or future use of the properties. Where there is evidence of contamination, this has been reflected in the valuation unless the cost of decontamination work would be immaterial.

Title - It is assumed that there are no encumbrances on title.

Council Housing Stock Valuation – beacon revaluation (see note 7.1.3.3 for details).

Material Revaluation Gains, Losses and Impairments

4 properties / sites with a total value of £15.792m have been removed from the Council's balance sheet as a result of schools gaining Academy Status and entering into long leasehold agreements at a peppercorn rent.

Other material changes as a result of revaluations in 2016/17 include a gain of £197.578m for Council Dwellings, the increase reflecting a change to the Social Housing Adjustment factor provided by the Department for Communities and Local Government as well as general increases in market values, higher valued new build properties and increases to properties along the tram link (see note 2.2.2 for further details).

In line with the Accounting Policies for PPE, the Council's componentisation policy has been applied to recognition, revaluation and depreciation of fixed assets during 2016/17.

Valuation at 31 March 2017

The Council's rolling revaluation programme is summarised below:

DESCRIPTION	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total £m
Carried at depreciated historical cost			124.165	494.966	22.788			641.919
Valued at depreciated current value as at:								
2012/13		202.983						202.983
2013/14		96.685						96.685
2014/15		134.225						134.225
2015/16		172.579						172.579
2016/17	835.958	187.819				35.018	53.483	1,112.278
Net book value at 31 March 2017	**835.958**	**794.291**	**124.165**	**494.966**	**22.788**	**35.018**	**53.483**	**2,360.669**

Capital Commitments

At 31 March 2017, the Council had entered into a number of contracts for the construction or enhancement of PPE with future costs estimated as £74.762m. The equivalent figure as at 31 March 2016 was £132.130, the commitments have reduced due to a number of large schemes completing during financial year 2016/17. The major commitments are summarised below:

Capital Programme Element	Major Schemes	31 March 2017 £m
Public Sector Housing	Meeting the Decent Home Standard	10.123
Public Sector Housing	Additional Tenant Priorities	18.740
Public Sector Housing	Building a Better Nottingham	22.197
Public Sector Housing	Joint Involvement with Related Party	1.105
Transport Schemes	Local Transport Plan	2.470
Transport Schemes	Green Bus Fund	1.793
Transport Schemes	Better Bus Area	1.230
Transport Schemes	Local Growth Fund	2.950
Other Services	Eastcroft Combined Heat & Power Plant Works	6.150
Other Services	Nottingham Castle	0.700
Other Services	Royal Centre Transformation	3.357
Other Services	Sneinton Dales JSC	0.098
Other Services	Microsoft Licences	1.000
Other Services	Expansion of Bio City	2.330
Education / Schools	Various	0.519
TOTAL		**74.762**

6.3.2 Heritage Assets

The Council's register of Heritage Assets includes over 95,000 items (excluding the natural history collection). The natural history collection is a collection of animals, plants and other living things which hold £nil monetary value and are held by the Council solely for its scientific value. The Council holds its Heritage Assets as a contribution to the knowledge and cultural development of both citizens and visitors. The Heritage Assets items are either held on display at one of the Council's museums or held in storage, where access is encouraged.

These collections are reported either at cost or an adjusted external valuation, based on an annually updated market value, usually provided for insurance purposes. Items reported at cost are usually awaiting a market valuation.

Collections:	Byron	Costume	Decorative Art	Fine Art	Human & Social History	Industrial History	Civic Regalia & Silver	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m
1 April 2015	14.236	0.536	3.916	34.490	0.647	0.015	1.334	**55.174**
Revaluations	0.071	0.014	0.020	0.172	0.003	-	0.007	**0.287**
31 March 2016	**14.307**	**0.550**	**3.936**	**34.662**	**0.650**	**0.015**	**1.341**	**55.461**
Additions	0.027	-	0.006	0.055	-	-	-	**0.088**
Disposals	(0.005)	-	-	-	-	-	-	**(0.005)**
Revaluations	0.328	0.012	0.089	0.796	0.015	-	0.031	**1.271**
31 March 2017	**14.657**	**0.562**	**4.031**	**35.513**	**0.665**	**0.015**	**1.372**	**56.815**

Until financial year 2016/17, there had been no additions to or disposals from the collections since April 2012.

Preservation and Management

Each of the collections is managed by a curator who is responsible for their care and management in accordance with Nottingham City Council's policies and national guidelines. This policy requires that Heritage Assets are only disposed of when it is considered that they no longer contribute to the interest of the general public in their subject area. Although acquisitions are rare and primarily made by donation, on those rare occasions when a particularly important asset is available for purchase, the Council will apply for funding and undertake the purchase, provided that it meets the Council's objectives.

6.3.3 Investment Property

There are no restrictions on the Council's ability to sell its investment property or on its right to related income and the proceeds of disposal. There are no contractual obligations to purchase, construct or develop investment property or to conduct repairs, maintenance or enhancement.

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

	2015/16 £m	2016/17 £m
Balance at 1 April	44.024	59.292
Additions	16.325	87.466
Disposals	(1.997)	(0.655)
Net gains/(losses) from fair value adjustments	3.725	0.362
Transfers to / from Property Plant and Equipment	(2.785)	0.344
BALANCE AT 31 MARCH	**59.292**	**146.809**

Details of related income and expenditure included in the CIES are shown in section 6.2.3.

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2017 are as follows:

	Quoted prices in active markets for identical assets (Level 1) £m	Other significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Fair value as at 31 March 2017 £m
Industrial	-	5.828	-	5.828
Land	-	17.511	0.881	18.392
Leisure / Other	-	8.731	1.338	10.069
Office	-	62.488	0.078	62.566
Retail	-	49.025	-	49.025
Services	-	0.688	0.241	0.929
Total	**-**	**144.271**	**2.538**	**146.809**

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties:

- Significant Observable Inputs – Level 2

The fair value valuations have been on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

- Significant Unobservable Inputs – Level 3

Level 3 properties are measured using the income approach, by means of a discounted cash flow method, to establish the present value of the net income stream. This method uses the Council's data factoring in cash flows, rent movements, occupancy / bad debt levels, etc. For level 3 properties there is no reasonably available information that indicated that market participants would use different assumptions.

Highest and Best Use of Investment Properties

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

Valuation Techniques

IFRS13 Fair Value accounting has been used during financial year 2016/17 for investment properties.

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3

	As at 31 March 2017 £m	Valuation Technique Used to measure fair value	Unobservable Inputs	Level of Confidence	Sensitivity
Land	0.881	Comparative method of valuation	Use Rent Comparables Capital Comparables	25% - 75% 25% - 75% 25% - 75%	Level of confidence within the unobservable inputs, any significant changes in confidence level will result in a sinficantly lower or higher fair value
Leisure / Other	1.338	Term and Reversion valuation of existing leasehold interests / Marriage Valuation of existing leasehold interests.	Planning Use Rent Comparables Yield Comparables	25% 25% 25% - 50% 50%	Level of confidence within the unobservable inputs, any significant changes in confidence level will result in a sinficantly lower or higher fair value
Office	0.078	Term and Reversion valuation of existing leasehold interests / Marriage Valuation of existing leasehold interests.	Rent Comparables Yield Comparables	25% - 50% 25% - 50%	Level of confidence within the unobservable inputs, any significant changes in confidence level will result in a sinficantly lower or higher fair value
Retail	-	Term and Reversion valuation of existing leasehold interests.	Rent Comparables Yield Comparables	25% 50%	Level of confidence within the unobservable inputs, any significant changes in confidence level will result in a sinficantly lower or higher fair value
Services	0.241	Term and Reversion valuation of existing leasehold interests.	Use Rent Comparables Yield Comparables	25% - 50% 50% 50%	Level of confidence within the unobservable inputs, any significant changes in confidence level will result in a sinficantly lower or higher fair value

25% - Low Risk
50% - Medium Risk
75% - High Risk

Valuation Process for Investment Properties

The fair value of the Council's investment properties are measured annually. All the valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

6.3.4 Intangible Assets

The Council accounts for software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of PPE. The balances shown below relate to purchased software licences. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use and for the major software suites this is assumed to be 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charged to revenue in 2016/17 was £1.156m.

The movement on intangible asset balances during the year is as follows:

	2015/16 £m	2016/17 £m
Balance at start of year:		
Gross carrying amounts	7.181	9.429
Accumulated amortisation	(4.020)	(4.871)
Net carrying amount at start of year	**3.161**	**4.558**
Additions - Purchases	2.248	2.206
Amortisation for the period	(0.851)	(1.156)
Net carrying amount at end of year	**4.558**	**5.608**
Comprising:		
Gross carrying amounts	9.429	11.635
Accumulated amortisation	(4.871)	(6.027)
Net carrying amount at end of year	**4.558**	**5.608**

6.3.5 Assets Held for Sale

Non-Current

Non-current Assets Held for Sale include a 50% share in the Blueprint Limited Partnership acquired by the Council during 2014/15.

Current

Movements in assets that the Council expects to sell within a year were as follows:

	2015/16 £m	2016/17 £m
Balance outstanding at start of year	**9.011**	**0.160**
PPE declassified as held for sale	-	(0.160)
PPE newly classified as held for sale	(4.553)	1.120
Revaluation losses	(0.614)	-
Revaluation gains	0.016	-
Assets sold	(4.410)	-
Other movements	0.710	-
BALANCE AT 31 MARCH	**0.160**	**1.120**

6.3.6 Inventories

	2015/16				2016/17			
	Consumable Stores	Maintenance Materials	Client services work in progress	Total	Consumable Stores	Maintenance Materials	Client services work in progress	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April	**0.635**	**0.430**	**2.769**	**3.834**	**0.652**	**0.125**	**1.103**	**1.880**
Purchases	5.350	4.319	6.245	15.914	5.051	0.052	2.378	7.481
Recognised as an expense in the year	(5.333)	(4.624)	(7.911)	(17.868)	(4.945)	(0.027)	(1.580)	(6.552)
Written off balances	-	-	-	-				-
BALANCE AT 31 MARCH	**0.652**	**0.125**	**1.103**	**1.880**	**0.758**	**0.150**	**1.901**	**2.809**

6.3.7 Short Term Debtors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	13.544	12.875
Other local authorities	4.185	3.069
NHS Bodies	4.775	3.428
Other entities and individuals	82.077	86.068
TOTAL	**104.581**	**105.440**

6.3.8 Cash and Cash Equivalents

The balance of Cash and Cash Equivalents comprises the following elements:

	31 March 2016 £m	31 March 2017 £m
Cash held by the Authority	0.241	0.402
Bank current accounts	(3.681)	7.614
Short-term deposits with banks and building societies	35.400	12.000
TOTAL	**31.960**	**20.016**

The Council has set-off overdrafts of £9.819m (£12.335m in 2015/16) against credit balances held within its bank current accounts.

6.3.9 Short Term Creditors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	(24.095)	(18.545)
Other local authorities	(3.961)	(7.266)
NHS Bodies	(9.696)	(2.888)
Other entities and individuals	(121.585)	(117.745)
TOTAL	**(159.337)**	**(146.444)**

6.3.10 Provisions

Current Provisions

These are amounts set aside meet specific expenditure in 2017/18. The NET2 provision has reduced during 2016/17 due to acquisition prices being agreed on compulsory purchases, the closing balance are for compulsory purchases where the purchase price has yet to be agreed.

A number of Single Status payments (£1.365m) have been made in 2016/17 against the job evaluation provision.

	Compulsory Purchases for NET2 £m	Job Evaluation £m	Other £m	Total £m
Balance at 1 April 2016	**(17.130)**	**(3.072)**	**(0.110)**	**(20.312)**
Additional provisions made	-	-	(0.076)	(0.076)
Amounts used	1.023	1.365	-	2.388
BALANCE AT 31 MARCH 2017	**(16.107)**	**(1.707)**	**(0.186)**	**(18.000)**

Non-Current Provisions

These accounts represent amounts set aside to meet specific expenditure in future years.

	Injury and Damage Compensation Claims £m	Business Rates Appeals £m	Equal Pay £m	Total £m
Balance at 1 April 2016	**(11.034)**	**(10.891)**	**(0.435)**	**(22.360)**
Additional provisions made	(4.765)	(1.372)	-	(6.137)
Amounts used	3.853	2.958	-	6.811
BALANCE AT 31 MARCH 2017	**(11.946)**	**(9.305)**	**(0.435)**	**(21.686)**

Insurance Compensation Claims

Nottingham City Council maintains an insurance provision to meet the cost of claims arising from self-insured risks, risks which fall below the external policy retention levels and for payment of external insurance premiums.

The majority of costs met from the provision arise from property damage, liability claims made against the Council and motor accidents involving Council motor vehicles. In order to limit the Council's exposure to these risks the policies for external fire and motor and liability have been arranged with excesses of £0.250m, and £0.100m respectively. To further protect the Council's exposure to significant payments, aggregate stop losses are in place, which limit the total value of claims that the Council will have to fund in one policy year; the stop losses for the 2016/2017 policy year were £5m across all classes. Other costs falling on the provision include self-insured risks and the payment of insurance premium for policies where the risk has been transferred to the market.

Contributions to the insurance provision arise from annual charges to service areas. These maintain the insurance provision at a sufficient level to meet current claim liabilities, which includes an element of incurred but not reported claims. In addition to the known and estimated liabilities there are also potential liabilities on the fund that have not been included in the fund balance which are included in the Reserve. Nottingham City Council maintains an insurance provision to meet the cost of claims arising from self-insured risks and risks which fall below the external policy retention levels.

Business Rates

The council bears a risk of non-collection of business rates following appeals. A decrease of £0.278m in the provision (included within the movement on provision) has been made as a result of the assessment of outstanding appeals at 31st March 2017, the last date for appeals against the current valuation list.

Equal Pay

A provision of £1.762m was set up in 2012/13 to meet the potential cost of additional settlements arising from an ongoing equal pay tribunal case. A balance of £0.435m remains for this provision.

6.3.11 Usable Reserves

Movements in the Council's usable reserves are summarised in the Movement in Reserves Statement (Table 3.4). Further details of the earmarked reserves are shown below:

	Balance at 1 April 2015 £m	Transfers Out £m	Transfers In £m	Balance at 31 March 2016 £m	Transfers Out £m	Transfers In £m	Balance at 31 March 2017 £m
Restricted Reserves:							
Schools	24.122	(6.385)	4.127	21.864	(4.621)	1.507	18.750
Capital	12.140	(2.342)	0.700	10.498	(13.514)	18.060	15.044
Other Reserves:							
Private Finance Initiatives	35.552	(4.621)	15.357	46.288	(7.677)	5.146	43.757
Investment	21.880	(14.097)	9.470	17.253	(14.076)	2.232	5.409
Contingency	17.238	(4.413)	17.806	30.631	(27.553)	19.508	22.586
Services	10.733	(9.886)	11.964	12.811	(8.676)	5.399	9.534
Workforce Issues	8.097	(1.647)	2.632	9.082	(3.629)	12.537	17.990
Business Transformation	7.687	(5.377)	3.003	5.313	(5.431)	1.520	1.402
Local Economy	7.484	(8.590)	7.482	6.376	(5.251)	5.387	6.512
Information Technology	7.015	(4.096)	3.566	6.485	(3.971)	5.918	8.432
Insurance & Risk Management	4.779	-	0.084	4.863	(0.865)	0.316	4.314
Asset Maintenance	3.378	(1.709)	1.798	3.467	(0.494)	0.780	3.753
	160.105	**(63.163)**	**77.989**	**174.931**	**(95.758)**	**78.310**	**157.483**

Restricted reserves have been identified separately as they are generally not available to support General Fund revenue expenditure. The detailed categories are explained below:

Schools

This represents funds that have been allocated to schools under Local Management of Schools legislation, and which remains unspent at the year end. This reserve is not available to support other General Fund expenditure.

Capital

Sums that have been set aside in previous years to provide additional funding for the capital programme.

PFI

PFI reserves exist for number of schemes as a result of Government funding that has been received in advance to pay future years' liabilities. This income is therefore set aside to ensure sufficient funds are available to cover the cost of contracts in future years.

Investment

Reserves set aside to help fund or manage the impact of new capital schemes that have not yet been included in the capital programme.

Contingency

Certain areas of expenditure are subject to volatility. Reserves are therefore set aside to help manage the impact on the General Fund of significant changes in costs year on year in specific areas.

Services

Where services have identified one-off items of revenue expenditure that are likely to be incurred in future years.

Workforce Issues

Initially set up to meet costs relating to job evaluation and equal pay, this reserve is now available to fund residual equal pay costs as well as any other workforce issues.

Business Transformation

These reserves are available to help meet costs incurred when implementing business and service efficiencies within the Council.

Information Technology

These reserves are set aside to provide a source of funding for major changes to information technology that occur periodically.

Insurance and Risk Management

These reserves reflects the potential future liabilities in relation to insurance claims and provides resources to help reduce or deal with risk management issues that arise.

Local Economy

The Council has set aside reserves that will allow investment in the local economy. The reserves are generally used to help local businesses and residents.

Asset Maintenance

These reserves are available to help maintain the Council’s property and other assets, particularly where there are significant and periodic requirements to ensure the Council’s assets are adequately maintained.

6.3.12 Unusable Reserves

Unusable reserves have been created as a result of the difference between accounting under IFRS and statutory provisions for meeting expenditure from the General Fund. These reserves represent differences due to timing of funding certain items of expenditure and are, therefore, not available as a source of general funding.

	2015/16 £m	2016/17 £m
Revaluation Reserve	351.829	392.902
Capital Adjustment Account	794.066	971.110
Financial Instruments Adjustment Account	(6.584)	(6.400)
Pensions Reserve	(623.310)	(860.824)
Deferred Capital Receipts Reserve	1.248	1.235
Collection Fund Adjustment Account	(2.028)	1.460
Accumulated Absences Account	(4.281)	(4.476)
Available for Sale Financial Instruments Reserve	(0.013)	-
TOTAL UNUSABLE RESERVES	**510.927**	**495.007**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its PPE. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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.

	2015/16 £m	2016/17 £m
Balance at 1 April	**315.722**	**351.829**
Upward revaluation of assets	66.694	73.676
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(16.064)	(17.066)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	50.630	56.610
Difference between fair value depreciation and historical cost depreciation	(9.578)	(10.694)
Accumulated gains on assets sold or scrapped	(4.945)	(4.843)
Amount written off to the Capital Adjustment Account	(14.523)	(15.537)
BALANCE AT 31 MARCH	**351.829**	**392.902**

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 debited with the cost of acquisition, construction or enhancement. Depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account also contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council, together with revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2015/16 £m	2016/17 £m
Balance at 1 April	**877.330**	**794.066**
Other Comprehensive Items		
Voluntary aided school recognition	-	
	-	-
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Amortisation of intangible assets	(0.851)	(1.156)
Charges for depreciation of non-current assets	(82.260)	(91.092)
Charges for impairment of non-current assets	(0.069)	(0.145)
Revaluation losses on Property, Plant and Equipment	(90.141)	148.989
Donated assets	0.151	-
Movements in the market value of Investment Properties	3.677	0.387
Revenue expenditure funded from capital under statute (REFCUS)	(8.845)	(2.929)
REFCUS expenditure funded by grants	5.720	1.915
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(71.772)	(41.522)
Adjusting amounts written out of the Revaluation Reserve	14.523	15.537
	(229.867)	29.984
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	25.658	9.426
Use of the Major Repairs Reserve to finance new capital expenditure	28.470	44.112
Application of grants from the Capital Grants Unapplied Account	40.923	35.992
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7.406	4.101
Voluntary set aside of capital receipts for debt redemption	24.102	24.726
Adjustment to MRP as a result of PFI Projects	3.730	7.460
Capital expenditure charged against the General Fund and HRA balances	16.926	21.250
Reduction in Liabilities & Repayment of Long Term Debtors etc:		
Principal Repayment of Capital Loans	(0.612)	(0.007)
	146.603	147.060
BALANCE AT 31 MARCH	**794.066**	**971.110**

Available for Sale Financial instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains/losses made by the Authority arising from changes in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated balances are revalued, impaired or disposed of and the gains/losses are realised.

	2015/16 £m	2016/17 £m
Balance at 1 April	**-**	**(0.013)**
Upward revaluation of investments		
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(0.013)	
	(0.013)	-
Accumulated loss on assets sold and maturing assets written out to the CIES as part of Other Investment Income	-	0.013
BALANCE AT 31 MARCH	**(0.013)**	**-**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid and discounts received on the early redemption of loans. Premiums and discounts are debited or credited to the CIES when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

Similar treatment is applied to loans raised by the Council with variable interest rates applied (Lenders Option Borrowers Option loans), and for monies advanced by the Council at less than the market interest rate (soft loans).

	2015/16 £m	2016/17 £m
Balance at 1 April	**(6.883)**	**(6.584)**
Premiums incurred in the year	0.363	0.363
Discounts incurred in the year	(0.072)	(0.072)
Lenders Option Borrowers Option Loans	0.006	0.004
Soft Loans	0.002	(0.111)
BALANCE AT 31 MARCH	**(6.584)**	**(6.400)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Post employment benefits are accounted for in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as employer's contributions are made to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2015/16 £m	2016/17 £m
Balance at 1 April	**(720.588)**	**(623.310)**
Return on plan assets	(36.584)	169.488
Actuarial gains or (losses) on pensions assets and liabilities	160.188	(381.251)
Reversal of items relating to retirement benefits debited or credited to (Surplus)/Deficit on Provision of Services in the CIES	(55.495)	(56.267)
Employer's pensions contributions and direct payments to the pensioners payable in the year	29.169	30.516
BALANCE AT 31 MARCH	**(623.310)**	**(860.824)**

Deferred Capital Receipts Reserve

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

	2015/16 £m	2016/17 £m
Balance at 1 April	**3.893**	**1.248**
Transfer to the Capital Receipts Reserve upon receipt of cash	(0.015)	(0.013)
Created in year	(2.630)	-
BALANCE AT 31 MARCH	**1.248**	**1.235**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NNDR income in the CIES as it falls due, compared with the statutory arrangements (funding basis) for paying across amounts to the General Fund from the Collection Fund.

	2015/16 £m	2016/17 £m
Balance at 1 April	**4.232**	**(2.028)**
Adjustment for council tax income and NNDR credited to the CIES on an accounting basis instead of funding basis	(6.260)	3.488
BALANCE AT 31 MARCH	**(2.028)**	**1.460**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements (funding basis) require it to be treated as an unusable reserve so that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2015/16 £m	2016/17 £m
Balance at 1 April	**(4.090)**	**(4.281)**
Settlement or cancellation of accrual made at the end of the preceding year	4.090	4.281
Amounts accrued at the end of the current year	(4.281)	(4.476)
Adjustment to CIES to include officer remuneration on an accounting (accruals) basis instead of funding basis	**(0.191)**	**(0.195)**
BALANCE AT 31 MARCH	**(4.281)**	**(4.476)**

6.3.13 Capital Grants Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if the conditions are not met.

The balances at the year-end are as follows:

	2015/16 £m	2016/17 £m
Department for Education	(0.174)	(0.156)
Department of Health	(0.019)	-
Dept for Local Government & Communities	(9.432)	(8.924)
Office for Low Emission Vehicles	(3.000)	(1.780)
S106 Contributions - Affordable Housing	(2.481)	(3.281)
S106 Contributions - Open Space	(1.024)	(0.953)
S106 Contributions - Transport / Public Realm / Training	(0.120)	(0.497)
Other Grants and Contributions	(0.089)	(0.089)
TOTAL	**(16.339)**	**(15.680)**

6.3.14 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, 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.

The Council participates in three post employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Nottinghamshire County Council
- The Teachers' Pension Scheme, managed by the Department for Education (DfE) and administered by Capita Business Services Ltd

- The NHS Pension Scheme, administered by the NHS Business Services Authority

Further details for these schemes can be found in Appendix C

The following tables explain the amounts in the financial statements. Teachers Benefits data is in respect of additional pensions granted at retirement by the Council and are paid for by the Council as they become due.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Local Government Pension Scheme		Teachers Benefits	
	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m
Opening balance at 1 April	**(1,592.727)**	**(1,476.004)**	**(32.387)**	**(29.955)**
Current service cost	(37.516)	(34.518)	-	-
Interest cost	(51.605)	(52.344)	(0.689)	(0.665)
Change in financial assumptions	159.511	(392.033)	0.957	(4.237)
Change in demographic assumptions	-	(8.220)	-	0.066
Experience loss/(gain) on defined benefit obligation	(0.280)	35.164	-	(7.658)
Liabilities assumed/extinguished on settlements	9.286	3.772	-	-
Estimated benefits paid net of transfers in	45.852	50.116	-	-
Past Service costs including curtailments	(1.250)	(1.950)	-	-
Contributions by scheme participants	(8.450)	(8.632)	-	-
Unfunded pension payments	1.175	1.115	2.164	2.102
CLOSING BALANCE AT 31 MARCH	**(1,476.004)**	**(1,883.534)**	**(29.955)**	**(40.347)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2015/16 £m	2016/17 £m
Opening balance at 1 April	**904.526**	**882.649**
Interest on assets	29.542	31.488
Return on assets less interest	(36.584)	169.488
Other actuarial gains/losses	-	(4.333)
Administration expenses	(0.019)	(0.314)
Contributions by the employer including unfunded	27.005	28.414
Contributions by scheme participants	8.450	8.632
Estimated benefits paid plus unfunded net of transfers in	(47.027)	(51.231)
Settlement prices received/paid	(3.244)	(1.736)
CLOSING BALANCE AT 31 MARCH	**882.649**	**1,063.057**

The total return on the fund assets for the year to 31 March 2017 is £200.976m.

The net pension liability shown in the balance sheet as at 31 March is as follows:

	Local Government Pension Scheme 31 March 2016 £m	Local Government Pension Scheme 31 March 2017 £m	Teachers Benefits 31 March 2016 £m	Teachers Benefits 31 March 2017 £m
Present value of obligation	(1,461.352)	(1,867.667)	-	-
Fair value of scheme assets (bid value)	882.649	1,063.057	-	-
Net Liability	**(578.703)**	**(804.610)**	**-**	**-**
Present value of unfunded obligation	(14.652)	(15.867)	(29.955)	(40.347)
NET LIABILITY IN BALANCE SHEET	**(593.355)**	**(820.477)**	**(29.955)**	**(40.347)**

The liabilities show the underlying commitments that the Council has to pay in respect of post-employment (retirement) benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, as a result of the negative overall balance of £860.824m. However, statutory arrangements for funding the deficit are in place to safeguard the financial position of the Council:

- The deficit on the LGPS 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.

6.3.15 Financial Instruments

The operation of the Council's Treasury Management function is regulated through the Local Government Act 2003 and supplementary guidance issued by the Department for Communities and Local Government, the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council approves an annual treasury strategy, reviewing risk and expected activities during the year.

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires disclosure of information pertaining to the scope, significance and risk associated with the Council's financial instruments.

Categories of Financial Instruments

A financial instrument arises from a contract which creates a financial asset in one organisation and a financial liability in another. The Balance Sheet contains a range of such financial instruments, both assets and liabilities.

The tables below show the appropriate value of all financial instruments on the Balance Sheet as at 31 March 2017 (and 31 March 2016).

	Notes	Long-term 31 March 2016 £m	Long-term 31 March 2017 £m	Current 31 March 2016 £m	Current 31 March 2017 £m
Investments					
Loans and receivables					
- investments (principal)		-	-	35.000	15.000
- accrued interest		-	-	0.174	0.006
- Icelandic deposits		-	-	2.780	3.129
		-	**-**	**37.954**	**18.135**
Available for sale					
- investments (principal)		-	-	9.987	-
- accrued interest		-	-	-	-
Unquoted equity investment at cost		5.445	5.345	-	-
TOTAL INVESTMENTS		**5.445**	**5.345**	**47.941**	**18.135**
Cash and Cash Equivalents					
- cash (including bank accounts)		-	-	(3.440)	8.016
- cash equivalents (principal)		-	-	35.400	12.000
TOTAL CASH EQUIVALENTS		**-**	**-**	**31.960**	**20.016**
Debtors					
Loans and receivables	1	65.742	75.006	80.799	82.438
TOTAL DEBTORS		**65.742**	**75.006**	**80.799**	**82.438**

Notes:

1. Debtors exclude non-contractual items e.g. NNDR and Council Tax, together with Payments in Advance.

	Notes	Long-term 31 March 2016 £m	Long-term 31 March 2017 £m	Current 31 March 2016 £m	Current 31 March 2017 £m
Borrowings					
Financial liabilities at amortised cost					
- principal	1	654.007	656.481	36.389	132.416
- interest		-		6.572	6.431
- accounting adjustments		0.934	0.930	-	-
TOTAL BORROWINGS		**654.941**	**657.411**	**42.961**	**138.847**
Other Long Term Liabilities					
PFI and finance lease liabilities	1	225.990	218.696	10.323	7.297
Growing Places Fund and other		9.776	9.707	8.804	8.999
TOTAL OTHER LONG TERM LIABILITIES		**235.766**	**228.403**	**19.127**	**16.296**
Creditors					
Financial liabilities at amortised cost	2	-	-	97.555	96.118
TOTAL CREDITORS		**-**	**-**	**97.555**	**96.118**

Notes:

1. The principal element of borrowings plus PFI and finance lease liabilities equates to external debt for comparison against the operational boundary.
2. Creditors exclude non-contractual items e.g. NNDR and Council Tax, together with Receipts in Advance.

Financial Instruments – Items of interest, expense, gains and losses

The following table discloses the income and expenditure recognised in the CIES for all financial assets and liabilities not held at fair value (calculated using the effective interest method):

	2015/16 £m	2016/17 £m
Interest expense	(33.613)	(38.153)
Impairment losses	-	-
Total Expense in (Surplus)/Deficit on Provision of Services	**(33.613)**	**(38.153)**
Interest and investment income	2.067	2.687
Interest and other income - impaired financial assets	1.075	0.349
Dividend Income	0.700	2.070
Total Income in (Surplus)/Deficit on Provision of Services	**3.842**	**5.106**
NET GAIN/(LOSS) FOR THE YEAR	**(29.771)**	**(33.047)**

Financial Instruments – Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For assets, including shares in money market funds the fair value is taken from the market price.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2017, using the following methods and assumptions:

- PWLB loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term borrowing has been estimated using market rates for gilts using the most appropriate maturity and repayment profile as at 31st March 2017.
- The fair values of finance lease and PFI scheme assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charges) at the appropriate AA corporate bond yield.
- The fair value for long term debtors has been estimated using the PWLB's interest rates for new fixed rate loans with the most appropriate maturity and repayment profile as at 31st March 2017.
- Shares in Nottingham City Transport (NCT) have been valued at cost with fair value being calculated from the company's balance sheet net assets and adding

expected future profits, discounted at a suitable market rate for similar equity investments.

- No early repayment or impairment is recognised for any financial instrument.
- Where an instrument has a maturity of less than 12 months, the fair value is taken to be the principal outstanding, plus accrued interest.
- The fair value of trade and other creditors and debtors is taken to be the billed amount.
- The fair value of investments excludes all sums deposited with Icelandic banks which have been accounted for separately.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices which have been accounted for separately.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

The fair values calculated are as follows:

		31 March 2016		31 March 2017	
	Fair value level	Carrying amount	Fair value	Carrying amount	Fair value
		£m	£m	£m	£m
PWLB debt	2	625.932	752.089	629.449	782.598
Market loans	2	50.421	79.983	50.420	79.092
Stock	2	0.629	0.794	0.629	0.762
PFI and finance leases	2	236.313	382.888	225.993	380.614
Other debt	*	20.920	20.920	115.759	115.759
Trade creditors	*	97.555	97.555	96.118	96.118
Total Financial Liabilities		**1,031.770**	**1,334.229**	**1,118.368**	**1,454.943**
Money Market & Pooled Funds (< 1 year)	*	45.387	45.387	12.000	12.000
Other Investments (< 1 year)	*	37.954	37.954	18.135	18.135
Investments (> 1 year)	2	-	-	-	-
Shares in unlisted companies	3	5.445	69.944	5.345	65.111
Debtors	*	80.799	80.799	82.438	82.438
Long-term debtors	2	65.742	64.419	75.006	83.033
Financial Assets		**235.327**	**298.503**	**192.924**	**260.717**

* The fair value of short term financial assets and liabilities including trade receivables/payables is assumed to be approximate to the carrying amount

The fair value of the debt is greater than the carrying amount because the Council's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

The authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £629.449m would be valued at £782.598m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £873.383m.

All loans and receivables held on the Balance Sheet at 31 March 2017 were issued at par. They have been accounted for on the Balance Sheet on an amortised cost basis, and reflect the principal outstanding, plus any accrued interest at 31 March 2017, giving a 'carrying amount' at year-end.

Financial Guarantee

Local authorities sometimes give financial guarantees that require them to make specified payments to reimburse the holder of a debt if the debtor fails to make payment when due in accordance with the terms of the contract. The Council provided financial guarantees in respect of Robin Hood Energy to a total value of £4.0m, which has been assessed as having a minimal probability of being called as at 31 March 2017 and so has not been recognised within the accounts.

Soft Loans

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The details of these are £0.374m issued in 2014 to Nottingham Castle Trust and £0.064m to Citizens Advice in 2007. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account.

6.4 Movement in Reserves Statement Notes

6.4.1 Adjustments between Accounting Basis and Funding Basis under regulations

2016/17	Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
	£m	£m	£m	£m	£m	£m
Non Current Assets						
● Amortisation of Intangible Fixed Assets	1.150	0.006	-	-	-	(1.156)
● Depreciation	63.926	27.166	-	-	-	(91.092)
● Impairment	0.145	-	-	-	-	(0.145)
● Revaluation Losses	29.424	(178.413)	-	-	-	148.989
● Donated Assets	-	-	-	-	-	-
● Investment Property Movement	(0.387)	-	-	-	-	0.387
● Assets Held for Sale Movement	-	-	-	-	-	-
● Derecogniton of Fixed Assets	20.137	10.672	-	-	-	(30.809)
● (Loss)/Gain on Sale of Fixed Assets	(0.309)	(3.915)	14.937	-	-	(10.713)
	114.086	(144.484)	14.937	-	-	15.461
Capital Financing						
● Revenue Expenditure Funded From Capital Under Statute	1.014	-	-	-	-	(1.014)
● Statutory Minimum Revenue Provision for Capital Financing	(4.101)	-	-	-	-	4.101
● Voluntary Revenue Provision for Capital Financing	(24.221)	(0.505)	-	-	-	24.726
● PFI Minimum Revenue Provision	(7.460)	-	-	-	-	7.460
● Capital Expenditure charged in year to General Fund Balance	(14.876)	(6.374)	-	-	-	21.250
● Transfer to/from Major Repairs Reserve	-	(27.326)	-	(16.786)	-	44.112
● Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	2.103	-	(2.103)	-	-	-
● Other Items: Regional Housing Grant, Bulwell LIFT, WD LT debtor	-	-	0.019	-	-	(0.019)
● Use of Capital Receipts Reserve to finance new Capital expenditure	-	-	(9.426)	-	-	9.426
● Capital Grants Applied	(29.664)	-	-	-	(6.328)	35.992
	(77.205)	(34.205)	(11.510)	(16.786)	(6.328)	146.034

Continued on the next page

2016/17	Usable Reserves: General Fund £m	Usable Reserves: Housing Revenue Account £m	Usable Reserves: Capital Receipts Reserve £m	Usable Reserves: Major Repairs Reserve £m	Usable Reserves: Capital Grants Unapplied £m	Unusable Reserves £m
Employee Benefits	0.195	-	-	-	-	(0.195)
Pension Fund						
● Net charges made for Retirement Benefits in accordance with IAS19	56.267	-	-	-	-	(56.267)
● Employers contributions payable to the NCC Pension Fund and Retirement Benefits payable direct to pensioners.	(30.516)	-	-	-	-	30.516
	25.751	-	-	-	-	(25.751)
Other Movements						
● Capital Grants & Contributions	(10.074)	-	-	-	10.074	-
● Financial Instrument Adjustment Account	(0.217)	0.034	-	-	-	0.183
● Transfer to/(from) Collection Fund Adjustment Account	(3.488)	-	-	-	-	3.488
	(13.779)	0.034	-	-	10.074	3.671
TOTAL ADJUSTMENTS	**49.048**	**(178.655)**	**3.427**	**(16.786)**	**3.746**	**139.220**

2015/16	Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
	£m	£m	£m	£m	£m	£m
Non Current Assets						
● Amortisation of Intangible Fixed Assets	0.847	0.004	-	-	-	(0.851)
● Depreciation	55.182	27.078	-	-	-	(82.260)
● Impairment	0.069	-	-	-	-	(0.069)
● Revaluation Losses	97.225	(7.386)	-	-	-	(89.839)
● Donated Assets	-	(0.151)	-	-	-	0.151
● Investment Property Movement	(3.677)	-	-	-	-	3.677
● Assets Held for Sale Movement	0.301	-	-	-	-	(0.301)
● Derecogniton of Fixed Assets	38.740	15.866	-	-	-	(54.606)
● (Loss)/Gain on Sale of Fixed Assets	2.155	(10.018)	27.659	-	-	(19.796)
	190.842	25.393	27.659	-	-	(243.894)
Capital Financing						
● Revenue Expenditure Funded From Capital Under Statute	3.125	-	-	-	-	(3.125)
● Statutory Minimum Revenue Provision for Capital Financing	(7.406)	-	-	-	-	7.406
● Voluntary Revenue Provision for Capital Financing	(23.597)	(0.505)	-	-	-	24.102
● PFI Minimum Revenue Provision	(3.730)	-	-	-	-	3.730
● Capital Expenditure charged in year to General Fund Balance	(9.010)	(7.916)	-	-	-	16.926
● Transfer to/from Major Repairs Reserve	-	(27.078)	-	(1.392)	-	28.470
● Transfer from usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool.	2.147	-	(2.147)	-	-	-
● Other Items: Regional Housing Grant, Bulwell LIFT, WD LT debtor	-	-	0.628	-	-	(0.628)
● Use of Capital Receipts Reserve to finance new Capital expenditure	-	-	(25.658)	-	-	25.658
● Capital Grants Applied	-	-	-	-	(40.923)	40.923
	(38.471)	(35.499)	(27.177)	(1.392)	(40.923)	143.462

Continued on the next page

2015/16	Usable Reserves General Fund £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Unusable Reserves £m
Employee Benefits	0.191	-	-	-	-	(0.191)
Pension Fund						
● Net charges made for Retirement Benefits in accordance with IAS19	55.495	-	-	-	-	(55.495)
● Employers contributions payable to the NCC Pension Fund and Retirement Benefits payable direct to pensioners.	(29.169)	-	-	-	-	29.169
	26.326	-	-	-	-	(26.326)
Other Movements						
● Capital Grants & Contributions	(37.242)	-	-	-	37.242	-
● Financial Instrument Adjustment Account	(0.333)	0.033	-	-	-	0.300
● Transfer to/(from) Collection Fund Adjustment Account	6.261	-	-	-	-	(6.261)
	(31.314)	0.033	-	-	37.242	(5.961)
TOTAL ADJUSTMENTS	**147.574**	**(10.073)**	**0.482**	**(1.392)**	**(3.681)**	**(132.910)**

6.4.2 Post Employment Benefits Transactions

The Council recognise the cost of retirement benefits in the cost of services when they are earned by employees; rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the MIRS. The following transactions have been made in the General Fund Balance via the MIRS during the year:

	Local Government Pension Scheme		Teachers Benefits	
	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(54.806)	(55.602)	(0.689)	(0.665)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	27.005	28.414		
Retirement benefits payable to pensioners			2.164	2.102

These transactions can be summarised as follows:

	2015/16 £m	2016/17 £m
Movement in Reserves Statement:		
Reversal of Charges made in accordance with the Code	(55.495)	(56.267)
Charges to General Fund made on a funding basis	29.169	30.516
TOTAL	**(26.326)**	**(25.751)**

6.5 Cash Flow Statement Notes

6.5.1 Non cash movements in surplus/deficit on the provision of services

	2015/16 £m	2016/17 £m
Depreciation	82.260	91.092
Impairment and movement in asset valuations	90.210	(148.844)
Amortisation	0.851	1.156
Material Impairment losses on Investments debited to surplus or deficit on the provision of services in year	(0.330)	0.006
Soft Loans (non Subsidiary)-Interest adjustment credited to I+E Account during year	-	0.111
Adjustment for effective interest rates	(0.007)	(0.004)
Increase/Decrease in Interest Creditors	(0.328)	(0.142)
Increase/Decrease in Creditors	(46.653)	(2.770)
Increase/Decrease in Interest and Dividend Debtors	0.546	(0.432)
Increase/Decrease in Debtors	(0.885)	(3.109)
Increase/Decrease in Inventories	1.954	(0.929)
Movement in Pension Liability	26.326	25.751
Non Cash Adjustment	(0.691)	1.649
Contributions to/(from) Provisions	3.048	(2.986)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	71.772	41.523
Movement in Investment Property Values	(3.677)	(0.387)
	224.396	**1.685**

6.5.2 Investing or financing activities in surplus/deficit on provision of services

	2015/16 £m	2016/17 £m
Capital Grants credited to surplus or deficit on the provision of services	(43.069)	(38.765)
Net adjustment from the sale of short and long term investments	-	0.093
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(28.272)	(14.957)
	(71.341)	**(53.629)**

6.5.3 Operating Activities

The cash flows for operating activities include the following items:

	2015/16 £m	2016/17 £m
Interest received	3.688	2.366
Interest paid	(34.278)	(38.293)
Dividends received	0.700	2.070
	(29.890)	**(33.857)**

6.5.4 Investing Activities

	2015/16 £m	2016/17 £m
Purchase of property, plant and equipment, investment property and intangible assets	(142.860)	(241.556)
Purchase of short-term and long-term investments	(0.120)	-
Other payments for investing activities	(1.600)	(14.063)
Proceeds from short-term and long-term investments	111.600	29.994
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	30.304	14.746
Other receipts from investing activities	62.378	50.158
NET CASH FLOWS FROM INVESTING ACTIVITIES	**59.702**	**(160.721)**

6.5.5 Financing Activities

	2015/16 £m	2016/17 £m
Cash receipts of short and long-term borrowing	20.000	135.500
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(103.853)	(7.462)
Repayments of short and long-term borrowing	(19.049)	(37.067)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(102.902)**	**90.971**

6.6 Other Notes

6.6.1 Trading Operations

These trading operations generate income in a competitive commercial environment. Those operations with a turnover of greater than £5m or surplus / deficit in excess of £1m are shown separately in the table below:

	Restated 2015/16			2016/17		
	Income	Expenditure	(Surplus) Deficit	Income	Expenditure	(Surplus) Deficit
	£m	£m	£m	£m	£m	£m
Included within Services:						
Car Parking	(8.081)	4.618	(3.463)	(8.001)	3.819	(4.182)
Commercial Waste	(5.428)	4.159	(1.269)	(5.431)	3.822	(1.609)
Education Catering	(8.095)	7.707	(0.388)	(8.416)	7.473	(0.943)
Garage	(1.880)	7.735	5.855	(1.712)	7.802	6.090
Highways	(0.895)	(0.238)	(1.133)	(1.724)	0.529	(1.195)
Leisure Centres	(5.869)	7.047	1.178	(6.538)	8.334	1.796
Property	(10.023)	1.075	(8.948)	(11.807)	26.308	14.501
Royal Centre Theatre	(15.734)	17.159	1.425	(16.618)	18.030	1.412
Smaller activities	(5.583)	5.470	(0.113)	(5.486)	5.050	(0.436)
Included in Finance and Investment:						
Commercialism Services	(1.583)	0.317	(1.266)	(0.072)	4.599	4.527
Investment Properties	(2.154)	(0.066)	(2.220)	(2.017)	(0.591)	(2.608)
Smaller Activities	(1.578)	1.243	(0.335)	(1.686)	1.647	(0.039)
TOTAL (SURPLUS)/DEFICIT	**(66.903)**	**56.226**	**(10.677)**	**(69.508)**	**86.822**	**17.314**

The 2015/16 figures have been updated to enable 2016/17 comparatives to represent a correct position. The Garage trading operation is now reported within services as the surplus / deficit is allocated back to services.

Generally the trading operations are included within Continuing Services in the CIES. The net surplus of trading operations which are not an integral part or directly support NCC’s services are charged to Financing and Investment Income and Expenditure. The net deficit of these operations in 2016/17 was £4.488m (2015/16 £1.601m net surplus).

The £14.501m loss of the Property trading operation includes £28.016m revaluation losses on various properties. The losses arise as a result of revaluing assets that previously had significant levels of capital expenditure to existing use values.

6.6.2 Agency Services

The Council does not receive any significant income for agency services.

6.6.3 Jointly Controlled Operations

Nottingham City Council (NCC) runs a joint operation with Leicestershire County Council (LCC) to provide shared transactional finance, human resources and payroll services to both councils under the name of East Midlands Shared Services (EMSS). EMSS operates under a Joint Committee established under section 102 of the Local Government Act 1972. The Joint Committee does not have separate legal personality and is therefore not a separate entity.

Operations relating to EMSS are carried out at both NCC and LCC premises, with LCC being the employing authority and NCC the host authority. In line with the partnership agreement, the net expenditure is shared between the two authorities by allocating an equal share of the financial benefits (savings) accruing from the operation of EMSS. This has resulted in a share of costs for NCC of 57%.

A summary of the income and expenditure of EMSS, and the associated amounts included in NCC's accounts is shown below:

	Total EMSS		Amounts included within NCC Accounts	
	2015/16 £m	2016/17 £m	2015/16 £m	2016/17 £m
Income:				
Direct external income - LCC	(1.592)	(1.401)		
Direct external income - NCC	(0.563)	(0.631)	(0.563)	(0.631)
Total Income	**(2.155)**	**(2.032)**	**(0.563)**	**(0.631)**
Expenditure:				
Direct costs incurred by LCC	6.232	6.321		
Direct costs incurred by NCC	0.125	0.262	0.125	0.262
Third party payments to LCC			2.810	2.848
Total Expenditure	**6.357**	**6.583**	**2.935**	**3.110**
NET EXPENDITURE	**4.202**	**4.551**	**2.372**	**2.479**

6.6.4 Councillors' Allowances

The Council paid the following amounts to Councillors during the year:

	2015/16 £m	2016/17 £m
Allowances	1.092	1.103
Expenses	0.001	0.001
TOTAL	**1.093**	**1.104**

6.6.5 Officers Remuneration

The remuneration paid to the Council's senior employees is as follows:

POST HOLDER	2015/16 £	2016/17 £
Chief Executive - Ian Curryer		
- Salary, Fees & Allowances	160,000	161,600
- Pension Contributions	-	-
	160,000	**161,600**
Corporate Director of Resilience [1]		
- Salary, Fees & Allowances	115,587	98,365
- Pension Contributions	11,413	-
	127,000	**98,365**
Corporate Director - Children and Adults		
- Salary, Fees & Allowances	140,000	141,400
- Pension Contributions	17,500	17,675
	157,500	**159,075**
Corporate Director - Community Services [2]		
- Salary, Fees & Allowances	54,167	-
- Pension Contributions	-	-
	54,167	**-**
Corporate Director - Commercial and Operations		
- Salary, Fees & Allowances	113,464	121,200
- Pension Contributions	13,956	15,150
	127,420	**136,350**
Corporate Director - Development and Growth		
- Salary, Fees & Allowances	135,000	136,350
- Pension Contributions	16,875	17,043
	151,875	**153,393**
Corporate Director for Strategy and Resources [3]		
- Salary, Fees & Allowances	-	50,500
- Pension Contributions	-	6,256
	-	**56,756**
Strategic Director Strategy and Commissioning [4]		
- Salary, Fees & Allowances	94,860	55,889
- Pension Contributions	11,675	6,906
	106,535	**62,795**
Strategic Director of Finance and Section 151 Officer		
- Salary, Fees & Allowances	93,841	95,809
- Pension Contributions	11,730	11,976
	105,571	**107,785**
Strategic Director Organisation and Transformation [5]		
- Salary, Fees & Allowances	71,910	-
- Pension Contributions	9,293	-
	81,203	**-**
Director - Major Projects [6]		
- Salary, Fees & Allowances	77,776	-
- Pension Contributions	9,722	-
	87,498	**-**
Director of HR and Transformation [6]		
- Salary, Fees & Allowances	63,519	-
- Pension Contributions	7,940	-
	71,459	**-**

1. Reduced Hours to 0.8 FTE during 2016/17
2. Corporate Director - Community Services left 31/8/2015. Post now removed from structure
3. Appointed in New Post- Corporate Director for Strategy and Resources 01/11/2016.
4. Strategic Director Strategy and Commissioning left 31/10/2016
5. Strategic Director Organisation and Transformation left 03/01/2016. Post now removed from structure.
6. Posts no longer report to Chief Executive following restructure in 2016/17 and therefore no longer meet the criteria of a Senior Officer

A total of 196 employees (including senior employees) received remuneration of more than £0.050m, of these 90 are employed directly by schools. However, the figures do not include staff employed by academy schools, who are not Council employees:

Remuneration Banding	Number of Employees					
	2015/16			2016/17		
£	School Based Staff	Senior Employees	Other Staff	School Based Staff	Senior Employees	Other Staff
50,000 - 54,999	19	1	23	25	-	28
55,000 - 59,999	26	-	26	24	-	24
60,000 - 64,999	16	1	12	21	-	18
65,000 -69,999	7	-	9	9	-	9
70,000 - 74,999	3	1	3	2	-	5
75,000 - 79,999	3	1	3	3	-	-
80,000 - 84,999	2	-	3	3	-	8
85,000 - 89,999	-	-	3	1	-	2
90,000 - 94,999	1	2	3	1	-	2
95,000 - 99,999	1	-	-	-	2	2
100,000 - 104,999	-	-	-	-	-	-
105,000 - 109,999	1	-	-	1	1	-
110,000 - 114,999	-	1	-	-	-	-
115,000 - 119,999	-	1	-	-	-	-
120,000 - 124,999	-	-	-	-	1	-
125,000 - 129,999	-	-	1	-	-	1
130,000 - 134,999	-	-	-	-	-	-
135,000 - 139,999	-	1	-	-	1	-
140,000 - 144,999	-	1	-	-	1	-
145,000 - 149,999	-	-	-	-	-	-
150,000 - 154,999	-	-	-	-	-	-
155,000 - 159,999	-	-	-	-	-	-
160,000 - 164,999	-	1	-	-	1	-
Total	**79**	**11**	**86**	**90**	**7**	**99**
Grand Total			**176**			**196**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

	2015/16			2016/17		
Type of Exit Package	**Up to £20,000**	**£20,001 to £40,000**	**£40,001 to £1,500,000**	**Up to £20,000**	**£20,001 to £40,000**	**£40,001 to £1,500,000**
Number of:						
Compulsory redundancies	50	1	-	81	4	1
Other departures agreed	8	1	-	6	6	-
Total departures	**58**	**2**	**-**	**87**	**10**	**1**
Total Cost	£404,852	£46,649	£0	£686,055	£267,832	£55,003

6.6.6 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and statutory inspections and certification of grant claims:

	Restated 2015/16 £m	2016/17 £m
Statutory audit	0.177	0.172
Certification of grant claims and returns	0.031	0.024
TOTAL	**0.208**	**0.196**

The restatement for 2015/16 is following the PSAA approving audit fee variations for additional audit work undertaken.

There were no other non-audit services provided by the Council's external auditors.

6.6.7 Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by DSG provided by the Department for Education. This is a ring fenced grant and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools and Early Years Finance (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2016/17 are as follows:

Notes		Central Expenditure £m	ISB £m	Total £m
A	Final DSG for 2016/17 before Academy recoupment			**245.389**
B	Academy figure recouped for 2016/17			**(130.179)**
C	Total DSG after Academy recoupment for 2016/17			**115.210**
D	Plus: Brought forward from 2015/16			**14.258**
E	Carry forward to 2017/18 agreed in advance			**10.050**
F	Agreed initial budgeted distribution in 2016/17	25.476	92.377	**117.853**
G	In year Adjustments	0.808	0.965	**1.773**
H	Final Distribution for 2016/17	26.284	93.342	**119.626**
I	Less Actual central expenditure	24.820		
J	Less ISB deployed to schools		(93.342)	
K	Plus Local Authority contribution 2016/17	-	-	-
L	**Carry forward to 2017/18 agreed in advance**	**1.464**	**-**	**11.514**

Notes to DSG:

A Figure as announced by the Department for Education (DfE) in March 2017.

B Figure recouped from the Council in 2016/17 by the DfE for the conversion of maintained schools into Academies.

C Total figure after DfE recoupment for 2016/17.

D Figure brought forward from 2015/16 as agreed with the DfE.

E The amount which the Council planned after consultation with the schools forum to carry forward to 2017/18, rather than distribute in 2016/17.

F Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

G Changes to the initial distribution.

H Budgeted distribution of DSG as at the end of the financial year.

I Actual amount of central expenditure items in 2016/17.

J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the Council once it is deployed to schools' budget shares).

K Any contribution from the Council in 2016/17 which will have the effect of substituting for DSG in funding the Schools Budget.

L Carry forward to 2017/18. The total figure is the carry forward to 2017/18 agreed in advance (line E) plus carry forwards on central expenditure and ISB (Line L).

6.6.8 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 significant influence 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 (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the CIES note 6.2.4. Grant receipts outstanding at 31 March 2017 are shown in Table 6.3.13.

Councillors/Officers

Councillors have direct control over financial and operating policies. The total of Councillors' allowances paid in 2016/17 is shown in the Councillors' allowances note.

During 2016/17 payments, receipts and balances outstanding for works and services to other organisations (the majority being transactions with the Authority's subsidiaries) in which Councillors or relevant officers had an interest were as follows:

	Restated 2015/16 £m	2016/17 £m
Payments	97.871	101.580
Receivables	(30.851)	(28.024)
Debtors	4.070	8.146
Creditors	(5.177)	(12.718)

Details of transactions are recorded in the Register of Members' Interest, open to public inspection during office hours.

Other Public Bodies

The Council has pooled budget arrangements with Integrated Community Equipment Services (ICES), Better Care Fund and the Adult Safeguarding Partnership Board. There were no significant transactions with ICES and Adult Safeguarding Partnership Board in 2016/17.

The Better Care Fund (BCF) is a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their wellbeing as the focus of health and care services, and shifting resources into social care and community services for the benefit of the people, communities and health and care systems. Funding and expenditure in connection with the BCF was as follows:

	2016/17 £m
Funding	
Balance brought forward	(2.324)
NHS Nottingham City Clinical Commissioning Group	(23.253)
Nottingham City Council (Capital)	(1.889)
Nottingham City Council	(0.716)
Total Funding	(28.182)
Expenditure	
Access & Navigation	1.604
Assistive Technology	1.203
Carers	1.380
Co-ordinated Care	8.183
Capital Grants	1.889
Independence Pathway	11.258
Programme Costs	0.341
Brought forward pool	2.324
Total Expenditure	28.182
Balance Carried Forward	0.000

The Council paid £0.071m in 2016/17 (£0.070m 2015/16) to the Environment Agency for flood defence.

Entities Controlled or Significantly Influenced by the Council

The following are significant related-party transactions with the Council's subsidiary and associated companies. These companies are included in the Group Accounts. Further information on all companies, associated with the Council, can be found within Section 8 - Group Financial Statements and Notes.

	2015/16		2016/17	
	Payments £m	Receipts £m	Payments £m	Receipts £m
Nottingham City Transport	8.050	(0.968)	7.894	(1.713)
Nottingham City Homes (NCH) Ltd	62.259	(9.780)	67.592	(11.744)
Enviroenergy Ltd	1.328	(4.358)	4.522	(5.183)
Futures Advice, Skills and Employment Ltd	2.583	(0.010)	4.715	(0.013)
Nottingham Revenues & Benefits Ltd	-	(5.734)	0.107	(5.973)
Robin Hood Energy Ltd	0.109	(0.624)	11.344	(2.784)
Other Related Parties	0.615	(2.803)	0.705	(2.972)

	2015/16		2016/17	
	Debtors £m	Creditors £m	Debtors £m	Creditors £m
Nottingham City Transport	0.872	(0.296)	0.862	(0.056)
Nottingham City Homes (NCH) Ltd	14.733	(4.524)	21.710	(11.637)
Enviroenergy Ltd	14.888	(0.680)	14.667	(1.000)
Futures Advice, Skills and Employment Ltd	-	(0.220)	-	(0.487)
Nottingham Revenues and Benefits Ltd	0.576	(0.331)	0.567	-
Robin Hood Energy Ltd	5.974	(0.109)	11.579	(3.047)
Other Related Parties	5.032	(0.191)	5.045	(0.364)

6.6.9 Road Charging Schemes under the Transport Act 2000

The Council introduced the workplace parking levy on the 1 April 2012. The levy is charged under section 178-190 of the Transport Act 2000 (the Act). As per section 180 and 181 of the Act, all monies which are raised by the levy are to be re-invested in the City Councils Transport Plan. The figures for the year ending 31 March 2017 are as follows:

	Restated 2015/16 £m	2016/17 £m
Income	(9.336)	(9.422)
Expenditure	0.713	0.588
NET INCOME	**(8.623)**	**(8.834)**

6.6.10 Leases

Council as Lessee

Finance Leases

The assets acquired under these leases are carried as PPE in the Balance Sheet within the classification of Other Land and Buildings the net amount at 31 March 2017 was £39.852m (31 March 2016: £37.706m).

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

	31 March 2016 £m	31 March 2017 £m
Finance lease liabilities*:		
current	0.001	0.001
non-current	2.204	2.203
Finance costs payable in future years	11.095	12.645
MINIMUM LEASE PAYMENTS	**13.300**	**14.849**

* Net present value of minimum lease payments

The finance costs which the Council has committed to are significant when compared to the lease liabilities, because the property leases are for a period of 99 years or more and the majority of payments made are for the interest element.

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £m	31 March 2017 £m	31 March 2016 £m	31 March 2017 £m
Not later than one year	0.208	0.236	0.001	0.001
Between one and five years	0.833	0.945	0.005	0.006
Later than five years	12.259	13.668	2.199	2.197
TOTAL	**13.300**	**14.849**	**2.205**	**2.204**

The Council has committed to a number of long term property leases, this is evidenced with the high value of minimum lease payments which have been committed to be paid later than five years.

The Council has not sub-let any of the properties held under these finance leases.

Operating Leases

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

	31 March 2016 £m	31 March 2017 £m
Not later than one year	0.596	0.777
Between one and five years	1.848	2.618
Later than five years	3.575	8.961
TOTAL	**6.019**	**12.356**

The expenditure charged to the CIES during 2016/17 in relation to these leases was £0.431m (£0.278m in 2015/16).

Council as Lessor

Finance Leases

As a lessor, the Council has an investment in finance leases. This is made up of the minimum lease payments expected to be received over the remaining term, together with the residual value anticipated for the property at the end of the lease. The minimum lease payments comprise the settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years. The gross investment is made up of the following amounts for all finance leases:

	31 March 2016 £m	31 March 2017 £m
Long term finance lease debtor*	1.022	1.022
Finance income receivable in future years	59.271	51.263
Anticipated residual value of property	8.902	11.661
GROSS INVESTMENT IN THE LEASE	**69.195**	**63.946**

* Net present value of minimum lease payments

The finance income which the Council will receive in future years is significant when compared to the lease debtors. This is because a number of assets are being leased for a period of 999 years which means the majority of current payments are for the interest element of the debtor.

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2016 £m	31 March 2017 £m	31 March 2016 £m	31 March 2017 £m
Not later than one year	0.067	0.096	0.067	0.094
Between one and five years	0.266	0.386	0.266	0.377
Later than five years	68.862	63.464	59.960	62.332
TOTAL	**69.195**	**63.946**	**60.293**	**62.803**

The Council has committed to leasing out a number of assets on long term leases. This is evidenced with the high value of minimum lease payments which will be received in the period later than five years.

The Council has not set aside an allowance for uncollectible amounts on the above finance leases.

Operating Leases

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

- The provision of community services, such as sports facilities, tourism services and community centres
- Economic development purposes to provide suitable affordable accommodation for local businesses.

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

	31 March 2016 £m	31 March 2017 £m
Not later than one year	4.586	10.849
Between one and five years	14.465	37.768
Later than five years	96.741	151.945
TOTAL	**115.792**	**200.562**

Contingent Rents

The minimum lease payments identified in the tables above do not include rents that are contingent on events taking place after the lease was entered into, such as:

- the level of sales achieved by the tenant
- rate of inflation
- usage

For operating leases where the Council is lessor there were contingent rents receivable by the Authority in 2016/17 of £0.268m (2014/15 £0.891). There were no contingent rents for any of the other types of lease arrangement.

6.6.11 Private Finance Initiatives and Similar Contracts

The Councils has four PFI arrangements, all of the assets within the following arrangements have been recognised on the Council's Balance Sheet:

NET

The Council reached financial close on NET Phase Two in December 2011, this PFI arrangement is to incorporate an additional two tram lines within the City's current tram network. The additional two tram lines became operational August 2015.

The concession agreement runs from 15 December 2011 to 20 March 2034, at the end of the contract, title to the property transfers to the Council (or a continuing concessionaire) at nil cost with the assets in a satisfactory condition for its continued operational use.

Building Schools for the Future (BSF)

The Council received handover of two PFI schools, Big Wood Phase 1 / Oak Field in 2009/10, Big Wood Phase 2 in 2010/11. The contract for these PFI schools will end in 2034.

A further PFI school, Farnborough School was handed over in 2013/14, the land element was recognised as an operational asset in 2014/15. The PFI contract for Farnborough School expires August 2038.

Upon expiry of the contract terms, all assets under this programme will be passed back to the City Council.

Local Improvement Finance Trust (LIFT) Joint Service Centres

The Council has completed two new Joint Service Centres these Centres are located at Hyson Green / Bulwell and have been procured using the LIFT vehicle in partnership with NHS Nottingham City. As such the Council has recognised its share of occupancy of both sites on the Balance Sheet.

The contract expiry and the asset treatment are as follows:

- *Mary Potter Centre (Hyson Green), contract expires October 2032. Upon expiry of the contract term, the Council does not have an option to purchase the asset.*

- *Bulwell Riverside (Bulwell), contract expires October 2036. Upon expiry of the contract term, the Council does have an option to purchase the asset.*

Another Joint Service Centre was procured in 2007 (Clifton Cornerstone), this arrangement has been treated as an operating lease and as such is excluded from the Council's Balance Sheet and the PFI tables shown below.

Street Lighting Contract

In May 2010 the Council entered into a PFI arrangement in relation to Street Lighting. The first five years of the contract provide for the replacement of outdated lighting columns, together with modifications to other columns that have an acceptable residual life. The contract also allows for adjustments and is followed by operation and maintenance of the street lighting network.

The contract expires August 2035 and upon expiry the assets will revert back to the City Council at nil cost.

Future Contractual Payments

The table below shows the Councils future contractual payments. The future Service Charge payments are estimated using the Service Charge payments incurred during 2014/15, which are then inflated using the inflation rate implicit with each PFI arrangement:

	2017/18 £m	2018/19 - 2021/22 £m	2022/23 - 2026/27 £m	2027/28 - 2031/32 £m	2032/33 - 2036/37 £m	2037/38 - 2041/42 £m	Total £m
NET							
Repayment of Liability	4.811	28.793	40.721	38.038	10.857	-	**123.220**
Interest Charges	13.869	48.156	39.932	19.098	0.938	-	**121.993**
Service Charges	13.482	56.543	67.423	75.402	36.634	-	**249.484**
NET Unitary Charge	**32.162**	**133.492**	**148.076**	**132.538**	**48.429**	**-**	**494.697**
BSF							
Repayment of Liability	1.154	6.340	11.358	14.962	12.404	2.141	**48.359**
Interest Charges	3.684	13.673	13.686	8.586	2.488	0.113	**42.230**
Service Charges	3.318	13.349	18.512	23.903	17.897	2.514	**79.493**
BSF Unitary Charge	**8.156**	**33.362**	**43.556**	**47.451**	**32.789**	**4.768**	**170.082**
LIFT							
Repayment of Liability	0.420	2.008	3.156	4.021	3.789	-	**13.394**
Interest Charges	1.126	4.155	4.190	2.791	1.024	-	**13.286**
Service Charges	0.686	2.959	4.713	6.226	3.931	-	**18.515**
LIFT Unitary Charge	**2.232**	**9.122**	**12.059**	**13.038**	**8.744**	**-**	**45.195**
Street Lighting							
Repayment of Liability	0.912	4.783	9.703	11.791	11.625	-	**38.814**
Interest Charges	4.105	15.274	15.379	9.059	2.583	-	**46.400**
Service Charges	1.587	6.773	9.474	16.997	12.719	-	**47.550**
Street Lighting Unitary Charge	**6.604**	**26.830**	**34.556**	**37.847**	**26.927**	**-**	**132.764**
TOTAL CHARGES	**49.154**	**202.806**	**238.247**	**230.874**	**116.889**	**4.768**	**842.738**

N.B. The table excludes Clifton Cornerstone LIFT JSC which is classified as an operating lease.

Liabilities resulting from PFI arrangements

The following table shows the value of liabilities resulting from PFI arrangements and the in year movements.

	2015/16	2016/17				
	Total £m	BSF £m	NET £m	LIFT £m	Street Lighting £m	Total £m
Opening balance at 1 April	**101.038**	49.518	131.149	13.808	39.633	**234.108**
Additions	**236.921**	-	-	-	-	**-**
Repayment of Liability	**(103.851)**	(1.159)	(7.929)	(0.414)	(0.819)	**(10.321)**
CLOSING BALANCE AT 31 MARCH	**234.108**	**48.359**	**123.220**	**13.394**	**38.814**	**223.787**

6.6.12 Trust Funds

The Council acts as a sole trustee for a number of trust funds. The funds do not represent assets of the Council and, therefore, have not been included in the Balance Sheet. These trusts include the Bridge Estate Trust, which holds net assets of £26.966m (£27.758m at 31 March 2016) with a turnover of £2.218m (£2.278m 2015/16), primarily from the rental of investment properties. The Trust was established for the repair and maintenance of Trent Bridge, or the construction of new bridges over the River Trent.

The Council is also the sole trustee for a number of other Trusts whose net assets total £1.071m (£1.740m as at 31 March 2016) with a turnover of £0.388m (£0.389m 2015/16). These Trusts include:

- Harvey Hadden Stadium and Highfields Leisure Park, for the provision of public recreation and pleasure grounds.
- Hanley and Gellestrope, which provides 9 almshouses to accommodate the poor.
- Nottingham Aged Persons Trust, George Pendry's Fund, Church and Poor's Charity which provide benefit for the poor and elderly.
- Abbott Brown Fund, established to enable a doctor from Ljubljana Hospital to study medicine in the United Kingdom.

6.6.13 Contingent Liabilities

At 31 March 2017, the Council has the following contingent liabilities that could exceed a materiality level of £5m:

Insurance Claims

A contingent liability exists for insurance claims that pre-date the coverage provided by the Insurance Provision. There are some claims that will be submitted dating back to the 1950/1960's and will be high value complex claims where insurers cannot be traced. These claims are increasing with developments in child abuse and disease claims. Should no insurer be traced, or an insurer refuses an indemnity, the costs would have to be met from the provision.

In addition there will be a number of incidents that have been incurred but not yet reported (IBNR) as claims. These IBNR's may need to be self-funded if they fall outside the scope of insurance cover, fall within current or historic excess levels, or be in periods where insurers are untraceable. The severity, value and number of IBNR cases are unknown.

A contingent liability therefore exists to the extent that existing provisions could be insufficient to meet the potential liabilities.

6.6.14 Nature and Extent of Risks arising from Financial Instruments

The Council's activities potentially bring exposure to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet commitments to make payments;
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or equity prices.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through in *Local Government Act 2003* and the associated regulations. These require compliance with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act.

Overall, the procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving, annually in advance, prudential indicators for the following three years which limit:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures in the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year, setting out its criteria for both investing and selecting investment counterparties, in compliance with the Government Guidance.

These procedures are required to be reported and approved at the meeting of the Council, which also sets the annual Budget and Council Tax. The procedures are included within an 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 annually to Councillors.

The Council maintains written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk, and the investment of surplus cash, through Treasury Management Practices, which are a requirement of the Code of Practice and are regularly reviewed.

Credit Risk

Credit risk arises from the Council's investments with banks and other financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long term credit rating, the UK government and other local authorities. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The adopted credit criteria in respect of financial assets held by the Council in 2016/17 are:

1) Minimum credit ratings – a minimum long-term credit rating of A- (or equivalent) except for UK local authorities.

2) Individual cash limits – a limit of £15m per eligible counterparty except the UK Central Government.
3) Group limits – where more than one bank on the counterparty list is included within a banking group (e.g. Bank of Scotland and Lloyds Bank), individual limits will also apply to the group as a whole.
4) Country limits – other than UK institutions, a total investment limit for all counterparties in a particular country. No more than £20m will be placed with any one country.
5) Money Market Funds – individual cash limit of £10m with any one fund and an overall limit of £100m for all Money Market Funds.

The Council's maximum exposure to credit risk in relation to its investments of £27.0m at 31 March 2017 (excluding deposits in Icelandic banks) 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-recoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The following table summarises the value of the Council's investment portfolio at 31 March 2017 (excluding Icelandic bank deposits) and confirms that all investments were made in line with the approved credit rating criteria:

Credit Rating	Long Term 31 March 2016 £m	31 March 2017 £m	Short Term 31 March 2016 £m	31 March 2017 £m
AAA	-	-	45.387	12.000
AA+	-	-	-	-
AA	-	-	-	-
AA-	-	-	5.000	-
A+	-	-	10.000	-
A	-	-	10.000	5.000
A-	-	-	-	-
Unrated local authorities	-	-	10.000	10.000
Total Investments	**-**	**-**	**80.387**	**27.000**

Provision for trade debtor default is provided for through impairment of the principal sum (a bad debt provision), based on local experience.

Liquidity Risk

The Council has ready access to borrowings from the Money Markets and other local authorities to cover day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures, as required by the Code of Practice.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. There is a risk relating to managing exposure to replacing financial instruments as they mature. There is a risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring that the approved prudential indicator limits the Council's borrowing that matures in any given period.

The Council approved treasury and investment strategies address the main risks, and the central treasury team addresses the operational risks within these approved parameters. Measures include:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the Council's day-to-day cash flow needs.

The maturity analysis of the principal element of financial liabilities at 31 March 2016 is:

	31 March 2016 £m	31 March 2017 £m
Less than 1 year	36.389	132.416
1 to 2 years	15.902	35.258
2 to 5 years	112.720	96.876
5 to 10 years	114.970	129.189
10 – 25 years	201.121	185.865
25 – 40 years	156.098	165.147
40 – 70 years	52.574	43.524
Irredeemable	0.622	0.622
TOTAL	**690.396**	**788.897**

All trade and other creditors are payable in less than one year and are not shown in the above table.

The maturity analysis of the principal element of loans and receivables at 31 March 2017 is shown below. The Icelandic bank deposits have been expressed based on the current forecast of recovery percentages and dates.

	31 March 2016 £m	31 March 2017 £m
Less than 1 year	83.341	30.135
1 to 2 years	-	-
TOTAL	**83.341**	**30.135**

Interest Rate Risk

The Council is exposed to risk in terms of exposure to interest rate movements on borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the prudential indicators and expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. Market and forecast interest rates are monitored within the year, to adjust exposures appropriately.

The 2016/17 strategy allowed for a maximum net exposure to variable interest rates of £250m. The risk of loss is ameliorated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the cost of borrowing and provide compensation for a proportion of any higher costs.

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher, with all other variables held constant, the financial effect would be:

	31 March 2017 £m
Increase in interest payable on variable rate borrowings	0.543
Increase in interest receivable on variable rate investments	(0.220)
Impact on Surplus or Deficit on the Provision of Services	0.323
Share of overall impact debited to the HRA	(0.342)
IMPACT ON OTHER COMPREHENSIVE INCOME AND EXPENDITURE	(0.019)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £5.345m in a number of joint ventures and in local industry, at 31 March 2017. These holdings are generally illiquid and are shown in the balance sheet at cost. The equity holding in Nottingham City Transport Limited is shown at cost within the Council's group accounts. The Council is exposed to losses arising from movements in the value of these holdings. As the holdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead, "open book" arrangements are maintained with the companies concerned to enable monitoring of the factors that might cause a fall in the value of specific holdings.

Foreign Exchange Risk

The Council currently has approximately ISK504m (Icelandic Krona) held in escrow subject to the capital controls by the Icelandic Government. The Central Bank of Iceland has announced their intention to relax the capital controls and that it will offer to purchase ISK assets at 137.5 : 1 (ISK to EUR) in the coming months. Based on this exchange rate and the official Euro to Pound exchange rate as at 31 March 2017 the ISK had a sterling value of £3.1m. The council therefore has limited exposure to the risk of adverse movements in foreign exchange rates. The Council will continue working with the Local Government Association and Bevan Brittan, in conjunction with other affected authorities, to progress the conversion of this ISK element of its Icelandic bank deposits into sterling.

Section 7
SUPPLEMENTARY FINANCIAL STATEMENTS AND NOTES

7.1 Housing Revenue Account (HRA)

7.1.1 Housing Revenue Income and Expenditure Account

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax.

	2015/16 £m	2016/17 £m
Expenditure		
Repairs and maintenance	30.686	30.349
Supervision and Management	28.266	27.558
Rents, rates, taxes and other charges	3.243	3.096
Depreciation and impairment of non-current assets	19.545	27.235
Debt management costs	0.046	0.048
Movement in the allowance for bad debts	0.177	1.143
Exceptional revaluation gain on HRA Council dwellings	-	(178.476)
Total Expenditure	**81.963**	**(89.047)**
Income		
Dwelling Rents	(99.989)	(99.330)
Non Dwelling Rents	(3.636)	(2.811)
Charges for Services and Facilities	(6.335)	(6.509)
Contributions Towards Expenditure	-	-
Total Income	**(109.960)**	**(108.650)**
Net Cost of HRA Services as included in the CIES	**(27.997)**	**(197.697)**
HRA services' share of Corporate and Democratic Core	0.035	0.035
NET COST FOR HRA SERVICES	**(27.962)**	**(197.662)**
HRA Share of the Operating Income and Expenditure included in the CIES		
Fixed Asset Derecognition	15.789	10.672
Fixed asset revaluation (Surplus & Held for Sale)	0.327	-
Gain or (loss) on sale of HRA non-current assets	(10.018)	(3.915)
Interest payable and similar charges	12.401	12.235
Interest and Investment Income	(0.303)	(0.344)
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	**(9.766)**	**(179.014)**

7.1.2 Movement on the HRA Statement

	2015/16 £m	2016/17 £m
Balance on HRA at the start of the Year	**4.307**	**4.000**
Surplus or (deficit) for the year	9.766	179.014
Adjustments between accounting basis and funding basis	(10.073)	(178.655)
Increase or (Decrease) in Year on the HRA	**(0.307)**	0.359
BALANCE ON THE HRA AT THE END OF THE YEAR	**4.000**	**4.359**

7.1.3 Notes to the HRA Financial Statements

7.1.3.1 Housing Stock

The Council was responsible for managing the following housing stock:

	31 March 2016 Number	31 March 2017 Number
Houses and Bungalows		
1 Bedroom	996	1,005
2 Bedroom	5,784	5,753
3 Bedroom	10,057	9,917
4 or more Bedrooms	508	500
Flats		
1 Bedroom	7,221	7,248
2 Bedrooms	1,518	1,506
3 or more Bedrooms	137	136
TOTAL	**26,221**	**26,065**

7.1.3.2 Valuation of Housing Assets

The value of land, houses and other property within the HRA is as follows:

	Value at 31 March 2016 £m	Value at 31 March 2017 £m
Operational Assets		
Council Dwellings	635.302	835.958
Other Land and Buildings	7.908	7.585
Assets Under Construction	9.982	19.395
Surplus Assets not held for sale	2.291	0.653
Investment Properties	0.918	0.893
Assets Held for Sale	-	-
Infrastructure	23.859	25.411
Vehicles, IT and Other Equipment	3.693	-
TOTAL VALUE OF ASSETS	**683.953**	**889.895**

7.1.3.3 Asset value of Dwellings

The vacant possession valuation of Council dwellings at 31 March 2017 was £1,990.377m (1 April 2016 £1,868.536m). The Balance Sheet value of dwellings was £835.958m. The difference of £1,154.419m reflects the fact that social housing rents generate a lower income stream than could be obtained in the open market. Operational assets in a commercial environment are required to earn a rate of return. The value placed on such assets will reflect the required economic rate of return in relation to the income streams that the assets might be expected to generate throughout their economic life. To the extent that income streams are constrained to serve a wider social purpose, the value of capital assets employed for this purpose will be reduced.

External valuers Herbert Button & Partners and Freeman & Mitchell completed a valuation of the housing stock as at 31 March 2017.

7.1.3.4 The Major Repairs Reserve

The purpose of this reserve is to earmark funding to provide for the long-term maintenance of the housing stock. Movements on the reserve were as follows:

	2015/16 £m	2016/17 £m
Balance Brought Forward	**(28.470)**	**(27.078)**
Credits - Depreciation on HRA Assets	(27.078)	(27.166)
Credits - Additional credit to the MRR	-	(0.160)
Debits - Capital Expenditure	28.470	44.112
BALANCE AT END OF YEAR	**(27.078)**	**(10.292)**

7.1.3.5 Capital Expenditure

Capital expenditure of £54.218m (£51.030m in 2015/16) in respect of HRA assets was financed from a range of sources in 2016/17. This is set out below:

	2015/16 £m	2016/17 £m
CAPITAL EXPENDITURE	**51.030**	**54.218**
Financed By:		
Capital Receipts Reserve	11.743	2.901
Major Repairs Reserve (MRR)	28.470	44.112
Direct Revenue Financing*	7.916	6.280
Other Capital Grants and Contributions	2.901	0.925
TOTAL FINANCING	**51.030**	**54.218**

* The debit under item 2 of part II of Schedule 4 to the Local Government and Housing Act 1989

7.1.3.6 Capital Receipts

Capital receipts of £12.516m (£23.441m in 2015/16) arose from the sale of land, houses and other property within the HRA in 2016/17. Of this total, £11.201m (£13.704m in 2015/16) related to the disposal of houses and flats under the right to buy scheme and £0.204m (£1.575m in 2015/16) from the sale of vacant non purpose built council houses.

	2015/16 £m	2016/17 £m
Land	7.977	0.994
Houses	15.317	11.405
Other Property	0.147	0.117
TOTAL	**23.441**	**12.516**

7.1.3.7 Depreciation

Depreciation was charged in respect of HRA operational assets in 2016/17 as follows:

	2015/16 £m	2016/17 £m
Dwellings	25.425	25.573
Other Operational HRA Assets:		
Other Land and Buildings	0.121	0.119
Vehicles, Plant, Furniture and Equipment	0.147	0.067
Infrastructure and Community Assets	1.385	1.405
Surplus Assets not Held for Sale	-	0.002
TOTAL	**27.078**	**27.166**

In addition a debit of £0.006m (£0.004m) for amortisation was charged in the year.

7.1.3.8 Revaluations and Impairments during the Financial Year

£178.413m in respect of revaluation gains and losses have been posted to the HRA during the year (£7.386m in 2015/16). £178.476m of this amount related to a revaluation gain on Council Dwellings. As well as general increases to market values, higher valued new build properties and increases to properties along the tram link, the Department for Communities and Local Government revised the Social Housing Adjustment Factor used in the valuation of Council Dwellings resulting in a substantial revaluation gain in 2016/17 (see note 2.2.2 for further details).

There were no donated assets within the year (£0.151m in 2015/16 resulted from energy efficiency works).

A de-recognition write out of £10.672m (£15.866m in 2015/16) was made to reflect the residual value of assets replaced.

The revaluation of investment Properties has resulted in a debit of £0.025m (£0.048m credit in 2015/16).

7.1.3.9 Rent Arrears and the Balance Sheet provision in respect of Collectable Debts

Gross rent arrears (including service charges and overpaid housing benefit) in respect of current and former tenants amounted to £4.844m at 31 March 2017

(£4.661m at 31 March 2016). A total bad debt provision of £4.119m has been established at 31 March 2017 (£3.575m at 31 March 2016).

7.1.3.10 Average Rent for HRA Dwellings

Year	Average Rent £
2006/07	50.68
2007/08	52.94
2008/09	56.04
2009/10	57.98
2010/11	59.39
2011/12	63.73
2012/13	67.37
2013/14	71.13
2014/15	76.46
2015/16	77.72
2016/17	76.96

The average rent figures have been calculated on a 50-week basis and exclude service charges.

7.2 Collection Fund

7.2.1 Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	2015/16	2016/17		
	Total £m	Business Rates £m	Council Tax £m	Total £m
INCOME				
Council Tax Receivable	(111.837)		(116.963)	(116.963)
Business Rates Receivable	(126.282)	(130.751)		(130.751)
TOTAL INCOME	**(238.119)**	**(130.751)**	**(116.963)**	**(247.714)**
EXPENDITURE				
Precepts, Demands and Shares				
Central Government	61.702	63.043	-	63.043
Police Authority	10.769	-	11.171	11.171
Fire Authority	5.656	1.261	4.585	5.846
Nottingham City Council	149.576	61.782	94.212	155.994
Charges to Collection Fund				
Write offs of uncollectable amounts	3.592	0.998	2.567	3.565
Increase (-)/Decrease in Bad Debt Provision	(0.237)	0.394	2.101	2.495
Increase (-)/Decrease in Provision for Appeals	15.865	(3.236)	-	(3.236)
Cost of Collection	0.496	0.489	-	0.489
Interest charged on Cost of Collection		0.014	-	0.014
Apportionment of previous year's estimated Collection Fund Surplus				
Police & Crime Commissioner	0.253	-	-	-
Central Government	-	(2.059)	0.421	(1.638)
Nottinghamshire Fire & Rescue Service	0.156	(0.041)	0.173	0.132
Nottingham City Council	4.333	(2.018)	3.483	1.465
TOTAL EXPENDITURE	**252.161**	**120.627**	**118.713**	**239.340**
Movement on the Collection Fund Balance	16.642	(10.124)	1.750	(8.374)
(Surplus)/Deficit Brought Forward	(7.328)	16.251	(6.937)	9.314
(SURPLUS)/DEFICIT CARRIED FORWARD	**9.314**	**6.127**	**(5.187)**	**0.940**

7.2.2 Notes to Collection Fund Statement

7.2.2.1 National Non-Domestic Rates (NNDR)

The Council collects NNDR from local businesses based on the rateable value of their property multiplied by a business rate, set nationally by Central Government. The Council retains 49% of the NNDR with the remainder distributed to Central Government (50%) and the Nottinghamshire Fire and Rescue Authority (1%).

	2015/16 £	2016/17 £
Rate in the pound	49.3p	49.7p
Total non-domestic rateable value per NNDR system	322,610,002	325,294,769
Gross Debit	159,046,731	161,671,500
Net debit after adjustments and reliefs	129,705,000	134,157,857

7.2.2.2 Council Tax

Council tax is broadly based on the capital value of domestic property as estimated at 1 April 1991 and classified into 8 bands. Charges are calculated by dividing the preceptors' income requirements by the council tax base (the total number of properties in each band, adjusted for discounts and expressed as an equivalent number of Band D dwellings). This gives the basic amount of council tax for a band D property, which when multiplied by the specified proportion (as follows) will give the individual amount due.

	2015/16	2016/17
Council Tax Base	**63,425**	**64,410**
Council Tax (Band D) Property	**£1,708.51**	**£1,771.08**

Band	Average Number of Properties	Taxable Properties after discounts, exemptions etc.	Conversion Factor to Band D	Band D Equivalents
A	85,865	49,476	6/9	32,984
B	22,325	14,455	7/9	11,243
C	15,857	11,316	8/9	10,059
D	6,632	5,188	1	5,188
E	2,372	2,016	11/9	2,464
F	1,009	896	13/9	1,294
G	699	622	15/9	1,036
H	111	71	18/9	142

7.2.2.3 Apportionment of Collection Fund Surplus/Deficit

The (surplus)/deficit on the closing balance of the Collection Fund as at 31 March is allocated as follows:

	2015/16	2016/17		
	Total £m	Council Tax £m	NNDR £m	Total £m
Nottingham City Council	2.028	(4.462)	3.002	(1.460)
Nottinghamshire Police Authority	(0.710)	(0.514)		(0.514)
Nottinghamshire Fire and Rescue Authority	(0.129)	(0.211)	0.061	(0.150)
Central Government	8.125		3.063	3.063
TOTAL	**9.314**	**(5.187)**	**6.127**	**0.940**

Section 8
GROUP FINANCIAL STATEMENTS AND NOTES

8.1 Introduction

The Accounting Code of Practice requires that where a local authority has material financial interests and a significant level of control over one or more organisations, it should prepare Group Financial Statements. The financial statements in section 3 consider the Council only as a single entity, while the group financial statements provide an overall picture of the Council's financial activities and the resources employed in carrying out those activities as a group. The group accounts contain core financial statements similar to those included in the Council's single entity statements, consolidated with figures for the Council's subsidiaries and jointly controlled entities.

The following pages include:

- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Movement in Reserves Statement
- Group Cash Flow Statement
- Notes to the Group Accounts

8.2 Significant Judgements and Assumptions

The Council maintains relationships with a number of organisations over which it has varying degrees of control or influence. An assessment of all of these joint arrangements has been carried out to determine which of the following categories they fall under:

- Subsidiaries - where the Council is exposed, or has rights, to variable returns from its involvement with the organisation and has the ability to affect those returns through its power over the organisation i.e. control. These entities are included in the group.

- Associates – where the Council exercises a significant influence, having more than 20% of the voting power and has a participating interest. Where these are material they have been included in the group.

- Joint Venture – where the Council exercises joint control with one or more organisations and has rights to its net assets. Where these are material they have been included in the group.

- No group relationship – where the body is not an entity in its own right or the Council has an insufficient interest in the entity to justify inclusion in the group financial statements. These entities are not included in the group.

For each of the group entities, the group accounts include a share of the operating results, assets and liabilities. Subsidiaries are accounted for on an acquisition basis (line by line basis) with intra-group transactions written out. Associates / joint ventures are accounted for by including the Council's share of their net operating results and net assets (equity method of accounting).

For 2016/17 the financial details of these organisations have been consolidated within the group accounts where it is considered that those details have a material effect upon those accounts.

Details of the Council's relationship with each of these organisations are given in group accounts note 8.5.

The group accounts for 2016/17 have been completed using audited accounts from Bridge Estate Trust, Enviroenergy Ltd, Nottingham City Homes Ltd, Nottingham City Transport Ltd, Nottingham Ice Centre Ltd, Nottingham Revenues and Benefits Ltd, Robin Hood Energy Ltd, Blueprint Limited Partnership, and Futures Advice, Skills and Employment Ltd.

The effect of including the related organisations on the summarised financial position is as follows:

	2015/16		2016/17	
	Single Entity Accounts £m	Group Accounts £m	Single Entity Accounts £m	Group Accounts £m
Comprehensive Income and Expenditure (CIES):				
(Surplus)/Deficit on Provision of Services	131.304	135.996	(109.750)	(99.254)
Other CIES	(174.221)	(204.455)	155.140	191.645
Total CIES (Surplus)/Deficit	(42.917)	(68.459)	45.390	92.391
Balance Sheet:				
Long Term Assets	2,352.221	2,429.370	2,657.802	2,726.797
Current Assets	186.522	184.950	147.520	150.601
Current Liabilities	(222.610)	(240.235)	(303.291)	(325.578)
Long Term Liabilities	(1,552.716)	(1,636.331)	(1,784.004)	(1,906.485)
Nets Assets	763.417	737.754	718.027	645.335
Usable Reserves	252.490	254.937	223.020	225.807
Unusable Reserves	510.927	482.817	495.007	419.528
	763.417	737.754	718.027	645.335
Cash Flow Statement:				
Net Cash Flows from Operating Activities	21.751	35.133	57.806	51.634
Investing Activities	59.702	47.342	(160.721)	(162.453)
Financing Activities	(102.902)	(105.393)	90.971	98.099
Net Increase (Decrease) in Cash and Cash Equivalents	(21.449)	(22.918)	(11.944)	(12.720)
Cash and Cash Equivalents at the beginning of the reporting period	53.409	70.994	31.960	48.076
Cash and Cash Equivalents at 31 March	31.960	48.076	20.016	35.356

8.3 Accounting policies used in preparing the Group Financial Statements

The financial statements produced by individual group entities have been realigned in order to ensure consistent accounting policies in the preparation of the group financial statements. These policies differ from those applicable to the Council's primary financial statements only in the following respects:

- Fixed assets held by group entities which are sufficiently specialist in nature not to fall within the scope of the Council's accounting policies are valued in accordance with the accounting policies of the individual entities.
- Any trust funds which the Council controls and which generate economic benefits, or deliver goods or services in accordance with the Council's objectives have been evaluated in terms of their impact on the group financial statements. Where this impact has been judged to be material the trust has been included.

8.4 Core Group Financial Statements

8.4.1 Group Comprehensive Income and Expenditure Statement (Group CIES)

The purpose of this statement is explained in section 3.2 of the Council's single entity Statement of Accounts.

Notes		Restated 2015/16 Gross Expenditure £m	Restated 2015/16 Gross Income £m	Restated 2015/16 Net £m	2016/17 Gross Expenditure £m	2016/17 Gross Income £m	2016/17 Net £m
	Adults and Health	157.217	(63.993)	93.224	181.303	(83.285)	98.018
	Business, Growth and Transport	54.032	(37.663)	16.369	57.542	(42.225)	15.317
	Community Services	68.833	(39.589)	29.244	62.353	(33.262)	29.091
	Early Intervention and Early Years	105.777	(24.356)	81.421	94.967	(25.196)	69.771
	Education, Employment and Skills	145.208	(143.296)	1.912	143.228	(140.259)	2.969
	Energy and Sustainability	12.467	(4.724)	7.743	15.137	(1.104)	14.033
	Leisure and Culture	48.832	(33.166)	15.666	54.151	(10.700)	43.451
	Planning and Housing	26.505	(92.343)	(65.838)	29.508	(112.611)	(83.103)
	Resources and Neighbourhood Regeneration	67.808	(24.070)	43.738	42.695	(22.507)	20.188
	Strategic Regeneration	13.988	(12.481)	1.507	31.295	(14.143)	17.152
	Corporate Items	247.144	(209.449)	37.695	190.225	(125.168)	65.057
	Exceptional revaluation gain on HRA Council Dwellings	-	-	-	(178.476)	-	(178.476)
	Group Organisations	123.335	(72.495)	50.840	146.957	(168.670)	(21.713)
	Cost of Services	**1,071.146**	**(757.625)**	**313.521**	**870.885**	**(779.130)**	**91.755**
	Other operating expenditure			49.184			28.783
8.7.1.1	Financing and investment income and expenditure			64.751			72.540
	Taxation and non-specific grant income			(291.528)			(292.533)
	(Surplus)/Deficit on Provision of Services			**135.928**			**(99.455)**
	Share of the surplus or deficit on the provision of services by associates			(1.188)			(0.220)
	Tax expenses of subsidiaries			1.256			0.421
	Group (Surplus)/Deficit			**135.996**			**(99.254)**
	Revaluation of PPE/Heritage assets			(50.630)			(56.610)
	Re-measurement of pension assets/liabilities			(155.296)			248.298
	Other gains/losses recognised required			0.013			(0.038)
	Share of other comprehensive income and expenditure of associates and joint ventures			1.458			(0.005)
	Other Comprehensive Income and Expenditure			**(204.455)**			**191.645**
	TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**(68.459)**			**92.391**

Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement

In consolidating subsidiaries, 100% of their transactions are included in the CIES even if ownership is less than 100%. The note below discloses the attributable amounts of the group surplus or deficit and other comprehensive income and expenditure to the minority interest in subsidiaries.

		2015/16			2016/17	
	Authority £m	Minority Interest £m	Total £m	Authority £m	Minority Interest £m	Total £m
Group (surplus) / Deficit	135.994	0.002	135.996	(99.200)	(0.054)	(99.254)
Other CIES	(204.126)	(0.329)	(204.455)	191.575	0.070	191.645
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	**(68.132)**	**(0.327)**	**(68.459)**	**92.375**	**0.016**	**92.391**

Reconciliation of single entity (surplus)/deficit for the year to the Group (surplus)/deficit

	2015/16 £m	2016/17 £m
Total (surplus)/deficit on the authority's single entity CIES	(42.917)	45.390
Add (surplus)/deficit arising from group entities:		
Subsidiaries	(26.410)	46.170
Joint Ventures	0.270	(0.225)
Trust Funds	0.598	1.056
Total (surplus)/deficit on the Group CIES	**(68.459)**	**92.391**

8.4.2 Group Balance Sheet

The purpose of this statement is explained in section 3.3 of the Council's single entity Statement of Accounts.

Notes		31 March 2016 £m	31 March 2017 £m
8.7.2.1	Property, Plant & Equipment	2,212.763	2,423.538
	Heritage Assets	55.461	56.815
8.7.2.2	Investment Property	87.753	174.244
	Intangible Assets	5.214	6.137
	Long Term Investments	1.291	1.263
	Long Term Debtors	58.862	56.161
	Investments in Associates and Joint Ventures	8.026	8.251
	Deferred Tax Asset	-	0.388
	Long Term Assets	**2,429.370**	**2,726.797**
	Short Term Investments	51.920	22.039
	Assets Held for Sale	0.160	1.120
	Inventories	4.400	5.323
8.7.2.3	Short Term Debtors	80.394	86.566
8.7.2.4	Cash and Cash Equivalents	48.076	35.356
	Current Tax Asset	-	0.197
	Current Assets	**184.950**	**150.601**
	Short Term Borrowing	(42.961)	(138.847)
8.7.2.5	Short Term Creditors	(175.893)	(167.023)
	Provisions	(21.305)	(19.241)
	Current Tax Liability	(0.076)	(0.467)
	Current Liabilities	**(240.235)**	**(325.578)**
	Long Term Creditors	(13.833)	(9.750)
	Provisions	(22.360)	(21.925)
	Long Term Borrowing	(654.940)	(657.413)
	Other Long Term Liabilities	(235.766)	(228.403)
	Capital Grants Receipts in Advance	(16.339)	(16.844)
	Deferred Tax Liability	(2.632)	(2.258)
	Defined Benefit Pension Scheme	(690.461)	(969.892)
	Long Term Liabilities	**(1,636.331)**	**(1,906.485)**
	NET ASSETS	**737.754**	**645.335**
8.7.2.6	Usable Reserves	254.937	225.807
8.7.2.7	Unusable Reserves	482.817	419.528
	TOTAL RESERVES	**737.754**	**645.335**

8.4.3 Group Movement in Reserves Statement

The purpose of this statement is explained in section 3.4 of the Council's single entity Statement of Accounts.

2016/17	General Fund £m	Earmarked General Fund £m	Housing Revenue Account £m	Capital Receipts £m	Major Repairs £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Minority Interest £m	Total Reserves £m
Balance at 31/3/16	**11.231**	**174.931**	**4.000**	**23.032**	**27.078**	**12.218**	**252.490**	**510.927**	**763.417**	**-26.438**	**0.775**	**737.754**
Movement in 2016/17:												
Total CIE (Table 8.4.1)	(21.571)	-	179.014	-	-	-	**157.443**	(155.140)	**2.303**	**-94.678**	**-0.016**	**(92.391)**
Adjustments between group accounts and authority accounts **(Note 8.7.3.1)**	(47.693)	-	-	-	-	-	(47.693)	-	(47.693)	**47.665**	-	**(0.028)**
Net Increase/Decrease before transfers	**(69.264)**	**-**	**179.014**	**-**	**-**	**-**	**109.750**	**(155.140)**	**(45.390)**	**(47.013)**	**(0.016)**	**(92.419)**
Funding basis adjustments	49.048	-	(178.655)	3.427	(16.786)	3.746	(139.220)	139.220	-	-	-	-
Net increase/decrease before transfers to earmarked reserves	**(20.216)**	**-**	**0.359**	**3.427**	**(16.786)**	**3.746**	**(29.470)**	**(15.920)**	**(45.390)**	**(47.013)**	**(0.016)**	**(92.419)**
Transfers to/from earmarked reserves	17.448	(17.448)	-	-	-	-	-	-	-	-	-	-
Movement in Year	**(2.768)**	**(17.448)**	**0.359**	**3.427**	**(16.786)**	**3.746**	**(29.470)**	**(15.920)**	**(45.390)**	**(47.013)**	**(0.016)**	**(92.419)**
Balance at 31/3/17	**8.463**	**157.483**	**4.359**	**26.459**	**10.292**	**15.964**	**223.020**	**495.007**	**718.027**	**(73.451)**	**0.759**	**645.335**

* CIE - Comprehensive Income and Expenditure

2015/16	General Fund £m	Earmarked General Fund £m	Housing Revenue Account £m	Capital Receipts £m	Major Repairs £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Minority Interest £m	Total Reserves £m
Balance at 31/3/15	**19.553**	**160.105**	**4.307**	**22.550**	**28.470**	**15.899**	**250.884**	**469.616**	**720.500**	**-51.068**	**0.448**	**669.880**
Opening balance restatement (note 8.7.3)										**-0.934**		**(0.934)**
Movement in 2015/16:												
Total CIE (Table 8.4.1)	(91.238)	-	9.766	-	-	-	**(81.472)**	174.221	**92.749**	**-24.617**	**0.327**	**68.459**
Adjustments between group accounts and authority accounts **(Note 8.7.3.1)**	(49.832)	-	-	-	-	-	(49.832)	-	(49.832)	**49.801**	-	**(0.031)**
Net Increase/Decrease before transfers	**(141.070)**	**-**	**9.766**	**-**	**-**	**-**	**(131.304)**	**174.221**	**42.917**	**25.184**	**0.327**	**68.428**
Funding basis adjustments	147.574	-	(10.073)	0.482	(1.392)	(3.681)	132.910	(132.910)	-	0.380	-	0.380
Net increase/decrease before transfers to earmarked reserves	**6.504**	**-**	**(0.307)**	**0.482**	**(1.392)**	**(3.681)**	**1.606**	**41.311**	**42.917**	**25.564**	**0.327**	**68.808**
Transfers to/from earmarked reserves	(14.826)	14.826	-	-	-	-	-	-	-	-	-	-
Movement in Year	**(8.322)**	**14.826**	**(0.307)**	**0.482**	**(1.392)**	**(3.681)**	**1.606**	**41.311**	**42.917**	**25.564**	**0.327**	**68.808**
Balance at 31/3/16	**11.231**	**174.931**	**4.000**	**23.032**	**27.078**	**12.218**	**252.490**	**510.927**	**763.417**	**(26.438)**	**0.775**	**737.754**

* CIE - Comprehensive Income and Expenditure

8.4.4 Group Cash Flow Statement

The purpose of this statement is explained in section 3.5 of the Council's single entity Statement of Accounts.

Notes		2015/16 £m	2016/17 £m
	Net (Surplus)/Deficit on the provision of Services	**(135.928)**	**99.455**
	Adjustments to net surplus or deficit on the provision of services for non-cash movements	243.202	6.060
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(72.141)	(53.881)
8.7.4.1	**Net Cash Flows from Operating Activities**	**35.133**	**51.634**
8.7.4.2	Investing activities	47.342	(162.453)
8.7.4.3	Financing activities	(105.393)	98.099
	Net Increase or Decrease in Cash and Cash Equivalents	**(22.918)**	**(12.720)**
	Cash and cash equivalents at the beginning of the reporting period	70.994	48.076
	CASH AND CASH EQUIVALENTS AT 31 MARCH	**48.076**	**35.356**

8.5 Details of subsidiaries, jointly controlled entities and trust funds included in the group accounts

Unless otherwise stated in sections 8.5.1 to 8.5.3 below:

- The accounts used to produce the draft 2016/17 group accounts are audited
- Copies of the accounts can be obtained from Companies House, Crown Way, Cardiff CF14 3UZ

8.5.1 Subsidiaries:

Enviroenergy Limited (Registered Company Number: 4131345*)*

Nature of the business
Its main activities are the production of heat and steam for supply to domestic and commercial customers, along with the generation and sale of electricity.

Relationship with the Council
The Council is the ultimate controlling party of Enviroenergy Ltd, owning 100% of the issued share capital. The Council acquired the business and associated assets of the company on 28 June 2001.

Risk to the Council
The steam used to generate energy for resale and electricity generation is purchased from the Council. Debt for the steam purchased due to the Council as at 31 March 2017 is £10.382m (31 March 2015 £11.728)

Nottingham City Homes Limited (Registered Company Number: 05292636)

Nature of the business
The principal activities of the company are to act as the managing agent of Council's housing stock, and to provide a repairs and maintenance service to the landlord in respect of these properties.

Relationship with the Council
The company is incorporated as a private company limited by guarantee under the Companies Act 1985. As such it has no share capital. The company's sole member is the Council.

Risk to the Council
The Council has a management agreement with NCH until 31 March 2020. The annual management fee paid to NCH was £22.516m (2015/16 £22.014m).

The Council will continue to assist NCH in meeting their pension fund liabilities as and when they fall due, but only to the extent that money is not otherwise available to NCH to meet such liabilities

Nottingham City Transport Limited (Registered Company Number: 2004967)

Nature of Business
The company is the principal public bus operator in the Greater Nottingham area.

Relationship with the Council
This company is controlled by the Council and commenced trading on 26 October 1986. The total shareholding owned by the Council is 95%. Transdev Plc has a minority interest in Nottingham City Transport of 5% which comprises of 238,526 B Ordinary shares at £1 each.

The company has the following shares in issue:

- 4,532,000 "A" Ordinary shares at £1 each, which are owned by the Council.
- 238,526 "B" Ordinary shares at £1 each, which are owned by Transdev Plc.
- 2,882,750 £1 cumulative, convertible, redeemable preference shares owned by Transdev Plc. These shares carry a 10% coupon rate and are convertible at the rate of 3.64 preference shares to 1 "B" Ordinary share at any time. The shares are redeemable by the shareholder at any time after 1 January 2005, and by the company at any time after 1 January 2010.

The "A" and "B" shares rank pari passu in all material respects.

The group takes into account 100% of the results of the company with the 5% minority interest being disclosed where appropriate.

Period of Accounts
The financial statements used in the preparation of the group accounts are for the 52 week period ending 25 March 2017 (as this is the last week ending date for NCT's internal group reporting purposes).

Summarised Financial Information of Nottingham City Transport showing Minority Interest

	2015/16		2016/17	
	NCT £m	5% Minority Interest £m	NCT £m	5% Minority Interest £m
Profit for the period attributable to equity shareholders	(0.707)	(0.035)	(2.635)	(0.132)
Ordinary Dividends Paid	0.737	0.037	1.579	0.078
Other Comprehensive Income and Expenditure	(6.577)	(0.329)	1.390	0.070
Total Comprehensive Income	(6.547)	(0.327)	0.334	0.016
Non-current Assets	36.439	1.821	33.847	1.692
Current Assets	11.832	0.592	12.099	0.605
Current Liabilities	(14.644)	(0.732)	(15.098)	(0.755)
Non-current Liabilities	(18.108)	(0.906)	(15.663)	(0.783)
Net Assets	15.519	0.775	15.185	0.759

Nottingham Ice Centre (Registered Company Number: 3563341)

Nature of the business
The principal activity of the company is to manage the trading aspects of the National Ice Centre.

Relationship with the Council
The Council is the ultimate controlling party of Nottingham Ice Centre Ltd, owning 100% of the issued share capital.

Nottingham Revenues & Benefits Ltd (Registered Company Number: 09157986)

Nature of the business
The company is principally engaged in the provision of administration services in relation to Nottingham's revenue and benefit services.

Relationship with the Council

The Council is the ultimate controlling party of Nottingham Revenues & Benefits Ltd, owning 100% of the issued share capital.

Robin Hood Energy Ltd (Registered Company Number: 08053212)

Nature of the business
The company is principally engaged in the supply of gas and electricity for residential and business customers. The company started trading in a controlled manner (Controlled Market Entry) in July 2015 and started trading nationally in September 2015.

Relationship with the Council
The Council is the ultimate controlling party of Robin Hood Energy Ltd, owning 100% of the issued share capital.

Risk
The Council has a Robin Hood Energy debtor balance of £11.579m at 31 March 2017 (£5.974m at 31 March 2016), this is made up of a loan and a short term debtor balance.

8.5.2 Joint Ventures:

Blueprint Limited Partnership (Registered Limited Partnership Number: LP10442)

Nature of the business
The principal activities of the partnership are that of the purchase of interests in and redevelopment of property, and the sale and interim rental of land and property. The General Partner, Blueprint (General Partner) Ltd, manages the activity of the partnership.

The objectives of the partnership are to carry out this trading and development in order to generate a commercial return and to encourage the physical regeneration and economic growth of the priority urban areas within Nottingham City.

Relationship with the Council
The Council and Aviva Investor's Igloo Regeneration Partnership each own 49.95%, with Blueprint (General Partner) Ltd owning the remaining 0.1% (the general partner being owned equally by the Council & Aviva). The Council in effect owns 50% of Blueprint Limited Partnership. The Council purchased its share on 9 March 2015.

Summarised Financial Information

The following table summarise the financial position of Blueprint at the 31 March 2017:

	2015/16 £m	2016/17 £m
Turnover	(11.788)	(5.881)
Cost of Sales	9.171	5.375
Gross Profit	**(2.617)**	**(0.506)**
Other Operating Income	(0.399)	(0.425)
Administrative Expenses	0.663	0.503
Operating Profit	**(2.353)**	**(0.428)**
Interest Receivable	(0.024)	(0.012)
Interest Payable	-	0.000
Profit for the Financial Year	**(2.377)**	**(0.440)**
Current Assets	17.413	17.531
Current Liabilities	(1.360)	(1.028)
Net Assets as at 31 March 2015	**16.053**	**16.503**
Investment in Joint Venture included in the Council's Group Accounts (50% of net assets)	**8.027**	**8.251**
Amounts included in the above figures:		
Cash at Bank and In Hand (included in current assets)	3.927	3.563
Accruals and Deferred Income (included in Current Liabilities)	(1.227)	(0.729)

Futures Advice, Skills and Employment Ltd (Registered Company Number: 04172770)

Nature of the business

Futures Advice, Skills and Employment Ltd (Futures) is a company which is an all age, careers and employability advice service which delivers a range of careers, advice and consultancy services in the East Midlands and across England.

Relationship with the Council

The company is jointly owned 50/50 by the Council and Nottinghamshire County Council. The Council's share of Future's accumulated net liability and profit / loss in year as at 31 March 2017, equating to £8.334m (2015/16 £6.570m) and £1.764m loss (2015/16 £2.635m profit) respectively, have not been recognised in the group accounts in accordance with IAS 28 'Investments in Associates and Joint Ventures'.

Commitments

The Council is committed to paying Futures £1.350m in 2017/18, being grant funding for the delivery of careers advice.

Summarised Financial Information of Futures group

	2015/16 £m	2016/17 £m
Revenue	(16.476)	(17.704)
Operating Charges	15.924	16.510
Operating Loss	**(0.552)**	**(1.194)**
Finance Costs	0.690	0.587
Investment Income	(0.006)	(0.010)
Loss before Tax	**0.132**	**(0.617)**
Income Tax Expense	0.234	0.272
Loss for the Year	**0.366**	**(0.345)**
Other Comprehensive Income and Expenditure	(5.636)	3.873
Total Comprehensive Loss/(Profit) for the Year	**(5.270)**	**3.528**
Non-current Assets	0.124	0.032
Current Assets	4.508	6.702
Current Liabilities	(1.547)	(2.328)
Non-current Liabilities	(16.224)	(21.073)
Net Liabilities as at 31 March 2015	**(13.139)**	**(16.667)**
Councils Share (50%) of Net Liability not recognised in the Group accounts under IAS 28	**(6.570)**	**(8.334)**
Amounts included in the above figures:		
Depreciation (in Operating Charges)	0.104	0.088
Interest on Bank Overdrafts and Loans (in Finance Costs)	0.004	0.005
Defined Benefit Pension Finance Costs (in Finance Costs)	0.686	0.582
Interest Earned on Loans and Deposits (in Investment Income)	(0.007)	(0.010)
Cash and Cash Equivalents (in Current Assets)	2.546	4.326
Accruals (in Current Liabilities)	0.657	(1.575)
Retirement Benefit Obligation (in Non-current Liabilities)	(16.194)	(20.885)

8.5.3 Trust Fund:

Bridge Estate (Registered Charity Number: 220716)

Nature of the Trust Fund

The earliest mention of Bridge Estate is in 1302. Since that date, various bequests of land and property have been made, the income from which being set aside for the maintenance of bridges over the River Trent. By 1882 the income generated by the Estate was in excess of that required for the maintenance of Trent Bridge and consequently the objectives of the Estate were extended by virtue of section 78 of the Nottingham Corporation Act 1882.

The objectives of the charity are as follows:

- Provide for the efficient maintenance and repair of Trent Bridge and the approaches to it.
- In effect, to set up a contingency fund for the possible construction of such new bridge or bridges over the River Trent as may be found necessary or desirable.

- The residue of such income is to be applied as the Trustee thinks best for the improvement of the City of Nottingham and the public benefit of its inhabitants.

Relationship with the Council
Bridge Estate is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity.

All transactions relating to Bridge Estate are subject to the same financial regulations and procedures as those relating to the Council.

Accounts
Copies of the accounts of Bridge Estate can be obtained from Financial Reporting, Resources, Loxley House, Station Street, Nottingham, NG2 3NG.

8.6 Details of associates, joint ventures and trust funds not included in the group accounts

The Council has considered its relationship with the following associates, joint ventures and trust funds. These organisations have been excluded from the group accounts on the basis of risk and materiality.

8.6.1 Associates

Nottingham Regeneration Ltd (Registered Company Number: 3665996)
Nature of the company
The principal activity of Nottingham Regeneration Ltd is that of securing the overall economic social and environmental regeneration of the City of Nottingham, the greater Nottingham area and beyond.

Relationship with the Council
A partnership between the Council and the Homes and Communities Agency. The Council is deemed to have significant influence even though it holds less than 20% of the voting rights.

Ticketing Network East Midlands Ltd (Registered Company Number: 06623526)
Nature of the company
The founding members of Ticketing Network East Midlands Ltd (TNEM) are the Lakeside Arts Centre, Nottingham Theatre Royal and Royal Concert Hall, Nottingham Playhouse and Dance4. TNEM is run on behalf of this consortium of arts organisations to manage its ticketing and customer relationship management system.

TNEM is the first consortium in the United Kingdom to be formed specifically for the purpose of enabling multiple organisations within this region to share Tessitura software and services from the Tessitura network.

Relationship with the Council
The Council holds 25% of the shares of TNEM, as do each of the other three member organisations Lakeside Arts Centre, Nottingham Playhouse and Dance4.

8.6.2 Joint Ventures

Blueprint General Partner Ltd (Registered Company Number: 05340186)
Nature of the Company
Blueprint (General Partner) Ltd manages the activity of the Blueprint Limited Partnership.

Relationship with the Council
The company is jointly owned by the Council and Aviva Investor's Igloo Regeneration Partnership. The Council purchased the 50% share on 9 March 2015.

emPSN Services Ltd – formerly EMBC Procurement Ltd (Registered Company Number: 5882746)
Nature of the Company
emPSN Service Ltd is a regional partnership formed to secure a regional network and services for schools and a service framework for the public sector.

Relationship with the Council
As a customer of emPSN the Council is a member of the company and has a stake in its future as a public sector owned company Limited by Guarantee.

Inspired Spaces Nottingham Ltd - Local Education Partnership (Registered Company Number: 6506329)
Nature of the Company
This company was set up in June 2008 and the principal activities of the company are the provision of the construction project development and partnering services within the education sector in accordance with the terms and agreement set up with the Council.

Relationship with the Council
The Council has a 10% shareholding in the company. 10% is also held by Amber Investments and 80% is held by Carillion.

8.6.3 Trust Funds

Harvey Hadden Stadium Trust (Registered Charity Number: 522271)
Nature of the Trust Fund
On 18 July 1955 the court made a scheme and order for an athletics stadium to be erected out of the bequest of Harvey Hadden. Under the court order there is a requirement for "the Corporation" – now Nottingham City Council – to maintain the stadium built with those funds, "under the name of Harvey Hadden Stadium in good order and condition in perpetuity for the purposes of public recreation".

The objective of the Trust is to provide public recreation for the people of the City of Nottingham forever.

Relationship with the Council
Harvey Hadden Stadium Trust is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity.

All transactions relating to Harvey Hadden Stadium Trust are subject to the same financial regulations and procedures as those relating to the Council.

Highfields Leisure Park Trust (Registered Charity Number: 1006603)
Nature of the Trust Fund
The Highfields Leisure Park Trust was created by indenture in 1920 as a gift from Sir Jesse Boot, founder of Boots the Chemist. The objective of the Trust is to provide public recreation and pleasure grounds for the people of the City of Nottingham forever.

Relationship with the Council
Highfields Leisure Park Trust is a charity of which the Council is sole trustee. Councillors are appointed to the Trusts and Charities Committee by full Council to fulfil

the Council's responsibilities as Trustee including the responsibility for making recommendations on the management of the charity.

All transactions relating to Highfields Leisure Park Trust are subject to the same financial regulations and procedures as those relating to the Council.

8.7 Notes to the Core Group Financial Statements

These notes provide information that supports, and helps in interpreting the financial statements. Where the group account figures are not materially different from those of the council only accounts, no additional disclosure notes have been made.

8.7.1 Group Comprehensive Income and Expenditure Statement Notes

8.7.1.1 Financing and Investment Income and Expenditure

	Restated 2015/16			2016/17		
	Expenditure £m	Income	Net	Expenditure £m	Income	Net
Net Interest on Pension Fund	25.757		25.757	23.975		23.975
Other interest	50.406	(3.589)	46.817	56.296	(6.030)	50.266
Trading Operations	1.494	(5.315)	(3.821)	1.895	(3.775)	(1.880)
Investment Property Revaluations	0.967	(3.677)	(2.710)	6.674	(1.536)	5.138
Other Finance and Investment items	0.976	(2.268)	(1.292)	5.377	(10.336)	(4.959)
TOTAL	**79.600**	**(14.849)**	**64.751**	**94.217**	**(21.677)**	**72.540**

8.7.2 Group Balance Sheet Notes

8.7.2.1 Property, Plant and Equipment

2016/17	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	635.302	861.235	290.427	654.246	31.005	36.301	44.524	**2,553.040**	**296.444**
Accumulated Depreciation b/f	-	(55.592)	(118.481)	(157.213)	(8.251)	-	-	**(339.537)**	**(7.611)**
Accumulated Impairment b/f	-	(0.069)	(0.671)	-	-	-	-	**(0.740)**	-
Net Book Value at 1st April 2016	**635.302**	**805.574**	**171.275**	**497.033**	**22.754**	**36.301**	**44.524**	**2,212.763**	**288.833**
Additions - Capital Expenditure	30.377	16.804	17.975	21.143	1.263	8.638	50.365	**146.565**	-
Additions - Donations	-	-	-	-	-	-	-	**-**	-
Additions - PFI / VA School Recognition	-	-	-	-	-	-	-	**-**	-
Depreciation Charge	(25.572)	(24.182)	(20.339)	(26.388)	(1.029)	(0.022)	-	**(97.532)**	(12.433)
Revaluations - Recognised in Revaluation Reserve	19.102	35.552	-	-	-	0.600	-	**55.254**	(0.343)
Revaluations - Recognised in the CIES	178.476	(28.847)	-	-	-	(0.640)	-	**148.989**	(2.272)
Derecognition - Disposals	(7.054)	(0.247)	(0.296)	-	-	(2.661)	(0.001)	**(10.259)**	-
Derecognition - Other	(4.660)	(18.394)	-	-	-	(7.756)	-	**(30.810)**	-
Impairments - Recognised in Revaluation Reserve	-	0.055	-	-	-	-	-	**0.055**	-
Impairments - Recognised in the CIES	-	-	0.017	-	(0.200)	-	-	**(0.183)**	-
Other - Transfers to Held for Sale	-	-	-	-	-	(1.120)	0.160	**(0.960)**	-
Other Transfers	9.987	26.766	(5.410)	3.178	-	1.678	(36.543)	**(0.344)**	-
Net Book Value at 31st March 2017	**835.958**	**813.081**	**163.222**	**494.966**	**22.788**	**35.018**	**58.505**	**2,423.538**	**273.785**
Gross Book Value c/f	835.958	875.092	299.751	678.567	32.268	35.018	58.443	**2,815.097**	290.321
Accumulated Depreciation c/f	-	(61.996)	(136.529)	(183.601)	(9.280)	-	0.062	**(391.344)**	(16.536)
Accumulated Impairment c/f	-	(0.015)	-	-	(0.200)	-	-	**(0.215)**	
Net Book Value at 31 March 2017	**835.958**	**813.081**	**163.222**	**494.966**	**22.788**	**35.018**	**58.505**	**2,423.538**	**273.785**

2015/16	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant & Equipment £m	PFI Assets included in PPE £m
Gross Book Value b/f	610.225	854.928	235.464	450.263	29.890	27.575	124.955	**2,333.300**	**99.087**
Accumulated Depreciation b/f	-	(56.310)	(109.867)	(139.197)	(7.273)	(0.028)	-	**(312.675)**	**(11.608)**
Accumulated Impairment b/f	-	-	(0.671)	-	-	-	-	**(0.671)**	-
Net Book Value at 1st April 2015	**610.225**	**798.618**	**124.926**	**311.066**	**22.617**	**27.547**	**124.955**	**2,019.954**	**87.479**
Additions - Capital Expenditure	33.251	17.498	19.531	21.501	1.115	6.894	42.411	**142.201**	-
Additions - Donations	0.151	-	-	-	-	-	-	**0.151**	-
Additions - PFI / VA School Recognition	-	-	55.944	180.977	-	-	-	**236.921**	236.921
Depreciation Charge	(25.425)	(23.969)	(19.874)	(18.015)	(0.978)	(0.619)	-	**(88.880)**	(4.091)
Revaluations - Recognised in Revaluation Reserve	(0.489)	43.078	-	-	-	7.755	-	**50.344**	(0.147)
Revaluations - Recognised in the CIES	7.529	(96.655)	-	-	-	(0.599)	(0.143)	**(89.868)**	(13.109)
Derecognition - Disposals	(11.460)	-	(0.465)	-	-	(1.690)	-	**(13.615)**	-
Derecognition - Other	(3.012)	(36.377)	-	-	-	(12.728)	(0.084)	**(52.201)**	(18.220)
Impairments - Recognised in Revaluation Reserve	-	-	-	-	-	-	-	**-**	-
Impairments - Recognised in the CIES	-	(0.069)	0.039	-	-	-	-	**(0.030)**	-
Other - Transfers to Held for Sale	24.532	103.450	(8.826)	1.504	-	9.741	(122.615)	**7.786**	-
Net Book Value at 31st March 2016	**635.302**	**805.574**	**171.275**	**497.033**	**22.754**	**36.301**	**44.524**	**2,212.763**	**288.833**
Gross Book Value c/f	635.302	861.235	290.427	654.246	31.005	36.301	44.524	**2,553.040**	296.444
Accumulated Depreciation c/f	-	(55.592)	(118.481)	(157.213)	(8.251)	-	-	**(339.537)**	(7.611)
Accumulated Impairment c/f	-	(0.069)	(0.671)	-	-	-	-	**(0.740)**	-
Net Book Value at 31 March 2016	**635.302**	**805.574**	**171.275**	**497.033**	**22.754**	**36.301**	**44.524**	**2,212.763**	**288.833**

8.7.2.2 Investment Properties

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

	2015/16 £m	2016/17 £m
Opening Balance At 1 April	73.384	87.752
Additions	16.392	87.859
Disposals	(1.997)	(0.655)
Net gains/losses from fair value adjustments	2.759	(1.056)
Transfers to / from Property Plant and Equipment	(2.785)	0.344
CLOSING BALANCE AT 31 MARCH	**87.753**	**174.244**

Where the Bridge Estate's fixed assets have been consolidated with the Council's it has been assumed that the properties class will remain as investment property upon consolidation.

8.7.2.3 Short Term Debtors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	19.613	15.257
Other local authorities	4.478	4.192
NHS bodies	0.071	3.428
Public corporations and trading funds	2.420	1.731
Other entities and individuals	53.812	61.958
TOTAL	**80.394**	**86.566**

8.7.2.4 Cash and Cash Equivalents

The balance of Cash and Cash Equivalents comprises of the following elements:

	31 March 2016 £m	31 March 2017 £m
Cash held by the Authority / Group Organisation	0.252	0.402
Bank current accounts	7.156	22.954
Short-term deposits with banks and building societies	40.668	12.000
TOTAL CASH AND CASH EQUIVALENTS	**48.076**	**35.356**

8.7.2.5 Short Term Creditors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	(26.892)	(20.341)
Other local authorities	(4.777)	(3.434)
NHS bodies	(4.924)	(2.975)
Other entities and individuals	(139.300)	(140.273)
TOTAL	**(175.893)**	**(167.023)**

8.7.2.6 Usable Reserves

Movements in the usable reserves are detailed in the MIRS.

8.7.2.7 Unusable Reserves

Unusable reserves have been created as a result of the difference between accounting under IFRS and statutory provisions. These reserves represent differences due to timing of funding certain items of expenditure and are, therefore, not available as a source of general funding. The unusable reserves also include the Council's share of profit and loss and other reserves of jointly controlled entities included in the group accounts.

	Restated 31 March 2016 £m	31 March 2017 £m
Revaluation Reserve	361.348	401.418
Capital Adjustment Account	810.198	986.821
Financial Instruments Adjustment Account	(6.584)	(6.400)
Pensions Reserve	(623.310)	(860.824)
Deferred Capital Receipts Reserve	1.248	1.235
Collection Fund Adjustment Account	(2.028)	1.460
Accumulated Absences Account	(4.281)	(4.476)
Available for Sale Financial Instruments Reserve	(0.013)	-
Profit and Loss and Other Reserves of Group Entities	(55.012)	(101.166)
Authority's share of Profit and Loss and Other Reserves of an associate / joint venture	0.476	0.701
Minority Interest - Equity	0.775	0.759
TOTAL	**482.817**	**419.528**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Group arising from increases in the value of its PPE. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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.

	2015/16 £m	2016/17 £m
Opening Balance at 1 April	**326.124**	**361.348**
Upward revaluation of assets	66.695	73.676
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(16.969)	(18.092)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**49.726**	**55.584**
Difference between fair value depreciation and historical cost depreciation	(9.557)	(10.671)
Accumulated gains on assets sold or scrapped	(4.945)	(4.843)
Amount written off to the Capital Adjustment Account	**(14.502)**	**(15.514)**
CLOSING BALANCE AT 31 MARCH	**361.348**	**401.418**

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 debited with the cost of acquisition, construction or enhancement as depreciation. Impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Group. The account also contains revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2015/16 £m	2016/17 £m
Opening Balance at 1 April	**892.927**	**810.198**
Other Comprehensive Items		
Voluntary aided school recognition	-	
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Amortisation of intangible assets	(0.851)	(1.156)
Charges for depreciation of non-current assets	(82.257)	(91.088)
Charges for impairment of non-current assets	(0.069)	(0.145)
Revaluation losses on Property, Plant and Equipment	(90.141)	148.989
Donated Assets	0.151	
Movements in the market value of Investment Properties	3.677	0.387
Revenue expenditure funded from capital under statute (REFCUS)	(8.845)	(2.929)
REFCUS expenditure funded by grants	5.720	1.915
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(71.772)	(41.523)
Adjusting amounts written out of the Revaluation Reserve	14.524	15.537
	(229.863)	29.987
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	25.724	9.427
Use of the Major Repairs Reserve to finance new capital expenditure	28.470	44.112
Application of grants to capital financing from the Capital Grants Unapplied Account	40.923	35.992
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	7.406	4.101
Voluntary set aside of capital receipts for debt redemption	24.568	24.726
Adjustment to MRP as a result of PFI Projects	3.730	7.460
Capital expenditure charged against the General Fund and HRA balances	16.926	20.825
Reduction in Liabilities & Repayment of Long Term Debtors etc:		
Principal Repayment of Capital Loans	(0.613)	(0.007)
	147.134	146.636
CLOSING BALANCE AT 31 MARCH	**810.198**	**986.821**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Post employment benefits are accounted for in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as employer's contributions are made to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	Restated 2015/16 £m	2016/17 £m
Opening Balance at 1 April	**(720.588)**	**(623.310)**
Return on plan assets	(36.584)	169.488
Actuarial gains or (losses) on pensions assets and liabilities	160.188	(381.251)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(55.495)	(56.267)
Employer's pensions contributions and direct payments to the pensioners payable in the year	29.169	30.516
CLOSING BALANCE AT 31 MARCH	**(623.310)**	**(860.824)**

8.7.3 Group Movement in Reserves Statement Notes

The opening balance restatement adjustment shown on the 2015/16 MIRS relates to the following:

As at 31 March 2015 Robin Hood Energy had not commenced trading and their results (£0.712m loss / net liability) were not included in the group accounts, therefore an opening balance adjustment has been included in the MIRS.

From 2015/2016 Nottingham City Transport no longer produces group accounts as their subsidiaries are dormant. An opening balance adjustment of £0.007m has therefore been included in the MIRS.

The 2014/2015 balance sheet reserves of Blueprint and NCH have been restated due to transition from UK GAAP to FRS102. Opening balance adjustments (Blueprint -£0.048m, NCH -£0.181m) have been included in the Group MIRS.

There are no opening balance restatement adjustments for 2016/17.

8.7.3.1 Adjustments between Group Accounts and Authority Accounts

The following tables detail the adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement:

2016/17	General Fund Balance £m	Total Usable Reserves £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Total Reserves £m
Payments in relation to goods and services from subsidiaries	(75.853)	(75.853)	(75.853)	75.853	-
Grants and provisions for subsidiaries	-	-	-	-	-
Receipts in relation to goods and services provided to subsidiaries	25.029	25.029	25.029	(25.029)	-
Interest and investment income from/to subsidiaries	1.586	1.586	1.586	(1.586)	-
Contributions from subsidiaries	1.545	1.545	1.545	(1.545)	-
Other movements		-	-	(0.028)	(0.028)
TOTAL ADJUSTMENTS	(47.693)	(47.693)	(47.693)	47.665	(0.028)

2015/16	General Fund Balance £m	Total Authority Reserves £m	Authority's Share of Group Reserves £m	Total Reserves £m
Payments in relation to goods and services from subsidiaries	(72.620)	(72.620)	72.620	-
Grants and provisions for subsidiaries	-	-	-	-
Receipts in relation to goods and services provided to subsidiaries	20.495	20.495	(20.495)	-
Interest and investment income from/to subsidiaries	0.707	0.707	(0.707)	-
Contributions from subsidiaries	1.586	1.586	(1.586)	-
Other movements		-	(0.031)	(0.031)
TOTAL ADJUSTMENTS	(49.832)	(49.832)	49.801	(0.031)

8.7.4 Group Cash Flow Notes

8.7.4.1 Operating Activities

The cash flows for operating activities include the following items:

	2015/16 £m	2016/17 £m
Interest received	3.784	2.496
Interest paid	(35.352)	(39.147)
Dividends received	0.700	2.070
Dividends paid	(1.025)	(1.867)
Taxation	0.026	-

8.7.4.2 Investing Activities

	2015/16 £m	2016/17 £m
Purchase of property, plant and equipment, investment property and intangible assets	(151.051)	(250.220)
Purchase of short-term and long-term investments	(4.105)	(0.019)
Other payments for investing activities	(1.600)	(14.063)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	112.400	14.998
Proceeds from short-term and long-term investments	30.574	29.994
Other receipts from investing activities	61.124	56.857
NET CASH FLOWS FROM INVESTING ACTIVITIES	**47.342**	**(162.453)**

8.7.4.3 Financing Activities

	2015/16 £m	2016/17 £m
Cash receipts of short and long-term borrowing	24.139	148.700
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(108.478)	(11.881)
Repayments of short and long-term borrowing	(21.054)	(38.720)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(105.393)**	**98.099**

Section 9 (Appendix A)
Forward Plans

9.1 Medium Term Financial Plan

9.1.1 Revenue Plans

In February 2017 the Council approved a revised Medium Term Financial Plan (MTFP) covering the 3 year period from 2017/18 to 2019/20.

The Council's MTFP was developed within the context of an integrated service planning and budget preparation cycle with emphasis on objectivity, accountability, early decision making and service and Councillor engagement in order to enhance policy-led budgeting and longer term planning. The process included identifying cost reductions, budget and cost pressures for the next three years. Detailed budgets were then worked up based on current priorities and plans, underlying demographic trends and predicted inflation factors.

Local government continues to operate in a challenging environment and the budget assumptions are subject to ongoing review in light of changing circumstances. These issues have been brought together to produce a 3 year Medium Term Financial Outlook (MTFO) which is summarised below:

	2017/18 £m	2018/19 £m	2019/20 £m
Expenditure:			
2016/17 Net Budget Requirement	243.878	243.878	243.878
Budget Refresh	9.463	16.748	16.956
New Pressures	9.651	16.122	21.850
Sub-Total	**262.992**	**276.748**	**282.684**
Portfolio Proposal	(13.088)	(13.107)	(13.446)
Health Integration	(11.360)	(12.750)	(15.691)
Assumed Net Budget	**238.544**	**250.891**	**253.547**
Funding:			
Retained Business Rates, Top-up & RSG	(138.077)	(131.584)	(125.371)
Council Tax	(100.947)	(107.115)	(110.399)
Collection Fund	0.480	-	-
FUNDING GAP	**(0.000)**	**12.192**	**17.777**

The Council has identified proposals to produce a balanced budget for 2017/18 and will continue to work on proposals to meet the future funding gap, which rises to £17.777 by 2019/20. The 2017/18 budget has been constructed in accordance with the MTFS and all relevant corporate financial protocols. It is a balanced budget; policy-led, medium term and risk assessed and reflects the Council Plan priorities. Budgets have been redirected to enable some resources to be targeted on the Council's current focus of supporting the most vulnerable, local jobs, and enjoying Nottingham. Resources have been redirected by:

- Reducing demand and reviewing the way we commission our services.

- Reviewing and optimising income streams of all kinds
- Redesigning and modernising our service provision / identifying efficiencies

9.1.2 Capital Plans

The Council is planning to invest £603.925m over the next 5 years, enabling substantial regeneration in and around the City and allowing the Council to deliver the capital requirements that have arisen from business service needs. The capital programme and funding proposals following the 2016/17 Outturn are detailed below:

	CAPITAL PROGRAMME					
	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Expenditure:						
Public Sector Housing	65.653	40.561	32.924	33.477	35.141	**207.756**
Local Transport Plan	28.080	9.858	5.434	-	-	**43.372**
Education	8.938	-	-	-	-	**8.938**
All Other Services	71.440	38.592	28.358	9.933	10.185	**158.508**
Projects in Development	84.118	84.842	16.391	-	-	**185.351**
TOTAL	**258.229**	**173.853**	**83.107**	**43.410**	**45.326**	**603.925**
Forecast Funding:						
Prudential Borrowing	106.077	95.857	35.253	9.640	12.168	**258.995**
Capital Receipts	39.167	3.843	3.700	2.700	2.700	**52.110**
Set aside from Revenue	16.178	7.766	3.007	0.795	0.784	**28.530**
Major Repairs Reserve	37.716	27.260	27.066	26.903	26.745	**145.690**
Grants & Contributions	70.774	28.821	18.309	2.106	2.055	**122.065**
TOTAL	**269.912**	**163.547**	**87.335**	**42.144**	**44.452**	**607.390**
Resources Brought Forward						
CUMULATIVE SURPLUS	**(11.683)**	**(1.377)**	**(5.605)**	**(4.339)**	**(3.465)**	

The capital programme is expecting total funding of £607.390m, leaving a balance of available funding of £3.465m.

The Capital Programme includes a number of schemes that are currently being developed. Before these projects can gain full approval they will be subject to a process of business case appraisal that includes both due diligence and confirmation of funding.

Often additional capital projects emerge during the year. Where this is the case, any decision to progress the schemes will be dependent upon securing the necessary external funding, or demonstrating an appropriate return on investment based on robust business cases.

Some spending within the capital programme will be delivered in partnership with other organisations. The paragraphs below summarise the major schemes with expenditure incurred from 2017/18 onwards:

Nottingham Castle (£29.983m) – Scheme to develop Nottingham Castle into a world class visitor attraction.

Nottingham Skills Hub (£19.600m) – Scheme to develop a new college site.

9.2 Future Significant Developments

A number of new and previously planned Government policies are likely to have an impact on the Council's finances in the future.

9.2.1 Universal Credit

The Government will continue to roll out the introduction a single Universal Benefit across the country. The Universal Benefit replaces a number of individual benefits, including Council Tax Benefit and Housing Benefit. The Council will no longer receive payments for these benefits directly, but instead will need to recover Council Tax and rents directly from residents, potentially increasing the level of bad debts the council incurs.

9.2.2 Fiscal Consolidation

The Government's Autumn Statement published on 23 November published key economic indicators which have worsened since the March budget. The Government is no longer seeking to achieve a fiscal surplus in this parliament. As a result Nottingham City Council along with other local authorities across the country has seen a substantial reduction in Government funding as a consequence of the Government's policies to tackle the national fiscal deficit. This will result in a challenging financial environment with reduced funding, increased demand for services, particularly social care and the unknown impact of the Brexit decision.

9.2.3 HRA Rent Reductions

The Chancellor announced in his 2015 summer budget that rents in social housing are to be reduced by 1% a year, from April 2016, for the next four years. The Council will need to consider the impact that the rent reductions may have on its Housing Revenue Account and revise its HRA plan accordingly.

Section 10 (Appendix B)
Accounting Policies

This section explains the accounting policies applied in producing the Statement of Accounts.

10.1 General Principles

10.1.1 Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. It provides the reader with information about the Council's financial position and its stewardship of public funds. The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2015 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) which is based on approved accounting standards. In addition to compliance with the Code, the Council's accounts also comply with the Service Reporting Code of Practice 2016/17. This Code sets out proper practice for financial reporting to ensure consistency and comparability across Councils. The accounts are supported by IFRS and statutory guidance issued under Part 3 of the 2015 Act.

10.1.2 Accounting Convention

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

10.1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

A prior period adjustment will be made to the accounts as a result of a change in accounting policies. Changes in accounting estimates will be accounted for prospectively. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

10.1.4 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue. The two types of events and the accounting treatment are given below:

- For any material events after the balance sheet date which provide additional evidence regarding conditions existing at the balance sheet date, an adjustment has been made to the Statement of Accounts.
- Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.

10.1.5 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.
- Supplies are recorded as expenditure in the period during which they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet. For some quarterly payments including gas and electricity, expenditure is recorded at the date of meter reading rather than being apportioned between financial years. This practice is consistently applied each year and therefore does not have a material effect on the year's accounts.
- Works are charged as expenditure, once complete, prior to completion they are carried as 'works in progress' on the Balance Sheet.
- For significant accruals such as pay awards, estimates are made based on the best information available at the time. Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.
- Interest payable on borrowings and interest receivable on investments is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Income and expenditure are credited and debited to the relevant service revenue account in the CIES. Capital expenditure creates a fixed asset which is shown on the Balance Sheet.

  Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. In the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in the relevant service. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

10.2 Policies primarily affecting the CIES

10.2.1 Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

10.2.2 Business Improvement Districts (BID)

A BID scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

10.2.3 Operating Leases

Receivable (Council as lessor)

Where the Council has granted an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

Payable (Council as lessee)

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES. Charges are made on a straight-line basis over the life of the lease, regardless of the pattern of payments.

10.2.4 Employee Benefits

Benefits Payable During Employment

Wages and salaries, paid annual leave and paid sick leave are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of the holiday entitlements or for any form of leave, e.g. time off in lieu, which employees have earned during the year but are able to carry forward into the next financial year.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept voluntary redundancy. They are charged on an accruals basis to the Corporate Items line in the CIES when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or are making an offer to encourage voluntary redundancy.

NHS Pension Scheme

Pension costs relating to the NHS Pension Scheme have been treated as defined contribution schemes and the costs are charged to Adults and Health in the CIES.

Teachers Pension Scheme

Pension costs relating to Teachers' Pension Scheme have been treated as defined contribution schemes and the costs are charged to Education, Employment and Skills in the CIES.

Defined Benefit Schemes (Local Government Pension Scheme)

Within the CIES, service revenue accounts have been charged with their current service cost, which represents the extent to which the pension liability has increased as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

10.2.5 Charges to Service Revenue Accounts for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

10.2.6 Financing and Investment

The financing an investment line of the CIES is charged or credited for the following amounts relating to investments:

- Gain or loss on the difference between net sale proceeds and carrying value of investment properties.
- Rental income from investment properties
- Gains and losses on the repurchase or early settlement of borrowing.
- Interest costs and expected return on Defined Benefit pension schemes.

10.2.7 Other Operating Expenditure

Other operating expenditure includes charges for:

- The proportion of receipts relating to HRA disposals payable to the Government

- Gains or losses on sale and derecognition of non-current assets (excluding investment properties)
- Actuarial gains or losses and return on plan assets of Defined Benefit Pension Schemes, which are charged to the Pension Reserve

10.2.8 Overheads and Support Services

Overheads and support services are charged to service revenue accounts, trading undertakings and other support services in accordance with the Service Reporting Code of Practice. The basis for apportionment is generally time spent by colleagues on relevant tasks although other bases are used where more appropriate.

10.2.9 Carbon Reduction Commitment Scheme

As energy is used and carbon dioxide is emitted, an expense is charged to services in the CIES based on the current market price of allowances, together with a corresponding liability being created on the Balance Sheet. The expense is apportioned to services on the basis of energy consumption. The liability is subsequently discharged when the allowances are purchased retrospectively.

10.2.10 Landfill Allowance Schemes

When landfill is used an expense is charged to the CIES. This expense is matched by treating the use of landfill allowances allocated by DEFRA as government grants. Landfill used in excess of the allowances will appear as an expense in the form of allowances purchased from other Waste Disposal Authorities or a cash penalty paid to DEFRA.

Any residual allowances are measured at the lower of cost or net realisable value. However, due to the significant level of surplus landfill allowances available and trading being minimal, any surplus landfill allowances are judged to have no value.

10.2.11 Council Tax and Non Domestic Rates (NDR)

As a billing authority the Council acts as agent, collecting council tax and NDR on behalf of the major preceptors and central government and, as principal, collecting rates for themselves. The Council maintains a separate Collection Fund that shows the transactions in relation to the collection from taxpayers and distribution to preceptors, the Council and the Government of council tax and NDR. The Council's share of the council tax and NDR is credited to the CIES. The transactions presented in the Collection Fund statement are limited to the cash flows permitted by statute for the financial year, whereas the Council will recognise income on a full accrual basis.

There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting council tax and NDR belong to the bodies (ie preceptors, the Council and the Government) on behalf of which the Council collects these taxes.

10.2.12 Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

10.2.13 Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the cost of the relevant service, however, details of all exceptional items are given in the Narrative Report.

10.2.14 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

10.3 Policies primarily affecting the Balance Sheet

10.3.1 Property, Plant and Equipment (PPE), Heritage Assets and Intangible Assets

PPE - Recognition

General

All expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be reliably measured. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

Surplus Assets

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as PPE ‘Surplus’, pending a decision on the future use of the asset.

Private Finance Initiative (PFI) and Similar Contracts

In accordance with the code, the Council accounts for its PFI contracts in accordance with IFRC 12 Service Concession Agreements. The Council is deemed to control the services that are provided under its PFI schemes and ownership will pass to the Council at the end of the contracts for no additional charge (with the exception of LIFT Joint Service Centres for which there is an option to purchase). Therefore, the Council carries the assets used under the contracts, on its Balance Sheet as PPE, where they are accounted for in the same way as the other assets. The original recognition of assets is at current value with a corresponding liability for the amounts due to the scheme operator.

The amounts payable to the PFI operators is comprised of 5 elements. The Current Value of Services received during the year, Finance Cost, Contingent Rent, and Lifecycle replacement costs are posted to the CIES. The final element is a payment towards the outstanding liability on the balance sheet.

Finance Leases - General

Leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the PPE transfer from the lessor to the lessee. All other leases are classified as operating leases.

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

Finance Leases – where the Council is Lessee

The asset is matched by a liability for the obligation to pay the lessor. Any initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the PPE – applied to write down the lease liability and
- A finance charge which is debited to the Financing and Investment Income and Expenditure line in the CIES.

Finance Leases – the Council as Lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the carrying amount of the asset is written off and a long term debtor raised in the Balance Sheet.

Lease rentals receivable are apportioned between the principal repayment which reduces the debtor balance and interest which is credited to the Financing and Investment Income and Expenditure line in the CIES.

Heritage Assets

Acquisitions are either purchased by the City Council or donated by a third party. Purchases are initially recorded at cost while donations are held at nil value until the assets related collection is externally valued within the heritage asset valuation cycle.

Items are omitted from the Balance Sheet where the Council is unable to obtain the valuations at a cost which is commensurate with the benefits it would provide to users of the financial statements.

Intangible Assets

Intangible assets where the Council has control of the asset through either custody or legal protection for e.g. software licences are capitalised at cost.

Measurement

Assets are initially measured at cost, i.e. purchase price plus any costs incurred in bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

- Community and Infrastructure assets for example parks and land used for cemeteries and crematoria are generally valued at depreciated historical cost.
- Council dwellings are valued at Existing Use Value for Social Housing as defined in the Royal Institute of Chartered Surveyors valuation manual. The valuation exercise was carried out in accordance with guidance issued by the Department for Communities and Local Government in 2009/10 based on a desktop valuation of beacon properties by Chartered Surveyors Herbert Button & Partners and Freeman and Mitchell.
- Other land and buildings are valued at current value, the amount that would be paid for the asset in its existing use. Where insufficient market based evidence of

current value is available because an asset is specialised in nature, Depreciated Replacement Cost has been applied.

- Finance leases are recognised at present value of the minimum lease payments.
- Heritage assets are reported in the Balance Sheet at market value and have been valued by an external valuer, the valuation dates range from 2001 to 2008. These external valuations have been carried out by a variety of qualified experts in the relevant field. These external valuations are adjusted annually by the Council to provide an internal valuation which is used until the collection is periodically externally revalued.
- All other assets are valued at current value.

Assets included in the Balance Sheet at current value are revalued, as a minimum, every 5 years. However, if there is evidence that there have been material changes in the value a further valuation will be undertaken.

Increases in valuations are credited to services within the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset. Any gains in excess of previous revaluation losses are matched by credits to the Revaluation Reserve.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of the CIES.

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

De Minimis Levels

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet.

Description	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Impairment

Asset values are assessed at the end of each financial year for evidence of reductions in value. If identified either as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service line of the CIES.
- For intangible assets there will be no Revaluation Reserve balance, so impairment losses are charged to the relevant service line of the CIES only.

Depreciation and Amortisation

Depreciation is provided for on all PPE assets. The annual charge to the CIES is calculated by dividing the value less any residual value of the asset by the estimated asset life. There is no depreciation on the assets in the year of acquisition, although a full year of depreciation is charged in the year of disposal. In accordance with recommended accounting practice, depreciation is not provided for in respect of freehold land, Heritage Assets, certain Community Assets and assets under construction.

Depreciation is calculated on the following bases:

- Dwellings – based upon major components current price data allocated on a straight line basis over the useful life.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life.
- Infrastructure and Community – straight-line allocation generally over 25 years.
- Finance leases - over the lease term. If the lease term is shorter than the asset's estimated useful life and ownership of the asset does not transfer to the authority at the end of the lease period.
- Intangible assets – amortised on a straight line basis over the economic life, which is generally assessed to be 5 years.

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

The Revaluation Reserve is also reduced for the depreciation relating to revaluation gains with a corresponding credit to the Capital Adjustment Account.

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. A component value must be at least 20% of the whole asset. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the parts have been grouped to determine the depreciation charge. Componentisation only applies to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010 with a de-minimis level of £3m.

Fair Value Measurement

Some non-financial and financial assets of the Council are measured at fair value at the reporting date. Fair value assumes the transaction takes place either:

- In the principal market for the asset or liability, or
- The most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Valuation techniques are used which maximise the use of observable inputs and minimise the use of unobservable inputs. After reviewing the inputs used the valuation is categorised within the following fair value hierarchy:

Level 1 – quote prices (unadjusted) in active markets for identical assets / liabilities that can be accessed at the measurement date.

Level 2 – inputs other than quoted prices within level 1, that are observable either directly or indirectly.

Level 3 – unobservable inputs

10.3.2 Investment Property

Investment properties are those used solely to earn rentals and/or for capital appreciation and does not apply to properties which are being used to deliver services for the Council.

Investment properties are measured initially at cost. They are not depreciated but are revalued annually according to market conditions.

10.3.3 Long Term Investments

Interests in Companies and Other Entities
Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

Available-for-sale Financial Assets
Available-for-sale assets are valued at fair value. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value.

10.3.4 PPE Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets held for sale are carried at the lower of carrying value and fair value less costs to sell.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

10.3.5 Inventories and Work in Progress

Stocks are largely valued at latest purchase price and any difference between this and actual cost is not considered to be material. Other less significant stocks are valued at average or actual cost.

10.3.6 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet initially at fair value and carried at their amortised cost. Interest payable is charged to the Financing and Investment Income and Expenditure line of the CIES. The amount shown in the Balance Sheet is the carrying amount of the loan at 31st March.

10.3.7 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet, initially at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

10.3.8 Provisions

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, 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, for example from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provisions are also set up for bad and doubtful debts, but are offset against the debtor balance on the balance sheet, rather than being included in the provisions figure.

10.3.9 Contingent Liabilities

Where a potential provision cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is instead disclosed in the notes as a contingent liability. A contingent liability also occurs where a liability may arise but is dependent upon the outcome of future events before it can be confirmed.

10.3.10 Contingent Assets

A contingent asset occurs where a possible asset may arise but is dependent upon the outcome of future events before it can be confirmed Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

10.3.11 Defined Benefit Schemes (Local Government Pension Scheme)

For defined benefit schemes, pension fund assets are accounted for at fair value as follows:

- Quoted and unitised securities - current bid price
- Unquoted securities - professional estimate
- Property - market value.

Pension liabilities are measured on an actuarial basis, using an assessment of the future payments that will be made for retirement benefits earned to date by employees. This assessment includes assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted at the Balance Sheet date using a discount rate that takes into account the duration of the employer's liabilities and the requirements of IAS19.

The discount rate chosen is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond yield curve.

10.3.12 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Council.

10.4 Policies Affecting the Cash Flow Statement

10.4.1 Cash and Cash Equivalents

The Council's Cash Flow Statement reflects the movements in cash and cash equivalents during the year and is shown net of bank overdrafts that are repayable on demand. Cash is represented by cash in hand and deposits with the Council's own bank. Cash equivalents are deposits with financial institutions repayable without penalty on notice of not more than 24 hours. This includes Council deposits in other UK bank call accounts and Money Market Funds.

10.5 Policies used to account on a Funding Basis

In a number of areas statutory provisions require the Council to account for transactions relating to the General Fund (and subsequently the amount to be raised from Council Tax) differently from the treatment required by IFRS. In each case the adjustment required is offset by a transfer to a specific reserve. The adjustments are shown within the MIRS as adjustments between accounting basis and funding basis under regulations.

10.5.1 Depreciation, amortisation, revaluation gains and losses and impairment

Instead of these charges the Council is required to make an annual provision from revenue to contribute towards the reduction in its borrowing requirement (at least 4% of the adjusted Capital Financing Requirement, excluding amounts attributable to HRA). The difference between the two transactions is adjusted with the Capital Adjustment Account.

For the HRA, depreciation is replaced by a contribution to the Major Repairs Reserve.

10.5.2 Gains and Losses on Sale of Assets

Where sale proceeds are in excess of £10k, the gain or loss on sale or disposal (including finance leases) is removed from the CIES and adjusted with the Usable Capital Receipts Reserve (sale proceeds) and the Capital Adjustment Account (carrying value in the Balance Sheet).

A proportion of receipts relating to HRA disposals is payable to the Government and a corresponding sum is therefore transferred back from the Capital Receipts Reserve to the General Fund.

10.5.3 Capital grants

Capital Grants are reversed out of the General Fund to the Capital Grants Unapplied Account. When the grant is applied to fund capital expenditure, it is posted to the Capital Adjustment Account.

10.5.4 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Certain items of expenditure and related grant funding charged to the CIES under IFRS may be treated as capital for funding purposes. A transfer is made between the General Fund and the Capital Adjustment Account reserve for these items.

10.5.5 Employee Benefits

Accruals made for holiday entitlements or leave are reversed out of the General Fund to the Accumulated Absences Account.

10.5.6 Termination Benefits - Pension Enhancements

Pension costs calculated according to IAS 19 are replaced by the actual pension payment for the year. The difference between the two transactions is transferred between the General Fund and the Pensions Reserve.

10.5.7 Financial Liabilities

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund to be spread over future years. The gain or loss is spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The difference between the two approaches is transferred between the General Fund and the Financial Instruments Adjustment Account.

10.5.8 Loans and Receivables

Statutory provisions allow the General Fund to be charged with the actual interest receivable for the financial year. The adjustment to the CIES for soft loans is therefore removed and adjusted with the Financial Instruments Adjustment Account.

10.5.9 Use of Reserves

The Council may make a charge against the General Fund to set aside specific amounts as reserves for future policy purposes or to cover contingencies. The Council may then also choose to use these reserves to reduce the impact on the General Fund when the expenditure is incurred.

10.6 Accounting Policies not relevant or not material

The accounting policies are reviewed each year to assess whether it is appropriate for individual policies to be included. There are a number of accounting policies that have not been included above, because the statements are not materially affected by their implementation. These policies include:

- Use of capital receipts to fund disposal proceeds
- Intangible Assets – Recognition of website development and other internally generated assets

- Derecognition or impairment of available for sale financial assets, loans and receivables
- Valuation of available for sale financial assets other than at quoted market price
- Restructuring of loan portfolios and treatment of bonds
- Treatment of soft loans
- Changes to accounting policies
- Community Infrastructure Levy
- Subsequent revaluation of assets held for sale
- Jointly controlled assets
- Provision for backpay arising from unequal pay claims
- Treatment of foreign currency translations
- Acquired operations
- Discontinued operations

Section 11 (Appendix C)
PENSION SCHEMES

11.1 Defined Benefit Pension Schemes accounted for as Defined Contribution Schemes

11.1.1 Teachers' Pension Scheme

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

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 7,000 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17, the Council paid £3.741m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2015/16 were £4.053m and 14.1% for April to August and 16.4% from September. The employer contribution rate for 2017/18 will be 16.48% (which includes a levy of 0.08% for administration).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Scheme. These costs are accounted for on a defined benefit basis and shown under past service costs/gains in section 11.2.1 below.

The Council is not liable to the scheme for any other entities obligations under the plan.

11.1.2 NHS Pension Scheme

Public Health employees who transferred into the Council from Nottingham City PCT on 01.04.13 are members of the NHS Pension Scheme. The NHS Pension Scheme is administered by NHS Business Services Authority.

On 1 April 2015 a new NHS Pension Scheme was introduced. The new scheme covers all former members of the 1995/2008 Scheme not eligible to continue in that Scheme as well as new NHS employees on or after 1 April 2015. The 2015 Scheme is a Career Average Revalued Earnings Scheme, with benefits based on a proportion of pensionable earnings each year during your career.

The Scheme is an unfunded defined benefit occupational Scheme with the benefits underwritten by the Government. The Scheme is not designed to be run in a way that would enable NHS bodies / local authorities to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the Council is taken as equal to the contributions payable to the scheme for the accounting period.

The scheme receives contributions from employers and employees to defray the costs of pensions and other benefits. The costs of the scheme are determined by the Government and also the Scheme actuary who performs periodic valuations of the Scheme to determine how much needs to be paid in to provide the benefits paid out. These costs are shared between the NHS employers and the Scheme members.

Following the full actuarial review by the Government Actuary undertaken as at 31 March 2012 the valuation report recommended that employer contributions should be at a rate of 14.3% of pensionable pay for both the 1995/2008 Scheme and the 2015 Scheme. The employee contributions are on a tiered scale from 5.0% to 14.5% of their pensionable pay. On advice from the Scheme actuary, Scheme contributions may be varied from time to time to reflect changes in the Schemes liabilities.

In 2016/17 the Council’s contribution to the Scheme was £0.115m, representing 14.3% of pensionable pay (£0.804m). The Councils expected contributions to the Scheme for 2017/18 are 14.38% (which includes a levy of 0.08% for administration) of member’s pensionable pay.

If the Scheme operates with a surplus of cash outflow, due to income exceeding the payments made, the surplus is returned to HM Treasury during the following financial year. If payments exceed income within a financial year, or the scheme requires funds to maintain a level of cash flow to make payments the balance of the funding required is requested from parliament through the annual Supply Estimates process.

As the Scheme is unfunded liabilities are underwritten by the Exchequer.

The latest assessment of the Scheme is contained within the published annual NHS Pension Scheme (England and Wales) Resource Account which can be viewed on the NHS Pension website.

11.2 Defined Benefit Pension Scheme

11.2.1 Local Government Pension Scheme

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013, and currently provides benefits based on career average revalued earnings.

The administering authority for the Fund is Nottinghamshire County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund’s professional advisers.

As administering authority to the Fund, Nottinghamshire County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. These should be amended when appropriate based on the Fund’s performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On an Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

Investment risk: The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

Interest rate risk: The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

Inflation risk: All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

Longevity risk: In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Nottinghamshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Assets and Liabilities in Relation to Post-employment Benefits

The projected pension expenses for the year to 31 March 2018 are as follows:

	LGPS	Teachers Benefits
	31 March 2018	
	£m	£m
Service cost	52.348	-
Net interest on the defined liability (asset)	21.729	0.825
Administration expenses	0.378	-
TOTAL	**74.455**	**0.825**
Employer Contributions	30.486	-

Actuarial Methods and Assumptions

Both the Local Government Pension Scheme and Teachers Benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries, with estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016 and using financial assumptions that comply with IAS19.

Valuation Data - Data Sources

In completing the calculations for accounting purposes the actuary have used the following items of data, which they received from Nottinghamshire County Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2017;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016 and 31 December 2016, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2017;
- Estimated Fund income and expenditure in respect of the employer for the period to 31 March 2017;
- Details of any new early retirements for the period to 31 March 2017 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of the data items have been estimated, they are not likely to have a material effect on the results. The actuary is not aware of any material changes or events since the received the data.

Employer Membership Statistics

The table below summarises the membership data, as at 31 March 2016 for members receiving funded benefits. A number of estimates were made for missing payroll information at the actuarial valuation. The unfunded benefits data is at 31 March 2016.

	Local Government Pension Scheme		
	Number	Salaries / Pensions £m	Average Age
Actives	8,247	160.454	45
Deferred Pensioners	12,258	15.094	46
Pensioners	6,545	29.722	70
Unfunded Pensioners	851	0.702	79

The Council also has a share of the responsibility for some of the historic Nottinghamshire County Council liabilities accrued prior to the reorganisation of local government 1 April 1998, and a responsibility for the liabilities of Nottingham City Transport accrued prior to 26 October 1986. The data underlying the pre-1998 Nottinghamshire County Council and Nottingham City Transport LGPS liabilities is as follows:

	Local Government Pension Scheme Number	Salaries / Pensions £m	Average Age
Pre-1998 Nottinghamshire County Council:			
Deferred pensioners	3,628	2.171	54
Pensioners	5,683	19.545	77
Unfunded Pensioners	1,453	1.499	82
Nottingham City Transport:			
Actives	68	1.654	59
Deferred pensioners	48	0.177	57
Pensioners	815	5.045	72

The service cost for the year ending 31 March 2017 is calculated using an estimate of the average total pensionable payroll during the year of £134.894m. The projected service cost for the year ending 31 March 2018 has been calculated assuming the payroll remains at this level over the year.

There were 45 new early LGPS retirements in respect of the year ending 31 March 2017. The total annual pension that came into payment was £0.391m.

Scheduled Contributions

The table below summarises the minimum employer contributions due from the Council to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 13.7% of payroll p.a.

	Minimum employer contributions due for the period beginning 1 Apr 2017	1 Apr 2018 £m	1 Apr 2019
Percent of Payroll	13.7%	13.7%	13.7%
plus monetary amounts	12.009	12.296	12.590

However, the Council have agreed with the administering authority that they will prepay their monetary contributions for the three years to 31 March 2020 by making lump sum payments of £11.695m, £11.975m and £12.262m by 30 April 2017, 30 April 2018 and 30 April 2019 respectively. These lump sum payments have received an actuarially equivalent discount to the monetary rates above and the Council have been notified separately of these amounts. If the Council don't make these lump sum payments by 30 April each year, the contribution rates set out above will apply as normal.

The Council may pay further amounts at any time and future periodic contributions, or the timing of contributions may be adjusted on a basis approved by the actuary.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2017 is estimated to be 23%.

The LGPS estimated asset allocation for the Council as at 31 March 2017 is as follows:

	Local Government Pension Scheme			
	31 March 2016		31 March 2017	
	£m	%	£m	%
Equities	614.504	70%	743.505	70%
Gilts	27.468	3%	32.498	3%
Other Bonds	60.369	7%	64.136	6%
Property	111.487	13%	118.195	11%
Cash	35.788	4%	53.482	5%
Inflation-linked pooled fund	24.846	3%	26.538	2%
Infrastructure	8.187	1%	24.703	2%
TOTAL	**882.649**	**100%**	**1,063.057**	**100%**

The bid values have been estimated where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 March 2017 is likely to be different from that shown due to estimation techniques.

Based on the above, the Council's share of the assets of the Fund is approximately 22%.

Of the Equities allocation above, 44% are UK investments and 56% are overseas investments.

All of the Gilts allocation above is UK fixed interest Gilts.

Of the Other Bonds allocation above, 95% are UK corporates and 5% are overseas corporates.

The Teachers Benefits arrangements have no assets to cover its liabilities.

Valuation Approach

To assess the value of the Council's liabilities at 31 March 2017, the value of the Council's liabilities calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2017 without completing a full valuation. However, the actuary is satisfied that the approach of rolling forward the previous valuation data to 31 March 2017 should not introduce any material distortions in the results provided that the actual experience of the Council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. The actuary has confirmed that there appears to be no evidence that this approach is inappropriate.

The asset share has been calculated by rolling forward the assets allocated to the Council at 31 March 2016 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from the fund by and in respect of the Council and its employees.

Valuation Method

As required under IAS19, the projected unit method of valuation has been used to calculate the service cost.

Assumptions

Assumed life expectations and financial assumptions used for the purpose of IAS19 calculations are shown in the table below:

	Local Government Pension Scheme		Teachers Benefits	
	2015/16	2016/17	2015/16	2016/17
Mortality Assumptions (Years):				
Longevity at 65 retiring today:				
Males	22.1	22.5	22.1	22.5
Females	25.3	25.5	25.3	25.5
Longevity at 65 retiring in 20 years:				
Males	24.4	24.7	24.4	24.7
Females	27.7	27.8	27.7	27.8
Financial Assumptions:				
RPI increase	3.2%	3.6%	2.4%	3.2%
CPI increase	2.3%	2.7%	1.5%	2.3%
Rate of increase in salaries	4.1%	4.2%	n/a	n/a
Rate of increase in pensions	2.3%	2.7%	1.5%	2.3%
Rate for discounting scheme liabilities	3.6%	2.7%	2.3%	2.1%
Estimate in years of duration of liabilities	18	19	8	11

The financial assumptions are set with reference to market conditions at 31 March 2017.

The following assumptions have also been made:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Past Service Costs/Gains

Past service costs or gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost. No additional benefits were granted in year.

Curtailments

The cost of curtailments is calculated as a result of the payment of unreduced pensions on early retirement. Over the year, 45 former Council employees became entitled to unreduced early retirement benefits under the LGPS (43 due to redundancy, 2 due to voluntary redundancy / other grounds). The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £1.950m. This has been included within the service cost.

No employees in the Teachers Scheme were permitted by the Council to take unreduced early retirement that they would not otherwise have been entitled to.

Settlements

As a result of some internal transfers to other employers over the year, liabilities have been settled at a cost different to the accounting reserve. The capitalised gain of this settlement is £2.036m.

Demographics

The demographics used by the actuary are consistent with those used for the most recent fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

Sensitivity Analysis

The sensitivity analysis below focuses on four assumptions – discount rate, salary increases, inflation (which is used to determine pension increases and deferred revaluation) and mortality.

	Local Government Pension Scheme			Teachers Benefits		
	£m	£m	£m	£m	£m	£m
Adjustment to discount rate:	+0.1%	0.0%	-0.1%	+0.1%	0.0%	-0.1%
Present value of total obligation	1,848.768	1,883.534	1,918.990	39.903	40.347	40.797
Projected service cost	51.069	52.348	53.661	-	-	-
Adjustment to long term salary increase:	+0.1%	0.0%	-0.1%	-	-	-
Present value of total obligation	1,887.857	1,883.534	1,879.248	-	-	-
Projected service cost	52.348	52.348	52.348	-	-	-
Adjustment to pension increases and deferred revaluation:	+0.1%	0.0%	-0.1%	+0.1%	0.0%	-0.1%
Present value of total obligation	1,914.632	1,883.534	1,853.021	40.795	40.347	39.903
Projected service cost	53.659	52.348	51.067	-	-	-
Adjustment to life expectancy assumptions:	+1 Year	None	-1 Year	+1 Year	None	-1 Year
Present value of total obligation	1,954.721	1,883.534	1,815.022	42.204	40.347	38.572
Projected service cost	54.018	52.348	50.730	-	-	-

Section 12
ABBREVIATIONS/GLOSSARY

12.1 Abbreviations

BID	-	Business Improvement District
BSF	-	Building Schools for the Future
CIES	-	Comprehensive Income and Expenditure Statement
CFR	-	Capital Financing Requirement
CRCs	-	Carbon Reduction Credits
DSG	-	Dedicated Schools Grant
EFA	-	Expenditure and Funding Analysis
EMSS	-	East Midlands Shared Services
HRA	-	Housing Revenue Account
IBNR	-	Incurred but not yet Reported
IAS	-	International Accounting Standard
ICES	-	Integrated Community Equipment Services
IFRS	-	International Financial Reporting Standards
ISB	-	Individual Schools Budget
LGPS	-	Local Government Pension Scheme
LIFT	-	Local Improvement Finance Trust
LCC	-	Leicestershire County Council
MIRS	-	Movement in Reserves Statement
MTFO	-	Medium Term Financial Outlook
MTFP	-	Medium Term Financial Plan
NCC	-	Nottingham City Council
NET	-	Nottingham Express Transit
NNDR	-	National Non-Domestic Rates
PFI	-	Private Finance Initiative
PPE	-	Property Plant and Equipment
PWLB	-	Public Works Loan Board
REFCUS	-	Revenue Expenditure Financed from Capital under Statute
RSG	-	Revenue Support Grant

12.2 Glossary of Financial Terms

Items in **bold** are described further within the glossary.

Accounting Period
The period of time covered by the Council's accounts. Normally twelve months, beginning on 1 April. Also known as the Financial Year.

Accounting Policies
The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, measuring and presenting **assets**, **liabilities**, gains, losses and changes to **reserves**.

Accrual
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Accruals are made for **revenue** and **capital expenditure** and income (see **debtors** and **creditors**).

Actuarial gains and losses
The changes in the net pension's **liability** that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions.

Agency Services
Services that are performed by or for another Council or public body, where the Council responsible for the service reimburses the Council carrying out the work for the cost of that work.

Amortisation
The writing down of an **intangible asset** reflecting its diminution in value as its useful life expires over time.

Assets
Items having measurable value in monetary terms. Assets can be defined as fixed or current. A fixed asset has use and value for more than one year e.g. land, buildings, plant, vehicles and equipment. Current assets can be readily converted into cash.

Audit Commission
Independent body with the responsibility of appointing **external auditors** to local authorities.

Bad (and doubtful) Debts
Debts which may be uneconomical to collect or unrecoverable.

Balance Sheet
A statement of recorded **assets** and **liabilities,** and other balances at the end of an **accounting period**.

Business Rates – see **Non-Domestic Rates**

Capital Adjustment Account
This account contains the balances previously held on the Capital Financing Account, the Fixed Asset Restatement Account and the Government Grants Deferred Account. The movements in year relate to the amount of capital expenditure financed from revenue, grants and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

Capital Expenditure
Expenditure on an acquisition or enhancement of fixed **assets**. Enhancement would include increases in value, lengthening the life of the **asset** or increasing the usage of the **asset**.

Capital Financing Requirement
An amount calculated from the value of Fixed Assets less the balances on Capital Adjustment Account and Fixed Asset Restatement Account. The sum represents the “underlying” need to borrow of the Council. The Council is required to make an annual provision from revenue resources to meet its debt repayment obligations. This is known as the Minimum Revenue Provision

Capital Receipt
Money received from the disposal of land and other **assets**, and from the repayment of capital grants and loans made by the Council.

Cash and Cash Equivalents
Cash in hand, cash overdrawn and short term investments that are readily convertible into known amounts of cash

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is the leading professional accountancy body for public services. It draws up the Accounting Code of Practices and issues professional guidance that is used to compile these accounts. CIPFA advises central government and other bodies on local government and public sector finance matters.

Code of Practice on Local Authority Accounting (UK)
Publication produced by **CIPFA** that provides detailed guidance on the proper accounting treatment to be used in the preparation of local authority statement of accounts.

Collection Fund
A separate fund recording the expenditure and income relating to **Council Tax**, **National Non-Domestic Rates** (collected on behalf of the Central Government) and residual community charge.

Community Assets
Assets that a local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions in their disposal. Examples are parks and historical buildings.

Consolidated
Added together with adjustments to avoid double counting of income, expenditure or to avoid exaggeration e.g. debtors.

Contingency
A sum included in the revenue budget to cover unexpected expenditure during the **accounting period**. An example of such an event would be an exceptional price increase not anticipated at the time the budget was constructed.

Contingent Liabilities
A contingent liability is defined as either a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control or a present obligation that arises from past events but is not recognised because either it is not probable that a transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent Rents
The portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time. (E.g. percentage of future sales, amount of future use, future price indices and future market rates of interest.)

Corporate and Democratic Core
Defined elements of support service costs which are not chargeable to services, sub-divided into Democratic Representation and Corporate Management.

Council Tax
A local tax set by local authorities in order to meet their budget requirements. There are eight Council Tax bands (Band A to Band H); the amount of Council Tax each household pays depends on the value of the home.

Council Tax Benefit
Assistance provided by billing authorities to adults on low income, with the objective of helping them to pay their **Council Tax** bills.

Council Tax Discounts and Exemptions
Discounts are available to people who live alone and for homes that are not anyone's main home. **Council Tax** is not charged for certain properties, known as exempt properties, like those only lived in by students.

Creditors
Amounts owed by an authority for works done, goods received or services rendered before the end of an **accounting period**, but for which actual payments had not been made by the end of that accounting period.

Current Service Cost
The increase in present value of a defined benefit pension scheme's **liabilities** expected to arise from employee service in the current financial year.

Current Value
The current value of an **asset** is a measurement of the assets service potential and can be measured at:

- Existing Use Value – where an active market exists,
- Existing Use Value Social Housing – for council dwellings, or
- Depreciated Replacement Cost– for assets where there is no market and / or the assets are specialised.

Debtors
Amounts due to an authority for works done, goods supplied or service rendered before the end of an **accounting period**, but for which actual payments had not been received by the end of that accounting period.

Dedicated Schools Grant
A **specific grant** paid to Local Authorities to fund the cost of running its schools.

Defined Benefit Pension Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Depreciation
The theoretical loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

External Audit
The auditor is appointed by Public Sector Audit Appointments Ltd and is required to verify that all statutory and regulatory requirements have been met during the production of the Council's accounts. There is also a requirement to review the arrangements in place to ensure the economic and effective use of resources.

Fair Value
The fair value of an **asset** is the price at which assets or liability could be exchanged in an orderly transaction between market participants at the measurement date under current market conditions.

Finance Lease
A lease, which transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance. Asset held under Finance Leases are recognised on the Balance Sheet as Assets.

Financial Instrument
Any contract giving rise to a financial **asset** in one entity and a financial **liability** or equity instrument in another. Examples include the treasury management activity of the Council, including the borrowing and lending of money and the making of investments.

Fixed Assets
Tangible assets which have value to the Council for more than one year.

Funding Basis
The accounting basis that local authorities are required by statute to follow when setting their Council Tax. This is different to the IFRS basis, which is used to produce the Statement of Accounts.

General Fund
The common name for the account which accumulates balances for all services except the **Housing Revenue Account** and the **Collection Fund**.

Group Financial Statements
Where a Council has an interest in another organisation (e.g. a **subsidiary** organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.

Historical Cost
This represents the original cost of acquisition, construction or purchase of a fixed **asset.**

Housing Benefit
Assistance provided by billing authorities to adults on low income, with the objective of helping them to pay their rent. Parts of the cost, including those associated with the running expenses of the scheme, are refunded directly by the Government.

Housing Revenue Account (HRA)
Sets out the expenditure and income arising from the provision of social housing by the local authority as landlord.

Impairment
A reduction in the value of a fixed **asset,** resulting from financial loss, damage or obsolescence. In order to comply with accounting standards, the Council undertakes annual reviews of its assets to identify any that are impaired.

Infrastructure Assets
Assets held by local authorities which do not normally have a resale value and for which a useful life span cannot easily be assessed. Examples include highways, bridges and drainage facilities.

Intangible Assets
Assets that do not have physical substance but are identifiable and controlled by the Council through custom or legal rights.

International Financial Reporting Standards
International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). Many of the standards forming part of the IFRS were previously known as International Accounting Standards.

Investment Properties
An interest in land and/or buildings which is held for its investment potential.

Joint Ventures
An organisation in which the Council is involved where decisions require the consent of all participants.

Liability
Amounts due to individuals or organisations that will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

Medium Term Financial Plan (MTFP)
A plan detailing projected expenditure and available resources over a period of more than one year. The Council's MTFP currently covers three years.

Minimum Revenue Provision
The minimum amount that the Council must charge to the income and expenditure account to provide for the repayment of debt.

National Non-Domestic Rates
The means by which local businesses contribute to the cost of providing local authority services. All Non-Domestic Rates are paid into a central pool and then divided between all authorities depending on the number of residents each authority has.

Net Revenue Expenditure
This represents the Council's budget requirement and use of **reserves**.

Non-Cancellable Lease
A lease that is cancellable only:
- Upon the occurrence of some remote contingency.
- With the permission on the lessor.
- If the lessee enters into a new lease for the same or an equivalent asset with the same lessor
- Upon payment by the lessee of such an additional amount that, at the inception of the lease, continuation of the lease is reasonably certain.

Non-operational Assets
Assets held by the Council but not actually used in the direct delivery of services, including surplus assets, industrial units and assets used by other organisations in order to provide services on the Council's behalf. See **Operational Assets**.

Operating Leases
A lease where substantially all of the risks and rewards of ownership of a fixed **asset** are retained by the lessor. Operating leases do not result in a charge against the local authority's capital resources.

Operational Assets
Assets held by the Council for the purpose of the direct delivery of services for which the Council has either a statutory or discretionary responsibility. See **Non-operational Assets**.

Outturn
Actual income and expenditure in an **accounting period**.

Past Service Cost
The increase in **liabilities** arising from current year decisions whose effect relates to years of service earned in earlier years.

PFI Credits
The financial support provided to Local Authorities to part fund **Private Finance Initiative** capital projects.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept
The amount of **Council Tax** income County Councils, Police authorities, Parish Councils and Fire authorities (precepting authorities) need to provide their services.

Prior Year Adjustments
These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Private Finance Initiative (PFI)
A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standards of performance.

Provision
An amount set aside to cover a **liability** that will almost certainly occur, but where the amounts or dates on which the cost will arise are uncertain.

Prudential Code
The Prudential Code ensures, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable.

Public Sector Audit Appointments (PSAA) Ltd
PSAA was incorporated by the Local Government Association (LGA) in August 2014. The Secretary of State for Communities and Local Government has delegated statutory functions on a transitional basis from the Audit Commission Act 1998 to PSAA. Under these transitional arrangements, PSAA is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims. Before 1 April 2015, these responsibilities were discharged by the Audit Commission. The Secretary of State has specified PSAA as an appointing person under provisions of the Local Audit and Accountability Act 2014. For audits of the accounts from 2018/19, PSAA will appoint an auditor to relevant principal local government bodies that opt into its national scheme.

Public Works Loans Board (PWLB)
A Government agency which provides loans, for terms of one year and above, to local authorities. The interest rates applied are only slightly higher than those at which the Government can borrow.

Reserves
A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years. A distinction is drawn between reserves and **provisions** which are set up to meet known liabilities.

Residual Value
The net realisable value of an **asset** at the end of its useful life.

Revaluation Reserve
This represents the non-distributable increase/decrease in the valuation of fixed **assets**.

Revenue Expenditure
Expenditure on day-to-day running costs such as salaries, heating, printing and stationery and debt charges. Revenue items will either be expended immediately, like salaries, or within one year of purchase.

Revenue Expenditure Funded From Capital under Statute (REFCUS)
This is expenditure that can be deemed capital expenditure under Statute but does not result in an **asset** for the Council (e.g. Housing improvement grants). Such expenditure is written off to the Income and Expenditure Account in the year it is incurred.

Revenue Support Grant (RSG)
Government financial support to aid local authority services generally. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

Section 106 contributions
These are receipts received by the Council from developers for a specific purpose; they arise as a result of a planning agreement between the Council and developer.

Service Reporting Code of Practice
Published by **CIPFA** the Service Reporting Code of Practice establishes "proper practice" with regard to consistent financial reporting to enhance the comparability of local authority financial information and is given statutory force in England by regulations under the Local Government Act 2003.

Single Entity Financial Statements
The main financial statements for the Council as shown in section 3.

Specific Grant
Government financial support for a specific purpose or service that can not be spent on anything else.

Stocks
Comprise the following categories; goods or other **assets** purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances and finished goods.

Subsidiary and Associated Companies
An organisation in which the Council has a participating interest and over which it can exercise significant influence e.g. where the Council controls the majority of voting rights.

Trading Accounts
Services run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.

Trust Funds
Funds administered by a local authority for purposes such as charities, and specific projects and on behalf of minors.

Work in Progress

Work in progress is the value of work undertaken on an unfinished project at the end of the financial year, which has not yet been charged to the revenue account.

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My Ref: GW

Your Ref:

Contact: Geoff Walker

Email: geoff.walker@nottinghamcity.gov.uk

Nottingham City Council

Strategy and Resources
Strategic Finance
Loxley House
Station Street
Nottingham
NG2 3NG

Tel: 0115 8763740

Mr T Crawley
Director
KPMG LLP
St Nicoholas House
31 Park Row
Nottingham
NG1 6FQ

22 September 2017

Dear Sir

This representation letter is provided in connection with your audit of the financial statements of Nottingham City Council ("the Authority"), for the year ended 31 March 2017, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority and the Group as at 31 March 2017 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

These financial statements comprise the Expenditure and Funding Analysis[1], the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority and the Group as at 31 March 2017 and of the Authority's and the Group's expenditure and income for the year then ended; and

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. There is one uncorrected misstatement of £8.66m, a classification adjustment between debtors and other long term liabilities regarding the deferral of capital contributions.

Information provided

5. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority and the Group and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the Authority's and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

   In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

    Included in the Apendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority and the Group to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:
        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 22 September 2017.

Yours faithfully

Chair of the Audit Committee
Strategic Director of Finance

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KPMG

External audit report 2016/17

Nottingham City Council

–

September 2017

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Nottingham City Council ('the Authority').

This report focusses on our on-site work which was completed in June through to September 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on page 5.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We will provide a verbal update on the status of our audit at the Audit Committee meeting but would highlight that at time of writing the following work is still outstanding:

- Clarification of remaining audit queries;
- Group Accounts consolidation;
- Resolution of the impact of estimated pensions data;
- Final director review of the financial statements;
- Management representation; and
- Finalisation procedure.

Our audit of the Authority's financial statements has not identified any audit adjustments which impact on the General Fund or HRA. We have identified two audit adjustments which relate to balance sheet classification with a total value of £11.53 million. See page 12 for details.

We have agreed a small number of presentational adjustments.

Based on our work, we have raised four recommendations, none of which are considered high priority, one is rated medium priority in regards to timely removal of leavers from the Northgate system. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter in September 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, whilst noting the current pressures and need for action within 2017/18.

We therefore anticipate issuing an unqualified value for money opinion.

See further details from page 16.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit Committee to note this report.

The key contacts in relation to our audit are:

Tony Crawley
Director
KPMG LLP (UK)

+44 (0)116 256 6067
tony.crawley@kpmg.co.uk

Thomas Tandy
Manager
KPMG LLP (UK)

+44 (0)115 945 4480
thomas.tandy@kpmg.co.uk

Alastair Cowen
Assistant Manager
KPMG LLP (UK)

+44 (0)121 609 5810
alastair.cowen@kpmg.co.uk

Contents

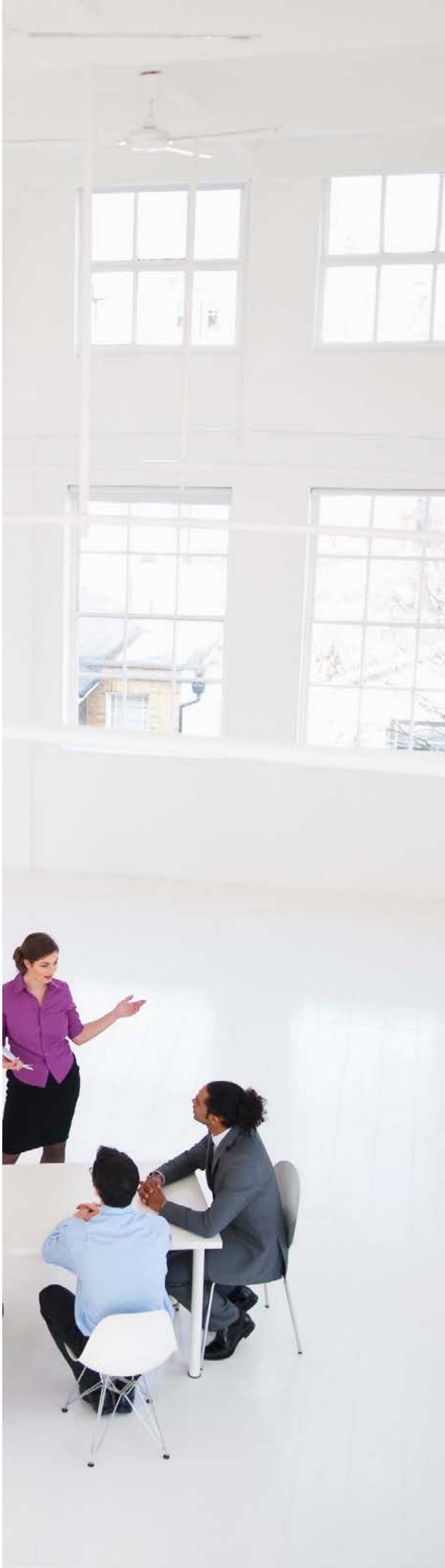
Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an overspend of £2.52m against the General Fund revenue budget.

Overall there has been a £2.41m reduction on the General Fund balance and HRA balances.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for Nottinghamshire County (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Nottinghamshire County Council, who administer the Pension Fund. **Our work to address this risk** We note that the data used by the actuary to perform their triennial revaluation required three years' worth of pensionable salary data, for 2013/14, 2014/15 and 2015/16. Whilst actual data was used for the first two years, the actuary confirmed to us that 14% of the data for this Authority for 2015/16 contained estimates for pensionable salaries, as opposed to actual salary data. This was due to system interface issue with the Authority's payroll system and the Pension Fund Administrator's database. We have needed to follow this up with the Authority's officers and the Pension Fund Actuary, and then consult with our KPMG pensions team. At time of writing we are waiting on further assurance from the Authority's actuary that the use of estimated data has not led to a material impact on the accounts. We have agreed the data provided by the Authority to the Actuary, back to relevant systems and reports and in turn agreed the total figures as per the IAS19 report received from the actuary to the accounts. Our KPMG Actuary team have reviewed the assumptions used by the Scheme Actuary to assess whether the assumptions (such as the discount rate) are appropriate. Our KPMG Actuary team have concluded that overall they consider the assumptions to be reasonable. Additionally, we have engaged with the Pension Fund auditors to gain further assurance over the pension figures. There are no issues to note.

Significant audit opinion risks	Work performed
2. Group accounts – significance of subsidiaries. ***<u>Please note we have added this risk to our audit programme after we had issued our 2016/17 Audit Plan and following the discussion at the July Audit Committee.</u>***	**Why is this a risk?** When we presented our 2016/17 audit plan to the Audit Committee we had not identified any of the Authority's subsidiaries as a 'significant component' of the group accounts. This means that we were not planning on seeking specific assurances on any of the subsidiaries from either management or their respective auditors. Our planning is an iterative process, and as a result our planned work can be updated at any stage in the audit. When we reviewed the pre-audit results for the subsidiaries, we identified that key aspects of the results for Robin Hood Energy (RHE) had increased significantly compared to the previous year (including turnover and the outturn position). We updated the Audit Committee at the July meeting that we were in the process of updating our risk assessment in terms of VFM arrangements, and the subsequent discussion at the Committee also covered the significance of RHE to the group, and the Committee's arrangements for obtaining assurance on the group as a whole (we have referred to the latter aspect in the VFM conclusion section of this report). **Our work to address this risk** We have liaised with both the Authority and RHE's management in order to gain the necessary understanding of the subsidiary and its expansion. Our revised assessment was that we classified RHE as a significant component. This means that in order to obtain the necessary assurance we have needed to liaise formally with RHE's auditors to enable us to make use of the outcome of their audit (including their opinion) for our audit opinion on the Authority's Group Accounts. We also needed further information and assurances from the Authority in its role as parent. At the time of writing this report we are yet to receive the final audited accounts for RHE and formal confirmation from RHE auditors. We are anticipating receipt of this shortly.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of audit focus

We identified three other areas of audit focus. These are not considered a significant risk as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

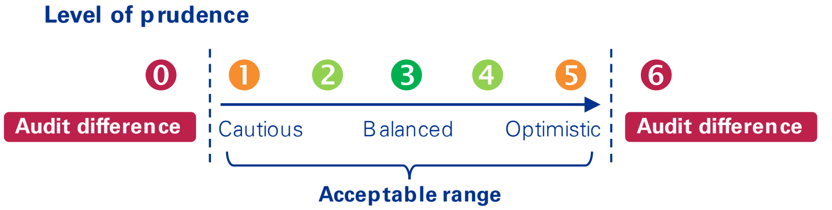
Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows: — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note. As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards. Though less likely to give rise to a material error in the financial statements, we considered this an important material disclosure change in this year's accounts that we will need to review. **What we have done** For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.

Other areas of audit focus (cont.)

Other areas of audit focus	Our work to address the areas
2. Property Plant and Equipment (PPE) Valuation	**Background** The Authority is responsible for ensuring the valuation of their PPE is correct, and for conducting impairment reviews that confirm the condition of these assets. As a result of the Authority's accounting policies, this is achieved by performing an annual review for impairment, and a rolling valuation programme. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit. Due to the inherent risk associated with the estimation of assets, we consider this to be an issue for review. **What we have done** As part of our audit we have assessed the competence, capability, objectivity and independence of: — the Authority's internal valuer responsible for revaluing Other Land and Buildings; and — the Authority's external valuers, Herbert Button & Partners and Freeman & Mitchell, who have been responsible for undertaking a desktop review in revaluing the Authority's Council Dwellings for 2016/17. We have considered the instructions sent to the valuers and have not highlighted any issues. We note that in revaluing the Authority's Council Dwellings, a vacant possession adjustment factor of 42% has been correctly used, an increase from 34% from the prior year. This has led to a significant revaluation gain recognised within the Comprehensive Income and Expenditure Statement (CIES) of £178.48 million. Given the exceptional nature of this revaluation gain, we agreed with the Authority that this should be separated out on the face of the CIES. We reviewed the revaluation basis of Other Land and Buildings and considered its appropriateness with CIPFA Code of Practice and the underlying IFRS accounting standards.
3. Group Accounts	**Background** Due to the group structure, the Authority will need to ensure its Group Accounts are complete and intra group transactions correctly identified and removed. **What we have done** We reviewed proposed consolidation procedures as part of our interim work, specifically we reviewed all entities over which the Authority has control or significant influence and assessed the Authority's subsequent consideration whether or not to consolidate each entity within the Group Accounts. During our final accounts visit, we have reviewed proposed consolidation of the entities within the Group Accounts based on draft financial statements for each. We have assessed the reasonableness of intra-group transaction adjustments within the primary statements to the group accounts. At the time of writing this report we have not been able to complete our work as we have not received confirmation of the audited accounts of all of the subsidiaries, which officers need to check to see if any changes are needed to their consolidation working papers. This is particularly important for Robin Hood Energy as it is a significant component, as set out earlier in this report.

Judgements

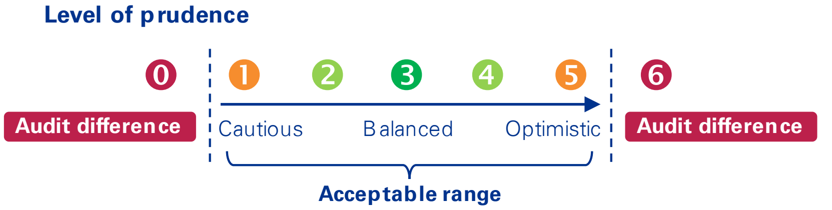
We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding NDR)	3	3	The Authority's provision balance has reduced by £2.99m from the prior year (CY £39.69m, PY £42.67m). As per last year, our review has focussed on the Authority's two key provision balances. Firstly, the provision linked to compulsory purchases associated with the NET2 Tram Scheme (£16.1m). The provision represents outstanding compulsory purchases where the final purchase price is yet to be agreed, the balance has reduced by £1.02m in year as a number of acquisition prices have been agreed. Secondly, the business rates appeals provision (£9.31m). This has reduced slightly from the prior year, as some outstanding appeals have been settled.
Property, Plant and Equipment (valuations / asset lives)	3	3	The Authority's Property, Plant and Equipment (PPE) balance has increased by £206.45m from the prior year. This increase has been primarily driven by a change in the key assumption underpinning the valuation of the Authority's Council Dwellings, the vacant possession adjustment factor. This has increased by 8% in year, driving a significant revaluation gain in the value of Council Dwellings of £178.48 million. The Authority's PPE balance includes: — **Council Dwellings (£835.96m)** – the Authority's portfolio of Council Dwellings, measured at fair value, amounts to 35% of its Property, Plant and Equipment (PPE). In 2016/17 the Authority's continued to apply the guidance on Stock Valuation for Resource Accounting. — **Other Land and Buildings (£794.29m)** - This accounts for 34% of the PPE balance, comprising primarily of operational land and buildings. We have agreed valuations in year and satisfied ourselves where valuation movements are significant. The Authority values its operational land and buildings using either Existing Use Valuation, or Depreciation Replacement Cost if the building is of a specialised nature. — **Infrastructure assets (£494.97m)** – In-line with guidance these are currently recognised at historic cost net of depreciation, and amount to 21% of PPE which we have reviewed and considered reasonable. We judge the valuations above to be balanced, based on the work we have carried out.

Judgements (cont.)

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Pensions Liability	3	3	The pension deficit within the funded LGPS has increased over the year by £211.76 million. The reported balance (£860.82 million), together with the assumptions and disclosures for inflation, discount rate, salary growth, life expectancy, etc are consistent with the report from the external actuary.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 22 September 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £13 million. Audit differences below £0.65 million are not considered significant.

We identified one non-material classification misstatement, as illustrated on the tables to the right, in regards to the classification of a debtor balance between short and long term. There is no impact on the General Fund or HRA balance. It is our understanding that this will be adjusted in the final version of the financial statements.

We also identified a further non-material misstatement in relation to the classification of an aspect of the NET 2 disclosures that arose from our work this year. Officers have decided not to adjust for this in the final version of the financial statements, but propose to revisit the issue for the purposes of the 2017/18 statements.

In addition we agreed a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). This included separating out a significant revaluation gain in regards to the Authority's Council Dwellings as an exceptional item on the face of the Comprehensive Income and Expenditure Statement. We understand that the Authority will be addressing these.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and following agreement to suggested amendment, we expect to be able to confirm that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements. We did identify one amendment which management have made.

Movements on the general fund and HRA 2016/17

£m	Pre-audit	Post-audit
Surplus on the provision of services	109.75	109.75
Adjustments between accounting basis and funding basis under Regulations	(129.61)	(129.61)
Transfers from earmarked reserves to General Fund	17.45	17.45
Decrease in General Fund and HRA	**(2.41)**	**(2.41)**

Balance sheet as at 31 March 2017

£m	Pre-audit	Post-audit	Ref[1]
Property, plant and equipment	2,360.67	2,360.67	
Other long term assets	294.27	297.13	1
Current assets	150.38	147.52	1
Current liabilities	(303.29)	(303.29)	
Long term liabilities	(1,784)	(1,784)	
Net worth	**718.03**	**718.03**	
General Fund	8.46	8.46	
Other usable reserves	214.56	214.56	
Unusable reserves	495	495	
Total reserves	**718.03**	**718.03**	

[1] See referenced adjustments in Appendix 3.

Narrative report

We have reviewed the Authority's 2016/17 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge. We consider the Authority's accounting practices to be appropriate.

Completeness of draft accounts

We received a complete set of draft accounts by 12 June 2017 and commenced our audit on the same date, this was ahead of the statutory deadline, 30 June 2017.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

The quality of working papers provided was high and met the standards specified in our Accounts Audit Protocol.

Response to audit queries

Officers dealt with our audit queries efficiently, responding within appropriate timescales. As a result of this, in the main we were able to complete our on-site work in the agreed timescales with only minor queries outstanding. The issues that have taken longer to resolve have been outside of the standard audit process related to complex accounting issues/operational matters arising from the estimated pension data, clarification of aspects of the NET2 disclosures, and the group relationships as described earlier. Our aim is that working with officers on these issues this year will also help preparations for next year's shorter timescale.

Additional findings in relation to the Authority's control environment for key financial systems

After our interim visit we reported that there were a number of year end controls that we will be testing during our year end audit. We have since completed the testing of these controls and have found no significant issues to note, we have however raised a low priority recommendation regarding the processing of starters on payroll.

We also concluded our General IT controls testing, in which three issues were identified in relation to user access reviews, recording of batch errors within an error log and timely removal of leavers from the Northgate system. We were able to mitigate the potential impact of all three issues.

Prior year recommendations

As part of our audit we specifically follow up the Authority's progress regarding the recommendation in last year's ISA 260 report. The Authority has implemented all recommendations raised in 2015-16, however there continues to be one outstanding recommendation from our 2014/15 ISA 260 report in regards to the having in place a finalised SLA agreement for payroll services with East Midlands Shared Service.

Appendix two provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottingham City Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Director of Strategic Finance for presentation to the Audit Committee.

We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

1 Identification of significant VFM risks (if any)

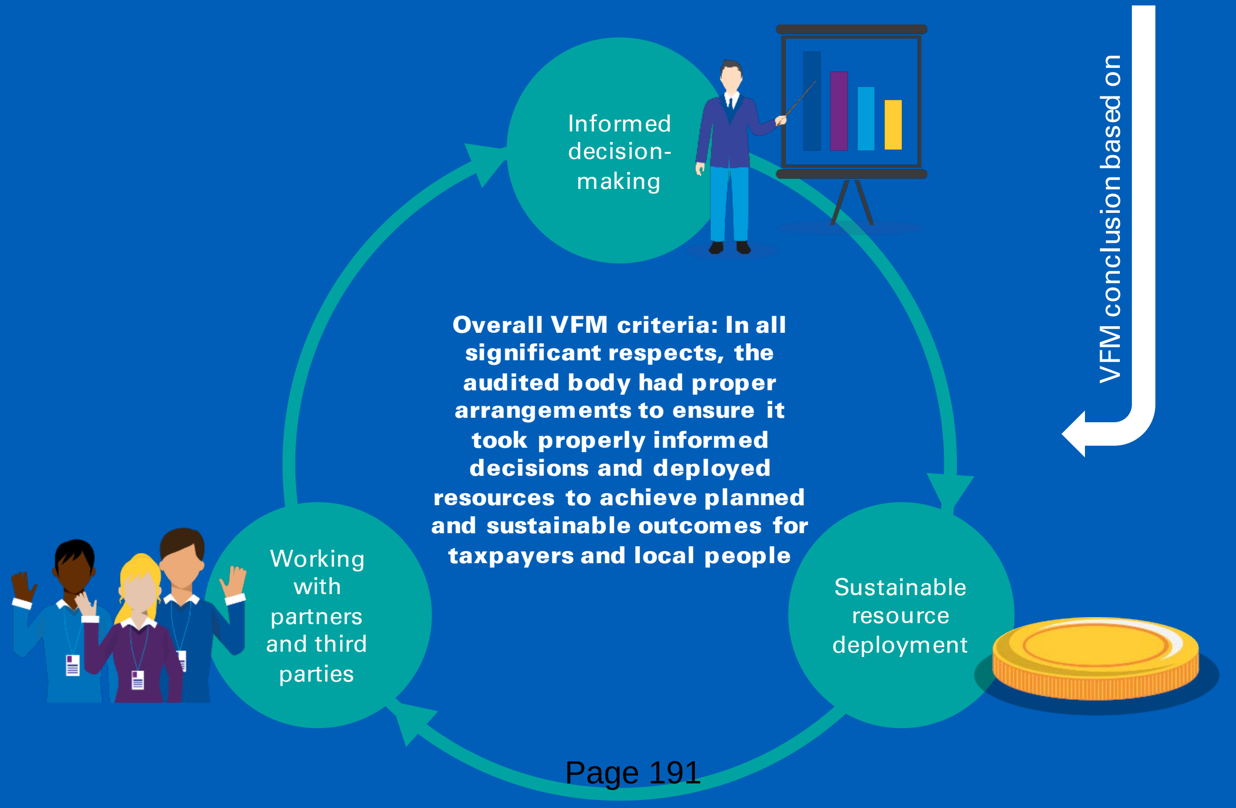
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Financial sustainability, including medium term financial planning and the delivery of savings plans.	✓	✓	✓
2. Group Governance, including Wholly Owned Trading Companies	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties, and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified one significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In this case we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

Significant VFM risks	Work performed
1. Financial resilience in the local and national economy	**Why is this a risk?** As reported in the Authority's medium term financial plan in February 2016, central government's settlement funding for the Authority has reduced by £119m since 2010/11, however further financial challenges lie ahead. On the back of the Local Government Settlement, there will be future funding impacts, for example on the New Homes Bonus. The Authority forecasts further savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources includes proposed savings of £19.8m 2016/17. Therefore we consider this as a significant risk. **Summary of our work** In line with the rest of the sector, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. In reaching our VFM conclusion we have considered the Authority's arrangements for making properly informed decisions, sustainable resource deployment and working with partners and third parties. This has included detailed reviews of key documents including the Medium Term Financial Plan, including the 2016/17 General Fund Revenue Budget and corresponding outturn report, and the Local Government Funding Settlement. We have reviewed the Authority's financial performance and position for the 2016/17 year. Although historically the Authority has a good track record of delivering its budget and savings plans, we note that for 2016/17 the Authority has recognised a net overspend of £2.52m. The net overspend is indicative of worsening financial pressures, notably in regards to demand led services, primarily stemming from adult and child care services. As part of the budget process for 2017/18, we noted that the Authority included an expected £10m of additional resource arising from the health integration process, based on the Nottingham and Nottinghamshire Sustainability and Transformation Plan (STP). We raised concerns with the Audit Committee (February meeting) and with officers in terms of reliance on this to meet the 2017/18 budget. We note that officers reported to Executive Board on 19 September that the anticipated additional resources from health integration are to be removed from the 2017/18 budget, and also from 2018/19 and 2019/20. The Authority is working to mitigate the resulting overspend. However, along with further budget pressures from Adults and Health and Early Intervention and Early Years, the result is currently a projection without further action of a likely year-end overspend of £7.8m. In coming to our assessment on the Authority's overall arrangements we have taken into account that officers are working on the options to address this projection in terms of 2017/18 actual outturn (planned outturn is a deficit of £0.858m following intended actions with the aim of breaking even) and the impact on future years. We note that the actions include non-recurrent measures that will not address the revised expectation that health integration will not provide additional resources. We will revisit the arrangements in place as part of our 2017/18 VFM work.

Significant VFM risks (cont.)

Significant VFM risks	Work performed
2. Group Governance, including Wholly Owned Trading Companies ***Please note we added this risk to our audit programme after we had issued our 2016/17 Audit Plan and following the discussion at the July Audit Committee.***	**Why is this a risk?** During 2016/17 the Authority included the following risk within its Strategic Risk Register: **Risk:** *The creation and running of wholly owned trading companies.* **Description:** *Lack of transparent and robust governance arrangements that protect the interests of the Council.* **Potential Impact:** *Failure of a wholly owned company has a financial cost and reputational impact; may adversely affect future trading for other council owned companies due to loss of confidence; disrupts services provided to citizens.* At the July 2017 Committee meeting, we communicated that we had identified the potential for a new Value For Money risk linked to the Authority's wider group structure. Specifically, as noted earlier in this report, when we reviewed the pre-audit results for the Authority's subsidiaries, we identified that key aspects of the results for Robin Hood Energy (RHE) had increased significantly compared to the previous year (including turnover and the outturn position), however we required further understanding of underlying governance arrangements. **Summary of our work** We have liaised with both the Authority and RHE's management in order to gain the necessary understanding of the subsidiary. Our revised assessment was that we classified RHE as a significant component. This means that in order to obtain the necessary assurance we needed to liaise with RHE's auditors to enable us to make use of the outcome of their audit (including their opinion) for our audit opinion on the Authority's Group Accounts. We also needed further information and assurances from the Authority in its role as parent. In regards to the wider Group governance we note that, following our discussions and agreement at the July Audit Committee, the Authority is commencing an internal review in regards to Group governance, and the Terms of Reference for this review are scheduled to be presented and agreed with Audit Committee on 22 September.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified four recommendations. We have listed these in our appendix. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Total raised for 2016/17
High	-
Medium	**1**
Low	**3**
Total	**4**

Medium priority

1. Northgate Leavers

We performed a comparison against leavers from the Authority and users with Access to the Northgate system. We identified 11 users who had left the Authority but continued to still be set-up with access on the Northgate system.

There were in place mitigations, and all leavers had their Windows Network access removed. If a user does not access the system for 35 days then their account is automatically locked.

The leavers had access to Northgate as their manager has not informed IT, and Northgate is yet to fully integrate with the HR leavers process.

Recommendation

The Authority should ensure all leavers with access to Northgate are removed immediately. The Northgate system should be integrated into the HR leaver process and manager reminded to notify IT that Northgate access needs to be revoked on leaving the Authority.

Management Response

TBC

Owner

TBC

Deadline

TBC

Priority	Issue and recommendation	Management Response
Low priority	**2. General Ledger Batch Controls** East Midland Shared Service (EMSS) operate a control whereby if a general ledger batch job fails, it is added to an error log, given a unique ID and tracked as the EMSS team resolve and find a solution. As part of our audit of General IT Controls, we noted that whilst batch job fails were being resolved, they had not been logged for the second half of the year (from September 2016.) **Recommendation** The Authority should continue to log all general ledger batch control fails in the error log.	**Management Response** TBC **Owner** TBC **Deadline** TBC
Low priority	**3. Processing of new joiners on payroll** As part of this process there is a check performed by payroll to ensure that the information entered by HR into the payroll system is accurate. As part of our audit testing we noted that for one individual, there was no evidence that this check had been performed. Through discussion it has been confirmed that the process varies slightly dependent upon the individual within the payroll team who is setting up the new joiner or making the amendment. The checks are always performed by payroll, however some individuals do not print off the E-form, add ticks to evidence the check and sign it to show that the check has been complete. Therefore there is no evidence that these checks have taken place. **Recommendation** The Authority should ensure consistency in regards to processing of new joiners and that controls support the accuracy of data input into the payroll system.	**Management Response** TBC **Owner** TBC **Deadline** TBC
Low priority	**4. Northgate Access Reviews** Annual reviews of user access on the Northgate system do not take place, we were informed that it is picked up typically when there is a major system upgrade, approximately every five years. Best practice states that when individual staff change positions or leave, their manager should inform IT of the change of role so that access rights can be changed to match those of a "profiler" (i.e. somebody who already has the access they now need). There should be annual reviews of what access groups need to be able to do. **Recommendation** The Authority should undertake regular user access reviews in regards to the Northgate system.	**Management Response** TBC **Owner** TBC **Deadline** TBC

Follow-up of prior year recommendations

In the previous year, we raised five recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented all of the recommendations. There is one recommendation outstanding from 2014-15. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the current position on the prior year's recommendations (including the b/f 2014/15 issue).

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	1	0	**1**
Medium	5	5	**0**
Low	0	0	**0**
Total	**6**	**5**	**1**

High priority

1. Control weaknesses in EMSSS over payroll (2014/15 rec carried forward)

Throughout work on payroll we identified that EMSS do not undertake a payroll reconciliation for Nottingham City Council although they do this for Leicester County Council.

Exception reports, one of the outputs from payroll are not checked by EMSS.

We expect that the responsibilities of EMSS should be set out in an Service Level Agreement to enable both parties to be clear what tasks should be carried out by each party.

Recommendation

Nottingham City Council and East Midlands Shared Service should set up a Service Level Agreement as soon as possible.

Management original response

Responsibility for the reconciliations has been passed over to EMSS.

An SLA with EMSS is in the process of being set up.

Owner

Head of Corporate and Strategic Finance

Original deadline

31 December 2015

KPMG's September 2017 assessment

Partially implemented

The Authority has actively pursued setting up a SLA in year. We have reviewed the latest version of the SLA, however this still has items under discussion and is pending final agreement.

Medium priority

2. Better Care Fund 2016-17 Plan

The Better Care Fund ended the year with an underspend of £2.4m. While the Programme Board recognised this early in year and worked to reallocate the underspend, the nature of the majority of the funding from NHS England puts any year-end underspend at risk.

Recommendation

The Authority should enhance the narrative statement in 2016/17 based on feedback provided by External Audit in 2015/16 and best practice.

Management original response

Plans are already underway to work with BCF partners to ensure that all available resources are matched to valid schemes which will improve the health and social care of Nottingham citizens. Regular reports will be presented to the Well Being Board to update on the ongoing position.

Original deadline

Immediate

KPMG's September 2017 assessment

Implemented

Medium priority

3. Oracle User Access Reviews

As part of our IT controls testing we identified that through 2015/16 there was no documented review of user access rights to ensure that these remain appropriate. Officers informed us that this was a control they are intending to implement in 2016/17.

Recommendation

The Authority should ensure that user access reviews are undertaken in regards to key financial systems throughout the Authority, including the Oracle system.

Management original response

User access rights are controlled and discussions are currently under way to set the process to document the review of these user access rights. For 2016/17 there will be an agreed process and plan to document and evidence the review.

Original deadline

Immediate

KPMG's September 2017 assessment

Implemented

Medium priority

4. Northgate to Oracle NNDR and Council Tax Reconciliations

Through out our controls testing we noted that the reconciliations in place for Northgate and Oracle are not robustly documented. We would expect to see a high level reconciliation carried out each month which demonstrates, for example, the Council Tax charge per Northgate correctly reconciles to Oracle.

Recommendation

The Authority should perform and document month end reconciliations between NNDR and Council Tax modules of the Northgate system to Oracle.

Management original response

For 2016/17 the reconciliation which will be carried out monthly will be formally documented and signed off by a manager at the end of each month.

Original deadline

Immediate

KPMG's September 2017 assessment

Implemented

Medium priority

5. 2016/17 Northgate to Oracle Housing Benefit Payment Reconciliations

We discussed housing benefit payment reconciliations with key staff and noted that since April 2016 to the time of writing, no reconciliations have been performed to reconcile Northgate housing benefit payments to actual payments as per Oracle. We understand that this is following a change in process and on hold due to a training requirement to understand how to directly extract Oracle payments to feed into the reconciliation (in 2015/16 payments were extracted via the OneWorld system).

Recommendation

The Authority should expedite the implementation of the reconciliation of housing benefit payments between Northgate and Oracle.

Management original response

For 2016/17 the reconciliation which will be carried out monthly will be formally documented and signed off by a manager at the end of each month.

Original deadline

Immediate

KPMG's September 2017 assessment

Implemented

Medium priority

6. Register of Members' Interests

As part of our testing on related parties, we noted that the register of interests provided for audit showed that 55% of members had completed their annual declaration –this increased to 78% after the Authority made follow-up inquiries.

It is good practice for all members to make an annual declaration. It is a criminal offence not to declare a pecuniary interest as per the Localism Act 2011.

Recommendation

The Authority should ensure that all members make an annual declaration to update the register of interests.

Management original response

For 2016/17 we will use the Register of Interests held by Committee Services to collate our information. We plan to request the additional information required for the Statement of Accounts from Councillors in December. We will send the completed Related Parties form to Councillors at year end for review and confirmation and if necessary to allow them to make changes for any change of circumstances arising between December and March.

Original deadline

Immediate

KPMG's September 2017 assessment

Implemented

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Nottingham City's financial statements for the year ended 31 March 2017. It is our understanding that these will be adjusted in the final set of financial statements.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Long Term Debtors 2,858 Cr Short Term Debtors 2,858			Reclassification error of the debtor balance linked to the NET 2 PFI scheme, between long and short term debtors
			Dr/Cr 0			**Total impact of adjustments**

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Nottingham City Council's financial statements for the year ended 31 March 2017. These differences are individually below our materiality level of £13m. Cumulatively, the impact of these uncorrected audit differences is £8.67m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Cr Short Term Debtors 510 Cr Long Term Debtors 8,158	Dr Other Long Term Liabilities 8,668		Deferral of capital contributions made during the construction phase of the NET2 contract, given nature of the expenditure we consider that this should be written down against the liability.
			Cr £8,668	**Dr £8,668**		**Total impact of uncorrected audit differences**

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £13 million. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £650,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Nottingham City Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

<table>
<tr><th colspan="3">Summary of non-audit work</th></tr>
<tr><th>Description of non-audit service and fees billed in 2016/17</th><th>Fees Billed in 2016/17</th><th>Potential threat to auditor independence and associated safeguards in place</th></tr>
<tr><td>Additional certification work in regards to Pooling of Capital Receipts Return</td><td>£4,000</td><td rowspan="4">Self-interest: These engagements are entirely separate from the audit through a separate contract. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.

Self review: The nature of this other ‘assurance’ work has no impact on the 2016/17 audit as it relates to 2015/16 financial year. Therefore, it does not impact on our opinion and we do not consider it to be a threat to our role as external auditors.

Management threat: This work involved the certification of these returns only – all decisions were made by the Authority.

Familiarity: This threat is limited given the scale, nature and timing of the work.

Advocacy: We will not act as advocates for the Authority in any aspect of this work. We have drawn on our experience in such roles to certify the returns but the scope of this work falls well short of any advocacy role

Intimidation: Not applicable.</td></tr>
<tr><td>Additional certification work in regards to Local Transport Grant</td><td>£3,000</td></tr>
<tr><td>Additional certification work in regards to Teachers Pension Return</td><td>£3,200</td></tr>
<tr><td>Additional certification work in regards to SFA subcontracting</td><td>£3,000</td></tr>
<tr><td>Total</td><td>£13,200</td><td>7.7% of the audit fee</td></tr>
</table>

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £172,118 plus VAT *(£172,118 in 2015/16)*, which is the same as the prior year. However, we the process of agreeing an additional fee in respect of work undertaken in relation to the Group Accounts, CIES restatement, NET 2 issues, and the impact of estimated data provided for the triennial pension revaluation.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £10,965 plus VAT, however we are undertaking significantly more testing this year following the issues identified in 2015/16.

Fee table		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
Scale Fee	172,118	172,118
Additional work to conclude our opinion (note 1)	TBC	4,975
Subtotal	**172,118***	**177,093**
Housing benefits (BEN01) certification work	10,965*	18,458
Other grants and claims (per previous page)	13,200	12,900
Total fees	**196,283**	**208,451**

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

For 2016/17, we will discuss additional fee in relation to the work undertaken in respect of the issues raised above. This will be subject to final agreement and PSAA approval.

In 2015/16, the PSAA approved a fee variation of £4,975 in relation to our review of the Adducure.

***Does not include the additional fee re note 1**